BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

PREPARED REBUTTAL TESTIMONY OF
ANDREW P. WACHTER
DIRECTOR OF FINANCE AND REGULATION
PNG COMPANIES LLC

PUBLIC VERSION

DATE SERVED: May 28, 2019
DATE ADMITTED: _____________

Peoples Statement No. 3-R

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I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Andrew P. Wachter, and my business address is 375 North Shore Drive, Suite 600, Pittsburgh, PA 15212.

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

A. I am the Director, Finance and Regulation for PNG Companies LLC ("PNG"). I provide services to Peoples Natural Gas Company LLC ("Peoples Natural" or the "Company"). As Director, Finance and Regulation, I oversee the Rates and Regulatory group among other financial responsibilities at Peoples Natural and its affiliates. My business address is 375 North Shore Drive, Pittsburgh, Pennsylvania 15212.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. My direct testimony is set forth in Peoples Statement No. 3.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I am presenting testimony in rebuttal of certain expense positions and recommendations of the Office of Consumer Advocate ("OCA") witnesses Dante Mugrace and Roger D. Colton, the Bureau of Investigation and Enforcement ("I&E") witnesses Christopher Keller, Christopher M. Henkel and Brenton Grab, Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") witness Harry Geller, and Duquesne Light ("Duquesne") witnesses C. James Davis and Cynthia A. Menhorn.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am also sponsoring five additional exhibits **(Exhibit Nos. APW-R-1 through APW-R-5**).

Q. HOW HAVE YOU ARRANGED YOUR REBUTTAL TESTIMONY?

A. I have arranged my rebuttal testimony by subject matter. Where more than one witness has addressed the same subject matter with testimony that I wish to rebut, I address all of that testimony in the same section. I will address the following issues in the order listed.

- End of year plant balance and annualization adjustments
- Incentive Compensation
- Medical Expenses
- Inflation Adjustments
- Corporate Insurance
- Employee Expenses
- Company Memberships
- Advertising Expenses
- Fleet Maintenance and Fuel
- Materials and Supplies
- Other O&M
- Rate Case Expense
- Pension Expense
- Outside Services A&G
- Payment Processing Expenses

- Cash Working Capital
- Uncollectible Accounts Expense
- Synergy Savings

II. UPDATES TO THE COMPANY'S ORIGINAL FILING

Q. HAS THE COMPANY UPDATED OR ADJUSTED THE COST OF SERVICE AS FILED?

A. Yes. The Company has identified three adjustments either through the discovery process or during Rebuttal testimony preparation.

Q. CAN YOU SUMMARIZE THE ADJUSTMENTS IDENTIFIED ON THE AMOUNT OF RATE INCREASE REQUESTED?

A. Yes. Below are the adjustments:

- O&M incentive compensation expense – an increase of $42,525 (Interrogatory No. I&E-RE-12 attached in **Exhibit No. APW-R-1**)
- Cash working capital – a reduction of $195,165 (See **Statement No. 8-R**, the Rebuttal Testimony of Eric Petrichevich)
- Outside Services – A&G – a decrease of $325,914 (see Outside Services-A&G section below)

Q. PLEASE EXPLAIN THE IMPACT THESE ADJUSTMENTS HAVE ON THE COST OF SERVICE AS FILED?

A. The impact of these changes reduces the overall claimed increase in revenues by approximately $303,000. Below is a summary:

amounts in millions	As Filed	Adjustments	Revised
Rate Base	$ 2,052.3	$ (0.195)	$ 2,052.1
Rate Base Equity %	53.66%		53.66%
Rate Base Debt %	46.34%		46.34%
Cost of Debt	4.23%		4.23%
Return on Equity	11.25%		11.25%
Effective Income Tax Rate	22.30%	25.74%	
Equity Return	$ 123.9	$ (0.012)	$ 123.9
Cost of Debt	$ 40.2	$ (0.004)	$ 40.2
Depreciation	$ 86.6		$ 86.6
Expenses and Taxes Other	$ 204.7	$ (0.283)	$ 204.4
Gas Costs	$ 271.0		$ 271.0
Income Taxes	$ 35.6	$ (0.004)	$ 35.6
Revenue Requirement	$ 762.0		$ 761.7
Present Rate Revenues	$ 667.0	$ -	$ 667.0
Requested Rate Increase	**$ 94.9**	$ (0.3)	**$ 94.6**

III. RESPONSE TO OTHER PARTIES ADJUSTMENTS

A. END OF YEAR PLANT BALANCE AND ANNUALIZATION ADJUSTMENTS

Q. OCA WITNESS MUGRACE PROPOSED TO USE AN AVERAGE PLANT IN SERVICE BALANCE FOR THE FULLY PROJECTED FUTURE TEST YEAR ("FPFTY") AS OPPOSED TO AN END OF YEAR BALANCE. (OCA St. No. 1, p. 6). DO YOU AGREE?

A. No, I disagree with this proposal and have been advised by counsel that the Commission has recently rejected this approach in the most recent UGI Utilities, Inc. – Electric

Division ("UGI") proceeding at Docket No. R-2017-2640058. In its Order, the Commission stated that Act 11 allows utilities to project revenue requirements and ratemaking components throughout the end of the FPFTY and include all plant added during the FPFTY. The Commission noted that Act 11 was designed to address regulatory lag and encourage plant investment. Allowing utilities to include all plant in the FPFTY mitigates regulatory lag and encourages plant investment.

Q. MR. MUGRACE ARGUES THAT USING END OF FPFTY BALANCES IS NOT REASONABLE BECAUSE RATEPAYERS WILL BE CHARGED FOR COSTS FOR FACILITIES THAT HAVE NOT BEEN PLACED IN SERVICE AT THE TIME RATES ARE EFFECTIVE. (OCA St. No. 1, p. 7.) PLEASE RESPOND.

A. I have been advised by counsel that the Commission rejected this argument in the UGI proceeding. The Commission expressly noted that Section 315(e) of Act 11 requires ratepayers to pre-pay a return on projected investment in facilities in the FPFTY. Under Act 11, there is no requirement that facilities must be placed in service before costs are charged to customers. To the contrary, the point of using a FPFTY is to project certain costs in advance of when customers begin paying for them. Even under OCA's averaging proposal, customers would pay for the costs of facilities before they are placed in service.

Q. ARE THERE OTHER REASONS WHY YOU BELIEVE THAT OCA'S PROPOSAL TO USE AVERAGE PLANT IN SERVICE BALANCES IS INCORRECT?

A. Yes, OCA argues that the use of an average test year closely matches the revenue requirement at the time when new rates are expected to be set by the Commission. OCA also argues that an averaging methodology better reflects the revenue requirement for the first year that new rates are in effect. (OCA St. No. 1, p. 6.) These arguments ignore the fact that the rates that will be set by the Commission in this proceeding will likely be in effect for two years under the Company's proposed rate case filing schedule. I do not see how using an average balance instead of a year-end balance more accurately reflects plant investment during the time rates will be in effect. Further, using an end of year plant balance provides for some protection against the attrition in return that will be created by further investment after the end of the FPFTY. Using end of year plant balances is reasonable and does not allow the Company a windfall as suggested by OCA.

Moreover, with an average plant balance and a significant, consistent annual capital plan, as reflected in the Company's LTIIP, the Company would be encouraged to file annual rate cases to earn its return.

Q. MR. MUGRACE ARGUES THAT USING END OF FPFTY BALANCES IS NOT REASONABLE AND THAT THE PURPOSE OF THE FPFTY IS TO CALCULATE THE AVERAGE REVENUE REQUIREMENT FOR THE FPFTY. (OCA St. No. 1, p. 8). PLEASE RESPOND.

A. I disagree with these statements. By using a FPFTY, the Company is able to earn a fair return on all of its plant that is placed in service during the FPFTY. I have been advised by counsel that this is what is authorized by the statute. This does not create unreasonable rates. Over the course of the annual FPFTY period, customers will pay for exactly one year of revenue requirement associated with plant in service regardless of when particular plant is placed in service during the test year. All plant that is placed in service during the FPFTY is used and useful in providing service in that year. Under the Company's method, by the end of the FPFTY, customers will pay in full the depreciation and return on all plant added during the FPFTY.

Moreover, rates are prospective in nature, with the anticipation that they will be in effect for more than one year. Peoples will continue to invest in plant after the FPFTY and the rates set in this proceeding do not reflect plant that will be added after the FPFTY.

Q. DOES ACT 11 SAY ANYTHING ABOUT USING AVERAGE PLANT BALANCES?

A. No. Section 315(e) specifically provides that the Commission "may permit facilities which are projected to be in service during the FPFTY to be included in rate base." This section does not mention the use of average plant balances. The Company will address this argument in more detail in its Brief.

Further, the approved ratemaking methodology in Pennsylvania has always relied upon end of test year plant balances. Act 11 allowed utilities to capture another full year of investment to reduce regulatory lag and recover investment. I have been advised by counsel that Act 11 did not change the methodology for calculating plant investment in a test year.

Q. HAS THE COMMISSION PROVIDED ADDITIONAL GUIDANCE ON THIS ISSUE IN ITS SUPPLEMENTAL IMPLEMENTATION ORDER REGARDING THE IMPLEMENTATION OF ACT 11?

A. Yes. The Commission issued its Supplemental Implementation Order on September 21, 2016 at Docket No. M-2012-229364. Therein, the Commission discussed the inter-relationship between when the Distribution System Improvement Plan Charge ("DSIC") can be re-instated and plant balances for the FPFTY, stating as follows:

> The Commission believes that the length of the "stay-out" period [for the DSIC] should be able to be determined based upon whether the applicable total aggregate costs, or gross plant, associated with DSIC-eligible property that is used to set base rates has been exceeded….
>
> The calculation of rates is developed on the device of a "test year," which is a 12-month period that is to be representative of operating conditions when the rates being established will be in effect. The test year can consist of a future test year or a fully projected future test year (FPFTY) as its baseline for setting new base rates. *See* 66 Pa.C.S.§ 315. As such, a utility requesting to establish new base rates pursuant to a filing under Section 1308(d) of the Code, is seeking to recover the costs of all DSIC-eligible plant in service, plus the DSIC-eligible plant that is *projected to be in service either within 9 to 21 months* depending on if the utility has used a future test year or a FPFTY to calculate its rates. (Emphasis in original.)

Implementation Order, p. 13.

The projection period of nine months mentioned by the Commission reflects projected plant balances at the end of the Future Test Year ("FTY") if a utility is using a FTY. For example, if a utility filed a general base rate case on January 28 (120 days after the end of its Historic Test Year), it would typically have actual plant closing data through December 31 (three months) and would project its additions through the end of the FTY (nine months).

The projection period of 21 months mentioned by the Commission reflects projected plant balances at the end of the FPFTY if a utility is using a FPFTY. If a utility submits data for a FPFTY, it projects plant additions for an additional 12 months after the FTY, or a total projection of 21 months. Thus, the 21-month projection mentioned by the Commission runs to the end of the FPFTY. This timeline was the basis for the Commission's determination of the rules for reinstituting a DSIC that it adopted in the Supplemental Implementation Order, and, as such, contemplates that utilities' employing a FPFTY will use end of FPFTY values, not "average" values.

Further, as stated in the *Implementation Order*, the DSIC can only be used to recover new DSIC eligible plant not reflected in rate base. Therefore, it is logical for plant balances in a rate case to be projected to the end of the FPFTY and for the DSIC to re-start after the FPFTY. If OCA's proposal were adopted, the DSIC would likely re-start in the middle of the FPFTY when DSIC average plant balances are exceeded

Q. MR. MUGRACE ALSO ARGUES THAT OTHER STATES THAT USE A FPFTY USE AN AVERAGE TEST YEAR OR MID-YEAR PLANT BALANCE. (OCA St. No. 1, p. 6.) DID THE COMMISSION ADDRESS THIS ARGUMENT IN THE UGI PROCEEDING?

A. Yes. The Commission specifically rejected arguments that it should rely on different state's ratemaking methodologies, noting that each state had different statutes and ratemaking practices.

Q. DOES OCA HAVE OTHER PLANT IN SERVICE ADJUSTMENTS THAT ARE RELATED TO THE PROPOSAL TO USE AVERAGE FPFTY PLANT BALANCES?

A. Yes. OCA makes adjustments to the Company's accumulated depreciation and accumulated deferred income taxes ("ADIT") based upon using average plant in service balances as opposed to end of year balances. See OCA St. No. 1, pp. 9-12. All of those adjustments should be denied for the same reason that OCA's adjustment to the FPFTY plant balances should be denied.

Q. DID THE OCA ALSO MAKE REVENUE AND EXPENSE ADJUSTMENTS TO USE AVERAGE FPFTY REVENUES AND EXPENSES AS OPPOSED TO ANNUALIZING SUCH AMOUNTS AT THE END OF THE FPFTY?

A. Yes. Many of the OCA's expense adjustments are based upon averaging expenses for the FPFTY as opposed to using annualized expenses at the end of the FPFTY. Further, OCA made an average revenue adjustment. All adjustments related to this issue are as follows:

- Gross Plant in Service - a reduction of $144,548,832 (OCA St. No. 1, p. 8)
- Accumulated Depreciation – an increase of $30,363,363 (OCA St. No. 1, p. 9)
- Working Capital – a reduction of $6,160,188 (OCA St. No. 1, p. 10)
- Deferred Income Taxes – a reduction of $4,943,328 (OCA St. No. 1, p. 12)
- Present Rate Revenue – an increase of $749,249 (OCA St. No. 1, p. 14)
- Gas Supply Expense – an increase of $959,148 (OCA St. No. 1, p. 14)
- Labor Expense – reduction of $418,799 (OCA St. No. 1, p. 16)

- Post-Retirement Benefits Other Than Pension ("PBOP") – a reduction of $18,410 (OCA St. No. 1, p. 23)
- Benefits Expense – a reduction of $136,763 (OCA St. No. 1, p. 26)
- Uncollectible Accounts Expense – an increase of $128,363 (OCA St. No. 1, p. 51)
- Depreciation Expense – a reduction of $4,743,946 (OCA St. No. 1, p. 53)
- Taxes Other Than Income Taxes – a reduction of $78,655 ($31,643 of payroll taxes related to labor adjustments and $47,022 related to property taxes) (OCA St. No. 1, pp. 54-55)
- Income Taxes – a reduction of $1,748,602 (see **Exhibit No. APW-R-2**)
- Interest Expense – a reduction of $2,431,752 (see **Exhibit No. APW-R-2**)

Q. IS OCA'S PROPOSAL TO USE AVERAGE FPFTY EXPENSES AS OPPOSED ANNUALIZING EXPENSES AT THE END OF THE FPFTY CONSISTENT WITH COMMISSION PRECEDENT?

A. No. I have been advised by counsel that the Commission rejected other parties' proposals to use average FPFTY expenses in the recent UGI Order at Docket No. R-2017-2640058. The Commission approved UGI's end-of-year methodology and stated that the FPFTY should reflect end of year conditions.

Q. HAVE YOU DETERMINED THE EFFECT OF OCA'S PROPOSED AVERAGE FPFTY PLANT BALANCES AND AVERAGE FPFTY EXPENSES?

A. Yes. The total OCA revenue requirement adjustment for these items is $14.6 million. See **Exhibit APW-R-2**. These adjustments are directly contrary to Commission precedent and should be summarily dismissed. If these adjustments are added back to OCA's claim, OCA would be proposing a $37.6 million rate increase in their direct case, not a rate increase of $23.0 million. This does not even consider OCA's low return on equity or the flaws with OCA's other adjustments such as the capital structure proposals.

Q. WILL YOU BE ADDRESSING THE TAX IMPACT OF THE PROPOSED O&M ADJUSTMENTS THAT MR. MUGRACE IDENTIFIES?

A. No. All tax issues will be addressed by Company witness, Matthew Wesolosky. (**Peoples St. No. 4-R**)

B. LABOR

Q. PLEASE EXPLAIN THE ADJUSTMENTS PROPOSED BY OCA REGARDING LABOR?

A. The OCA recommends a labor adjustment of $418,799 to average positions added during the FPFTY and recommends removal of 50% or $118,218 of claimed Spot Awards.

Q. DO YOU AGREE WITH THESE ADJUSTMENTS?

A. I do not. For the reasons stated above in the discussion of the averaging of FPFTY items, the $418,799 adjustment should be rejected. Regarding Spot Awards, these awards are integral components of the Company's recognition program and thus are allowable costs.

Q. WERE THERE ERRORS IN MR. MUGRACE'S ADJUSTMENT TO SPOT AWARDS?

A. Yes. He calculated the awards by applying 50% to a gross HTY cost of $236,436 rather than an expense amount after capitalization. After applying a capitalization rate of 38.44% his adjustment would be $72,775. I further note that since Spot Awards were claimed as incentive compensation there is a further issue with Mr. Mugrace's Spot Awards adjustments to be discussed within the Incentive Compensation section of my testimony below.

Q. PLEASE FURTHER EXPLAIN THE SPOT AWARD PROGRAM.

A. The Spot Award program provides financial recognition for outstanding individual and/or small team performance as part of Peoples' recognition programs. Spot awards are based on achievement of outstanding performance that is defined as:

- Contributions beyond those which might be expected and accounted for by other reward programs (e.g., base salary increases, Annual Performance Incentive Plan, etc.);
- Substantial unexpected performance which makes a difference in the overall performance of the Company (e.g., cost savings, increased productivity improvements, etc.);
- Participation in strategic, substantive team projects where individuals perform at the levels described above;
- A feasible significant idea or achievement that results in making the lives of our customers better.

The amount of the award is determined by management based on the nature and level of the contribution.

Q. PLEASE FURTHER EXPLAIN HOW THE SPOT AWARD PROGRAM IS AN INTEGRAL COMPONENT OF THE COMPANY'S RECOGNITION PROGRAM.

A. Peoples is committed to engaging its workforce so that employees identify with, align and commit to the company's vision, purpose, and plans. According to Gallup's State of the Workforce Study-2017, when compared with business units in the bottom quartile of engagement, those in the top quartile realize improvements in the following areas: 70% fewer safety incidents, 10% higher customer satisfaction, 41% lower absenteeism and 17% higher productivity.

Peoples launched a strategic initiative in 2018 to address employee engagement. A workplace culture survey was completed in mid-2018. A key component of employee engagement is their belief that their contributions are recognized and rewarded. The survey results revealed that employees felt the Company could improve both recognition and reward program objectives and frequency.

Spot Awards recognize contributions beyond those which might be expected and accounted for by other reward programs, recognize substantial unexpected performance which makes a difference in the overall performance of the Company or recognize participation in strategic, substantive team projects where individuals perform at the levels described. This encourages exemplary performance and creates a more engaged workforce. As the information above illustrates, a more engaged workforce then drives initiatives that directly benefit the customers.

C. INCENTIVE COMPENSATION

Q. OCA PROPOSES TO REDUCE THE COMPANY'S CLAIM FOR INCENTIVE COMPENSATION BY $3,040,521. (OCA St. No. 1, p. 21). PLEASE SUMMARIZE THE BASIS FOR OCA'S PROPOSED ADJUSTMENT TO INCENTIVE COMPENSATION.

A. OCA's proposed adjustment to incentive compensation is intended to remove amounts associated with certain strategic and financial objectives. Mr. Mugrace's main argument is that he "believes" ratepayers should not pay for such costs that he perceives only promote shareholder interests and the alignment of shareholder growth.

I note Mr. Mugrace also proposes an adjustment of $229,730 to payroll taxes associated with this proposed adjustment.

Q. DOES MR. MUGRACE PROVIDE ANY SUPPORT FOR HIS POSITION ON INCENTIVE COMPENSATION?

A. He does not other than stating that "I do not believe that ratepayers should pay for this type incentive compensation, which promotes shareholders' interest and the alignment of shareholder growth." (OCA St. No. 1, p. 20)

Q. ARE THERE ANY ERRORS IN MR. MUGRACE'S PROPOSED ADJUSTMENT?

A. Yes. Mr. Mugrace's adjustment to incentive compensation includes expenses related to Spot Awards in addition to the Company's Annual Performance Incentive Plan ("APIP") program. Below is the calculation Mr. Mugrace used to derive his $3,040,521 proposed adjustment.

Type of Incent. Comp.	Amount	OCA Proposed Recovery %	OCA Amount to Recover	Adjustment
	A	**B**	**C=A x B**	**D=A-C**
APIP	$5,915,895	65%	$3,845,332	$2,070,563
LTI	$836,189	14%	$117,066	$719,123
Spot	$250,835	0%	$ 0	$250,835
Total	**$7,002,919**		**$3,962,398**	**$3,040,521**

As illustrated above, Mr. Mugrace inadvertently removed the $250,835 of costs related to Spot Awards in his Incentive Compensation adjustment. As such, he adjusted spot awards both here in the amount of $250,835 and by $118,218 as previously discussed.

Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH OCA'S PROPOSED ADJUSTMENT TO INCENTIVE COMPENSATION.

A. OCA's proposal on incentive compensation should be rejected for four main reasons: 1) the overall level of incentive compensation claimed is part of a fair, market-based level of total compensation; 2) there are no regulations that prohibit utilities from recovery of incentive compensation that is tied to financial metrics and a recent UGI Utilities, Inc. – Electric Division ("UGI") Commission order (Docket No. R-2017-2640058) supports this position; 3) financial metrics provide customers a direct benefit by incentivizing employees to be good financial stewards of company and ultimately customer funds; and 4) the 2018 Delta goal was a one-time goal and thus is not applicable to the FPFTY period.

For these reasons both Mr. Mugrace's labor adjustment of $3,040,521 and his related payroll tax adjustment of $229,730 should be rejected.

Q. PLEASE EXPLAIN HOW PEOPLES INCENTIVE COMPENSATION IS PART OF A FAIR, MARKET-BASED LEVEL OF TOTAL COMPENSATION.

A. As discussed in my Direct Testimony, **Peoples Statement No. 3**, to retain talent, Peoples must offer benefits comparable to other companies. Offering Incentive Compensation is one way for Peoples to retain talent by offering market-based incentives to Company employees. The Company has undertaken research to ensure that it offers market-based compensation and incentive programs. Eliminating or reducing these programs would have a significant impact on the Company's ability to attract and retain competent employees.

Further, as explained in the Highly Confidential response to Interrogatory No. OCA-I-13 (attached in **Exhibit APW-R-1**) Compensation programs are regularly reviewed to ensure market competitiveness to attract, retain, and reward talented employees necessary to provide safe and reliable service. The Company utilizes several compensation surveys to compare itself against market data and trends. Further, benchmarking against the market is done internally by human resources utilizing various third-party sources based upon third-party survey information. **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)**

Q. DOES MR. MUGRACE OBJECT TO THE OVERALL LEVEL OF INCENTIVE COMPENSATION OR THE PROGRAMS THEMSELVES?

A. No. He does not. Specifically, he states "While I am not opposing the Company's APIP plan what I am opposing are the costs related to the Company's recovery of its APIP related to financial performance through ratepayers" (OCA St. No. 1, p. 20).

Q. PLEASE EXPLAIN YOUR SECOND REASON WHY THE OCA'S POSITION ON INCENTIVE COMPENSATION SHOULD BE REJECTED.

A. I am not aware of and I have been advised by counsel that there are no regulations that prohibit utilities from recovery of incentive compensation that is tied to financial metrics. Further, as part of the UGI's recent base rate case proceeding (Docket No. R-2017-2640058) an argument was made to disallow recovery of certain employee compensation costs because they contained certain financial metrics beyond metrics related to duties directly related to the provision of service. The Order in that proceeding rejected that argument. In particular, the order specifically stated that "the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base". (*See e.g., UGI 2016 Order* at 74)

Q. REGARDING YOUR THIRD REASON TO REJECT OCA'S POSITION, PLEASE EXPLAIN WHY THESE COSTS PROVIDE A DIRECT BENEFIT TO THE CUSTOMERS.

A. Financial metrics incentivize employees to be good financial stewards of company and ultimately customer resources thus they provide customers a direct benefit. I point out that the impact most employees have on financial targets is to not exceed their O&M budgets. As such, this drives employees to be efficient with the costs they incur while still achieving our mission to Make Customers Lives Better. Such savings ultimately delay the need for future rate cases. Further, this compensation is also tied to and aimed at improving operational effectiveness

Q. ON PAGE 19 OF OCA ST. NO. 1 MR. MUGRACE NOTES THAT A DIFFERENCE EXISTS BETWEEN THE COMPANY'S ABOVE TOTAL APIP AND LONG-TERM INCENTIVE ("LTI") AND WHAT THE COMPANY HAS PROPOSED AND REFLECTED IN COMPANY EXHIBIT 4, SCHEDULE 1, PAGE 6. WHAT DOES THIS DIFFERENCE RELATE TO?

A. This variance represents the Spot Awards program previously discussed. The HTY impact of this variance was provided on the Highly Confidential response to Interrogatory No. OCA-I-12, Attachment A page 20 of 20 (included in **Exhibit No. APW-R-1**). The HTY amount of $236,436 was provided. The variance Mr. Mugrace references represents the FPFTY amount of $250,836 (FTY is $236,436 x 1.03=$243,527, FPFTY is $243,527 x 1.03=$250,836).

D. <u>MEDICAL EXPENSES</u>

Q. OCA PROPOSES TO ELIMINATE THE COMPANY'S PROPOSED 6% INCREASE IN MEDICAL COSTS FOR THE FPFTY, RESULTING IN A $505,956 DECREASE. (OCA St. No. 1, pp. 24-25). IS THIS PROPOSED ADJUSTMENT REASONABLE?

A. No. This adjustment is based upon PwC's Health and Research Institute report in June of 2018 which indicated an expectation that medical costs will increase 6% in 2019. An excerpt from this study is attached in response to **Interrogatory No. OCA-I-20** provided in **Exhibit No. APW-R-1**.

Q. WHAT IS YOUR POSITION ON OCA'S ARGUMENT THAT THIS ADJUSTMENT IS NOT "KNOWN AND MEASURABLE"?

A. As explained above, the Company utilized a third-party estimate of anticipated medical cost increases. Due to the nature of medical costs, historical experience is not necessarily the best predictor of future costs. Thus, a good predictor of future costs would be independent, third-party study based projections. Further, I have attached as **Exhibit No. APW-R-3** the 2019 Global Medical Trend Rates Report from AON which predicts a 6.4% increase in medical costs (see page 4) thus substantiating the PwC's Health and Research Institute report utilized by the Company in deriving the medical cost increases.

E. <u>INFLATION ADJUSTMENTS</u>

Q. OCA MAKES SEVERAL PROPOSED ADJUSTMENTS TO EXPENSE ITEMS TO REMOVE INFLATION RELATED INCREASES. PLEASE SUMMARIZE THESE ADJUSTMENTS.

A. These inflation related adjustments are as follows:

- Reducing Outside Services – Contracted by $1,044,696 (OCA St. No. 1, p. 27)
- Reducing Outside Services – A & G by $341,978 (OCA St. No. 1, p. 28)
- Reducing Injuries and Damages Expenses by $65,955 (OCA St. No. 1, pp. 31-32)

- Reducing Employee Expenses by $114,926 (OCA St. No. 1, p. 33)
- Reducing Memberships by $40,718 (OCA St. No. 1, p. 35)
- Reducing Utilities and Fuels used by Company operations by $94,688 (OCA St. No. 1, p. 38)
- Reducing Advertising Expenses by $128,277 (OCA St. No. 1, p. 40)
- Reducing Fleet Maintenance and Fuel Expenses by $154,243 (OCA St. No. 1, p. 42)
- Reducing Materials and Supplies Expense by $365,467 (OCA St. No. 1, p. 43)
- Reducing Other Operation & Maintenance Expenses by $349,133 (OCA St. No. 1, p. 43)

Q. IS OCA'S PROPOSAL TO REMOVE THESE INFLATION ADJUSTMENTS REASONABLE?

A. No. The two main reasons why ignoring inflation is inappropriate include: 1) the actual increases in these costs averaged 2.59% over the past two years compared to the average inflation rate used in the filing of 2.11% ((2.3305% + 1.8935%)/2) and 2) OCA argued in the 2012 Peoples Base Rate Case (Docket No. R-2012-2285985) that including inflation expense in a claim based upon an inflation index is appropriate.

I note that the Company's claim is based upon HTY actuals adjusted for known differences including expected inflation. I believe that this method is transparent. The Company should not be penalized for relying on HTY costs and adjusting for inflation. The Company's inflation adjustments are reasonable and should be accepted.

Q. PLEASE EXPLAIN HOW YOU CALCULATED THE 2.6% INCREASE IN THESE COSTS OVER THE PAST TWO YEARS.

A. Below is a table of the total costs that inflation was applied to in this case which compares the costs incurred during the twelve months ended September 30, 2018 (the HTY) to the costs for the 12 months ended September 30, 2016. These categories include Outsider Services – Contracted, Outside Services – A&G, Injuries and Damages, Employee Expenses, Company Memberships, Utilities & Fuel Used in Company Operations, Advertising, Fleet Maintenance and Fuel, Materials & Supplies and Other O&M. Costs increased by 5.18% over this period which results in an annual amount of 2.59%. This illustrates the reasonableness of using an inflation adjustment of 2.11% on average during the FTY and FPFTY (refer to Peoples Exhibit No. 4, Sch. 1, p. 32).

	Twelve Months Ended		
	9/30/18	**9/30/16**	**'18 v. '16**
	(1)	**(2)**	**(3) = (1) - (2)**
Total	$ 59,900,717	$ 56,951,487	$ 2,949,230
		% Change	5.18%
		Annual Amount	**2.59%**

Q. EXPLAIN WHAT OCA ARGUED REGARDING INFLATION IN THE PEOPLES 2012 BASE RATE CASE.

A. In the 2012 case, OCA Witness, Thomas S. Catlin (OCA St. No. 1 at Docket No. R-2012-2285985) did not argue that inflation is an inappropriate adjustment but rather proposed a different index to calculate inflation than the index proposed by the Company. The OCA did not make the same arguments as Mr. Mugrace in this proceeding that inflation should be rejected because it is not "known and measureable because they do not reflect true cost of expenses" (OCA St. No. 1, p. 27) thus illustrating that such an adjustment is known and measurable and a reasonable cost to recover.

F. CORPORATE INSURANCE

Q. PLEASE EXPLAIN OCA'S PROPOSED ADJUSTMENT TO THE COMPANY'S CLAIM FOR CORPORATE INSURANCE.

A. The OCA proposes two adjustments regarding the Company's proposed Corporate Insurance Claim. First, the OCA rejects the Company's proposed premium increase of 7.10%. Mr. Musgrave mentions that these costs "appear to be speculative" but offers no support for such statement (OCA St. No. 1, p. 30). Second, the OCA proposes to remove costs related to Non-owned Aircraft Liability Insurance based on Mr. Mugrace's claim that aircraft is not used gas utility operations.

Q. ARE THE COMPANY'S PROPOSED PREMIUM INCREASES REASONABLE?

A. Yes. The 7.1% utilized to develop the insurance expense claim represents the total premium increase experienced from the 2018 insurance invoice as compared to the 2017 insurance invoice. Mr. Mugrace claims these costs are speculative despite the fact they are based upon the recent experience of Peoples. As such, Peoples claim should be accepted.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S CLAIM OF $7,199 RELATED TO NON-OWNED AIRCRAFT INSURANCE?

A. Yes. Such costs are prudent and reasonable costs to protect the Company and ultimately the customers from risk. This insurance provides coverage in the event Peoples becomes legally liable for bodily injury (including passengers) and property damage to third parties as a result of a loss involving a corporation's or employee's use of a non-owned aircraft. Such costs are prudent because these represent reasonable costs to cover the risks associated with flights employees take on behalf of the Company. (Note: the Company inadvertently excluded employee use of commercial aircraft in response to Interrogatory No. OCA-I-29.)

Q. PLEASE EXPLAIN I&E'S PROPOSED ADJUSTMENT TO THE COMPANY'S CORPORATE INSURANCE CLAIM.

A. I&E witness Keller (I&E St. No. 1, p. 19) argues that a three-year average should be utilized to calculate insurance expense rather than the Company's proposal. He argues that this provides a more accurate estimate due to historical fluctuations in costs.

Q. DO YOU AGREE WITH I&E'S ADJUSTMENT?

A. No. I do not. The Company's claim was determined by adjusting the HTY Corporate Insurance expense to the expenses reflected on the most recent premium invoices received in September of 2018 for the period of October 2018 to September 2019. Furthermore, I increased the cost thereafter by 7.1% which represents the total premium increase experienced from the 2018 invoice as compared to the 2017 invoice resulting from the Company's annual insurance renewal process led by its third-party insurance broker.

This reflects the best indicator of future costs not the historical experience approach offered by Mr. Keller. The fluctuations in past costs experienced are irrelevant in predicting future insurance costs. Each year the Company works with its third party insurance broker to evaluate the appropriate levels of insurance and the broker investigates the most cost effective insurance available to cover the Company's' risk. Using the most recent premiums rather than the average of multiple prior years is the best indicator of current costs. Adding a third-party prediction of how those costs will change into the FPFTY is a reasonable and appropriate indicator of future costs.

G. EMPLOYEE EXPENSES

Q. THE OCA PROPOSED TO REMOVE $91,060 OF EXPENSE FOR EMPLOYEE RECOGNITION PROGRAMS. (OCA St. No. 1, p. 33). OCA ALSO PROPOSES TO DECREASE THE COMPANY'S EXPENSES FOR UNION SERVICE AWARDS BY $32,926. (OCA St. No. 1, p. 33). WHAT IS THE REASONING?

A. OCA asserts that "Ratepayers should not pay for costs associated with Service Award recognition with the criteria that is related to year of employment at the Company" (OCA St. No. 1, p. 33).

Q. PLEASE EXPLAIN THESE PROGRAMS.

A. These programs provide awards to salaried ($91,060) and union ($32,926) employees in recognition of years of employment at the Company.

Q. WHY DOES THE COMPANY OFFER THIS PROGRAM AND WHAT ARE THE BENEFITS TO CUSTOMERS?

A. Service Awards are another important component of the Company's recognition programs. Similar to the Spot Awards previously discussed, service awards are another component of developing an engaged workforce which has many benefits (mentioned above).

As part of the workplace culture survey completed in mid-2018 the results revealed that employees felt the company could improve both recognition and reward program objectives and frequency. In particular, non-union employees specifically noted that the discontinuation of the service anniversary awards was one component of their dissatisfaction with recognition at the company. With a seasoned, experienced workforce capable of effectively and efficiently addressing customer needs, the company approved the reinstatement of service awards to reward employees' on-going commitment of their careers to Peoples. This is intended to encourage a more frequent and broader recognition of the behaviors and achievements that reflect excellent performance and contributions to Peoples' values, mission, and vision. They report being very pleased and appreciative that Peoples is recognizing that they have committed their careers to the company. Human Resources believes that our 98.5% retention of employees is partially driven by the service award program among our other programs.

Q IS THERE ANYTHING ELSE YOU WOULD LIKE TO ADD?

A. Yes. The union service awards ($32,926) are benefits provided to employees whose compensation and benefits are collectively bargained. As such, you could conclude that other benefits and compensation were avoided in exchange for this service award program. Considering this, it is not unreasonable to surmise that salaried employees believe awards such as this are part of their overall compensation as well.

I further note that these awards represent on average approximately $100 per employee on an annual basis.

Q. SHOULD THE COMMISSION ACCEPT OCA'S ADJUSTMENTS?

A. No. The Company has demonstrated that these programs are prudent costs that reflect reasonable and important costs aimed at retaining and attracting employees.

Q. OCA ALSO PROPOSES TO REMOVE ADDITIONAL EMPLOYEE EXPENSES. (OCA St. No. 1, p. 33). WHAT IS THEIR BASIS FOR THIS ADJUSTMENT?

A. OCA proposes to remove $257,275 of events and $992,804 of entertainment expense. He combines these two issues into a single argument that these are associated with the partnerships previously discussed within the advertising section.

Q. PLEASE EXPLAIN THESE EXPENSES AND HOW THESE PROGRAMS BENEFIT CUSTOMERS?

A. The $257,275 of costs mainly relates to the costs associated with an employee picnic at Kennywood, an annual Pittsburgh Pirates game and tailgate, an employee leadership training event and other similar costs.

The $992,804 of costs represent costs related to corporate functions at sporting venues and other company events. These costs include the value of the tickets received in conjunction with the advertising partnerships the Company has with the various sports teams among other costs. These tickets are used for employee recognition and other such business purposes.

These costs are an integral part of its employee recognition and engagement program. As discussed above, an engaged workforce provides significant benefits which directly benefit customers. According to Gallup's State of the Workforce Study-2017, when compared with business units in the bottom quartile of engagement, those in the top quartile realize improvements in the following areas: 70% fewer safety incidents, 10% higher customer satisfaction, 41% lower absenteeism, and 17% higher productivity.

Q. ARE THERE ANY COMMISSION ORDERS THAT RELATE TO RECOGNITION EVENTS SUCH AS THESE?

A. Yes. I have been advised by counsel that the Commission in the most recent UGI Utilities, Inc. – Electric Division ("UGI") proceeding at Docket No. R-2017-2640058 approved similar employee recognition costs.

Q. I&E PROPOSES A SIMILAR ADJUSTMENT. PLEASE EXPLAIN.

I&E proposes an adjustment for $1,284,284 to employee expenses. I&E claims that the Company should be denied recover of these costs as they "…are not an operational cost necessary to provide safe and reliable service to the Company's ratepayers." (I&E St. No. 1, p. 21).

Q. SHOULD THE COMMISSION ACCEPT EITHER I&E'S PROPOSED ADJUSTMENTS?

A. No, for the reasons stated above.

Q. PLEASE RESPOND TO OCA'S CLAIM THAT INSUFFICIENT INFORMATION WAS PROVIDED RELATED TO TRAVEL EXPENSES.

A. The Company believes it was responsive to the interrogatory that requested the Company provide a further breakdown of the $431,674 of travel expense as it provided travel expenses incurred by department. However, in response to Mr. Mugrace's statement, below is an even further detail of this expense:

Type	Amount	
Reimbursable Meals	$	225,152
Air travel	$	25,591
Lodging	$	73,943
Mileage Reimbursement	$	36,529
T&E Park,Tolls,Taxi & Car Rental	$	30,621
Other	$	39,838
Total	$	431,674

Note that the meals above include meals while traveling as well as other reimbursable meals incurred during approved overtime, business related meals and working meals

H. <u>COMPANY MEMBERSHIPS</u>

Q. OCA PROPOSES TO DISALLOW $352,442 OF EXPENSES RELATED TO THE COMPANY'S CORPORATE MEMBERSHIPS. (OCA St. No. 1, pp. 36-37). OCA ARGUES THAT THESE EXPENSES SHOULD BE DISALLOWED BECAUSE THESE MEMBERSHIPS DO NOT BENEFIT RATEPAYERS. DO YOU AGREE?

A. I do not. OCA Witness Mugrace argues that certain of the Company's claim for Memberships should be disallowed as they "do not provide any direct benefit to customers" (OCA, St. No. 1, p.36) which is not correct. Witness Mugrace erroneously assumes that these memberships are merely social organizations which would not meet the standard of recoverability under Section § 1316.1 of the Code but this is not the case.

The various organizations to which the Company belongs, provide tangible benefits to customers in the community. These organizations seek to solve regional problems that require the partnership of multiple stakeholders throughout the community. Whether it is promoting the economic development of our region through the Allegheny Conference or the various Chambers of Commerce, to improving the workforce talent pool through organizations like Vibrant Pittsburgh and the PA Chamber of Business and Industry, Peoples' engagement with the community through these organizations helps solve our regional problems and improves the quality of life in Western Pennsylvania. By helping solve these problems, we make the lives of our customers better, which is a core part of the Company's mission.

I. ADVERTISING EXPENSES

Q. PLEASE EXPLAIN I&E'S PROPOSAL TO EXCLUDE $2,675,640 OF ADVERTISING EXPENSE (I&E St. No. 1, p. 23.) AND OCA'S PROPOSAL TO EXCLUDE $1,283,108 (OCA St. No. 1, p. 41).

A. I&E recommend removal of 100% of our advertising costs related to Sports Partnerships and Advertising based upon the assertion that these costs may be more representative of goodwill advertising or promotional advertising, that non-customers may benefit from these costs and that there could be a more effective and potentially less costly way to reach customers.

OCA recommends 50% rejection of our advertising costs related to Sports Partnerships and Advertising based upon the assertion that non-customers benefit from these sponsorships.

Q. DID ANYONE ELSE OBJECT TO RECOVERY OF THESE COSTS?

A. Yes. Duquesne (Duquesne St. Nos. 1 and 2) makes similar arguments as I&E and OCA but also argues that the economic benefit was not supported by evidence and argues that such benefit would not accrue to Peoples customers.

Q. WHAT WAS THE BASIS FOR INCLUDING THE ABOVE REFERENCED ADVERTISING COSTS IN THE CLAIM?

A. There are three main reasons. First, Peoples claim for advertising expenses reflects only expenses which satisfy at least one of the criteria set forth in Section 1316(a) of the Public Utility Code which are as follows:

1. Advertising that is required by law or regulation is addressed, for example, by costs projected for notices to ratepayers of proposed changes in our rates, pamphlets that advise them of their rights as consumers, and information on means of using their energy services more effectively and efficiently.
2. Advertising that is in support of financing.
3. Advertising that encourages energy independence is addressed, for example, by costs projected for publications that educate consumers on the use of domestic natural gas as a heating fuel instead of oil, or as a motor vehicle fuel instead of gasoline.
4. Advertising that provides important information to the public regarding the pipelines being replaced as part of our infrastructure replacement

program and safety messages such as “Call before you dig” and explanations of gas odorization. Rate changes, means of reducing usage or bills, and energy conservation are addressed, for example, by costs projected for notices of changes in rates, for publications that provide maintenance tips and information on home winterization, budget payment programs, for billing and payment options as well as for the availability of public funds for payment of utility bills, and for bill inserts.

5. Advertising that provided a direct benefit to ratepayers is represented by most if not all of our projected advertising costs, in that those costs are designed to keep all of our ratepayers or targeted groups of our ratepayers well informed of issues of interest to them, including information related to our infrastructure replacement program.

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

Second, these costs are integral components of the Company’s advertising and outreach program and directly benefit our customers. Peoples maintains ongoing sports partnerships with the Pittsburgh Pirates, Pittsburgh Penguins, Pittsburgh Steelers, and the Altoona Curve.

Through these relationships, Peoples is able to share information about key customer services and vital safety messages with large, concentrated groups of customers and with the public. These opportunities include print ads in sports programs, radio spots during games, digital and video ads on scoreboards and stadium televisions, on-site promotion such as banners, wraps and decals, and digital messaging on widely-visited team websites. These advertising and outreach programs focus on safety, e-billing, e-account and other key messages.

In recent years Peoples introduced an e-billing solution. One aspect of these partnerships is focused on increasing customer awareness of the e-Billing solution. Every day, more people turn to digital solutions in all facets of their lives, and Peoples has met that customer expectation by launching a free, e-Billing solution through the Peoples e-Account customer portal. By choosing e-Billing, customers' bills, usage, and account information, as well as required Commission messages, are presented and stored in one secure location.

Many of Peoples' e-Billing ads provide customers with a link to enroll directly from their stadium seats. In the time it takes for a racing pierogi to "round first" in PNC Park, a Peoples customer can reduce their carbon footprint, make a payment, and never have to worry about misplacing a gas bill again. Further, it strengthens the Company's relationship with customers thus making them more likely to pay.

In addition to cutting down on clutter and adding convenience for customers, e-billing is an essential initiative in Peoples' commitment to protecting the environment. Every year, Peoples sends over 8.4 million paper bills. If all Peoples customers switched to e-Billing, we would annually save 33.5 tons of paper, or approximately 6,700 trees.

Another important aspect of these partnerships is focused on increasing customer and public awareness of critical safety information in the seasons which most closely correspond to the potential dangers.

Peoples leverages its partnerships with the Pittsburgh Pirates and Altoona Curve to promote "Call 811" safe digging practices, using print and video advertising at the two respective ballparks as follows:

- Video ads, shown on the stadium scoreboards, showcase Peoples' CGA-award-winning "Dig Dance" featuring mascot Freddy the Flame;
- Printed programs include ads featuring "The Sullivans," a proprietary, cartoon family who practices safe digging;
- The ads refer the public to valuable, safe-digging resources on Peoples' website at www.peoples-gas.com/811. This highly-trafficked web page and related safe digging pages accrued thousands of page views in recent years; and
- The campaign is supported by Peoples' social media channels. "Safe Digging" social media posts often lead to the Dig Dance on YouTube.

The Company is also working with other partners to focus future campaigns on other key safety initiatives. In fall and winter 2019-2020, Peoples' communications assets for the Pittsburgh Steelers partnership will focus on regulatory messaging surrounding the "3 S's: Sight, Sound, Smell," informing the public about recognizing natural gas leaks. Also in 2019-2020, messaging opportunities related to Peoples' partnership with the Pittsburgh Penguins will focus on educating the public about the dangers and prevention of carbon monoxide poisoning.

Sharing these vital safety messages serves to directly protect Peoples customers and the public, including the customers of all other utility companies in the region.

Peoples' sports partnerships deliver significant value to customers by increasing awareness of high-demand services and important safety messages in a timely manner, while also contributing to significant, holistic economic growth within Peoples' service territory.

Sports partnerships allow Peoples to inform customers about valuable services, highlight crucial safety messages, and empower regional economic growth. The ongoing health of the company is directly connected to this growth.

Peoples' company mission is to make lives better. By supporting popular sporting events and thoughtfully leveraging corresponding message opportunities, Peoples upholds its commitment to the customers and communities it serves and provides them a direct benefit.

Third, they provide a direct benefit to our community and thus our customers. Although these partnerships are integral aspects of our advertising campaigns related to billing practices, safety, environmental and other messaging, these partnerships have further benefits.

Section 1316(a) of the Public Utility code sets forth criteria regarding the recoverability of advertising expenses incurred by a utility. The last item listed, (6), states that advertising that "is for the promotion of community service or economic development" is recoverable.

Peoples' partnerships with the Pittsburgh Pirates, Penguins, Steelers and other teams also fits under item (6) as these major league sports franchises are catalysts for economic development in the City of Pittsburgh and the Western Pennsylvania region, as well as are regional leaders in community service.

A 2018 study by PricewaterhouseCoopers LLC estimated that the Pittsburgh major league sports franchises generated approximately $88 million in revenue to the City of Pittsburgh and helped create over 10,000 jobs between 2012-2016. In addition, these franchises are engaged in many community service projects throughout the region, promoting healthy lifestyles and civic pride among local residents. This study showed that Pittsburgh sports teams have:

- Created 10,100 annual jobs.
- Induced $6 billion in direct and indirect spend in the region over five years.
- Attracted and retained major companies and employers.
- Attracted almost 4 million people to the city each year.
- Generated nearly $41.5 million in advertising value each year to raise the profile of Pittsburgh regionally, nationally, and globally.

By sponsoring the major league sports franchises, Peoples helps spur economic development in the region and creates a positive community brand for Western Pennsylvania, which makes the region a more attractive place for businesses to locate and create jobs and has a direct benefit for our customers. Attached as **Exhibit No. APW-R-4** are letters from the Pittsburgh Penguins, Pittsburgh Steelers and Pittsburgh Pirates re-affirming the impact of our partnerships.

Please note that the Company supplemented its response to Interrogatory No. OCA-I-34 (included in **Exhibit No. APW-R-1)** to provide further examples of the advertising related to these advertising programs.

Q. OCA PROPOSES TO REDUCE THE COMPANY'S ADVERTISING EXPENSES BY $1.3 MILLION BECAUSE OCA STATES THAT NON-CUSTOMERS AND LOCAL RESIDENTS ARE BENEFITING FROM THOSE EXPENSES. (OCA St. No. 1, p. 41). IS THIS A VALID REASON FOR DENYING THE COMPANY'S ADVERTISING EXPENSES?

A. The fact that non-customers receive benefit in addition to the direct benefit of Peoples' customers should not prohibit recovery of these costs. I note that some of the non-customers who see this messaging for items such as safety are likely to be customers of other Pennsylvania utilities such as Duquesne, Columbia Gas of PA, First Energy and the Pittsburgh Water and Sewer Authority. As such, one message at these events could be seen by customers of five or more Pennsylvania utilities.

J. <u>FLEET MAINTENANCE AND FUEL</u>

Q. DISCUSS OCA'S ADJUSTMENT OF $3,174 RELATED TO EXECUTIVES.

A. OCA proposes an adjustment to the Company's claim to remove $3,174 of Fleet Maintenance and Fuel costs that were incurred by the Company's Executives ($2,155) and Government Affairs ($1,019) group. The reasoning provided by OCA's witness Mr. Mugrace was "I believe it does not relate to Auto Parts Supplies and Maintenance." (OCA St. No. 1, p.42)

Q. SHOULD THE COMMISSION ACCEPT OCA'S PROPOSED ADJUSTMENT?

A. No. These costs are prudent costs incurred to repair vehicles that our operated by mainly employees who oversee Operations and our Government Affairs group. $2,659 of these costs relate to charges from our third party fleet maintenance vendor and $515 are directly incurred costs for items such as oil changes, tire replacements, alignments, state inspections and other such vehicle maintenance costs. These cars are utilized for business purposes and are necessary for these employees to perform their jobs.

K. MATERIALS AND SUPPLIES

Q. OCA PROPOSES TO DENY $98,381 OF MATERIAL SUPPLIES EXPENSES BECAUSE OCA ARGUES THAT THEY ARE NOT APPROPRIATE MATERIALS AND SUPPLIES EXPENSES. DO YOU AGREE?

A. Similar to his argument regarding certain Fleet Maintenance and Fuel costs, Mr. Mugrace proposes an adjustment based upon his belief that certain costs are not recoverable. In this instance he is challenging Materials and Supplies for certain departments. Below is a detail of the costs he challenges. Some of these costs were included in the materials and supplies category as a result of the Company's purchasing card reconciliation process as these costs initially default to the materials and supplies category until the purchasing card statements are reconciled. In this instance these statements were not reconciled until after the end of the HTY and thus were reclassified to other cost categories in subsequent months. Although his observation is correct that some of these items could have been recorded in other categories, there are all still recoverable and valid business costs.

Type	Amount
Dues & Memberships	$ 3,935
Entertainment Expense	$ 33,846
Meals	$ 37,976
Office Supplies & Subscriptions	$ 92
Outside Services	$ 784
Postage	$ 18,448
Subscriptions	$ 581
Travel Expense	$ 2,719
Total	$ 98,381

L. OTHER O&M

Q. DID ANY PARTY PROPOSE ADJUSTMENTS RELATED TO CHARITABLE CONTRIBUTIONS AND DONATIONS?

A. Yes, OCA and I&E both proposed that charitable contributions and donations be removed from the cost of service study for ratemaking purposes. Both parties essentially make the same argument that customers do not receive a direct benefit from the costs.

Q. DO YOU AGREE WITH THEIR POSITIONS?

A. No. I do not. The costs claimed provide a benefit to the customers as discussed below. For the category (economic development) where the benefit may be less direct, the Company only claimed 50% of the projected costs and for the category (arts/culture) where the benefit was considered indirect the Company excluded the costs from the claim.

The economic development contributions provide a direct stimulus to the maintenance or enhancement of the market for natural gas within Peoples' service territory and an opportunity to spread our costs of service among the widest possible base of sales and transportation volumes.

Our Contribution expenses under the youth and human services categories foster the development of a qualified and productive work force within our service territory, a necessary complement to our economic development activities as a means to attract new businesses and enhance and retain existing businesses. Moreover, our expenses in these categories also improve the economic self-sufficiency of people within our service territory, and create a genuine opportunity for Peoples to reduce its costs of service, particularly in the areas of uncollectible expenses, customer assistance and other social programs.

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

Further, I do note that some of the above costs are truly employee expenses under the Company's Matching Gift Program. Through this program, Peoples provides a dollar for dollar match (up to $500) of donations our employees provide to eligible non-profit organizations. As this is a benefit to our employees it should be considered an employee expense. The HTY amount of the matching gifts is $9,867.

M. RATE CASE EXPENSE

Q. BOTH OCA AND I&E PROPOSE ADJUSTMENTS TO THE COMPANY'S RATE CASE EXPENSE CLAIM. PLEASE SUMMARIZE THESE ADJUSTMENTS.

A. Mr. Mugrace on behalf of OCA argues that an assumed settlement of the case should be factored into the derivation of rate case expense and such expenses should be amortized over a three-year period. I note that Mr. Mugrace accepts the total claim amount of $2,389,000 as proposed by the Company.

Mr. Keller on behalf of I&E argues that a 42-month amortization period should be utilized to determine rate case expense.

Q. DO YOU AGREE WITH MR. MUGRACE'S RECOMMENDATION TO ASSUME A SETTLEMENT IN DETERMINING RATE CASE EXPENSES?

A. No. I do not. Overall, his assumption that a settlement will occur is inappropriate. The facts and circumstances of this case must be used to develop this cost rather than the speculation that a settlement will occur. While the Company has settled cases in the past, 20 witnesses have submitted testimony in this proceeding on behalf of nine parties. Although the Company is hopeful a settlement can be reached with the parties, a settlement may be difficult and thus cannot be assumed for purposes of determining rate case expense. Moreover, if the parties are able to reach a settlement, they will presumably include an adjustment for rate case expense in the black-box settlement number. Further, I note that the Company has already incurred over 50% of its projected costs to date.

Q. DO YOU AGREE WITH EITHER OCA OR I&E'S RECOMMENDATION REGARDING THE AMORTIZATION PERIOD?

A. No. I do not. OCA offered no basis for the recommended 3-year amortization period and I&E's basis for their 42-month amortization period is flawed.

Q. PLEASE EXPLAIN PEOPLES' BASIS FOR A TWO-YEAR AMORTIZATION PERIOD AS ORIGINALLY PROPOSED.

A. Peoples filed rate cases in both 2010 and 2012. Absent the efficiencies gained from the Equitable acquisition, it is likely that a rate case would have been filed sooner than this case. In addition, Peoples projects two years to be the approximate length of time between the filing of this proceeding and the filing of Peoples' next base rate proceeding given the Company's LTIIP commitments for infrastructure replacement.

Q. WHAT IS THE COMPANY'S PROJECTED LTIIP SPEND FOR THE TWO CALENDAR YEARS SUBSEQUENT TO THE FPFTY?

A. Pursuant to the Company's filed LTIIP at Docket Nos. P-2013-2344596, P-2013-2342745 and P-2016-2563033, the Company projects to spend $178.2 million in calendar year 2021 on all LTIIP eligible capital expenditures. Further, the Company projects to spend approximately $170 on mains and services alone in calendar year 2022 across both the Equitable and Peoples Divisions combined.

Q. DID YOU PREPARE AN ANALYSIS REGARDING LTIIP COMMITMENTS AND SUFFICIENCY OF DSIC RECOVERY?

A. Yes. I have prepared **Exhibit No. APW-R-5**. This schedule illustrates that under both the OCA and I&E's proposed rate increases that DSIC revenue is insufficient to provide an adequate return on two years of LTIIP capital expenditures for infrastructure replacement beyond the FPFTY. I note that even if the entire rate increase proposed by the Company is approved, DSIC revenue would be insufficient to provide adequate revenue requirement on LTIIP capital expenditures during 2022. Further, this analysis does not take into account the Company's anticipated costs increases expected during 2021 and 2022 as well as additional capital expenditures related to non-LTIIP needs.

As such, this schedule more than supports a two-year amortization of rate case expenses.

Q. WHY ARE BOTH OCA AND I&E'S AMORTIZATION PERIODS FLAWED?

A. I&E mischaracterized the Company's historical filing history as the calculation ignored a stay-out as required as part of the settlement resulting from the Company's acquisition of Equitable Gas Company (Docket Nos. A-2013-2353647, A-2013-2353649, and A-2013-2353651) and the citations to other companies is inappropriate.

OCA offered no basis for their three-year amortization period.

Q. WHAT IS THE APPROPRIATE CALCULATION TO DETERMINE THE COMPANY'S RECENT RATE CASE FILING HISTORY?

A. As mentioned above, I&E ignored a stay-out as required as part of the settlement resulting from the Company's acquisition of Equitable Gas Company and the related efficiencies. Below is a calculation which takes into account the stay-out. This results in a normalization period of 22 months. Thus, Peoples' recommendation for a two-year normalization is conservative. The 83 months calculated between the 2012 and 2018 cases should be reduced by 60 months (five-year stay-out). I reiterate that the Company could have filed a rate case earlier but it was the efficiencies gained from the Equitable acquisition that allowed the Company to stay out longer than originally anticipated. Thus, the revised average should be approximately 22 months ((23 mo. + 16 mo. + 28 mo.) / 3 intervals).

Q. I&E CITES OTHER COMPANIES AS EXAMPLES TO SUPPORT ITS POSITION. ARE THESE REFERENCES RELEVANT?

A. No. They are not. The unique facts and circumstance of Peoples should be taken into account rather than the unknown facts and circumstance of the other companies. Mr. Keller's own description of the recent UGI Electric rate case confirms this when he states "Instead, the Commission looked at circumstances there were specific to UGI Electric, such as UGI Electric's planned acceleration of its capital expenditures when determining that the three-year period was appropriate". (OCA St. No. 1, p. 12) The information provided above regarding the circumstances unique to Peoples supports the argument that a two-year amortization is appropriate.

Q. DO YOU AGREE WITH THESE PROPOSED ADJUSTMENTS?

A. For the reasons stated above, I do not. The Company's original proposal of a two-year normalization should be accepted.

N. PENSION EXPENSE

Q. I&E PROPOSES A REDUCTION TO THE COMPANY'S PENSION EXPENSE OF $1,810,000. (I&E St. No. 1, p. 13). WHY IS I&E PROPOSING THIS ADJUSTMENT?

A. I&E asserts that the Company should only be allowed to recover the projected pension expense rather than projected cash contribution related to its pension.

Q. DO YOU AGREE WITH I&E'S PROPOSED ADJUSTMENT?

A. I do not for various reasons. First, the last base rate case for Peoples in 2012 was a black box settlement where the Company was required to provide cash contributions into its pension. This certainly indicates that the case contribution amount was the basis for recovery in the last case. Second, an O&M claim for pension cash contribution recovery rather than the accrual method is an acceptable and reasonable method to develop the pension expense claim in a base rate case. Third, the Company's recent contributions into the Pension have well exceeded expense.

Q. CAN YOU EXPAND UPON YOUR ARGUMENT REGARDING THE LAST BASE RATE BEING BLACK BOX SETTLED?

A. Yes. The 2012 base rate case for Peoples was black box settled and thus no precedent was set regarding the derivation of Pension expense recovery. I further note that the Company ultimately committed to make cash contributions for amounts recovered under the settlement terms.

Q. IS I&E CORRECT THAT PEOPLES IS NOT USING A CONSISTENT METHOD OF DETERMINING PENSION EXPENSE?

A. No. As I previously explained, the Company's commitment to make contributions to the pension in the 2012 case and its claim based on contributions in the case is consistent.

Q. PLEASE EXPLAIN HOW THE COMPANY'S CONTRIBUTIONS INTO THE PENSION HAVE WELL EXCEEDED EXPENSE INCURRED.

A. Yes. Below is a chart that shows that since the acquisition of Equitable Gas in late 2013 the Company has contributed over $6.6M into the Pension compared to $4.5M of net periodic expense.

Year	Periodic Expense	Contribution
2018	$ 212,688	$ 2,596,738
2017	$ 726,919	$ 1,846,000
2016	$ (30,572)	$ 740,000
2015	$ 2,399,064	$ 740,000
2014	$ 1,195,397	$ 740,000
Total	$ 4,503,496	$ 6,662,738

Q. DO YOU BELIEVE THAT THE COMPANY'S PROPOSAL IN THIS CASE IS FAIR TO RATEPAYERS?

A. Yes. Ratepayers have received the benefit of the Company contributing more to pensions than the accrual amount over the past 5 years. It is fair for ratepayers to include the Company's projected contribution in rates in this proceeding.

O. <u>OUTSIDE SERVICES A&G</u>

Q. I&E PROPOSES A REDUCTION IN OUTSIDE SERVICES – A&G OF $325,914 BASED UPON USING THE COMPANY CAPITALIZATION PERCENTAGE FROM THE HTY. IS HIS ADJUSTMENT REASONABLE?

A. Yes. In reviewing the calculations it was discovered that capitalization was not applied to the FTY and FPFTY incremental costs reflected on this schedule. As such, I&E's adjustment is reasonable.

P. <u>PAYMENT PROCESSING EXPENSES</u>

Q. I&E ACCEPTS THE COMPANY'S PROPOSAL TO ELIMINATE CUSTOMER TRANSACTION FEES FOR MAKING CERTAIN BILL PAYMENTS BUT PROPOSES TO REDUCE THE COMPANY'S CLAIM BY $944,749. (I&E St. No. 1, p. 26). WHAT IS THE BASIS OF I&E'S PROPOSED ADJUSTMENT?

A. The Company has proposed to allow customer payments by credit cards without charge. I&E Witness Keller states that he is unconvinced that customers will begin to use credit cards at the rate the Company proposed without providing a basis for that reasoning beyond asserting that the Company did not provide supporting documentation unique to Peoples. In his opinion that makes this "increase speculative and not representative of a known and measurement change" (I&E St. No. 1, p. 27).

Q. HOW DID THE COMPANY ARRIVE AT A 31% INCREASE TO DEBIT AND CREDIT CARD PAYMENTS?

A. The Company utilized information obtained from an AITE Group Paper on payment processing. The 31% represents the percentage the AITE Group Paper projects for one-time no fee payments paid by credit/debit card for oil or gas payments.

Q. IS I&E'S PROPOSAL TO RELY ON THE NUMBER OF HISTORIC PAYMENTS REASONABLE?

A. No. Although Mr. Keller states he is unconvinced that our customers will begin to make payments at the level the Company proposed, he offers little support for that opinion. Although on the surface some phase-in of utilization may be considered reasonable, I would argue that our Customers are already so accustomed to having a credit card option available to them for most other bills that they will rapidly adopt it for their natural gas bill. Thus, it is appropriate to use the AITE Study projection. Considering the utilization of a FPFTY in this proceeding, it is not unreasonable that we will reach that adoption by the end of the FPFTY.

It is unreasonable for Mr. Keller to argue that the Company's payment processing costs should be adjusted based upon his argument that the percentage increase is speculative, Mr. Keller essentially admits that the number of debit and credit card payments will increase but allows for no increased costs to the Company. (See Interrogatory No. PNG to I&E-II-5, included within **Exhibit No. APW-R-1**). As the Company has no experience adopting a no-fee model for payments of this type, it is unreasonable to expect Peoples to be able to produce information specific to Peoples to support the claim. As such, the Company utilized a third-party study to support its claim.

It is my understanding that Duquesne used the AITE Study in projecting their costs associated with a similar proposal.

Q. DID YOU ASK MR. KELLER ANY ADDITIONAL DISCOVERY REGARDING PAYMENT PROCESSING? WHAT IS YOUR REACTION TO HIS RESPONSE?

A. Yes. The Company at Interrogatory No. PNG-I&E-V-1 (included within **Exhibit No. APW-R-1)** asked Mr. Keller to explain the supporting documentation unique to Peoples that he was expecting to see. He suggests that the Company perform studies or receive feedback from customers to determine if 31% of the Company's customers would pay via debit or credit cards. He also offers that data more relevant to Pennsylvania customers would suffice.

The previously mentioned AITE Group Paper on payment processing is sufficient evidence to support the Company's claim. Additional corroboration of the study is unnecessary. The Company's customer base is broad and diverse enough and spans many rural and urban counties in Western Pennsylvania thus it is reasonable to expect our customers to pay consistent with the customers sampled in order to develop the 31% in the study.

Q. SHOULD THE COMPANY'S CLAIM BE ACCEPTED?

A. Yes it should be accepted for the reasons stated above.

Q. DID ANY OTHER PARTIES ADDRESS THE COMPANY'S PAYMENT PROCESSING PROPOSAL IN THEIR TESTIMONY?

A. Yes. OCA and CAUSE-PA support the Company's proposal. Other parties did not directly address the proposal.

Roger Colton on behalf of OCA (OCA St. No. 4 p. 45) stated that the proposal is reasonable and that it is likely to benefit low to moderate income households and Harry Geller on behalf of CAUSE-PA (CAUSE-PA St. No. 1) supported the proposal as it "…takes some of the burden off low income customers."

Q. <u>SYNERGY SAVINGS</u>

Q. AT PAGE 11 OF HIS DIRECT TESTIMONY, MR. DAVIS ON BEHALF OF DUQUESNE RECOMMENDS THAT THE COMPANY BE REQUIRED TO TRACK ACQUISITION SYNERGIES AS A REGULATORY LIABILITY TO BE REFLECTED IN THE COMPANY'S NEXT BASE RATE CASE. DO YOU AGREE WITH THIS RECOMMENDATION?

A. No, I do not. First, as Mr. Davis notes in his testimony, Peoples has stated that "the application of Aqua America to acquire the Peoples Companies does not affect this base rate filing." Mr. Davis speculates that the acquisition will in fact impact Peoples' costs, revenues, or operations in the future, but Mr. Davis offers no evidence to support his conclusion. Mr. Davis' proposal should be dismissed because, at this point, it is uncertain if and when the acquisition will actually advance to closing. Evidence regarding the impact of the acquisition is too speculative to be admissible in this case; any alleged "synergy savings" as a result of the proposed acquisition are appropriately addressed in the Acquisition Proceeding and a future Peoples' base rate proceeding, not in this proceeding. Duquesne is a party to the Acquisition Proceeding and has the ability to pursue the issue in that proceeding.

Second, assuming that the Commission approves the proposed acquisition, the Commission could impose conditions in the Acquisition Proceeding that impact the amount of the "synergy savings" and how any such savings are to be allocated between the Peoples Companies and Aqua. Synergy savings, if any, should not be automatically treated as a regulatory liability exclusively of Peoples, as Duquesne has proposed. This is another reason why any alleged "synergy savings" are more appropriately addressed in the Acquisition Proceeding and a future Peoples' base rate proceeding rather than this proceeding.

Third, Mr. Davis fails to address the legal issue of the Commission's authority to order the requested remedy. I am advised by counsel that no precedent exists which requires a company to track "synergy savings" based upon the Commission's potential future approval of an acquisition. By singling out the issue of synergy savings for tracking and the creation of a regulatory liability for Peoples, the Commission would be violating the well-established prohibitions against single-issue and retroactive rate making. The Commission is required to view review all costs and savings in the revenue requirement -- using historic, future and fully projected future test years -- to assure that the net result includes all cost increases and decreases and is otherwise fair. Accordingly, any synergy savings resulting from the Acquisition Proceeding are appropriately addressed in a future Peoples' base rate proceeding.

For all of the above reasons, Mr. Davis' recommendation regarding tracking of synergy savings and the creation of a regulatory liability should be rejected.

R. <u>UNCOLLECTIBLE ACCOUNTS EXPENSE</u>

Q. PLEASE DISCUSS I&E AND OCA'S ADJUSTMENTS TO UNCOLLECTIBLE ACCOUNTS EXPENSE.

A. Overall, OCA accepted the Company's methodology to determine uncollectible accounts expense. However, Mr. Mugrace did propose an increase of $128,363 related to his revenue adjustment. As this relates to the averaging concept that was previously decided by the Commission (discussed above), this adjustment should be rejected.

Also, both OCA and I&E made adjustments to bad debt resulting from there overall revenue requirement proposals.

Q. DO YOU AGREE WITH THEIR ADJUSTMENTS?

A. I do not. Although their calculations appear to align with their proposed increases, the Company' disagrees with their overall revenue increase. As such, the ultimate recover of uncollectible accounts expense should be calculated based on the rate increase approved in this proceeding.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY AT THIS TIME?

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

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

Respondent: Andrew Wachter

I&E-RE-12 Reference Peoples Volume 1, Exhibit 4, Schedule 1, p. 6 regarding APIP/Incentive Compensation annualization adjustments. Provide the following:

A. Detailed calculation with supporting documentation for each annualization adjustment by company as of September 30, 2018 of $10,417,232;
B. Detailed calculation with supporting documentation for each APIP/Incentive Compensation – Adjustments/Progressions adjustment by company for the following:
   1. FTY – $227,135;
   2. FPFTY – $70,757.

Response:

A. Refer to the **HIGHLY CONFIDENTIAL** response to OCA-I-12.
B. Refer to Attachment A. Please note that the Company identified formulas errors in its original calculations which understated the claim by $42,525 prior to capitalization (Columns J-L). The correct calculation is provided on attachment in Columns G-I.

E-RE-12
ttachment A

Labor Information (Exhibit 4, Schedule 1, Page 5)

TY ADJUSTMENTS	**FTY Progressions/Promotions**			**FTY Adjustments**			**Corrected Calculation**			**Exhibit No. 4, Schedule No. 1, Col 3, Row 7**		
	PNG	**PED**	**Combined**	**PNG**	**PED**	**Combined**	**Labor**	**Rate**	**APIP**	**Labor**	**Rate**	**APIP**
	A	**B**	**C**	**D**	**E**	**F**	**G=C+F**	**H**	**I=GxH**	**J**	**K**	**L**
otal Clerical Labor	$ -	$ -	$ -	$ 22,115	$ 16,159	$ 38,274	$ 38,274	12.5%	$ 4,784	$ 38,274	12.5%	$ 4,784
otal Exempt Labor	$ -	$ -	$ -	$ 818,411	$ 531,901	$ 1,350,311	$ 1,350,311	12.5%	$ 168,789	$ 1,350,311	12.5%	$ 168,789
otal Clerical - Union	$ 21,966	$ 16,051	$ 38,017	$ 130,233	$ 95,162	$ 225,395	$ 263,412	5.0%	$ 13,171	$ -	5.0%	$ -
otal Manual - Union	$ 321,514	$ 156,828	$ 478,343	$ 370,080	$ 222,809	$ 592,889	$ 1,071,232	5.0%	$ 53,562	$ 1,071,232	5.0%	$ 53,562
otal (Ln 7 + Ln 8 + Ln 9 + Ln 10)	$ 343,481	$ 172,879	$ 516,360	$ 1,340,838	$ 866,031	$ 2,206,870			**$ 240,305**			**$ 227,135**
&M Labor Percentage	49.86%	50.88%	50.20%	75.08%	74.37%	74.80%						
nnualization Adjustment to Labor &M (Ln 11 x Ln 12)	$ 171,244	$ 87,959	$ 259,203	$ 1,006,667	$ 644,039	$ 1,650,706						

PFTY ADJUSTMENTS	**FPFTY Progressions/Promotions**			**FPFTY Adjustments**			**Exhibit No. 4, Schedule No. 1, Col 3, Row 13**			**Exhibit No. 4, Schedule No. 1, Col 3, Row 13**		
	PNG	**PED**	**Combined**	**PNG**	**PED**	**Combined**	**Labor**	**Rate**	**APIP**	**Labor**	**Rate**	**APIP**
	A	**B**	**C**	**D**	**E**	**F**	**G=C+F**	**H**	**I=GxH**			
otal Clerical Labor	$ -	$ -	$ -	$ -	$ -	$ -	$ -	12.5%	$ -	$ -		$ -
otal Exempt Labor	$ -	$ -	$ -	$ 220,586	$ 144,324	$ 364,910	$ 364,910	12.5%	$ 45,614	$ 364,910	12.5%	$ 45,614
otal Clerical - Union	$ 56,001	$ 40,920	$ 96,921	$ 103,230	$ 75,431	$ 178,661	$ 275,582	5.0%	$ 13,779	$ 96,921	5.0%	$ 4,846
otal Manual - Union	$ 275,640	$ 130,302	$ 405,942	$ 235,989	$ 172,437	$ 408,426	$ 814,368	5.0%	$ 40,718	$ 405,942	5.0%	$ 20,297
otal (Ln 15 + Ln 16 + Ln 17 + Ln 18)	$ 331,641	$ 171,222	$ 502,863	$ 559,805	$ 392,192	$ 951,997			**$ 100,111**			**$ 70,757**
&M Labor Percentage	47.95%	54.67%	50.24%	87.86%	88.16%	87.98%						
nnualization Adjustment to Labor &M (Ln 19 x Ln 20)	$ 159,008	$ 93,613	$ 252,621	$ 491,857	$ 345,741	$ 837,598						

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

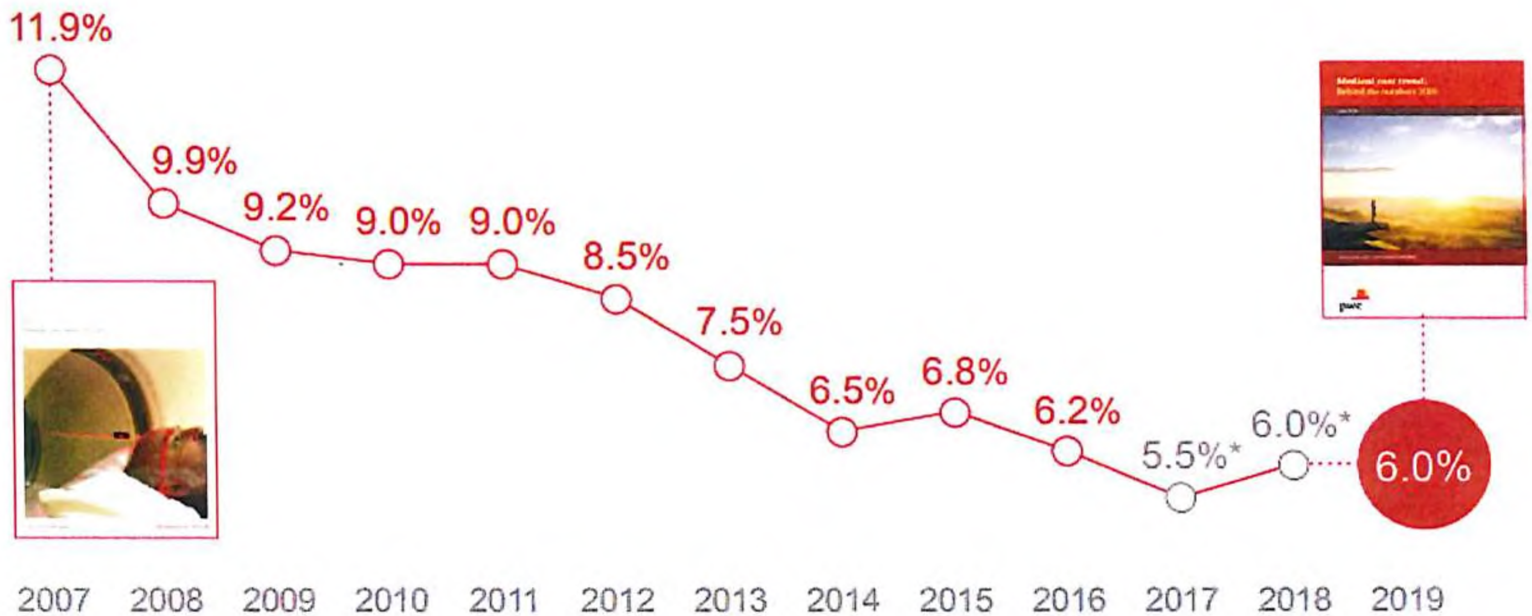
Respondent: Andrew Wachter

OCA-I-20 Please provide the basis for the 6% increase (medical cost trend study) and whether each expense above was adjusted (6%) accordingly.

Response: The 6% utilized increase was from the PwC Health Research Institute medical cost trends 2007-2019 report. Refer to the attached excerpt from the report. Please note that the 6% represents the second lowest increase since 2007.

OCA-I-20 Attachment

Medical cost trend fell for seven years before stabilizing around 6 percent



*HRI recalibrated its estimates for 2017 and 2018 down from those reported in the Medical cost trend: Behind the numbers 2018 report.

Source: PwC Health Research Institute medical cost trends 2007–2019

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

Respondent: Andrew Wachter

OCA-I-34-SUPPLEMENTAL

With regard to the Company's Advertising Expense (Exhibit No. 4, Schedule 1, page 21, and Exhibit No. 4, Schedule 4, page 2), please provide a detailed breakdown and a description of the Company's Other Advertising Programs incurred in 2018 under each Program description. Please provide a breakdown and a description of the Company's Other Advertising totaling $2,965,213. Please provide a sample of the Company's brochures, notices, bill inserts, maintenance tips and publications that the Company provides its customers.

Response:

Refer to OCA I-34-SUPPLEMENTAL Attachment A for additional samples of the messaging associated with the Company's Sports Partnerships and Advertising campaigns. This information would have been displayed on the scoreboards or other digital screens used during events, radio commercials, as well as in programs that were handed out during the games.

In addition, the Company's "Dig Dance" can be found online at https://www.youtube.com/watch?v=CAWWQkvofV8.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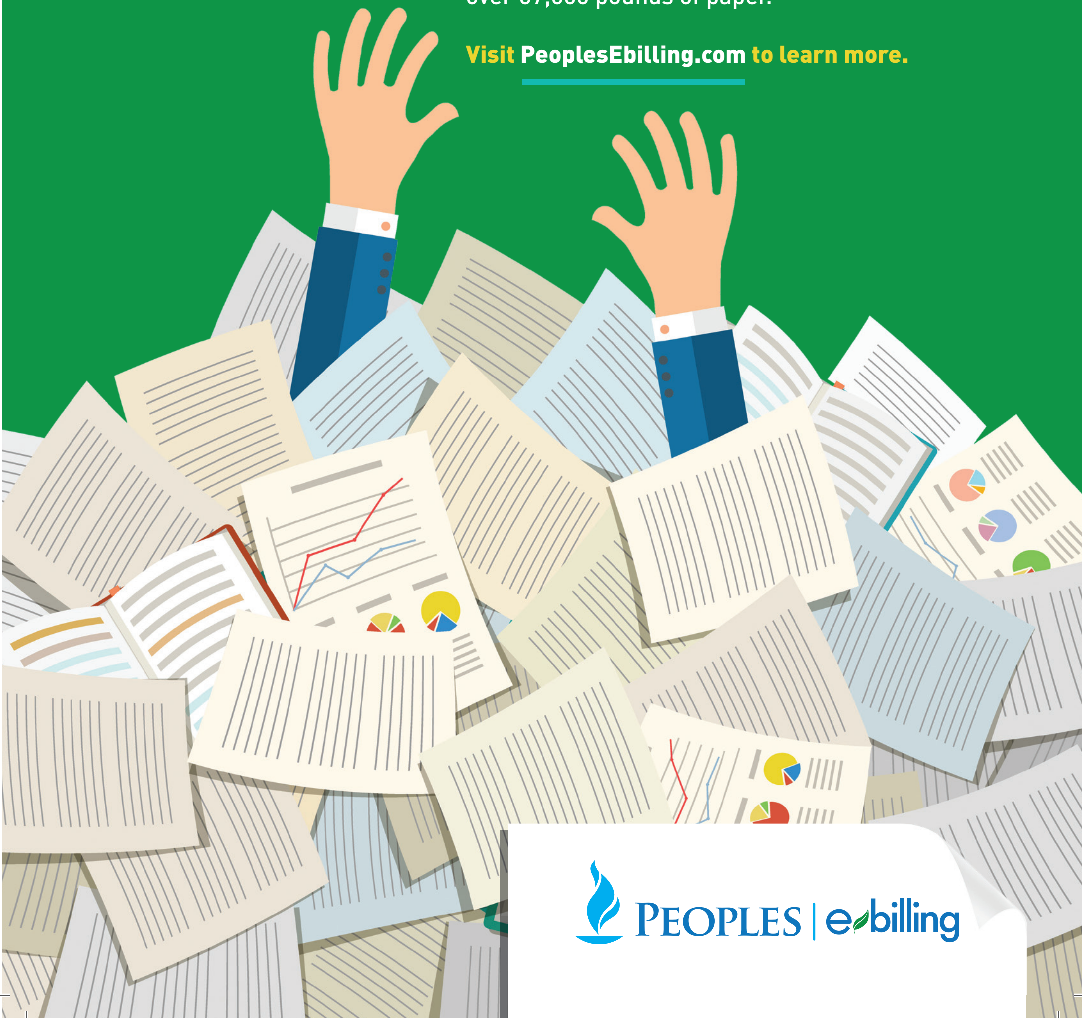

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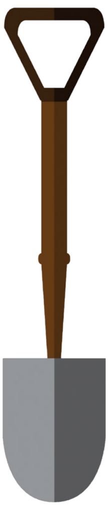

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Peoples Live Read
:10

Peoples wants you to know what's below. Call 8-1-1 before you plant, build or dig. Learn more at Peoples-Gas.com/811.*

*(Peoples-hyphen-Gas-dot-com-slash-8-1-1)

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

Responses of the Bureau of Investigation and Enforcement
to Peoples Natural Gas Company– Set II
Witness: Christopher Keller

PNG to I&E-II-5 Please reference I&E Statement No. 1, p. 25, lines 13-15; p. 26, line 20 to p. 27, line 11.

A. Please provide copies of all documents, studies, analyses, and workpapers relied upon by you in concluding that you are unconvinced that customers will begin to make payments consistent with the AITE Group Paper.

B. Please provide copies of all documents, studies, analyses, and workpapers relied upon by you in concluding that the Company will experience no increase in third party payments when the fee is removed.

Response:

A. No documents, studies, analysis, or workpapers were relied upon. Mr. Keller opines that it will take time for more customers to transition to debit and credit card payments and once a change has been demonstrated, the Company can increase its claim in future proceedings.

B. Mr. Keller did not state the Company will not experience an increase in third party payments when the fee is removed. However, an immediate increase to 31% of all payments made by debit and credit cards is not known and measurable and is unlikely to occur in the FPFTY.

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

Responses of the Bureau of Investigation and Enforcement
to Peoples Natural Gas Company, LLC – Set V
Witness: Christopher Keller

PNG-I&E-V-1 Please reference I&E Statement No. 1, p. 27, lines 8-10. Please explain in detail the "supporting documentation unique to Peoples" that Mr. Keller would have expected Peoples to present.

Response: Examples of documentation Mr. Keller would consider to be supportive of Peoples' claim are studies/feedback from Peoples' customers that show 31% of its customers will make payments via debit and credit card upon the effective date of rates or at any time during the FPFTY, or other data more relevant to gas customer payment methods in the state of Pennsylvania. However, it is the Company's responsibility to support its claims and to determine appropriate documents that would do so and not the responsibility of Mr. Keller.

Peoples Natural Gas Company LLC **Exhibit APW-R-2**

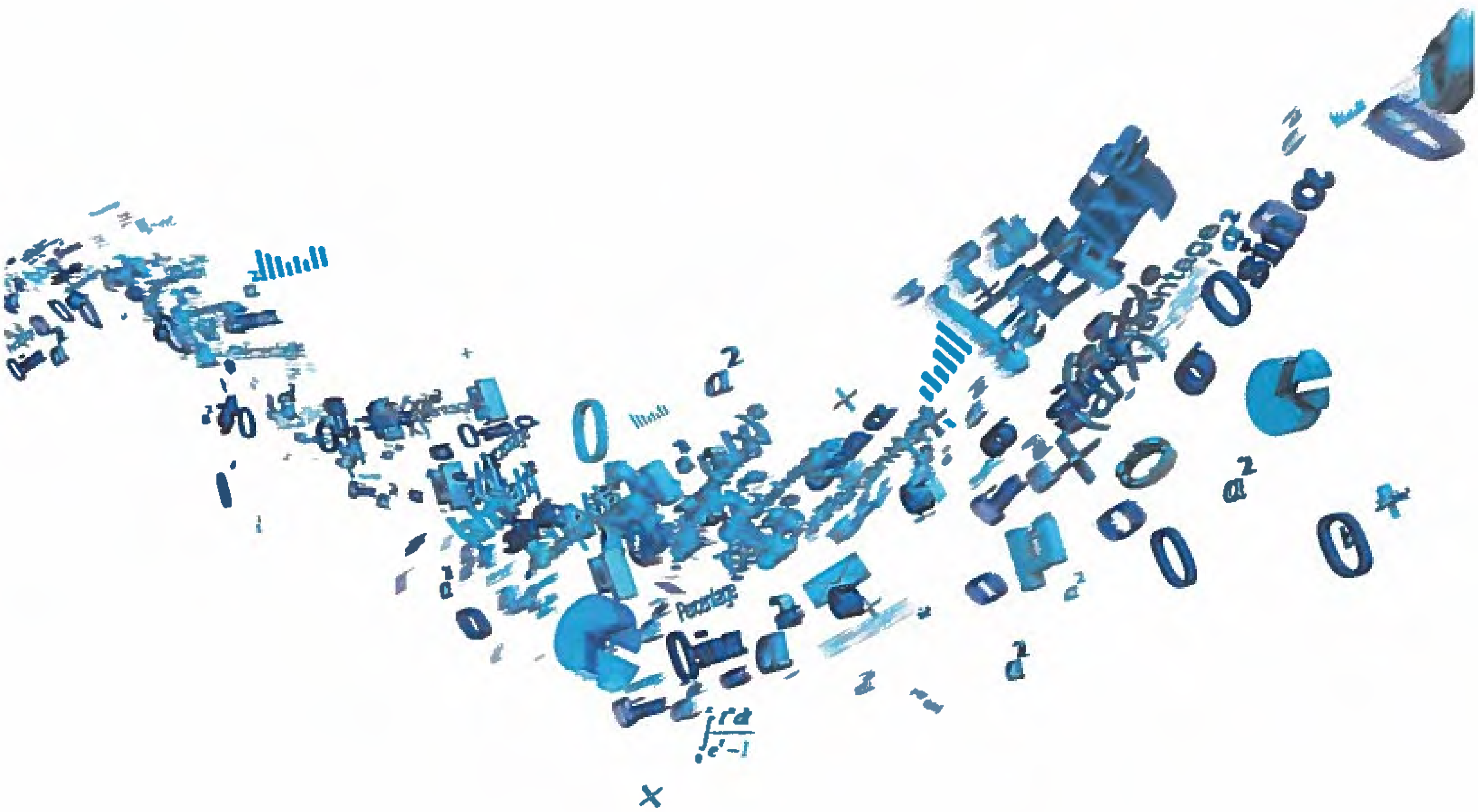
Impact of Average Rate Base

Amounts in Millions

	OCA Position	Adjustments	Revised	Reference
Rate Base	$ 1,934.5	$ 115.1	$ 2,049.6	*see below*
Rate Base Equity %	50.09%		50.09%	
Rate Base Debt %	49.91%		49.91%	
Cost of Debt	4.23%		4.23%	
Return on Equity	8.75%		8.75%	
Effective Income Tax Rate	22.30%	25.7%		
Equity Return	$ 84.8	$ 5.0	$ 89.8	*Calculated*
Cost of Debt	$ 40.9	$ 2.4	$ 43.3	*Calculated*
Depreciation	$ 81.9	$ 4.7	$ 86.6	*OCA St. No. 1, p. 53*
Expenses & Taxes Other Than Income	$ 190.0	$ 0.5	$ 190.6	*see below*
Gas Costs	$ 271.0	$ (1.0)	$ 270.0	*OCA St. No. 1, p. 14*
Income Taxes	$ 22.2	$ 1.7	$ 23.9	*Calculated*
Revenue Requirement	$ 690.7	$ 13.5	$ 704.2	
Present Rate Revenues	$ 667.7	$ (0.7)	$ 667.0	*OCA St. No. 1, p. 14*
Rate Increase	**$ 23.0**	**$ 14.3**	**$ 37.3**	
Bad debt on Increase		$ 0.3	$ 0.3	*Calculated*
Total Rate Increase	**$ 23.0**	**$ 14.6**	**$ 37.6**	

		Reference
Rate Base Adjustment		
Gas Plant in Service	$ 144.549	*OCA St. No. 1, p. 8*
Accumulated Depreciation	$ (30.636)	*OCA St. No. 1, p. 9*
Working Capital	$ 6.160	*OCA St. No. 1, p. 10*
Deferred Income Taxes	$ (4.943)	*OCA St. No. 1, p. 12*
Total	$ 115.129	
Expense & Taxes Other Adjustment		
Labor Expense	$ 0.419	*OCA St. No. 1, p. 16*
Post-Retirement Benefits Other Than Pension	$ 0.018	*OCA St. No. 1, p. 23*
Benefits Expense	$ 0.137	*OCA St. No. 1, p. 26*
Bad Debt Expense	$ (0.128)	*OCA St. No. 1, p. 51*
Taxes Other Than Income	$ 0.079	*OCA St. No. 1, p. 54-55*
Total	$ 0.524	

Exhibit No. APW-R-3



2019 Global Medical Trend Rates Report

Global Benefits

Aon
Empower Results®

Exhibit No. APW-R-3

Table of Contents

Introduction

Aon is pleased to present the results of its 2019 survey of average medical trend rates from countries around the world. The survey was conducted among Aon offices in 103 countries that broker, administer, or otherwise advise on employer-sponsored medical plans in each of the countries covered in this report. The survey responses reflect the medical trend expectations of the Aon professionals, clients, and carriers represented in the portfolio of Aon medical plan business in each country. **The trend rates presented in this report do not include any allowances for potential employer countermeasures such as cost containment plan amendments or the potential impact of any attendant employer/broker negotiations with carriers.**

Aon has conducted this survey in order to help multinational companies:

- Budget premium costs for medical plan renewals
- Understand the factors driving medical cost increases
- Devise wellness and cost containment initiatives to respond to the challenges

The trend rate figures shown in this report represent the percentage increases in medical plan (insured and self-insured) unit costs that are anticipated to be technically required to address projected price inflation, technology advances in the medical field, plan utilization patterns, and cost shifting from social programs to private insurance, including employer-sponsored plans, in each covered country.

Care should be taken in interpreting the information presented here. The medical trend rates provided are not meant to represent an overview of each country's health care costs as a whole. Neither are they necessarily indicative of the health care situation of each country's population overall.

This survey covers several separate themes:

- Estimated medical trend rates for 2019
- Risk factors that are driving medical cost inflation
- Principal cost elements in medical claims
- Wellness and health promotion initiatives being undertaken by employers to deal with spiraling medical cost increase trends
- The most common employer practices in each covered country around medical plan prevalence, design, funding, and administration
- Qualitative responses to provide greater context to medical plans globally

This report also provides information on the growing practice of requiring employee cost sharing in medical plan costs. The report summarizes the most typical practices in each covered country in this regard—employee sharing in medical premium costs, or in medical claim outlays.

As a reference, we have also included the projected general inflation rates for 2019 published by the International Monetary Fund (IMF) that have been adopted as a proxy for the expected domestic retail inflation level in each country for 2019.

The trend rate figures, risk factors, and cost elements in this report relate to employer-sponsored plans and their participants with aggregate premiums managed by Aon of over USD 116 billion.

The global and regional medical trend rate averages reflect the following technical procedures:

- A weighting process based on each country's average private health care insurance expenditure per person with arbitrary adjustments for some countries in order to prevent over or under weighting
- A geometric averaging mechanism

Due to the hyperinflation environment prevailing in Venezuela, we have left this country out of the regional and global medical trend rate averaging mechanism for 2019.

Aon intends to issue annual survey updates in the future. We expect that as the global demand for medical plan benefits extends to more countries, the number of participating countries in our published reports will increase over time.

We hope you will find this report useful. We welcome any feedback you may wish to provide.

Exhibit No. APW-R-3

Key Highlights

Global Overview

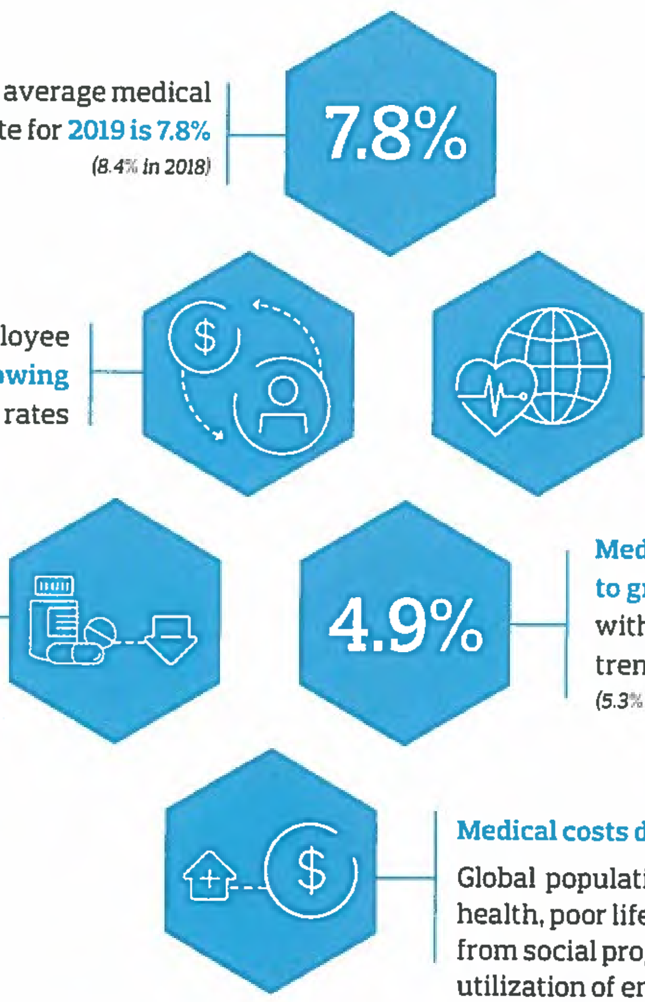
The prevalence of employer-sponsored medical plans is increasing in all countries covered by the survey. Furthermore, the scope of the provisions offered by these medical plans continues to expand (e.g., covered procedures, larger maximum lifetime benefits, higher allowances for maternity benefits, fewer exclusions from plan coverage, more lenient plan participation requirements.)

All regions of the world are expected to experience lower medical trend rates in 2019 relative to 2018 with the most significant decreases in average medical trend rates in North America and Europe.

In fact, the 2019 global average nominal (gross of inflation) medical trend rate as well as the global average real (net of inflation) medical trend rate are at the lowest registered since 2013, the initial year of the Aon global medical trend rate survey.

The drop in medical trend rates is due to lower rates of projected inflation worldwide as well as the result of employer cost containment measures and tighter medical goods and services procurement initiatives. Despite the drop, medical trend rates continue to grow over general inflation.

The global average medical trend rate for **2019 is 7.8%**
(8.4% in 2018)



Prevalence of employee **cost-sharing is growing** relative to 2018 rates

Regional medical trend rates are **relatively lower in 2019** than in 2018

Medical trend rates at their **lowest reported since 2013 survey**

Medical trend rates continue to grow over general inflation, with average net medical trend rate being 4.9% in 2019
(5.3% in 2018)

Medical costs drivers:

Global population aging, overall declining health, poor lifestyle habits, cost shifting from social programs, and increasing utilization of employer sponsored plans

Exhibit 1: Double-digit margins between 2019 medical trend rates and domestic inflation levels were found in the following countries:

The 2019 average global nominal and real medical trend rates are significantly lower than the corresponding 2018 average global medical trend rates:

- **For 2019,** the global average **medical trend rate was 7.8%** and the average **general inflation rate was 2.9%**[1]
- **In 2018,** the global average **medical trend rate was 8.4%** and the average **general inflation rate was 3.1%**[2]

For 2019, the gap between the average global nominal medical trend rate and the global average general inflation rate is expected to decrease to 4.9% from the corresponding 5.3% figure in 2018.

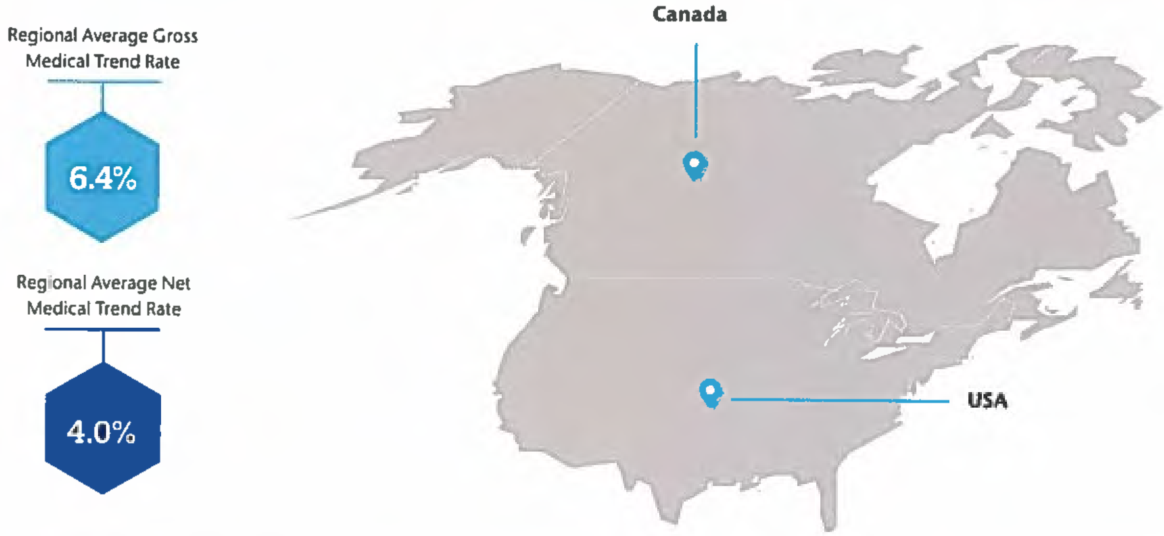
[1] 2019 projected inflation from IMF World Economic Outlook Database April 2018

[2] 2018 projected inflation from IMF World Economic Outlook Database April 2017

Regional Commentaries

The commentaries below present brief descriptions of developments that influenced the medical trend rates in selected countries that have large medical premiums per employee:

North America (NA)



USA

While the individual health insurance marketplace continues to face an uncertain future; employers can expect slightly lower increase in costs for 2019 when compared to 2018 unit cost increases.

Key drivers of medical costs in the United States, mainly medical services and pharmacy, are being more effectively managed. Employers are utilizing a growing number of strategies to help control the cost of pharmacy and medical services including cost transparency tools, referring employees to cost-effective providers, direct contracting with vendors, prescription drug alternatives, prescription drug formulary management, accountable care organizations (ACOs), and bundled payment models.

Other factors are also at play:

- The entry of new players will likely introduce new innovations and efficiencies into the health insurance markets
- Less uncertainty in the regulatory environment of employer medical plans, including the suspension of the health insurer fee for 2019 for fully insured plans, will also contribute to the lower cost increases
- While the individual healthcare exchanges continue to struggle; employer exchanges continue to provide an effective cost management solution

Canada

Prescription drug costs are the largest single cost driver for medical plans in Canada. The federal government is taking steps to organize the purchase of pharmaceutical products at the national level which is now being performed at the provincial level with over 80 different provincial/territorial plans.

Asia-Pacific (APAC)

Regional Average Gross Medical Trend Rate

8.6%

Regional Average Net Medical Trend Rate

5.8%

China

The Chinese government has taken a series of measures to control medical costs:

1. Removed the 15% drug mark-ups in all public hospitals
2. Issued regulations to limit the number of intermediaries in the distribution of pharmaceutical and medical products to two; the core of the regulation is that a manufacturer (importer) sells to a distributor, and the distributor sells directly to the hospital; a second distributor or local dealer is no longer permitted; this policy will help lower medical product costs
3. Started a pilot program on innovative but expensive medicines that were outside the National Formulary
4. Promoted the research and availability of generic drugs and the improvement of their quality

These developments are expected to have a tempering effect on medical trend rates.

Hong Kong

General population aging, increasing levels of stress, and respiratory infections are core contributors to rising use of company plans in recent years. These factors have led to higher gross and net medical trend rates in 2019 relative to 2018 despite lower general inflation projections for 2019.

India

The gross medical trend rate will be the same as last year's despite a modest decrease in expected general inflation which was offset by recent requirements for insurers to set premium rates based on portfolio claim experience and avoid artificially low medical premiums for competitive advantage. Additionally, employers in general will be concentrating on initiatives aimed at medical plan cost shifting to employees.

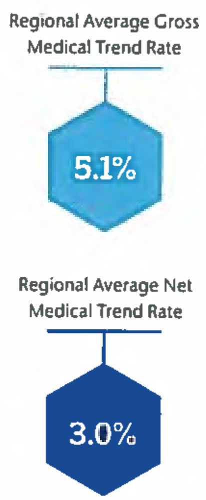
Singapore

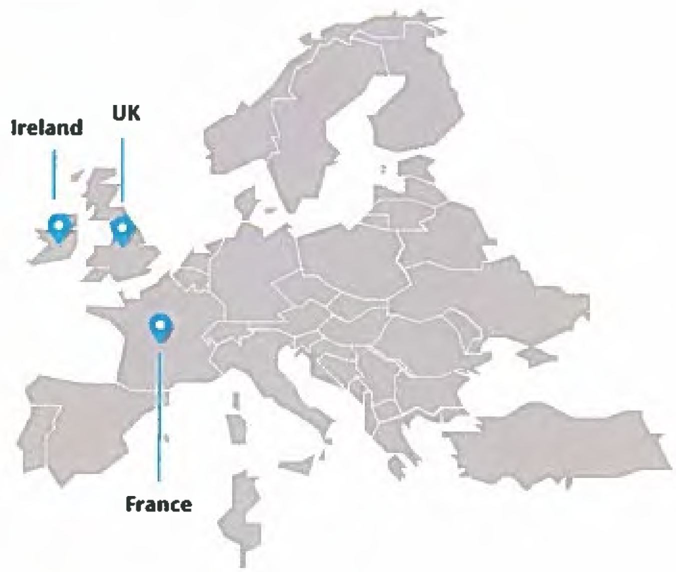
The gross medical trend rate for 2019 remains high despite lower projected general inflation in 2019. This situation will need to be closely monitored as there is increasing traction from employers and insurers taking a pro-active approach with health intervention initiatives. However, there is a great deal of uncertainty as to whether the ROI from these measures will materialize in the short term.

South Korea

Decreases in medical trend rates for 2019 are mainly driven by regulation changes on 3 non-statutory medical coverages: (1) Chiropractic procedures, (2) Injections, and (3) MRI exams. Additionally, the typical coinsurance rates have increased from 20% to 30%.

Europe





France

Medical trend rates for 2019 anticipate higher physician fees due to nationwide negotiations with doctors and dentists. Additionally, we estimate that the upward direction of medical trend rates will continue over the 2020-2021 period, given the "100% Medical" reform which will impose full coverage of dental, optical and audio prosthetics related costs by medical insurance plans. This reform will have a stronger impact on lower-level schemes which will have to be upgraded accordingly.

Ireland

We anticipate that premium rates will remain flat in 2019 medical plan renewals due to lower general inflation, a soft carrier market in a community-rated premium-pricing environment (same price for all for a specific plan at a specific point in time) and improvements in efficiency in the public healthcare sector services.

United Kingdom

With continued deterioration in the social healthcare system (NHS) along with high incidence of large claims (especially in the area of oncology) medical trend rates remain at a relatively high level relative to other industrialized countries with insurer focus on claims and cost management minimizing the impact of these.

Latin America and Caribbean (LAC)

Brazil

The 2019 medical trend rate reflects the impact of expansion in the minimum provisions mandated on approved employer-sponsored medical plans (e.g., additional testing procedures, new prescription drugs and radiation treatments) as well as expectations from the top four carriers in regard to lower adjustments to premium rates and clients reducing the reach of their geographic coverage to their state or region.

Mexico

Higher gross and net medical trend rates are anticipated for 2019 despite lower projected general inflation levels in 2019 relative to 2018 due to anticipated currency erosion against hard currencies for imported medical products and further cost shifting from the social healthcare program.

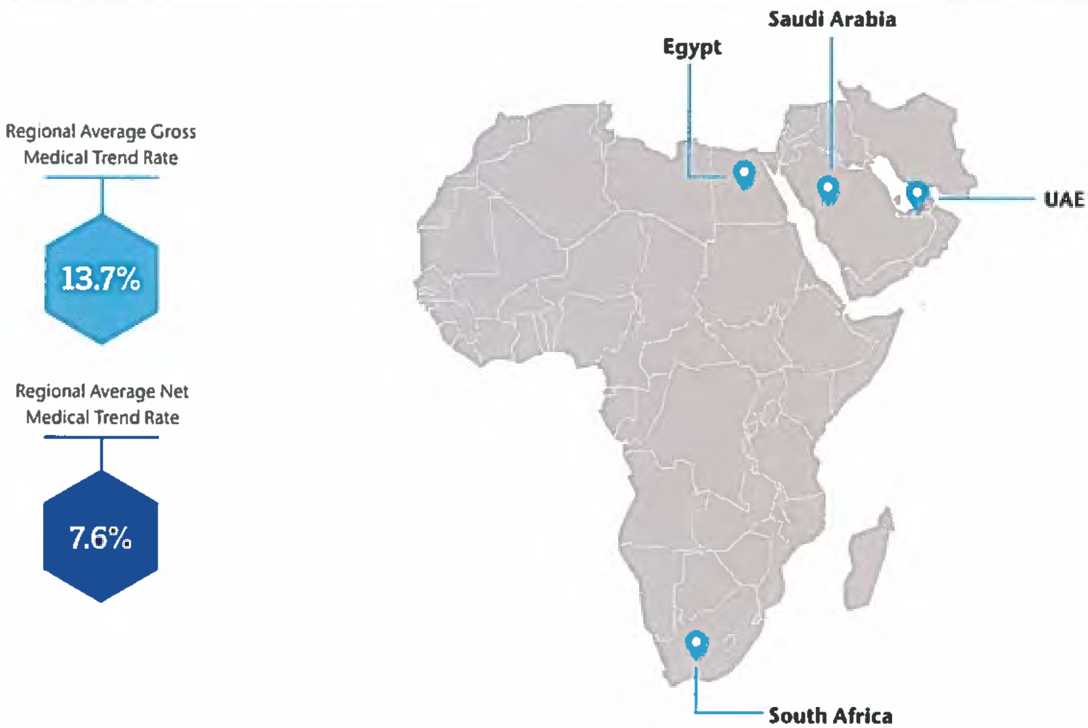
Puerto Rico

The 2019 gross and net medical trend rates will experience severe drops as a result of challenges from a macro-economic standpoint, and the impact of Hurricane María. Medical service providers are making exceptional concessions and insurance carriers are working on creating discount networks, reviewing pharmacy benefit contracts, among other strategies, to drive savings, all in order to help the population through a lingering socioeconomic crisis. Furthermore, we also expect lower enrollment levels and changes in plan utilization which may drive gross premium reductions.

Venezuela

The Venezuela economy continues to spiral out of control, constantly breaking inflation rate records. Spending on company medical plans has taken a secondary priority behind maintaining employment in a contracting economy. Consequently, we have once again excluded Venezuela from the regional and global averages.

Middle East Africa (MEA)



Egypt:

Over the last 12 months, several reforms have been implemented by the government that have resulted in a steady decline of medical inflation levels which we expect will continue over the next 2 years.

Saudi Arabia:

Despite the lower expected general inflation in 2019, the 2019 net medical trend rate remains at a high level due to the impact of the implementation of VAT taxes and the new regulatory mandated enhancements in health insurance policies.

South Africa:

The medical trend rates for 2019 are higher than the corresponding 2018 figures despite slightly lower projected general inflation levels due to higher expected levels of utilization of company medical plans, increases in hospital costs and increases in VAT taxes from 14% to 15%.

United Arab Emirates:

The UAE is expected to see higher healthcare spending fueled mainly by rising incidence of chronic diseases. Health Insurance is now becoming the second largest cost for employers in UAE apart from salaries. Sedentary lifestyle patterns and the shift from traditional diets to fast food have led to higher incidence of hypertension, obesity, cancer and heart conditions.

Call to Action

While the 2019 medical trend rates are at their lowest compared to prior years, their levels in nominal and real terms are still extremely high. Aon expects continued medical plan cost escalation due to global population aging, overall declining health, poor lifestyle habits becoming pervasive in emerging countries, continuing cost shifting patterns from social programs, and heavy utilization of employer-sponsored plans.

Rising costs and the increased prevalence of chronic conditions are global phenomena. Employers will continue to face the prospect of added organizational cost and employee productivity losses unless the controllable factors contributing to these patterns are effectively addressed.

A good place for employers to start addressing these challenges is the optimization of the plan design, financial strategy and delivery mechanisms of their medical plans around the world.

However, once these initiatives have been properly executed, they will have a diminishing incremental improvement on the business.

The structural solution for the long term involves the active promotion of a healthy workforce, beginning with a robust health care benefits offering for all company employees and their families aimed at:

- Providing quality health care treatment when needed
- Facilitating the management of chronic health conditions
- Preventing/reducing the risk of accidents and illness
- Helping employees understand their own health risks and educating them on steps to improve their health
- Encouraging healthy behaviors

The summaries on global practices in this report should be useful in understanding wellness and cost mitigation efforts being undertaken by employers worldwide. However, the report shows that the underlying causes of illness and risk factors vary greatly by region, country, company sector, etc. It is therefore important to carefully target employer initiatives to the specific situation surrounding each medical plan.

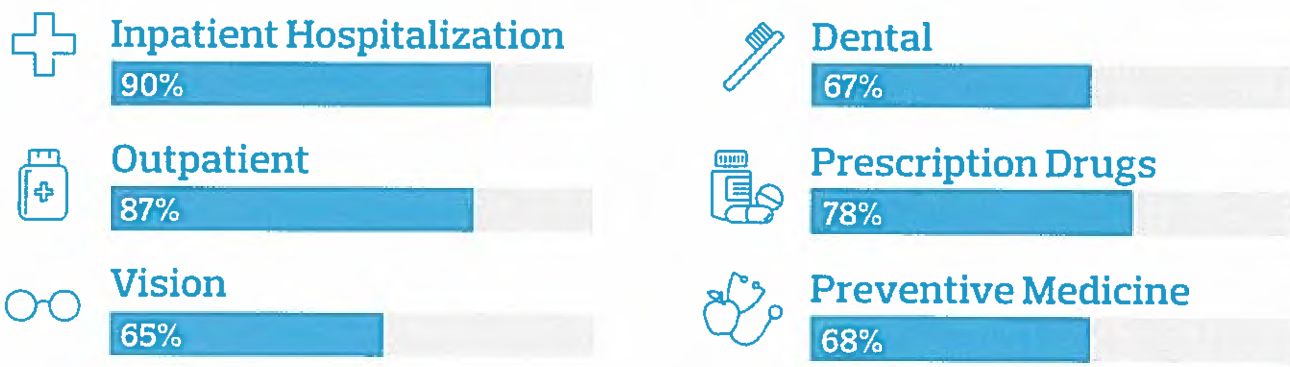
Exhibit No. APW-R-3

Results Summary

Medical Plan Features

This year we surveyed our offices to canvass the prevalence of medical programs in each country. A summary of the replies is as follows:

Exhibit 2: Global Medical Plan Features



% of countries reporting strong or moderate prevalence

Medical Plan Financing Approaches

Below are the most commonly used medical plan financing approaches reported in the indicated region.

Exhibit 3: Prevalence of Financing Approaches

North America		APAC	Europe	LAC	MEA
United States	Canada				
Self-Insurance	Insurance	Insurance	Insurance	Insurance	Insurance
Insurance	Mixed	Self Insurance	Self-Insurance, Mixed	Self-Insurance	Self-Insurance
Mixed	Self-Insurance	Mixed	Company Owned/ Contracted Facilities	Mixed	Pre-paid Subscription Service (e.g., HMO, Mutual Company), Mixed

Medical Plan Employee Cost Sharing

As employee cost sharing is often a very important element of a company's medical cost mitigation strategy, we have investigated the prevalence of employee cost sharing general practices in each country covered from two perspectives:

- Employees sharing the cost of medical premiums
- Employees sharing in claim outlays, such as deductible, copay and coinsurance

The figures below represent the percentages of Aon offices reporting countrywide most common practices in employee cost sharing in the medical plan premiums and claims in their respective regions.

Exhibit 4: Employee Cost Sharing

	Global	APAC	Europe	LAC	MEA
Share of Medical Premium	78	68	94	91	56
Contributions to Employee Premium	45	32	42	70	33
Contributions Toward Spouse Premium	78	67	93	91	56
Contributions Toward Children Premium	77	67	93	91	52

% of countries responding per indicated region

	Global	APAC	Europe	LAC	MEA
Share of Medical Claims	93	89	84	96	100
Deductible	48	28	42	74	41
Copays	45	42	35	55	48
Coinsurance	66	68	42	86	74
Payments of Medical Costs Above Limits	52	70	64	32	47

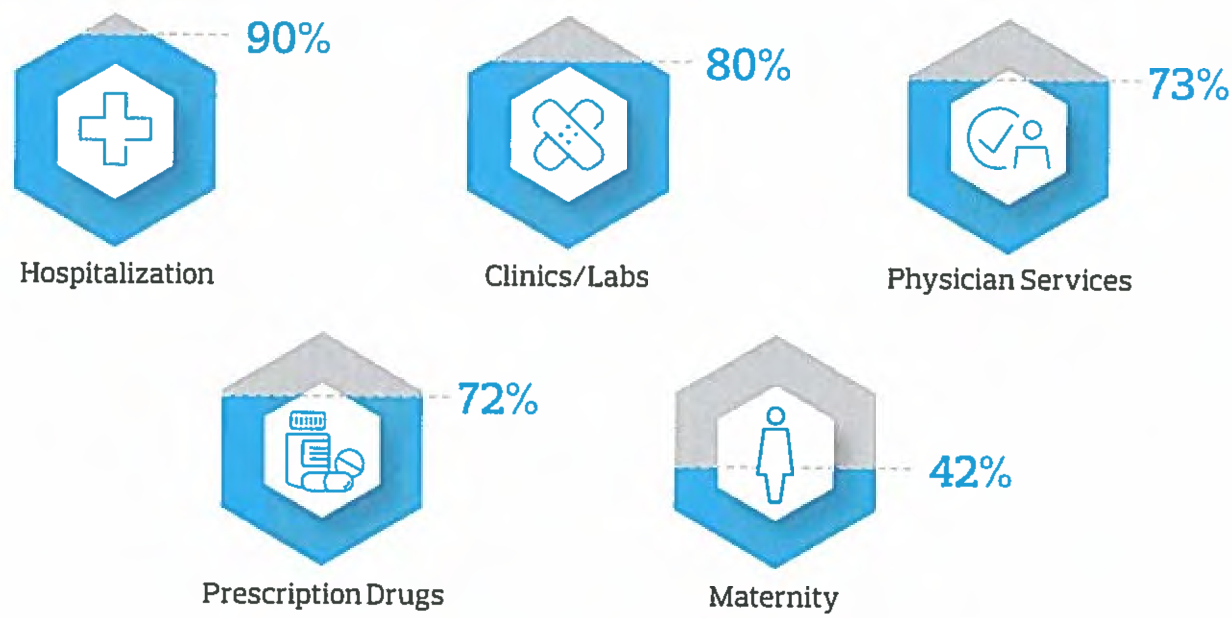
% of countries responding per indicated region

Most Important Elements of Medical Plan Cost

The figures below represent the percentages of responses from Aon offices that reported the indicated cost item as the most important element of medical plan cost in their respective countries.

Exhibit 5: Top Global Cost Elements

% of countries responding



The figures below represent the percentages of Aon offices reporting the indicated cost element in their respective regions.

Exhibit 6: Indicated Cost Elements In Respective Regions

North America		APAC		Europe		LAC		MEA	
United States	Canada								
Hospitalization	Prescription Drugs	Hospitalization	94	Hospitalization	90	Hospitalization	92	Clinics/Labs	89
Physician Services	Dental	Clinics/Labs	83	Clinics/Labs	76	Prescription Drugs	92	Hospitalization	89
Prescription Drugs	Preventative Care	Physician Services	83	Physician Services	69	Clinics/Labs	79	Prescription Drugs	81
Clinics/Labs	Biologic Immunomodulators	Prescription Drugs	83	Dental	41	Physician Services	75	Physician Services	70
Outpatient Services/ Surgeries	Vision	Maternity	33	Prescription Drugs	38	Maternity	42	Maternity	63

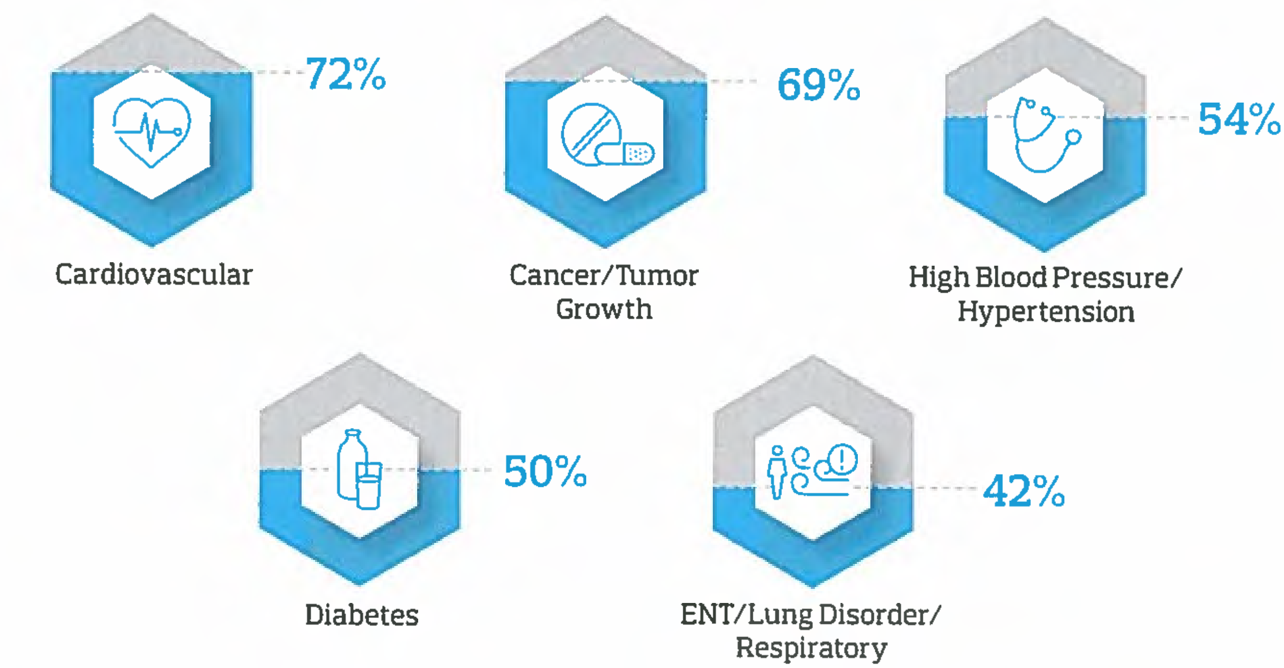
% of countries responding per indicated region

Key Conditions Driving Adverse Medical Claim Experience

The figures below represent the percentages of responses from Aon offices that reported the indicated medical condition as a contributing factor in adverse claims experience in their respective countries.

Exhibit 7: Top Global Medical Conditions Driving Medical Plan Costs

% of countries responding



The leading medical conditions per region as reported by Aon offices were:

Exhibit 8: Leading Medical Conditions Per Region

North America		APAC		Europe		LAC		MEA	
United States	Canada								
Musculoskeletal/ Back	Cardiovascular	Cardiovascular	95	Cancer/Tumor Growth	77	Cancer/Tumor Growth	88	High Blood Pressure/ Hypertension	59
Cardiovascular	Mental Health	Cancer/Tumor Growth	74	Cardiovascular	68	Cardiovascular	75	Cardiovascular	56
Diabetes	Musculoskeletal/ Back	Gastrointestinal	47	High Blood Pressure/ Hypertension	52	High Blood Pressure/ Hypertension	75	ENT/Lung Disorder/ Respiratory	56
Cancer/Tumor Growth	Diabetes	Diabetes	42	Musculoskeletal/ Back	52	Diabetes	71	Diabetes	52
High Blood Pressure/ Hypertension	Gastrointestinal	ENT/Lung Disorder/ Respiratory	42	Diabetes	35	ENT/Lung Disorder/ Respiratory	42	Cancer/Tumor Growth	41

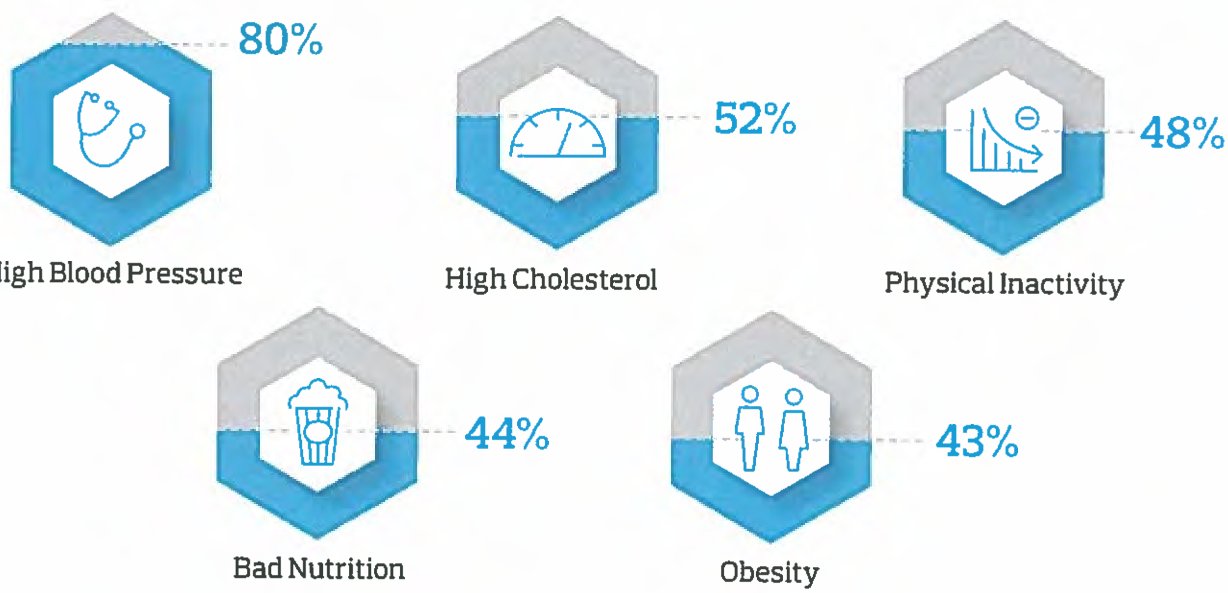
% of countries responding per indicated region

Risk Factors Driving Supplementary Medical Plan Costs

The figures below represent the percentages of responses from Aon offices that reported the indicated risk as becoming a leading factor in future adverse claims experience in their respective countries.

Exhibit 9: Top Global Risk Factors

% of countries responding



The figures below represent the percentages of Aon offices reporting the indicated risk factors in their respective regions.

Exhibit 10: Indicated Risk Factors in Respective Regions

North America		APAC		Europe		LAC		MEA	
United States	Canada								
Physical Inactivity	Ageing	High Blood Pressure	74	High Blood Pressure	83	High Blood Pressure	88	High Blood Pressure	81
Bad Nutrition	Physical Inactivity	Obesity	53	Physical Inactivity	57	Bad Nutrition	75	High Cholesterol	56
Obesity	Bad Nutrition	Physical Inactivity	53	Poor Stress Management	57	High Cholesterol	71	High Blood Glucose	52
Poor Stress Management	Obesity	Bad Nutrition	42	Smoking	53	High Blood Glucose	54	Lack of Health Screening	33
Ageing	Poor Stress Management	High Cholesterol	42	High Cholesterol	43	Obesity	50	Unsafe water, sanitation, hygiene	33

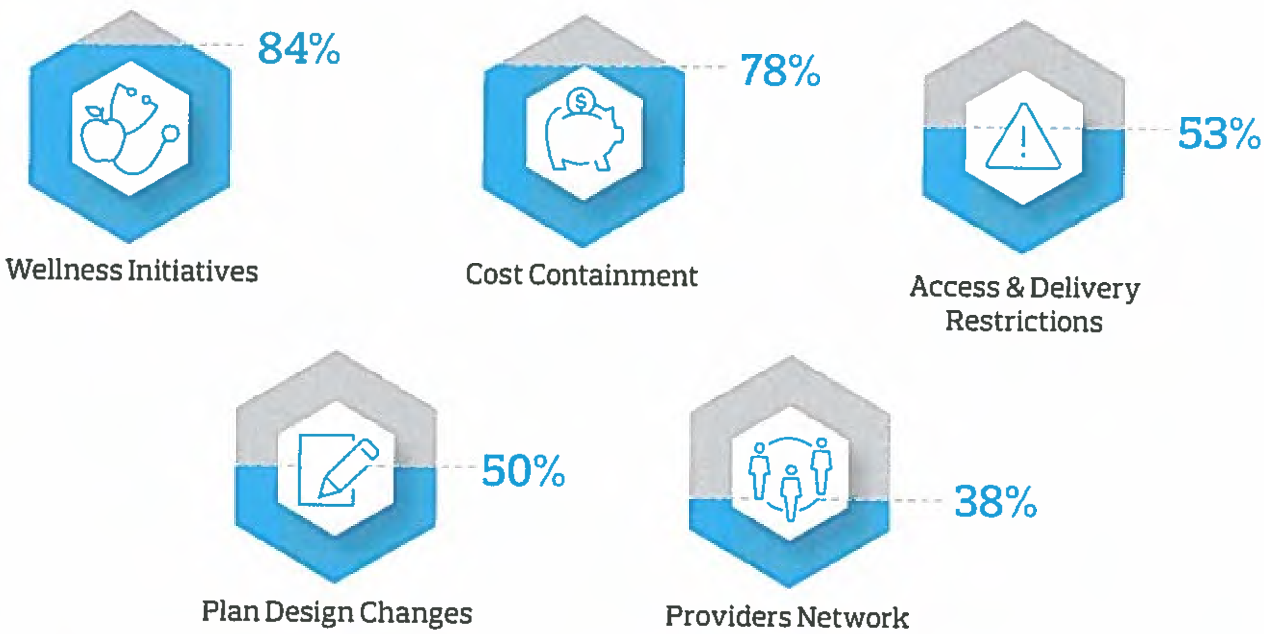
% of countries responding per indicated region

Mitigation Initiatives to Control Medical Plan Cost Escalation

The figures below represent the percentages of responses from Aon offices that reported the methods that aim to best mitigate the increase in costs of a medical plan.

Exhibit 11: Top Global Mitigation Methods

% of countries responding



The figures below represent the percentages of Aon offices reporting the risk mitigation methods in their respective region.

Exhibit 12: Risk Mitigation Methods in Respective Regions

North America		APAC		Europe		LAC		MEA	
United States	Canada								
Cost Containment	Cost Containment	Wellness Initiatives	95	Wellness Initiatives	83	Wellness Initiatives	83	Cost Containment	77
Wellness Initiatives	Flexible Benefit Plans to Cap Overall Benefit Costs	Cost Containment	89	Cost Containment	76	Cost Containment	71	Access & Delivery Restrictions	77
Changes in Funding	Wellness Initiatives	Access & Delivery Restrictions	53	Plan Design Changes	55	Plan Design Changes	50	Wellness Initiatives	77
Access & Delivery Restrictions	Plan Design Changes	Changes in Funding	47	Flexible Benefit Plans to Cap Overall Benefit Costs	48	Access & Delivery Restrictions	46	Plan Design Changes	50
Plan Design Changes	Changes in Funding	Provided Network	37	Providers Network	45	Flexible Benefit Plans to Cap Overall Benefit Costs	42	Providers Network	35

% of countries responding per indicated region

Average Medical Trend Rate Table

Exhibit 13: Region (Avg%)

Global & Regional Averages	2018			2019		
	Annual General Inflation Rate	Annual Medical Trend Rates		Annual General Inflation Rate	Annual Medical Trend Rates	
		Gross	Net		Gross	Net
Global	**3.1**	**8.4**	**5.3**	**2.9**	**7.8**	**4.9**
North America	2.4	6.9	4.5	2.4	6.4	4.0
APAC	3.0	8.9	5.9	2.8	8.6	5.8
Europe	2.0	5.8	3.8	2.1	5.1	3.0
LAC	5.2	13.9	8.7	4.7	13.2	8.5
MEA	7.6	15.3	7.7	6.1	13.7	7.6

Exhibit 14: Region/Country (Avg%)

Regional & Country Averages	2018			2019		
	Annual General Inflation Rate	Annual Medical Trend Rates		Annual General Inflation Rate	Annual Medical Trend Rates	
		Gross	Net		Gross	Net
North America	**2.4**	**6.9**	**4.5**	**2.4**	**6.4**	**4.0**
Canada	2.1	6.0	3.9	2.2	6.0	3.8
United States	2.4	7.0	4.6	2.4	6.5	4.1
APAC	**3.0**	**8.9**	**5.9**	**2.8**	**8.6**	**5.8**
Australia	2.4	5.3	2.9	2.4	3.8	1.4
Bangladesh	5.8	7.4	1.6	6.0	7.7	1.7
China	2.3	5.5	3.2	2.6	6.0	3.4
Hong Kong	2.7	6.2	3.5	2.1	8.3	6.2
India	5.1	9.0	3.9	5.0	9.0	4.0
Indonesia	4.5	15.0	10.5	3.4	13.0	9.6
Japan	0.6	0.7	0.1	1.1	2.7	1.6
Kazakhstan	7.2	7.2	0.0	5.6	11.7	6.1

Exhibit 14 (continued): Region/Country (Avg%)

Regional & Country Averages	2018 Annual General Inflation Rate	2018 Annual Medical Trend Rates Gross	2018 Annual Medical Trend Rates Net	2019 Annual General Inflation Rate	2019 Annual Medical Trend Rates Gross	2019 Annual Medical Trend Rates Net
APAC *(continued)*						
Malaysia	2.9	15.3	12.4	2.4	16.0	13.6
Mongolia	5.1	6.5	1.4	6.8	11.9	5.1
New Zealand	2.0	6.0	4.0	2.1	6.5	4.4
Pakistan	5.0	16.8	11.8	5.2	16.5	11.3
Papua New Guinea	6.5	7.0	0.5	2.5	4.0	1.5
Philippines	3.3	10.0	6.7	3.8	10.0	6.2
Singapore	1.8	10.0	8.2	1.0	10.0	9.0
South Korea	1.9	11.0	9.1	1.9	9.0	7.1
Taiwan	1.3	8.0	6.7	1.3	8.0	6.7
Thailand	1.5	8.5	7.0	0.7	9.0	8.3
Vietnam	5.0	23.2	18.2	4.0	12.0	8.0
Europe	**2.0**	**5.8**	**3.8**	**2.1**	**5.1**	**3.0**
Austria	1.8	2.3	0.5	2.2	3.0	0.8
Belgium	1.7	3.8	2.1	1.8	3.8	2.0
Bulgaria	1.8	10.1	8.3	2.1	10.3	8.2
Croatia	1.1	1.2	0.1	1.5	1.5	0.0
Cyprus	1.4	1.5	0.1	1.6	1.6	0.0
Czech Republic	1.8	3.6	1.8	2.0	5.0	3.0
Denmark	1.1	1.3	0.2	1.7	4.0	2.3
Finland	1.6	5.0	3.4	1.7	4.0	2.3
France	1.2	3.0	1.8	1.6	3.5	1.9
Germany	1.7	10.0	8.3	1.7	5.0	3.3
Greece	1.4	6.0	4.6	1.1	5.0	3.9

Exhibit 14 (continued): Region/Country (Avg%)

Regional & Country Averages	2018			2019		
	Annual General Inflation Rate	Annual Medical Trend Rates		Annual General Inflation Rate	Annual Medical Trend Rates	
		Gross	Net		Gross	Net
Europe *(continued)*						
Hungary	3.3	4.0	0.7	3.3	7.0	3.7
Ireland	2.4	8.0	5.6	1.3	0.0	(1.3)
Italy	1.3	4.0	2.7	1.3	4.0	2.7
Latvia	2.5	8.0	5.5	2.5	10.0	7.5
Lithuania	2.0	15.0	13.0	2.2	15.0	12.8
Luxembourg	1.3	1.9	0.6	1.8	1.8	0.0
Norway	2.5	7.0	4.5	2.0	5.0	3.0
Poland	2.3	5.0	2.7	2.5	8.0	5.5
Portugal	1.4	4.0	2.6	1.6	3.5	1.9
Romania	3.2	5.0	1.8	3.1	8.0	4.9
Russia	4.2	12.0	7.8	3.8	11.0	7.2
Serbia	3.0	8.0	5.0	3.0	12.0	9.0
Slovakia	1.5	20.0	18.5	1.9	4.9	3.0
Slovenia	2.0	2.6	0.6	2.0	1.7	(0.3)
Spain	1.4	2.9	1.5	1.6	5.0	3.4
Sweden	1.6	1.7	0.1	1.6	1.6	0.0
Switzerland	0.7	4.0	3.3	1.0	4.0	3.0
The Netherlands	1.4	4.0	2.6	2.2	5.5	3.3
Turkey	9.1	13.0	3.9	10.5	15.0	4.5
Ukraine	9.5	12.0	2.5	8.0	11.0	3.0
United Kingdom	2.6	8.0	5.4	2.2	6.0	3.8

Exhibit 14 (continued): Region/Country (Avg%)

Regional & Country Averages	2018 Annual General Inflation Rate	2018 Annual Medical Trend Rates Gross	2018 Annual Medical Trend Rates Net	2019 Annual General Inflation Rate	2019 Annual Medical Trend Rates Gross	2019 Annual Medical Trend Rates Net
LAC	**5.2**	**13.9**	**8.7**	**4.7**	**13.2**	**8.5**
Argentina	18.7	25.0	6.3	15.4	25.0	9.6
Bahamas	1.5	10.0	8.5	2.5	8.0	5.5
Barbados	n/a	n/a	n/a	2.9	10.0	7.1
Bermuda	n/a	n/a	n/a	2.2	8.0	5.8
Bolivia	5.0	10.0	5.0	4.5	8.0	3.5
Brazil	4.3	19.0	14.7	4.2	17.0	12.8
Chile	3.0	6.5	3.5	3.0	7.0	4.0
Colombia	3.2	6.8	3.6	3.4	7.4	4.0
Costa Rica	3.0	14.0	11.0	3.0	14.0	11.0
Dominican Republic	4.2	6.0	1.8	3.5	5.5	2.0
Ecuador	0.6	10.0	9.4	1.4	10.0	8.6
El Salvador	2.3	10.0	7.7	1.9	10.0	8.1
Grenada	n/a	n/a	n/a	1.8	1.8	0.0
Guatemala	4.0	10.0	6.0	3.7	10.0	6.3
Honduras	4.5	15.0	10.5	4.5	13.0	8.5
Jamaica	5.3	10.0	4.7	5.0	10.0	5.0
Mexico	3.2	11.8	8.6	3.1	13.0	9.9
Nicaragua	7.4	12.0	4.6	7.2	13.0	5.8
Panama	2.3	12.0	9.7	2.5	13.0	10.5
Peru	2.6	7.0	4.4	2.0	8.5	6.5
Puerto Rico	0.5	7.2	6.7	0.8	1.0	0.2
Trinidad & Tobago	2.4	10.0	7.6	2.1	10	7.9
Uruguay	7.5	8.8	1.3	6.1	7.1	1.0
Venezuela	2,068.5	1,000.0	(1,068.5)	12,874.6	100,000.0	87,125.4
MEA	**7.6**	**15.3**	**7.7**	**6.1**	**13.7**	**7.6**
Angola	17.8	25.0	7.2	17.0	20.0	3.0
Bahrain	3.4	13.0	9.6	4.9	13.0	8.1
Botswana	4.2	8.7	4.5	3.8	8.0	4.2

Exhibit 14 (continued): Region/Country (Avg%)

Regional & Country Averages	2018			2019		
	Annual General Inflation Rate	Annual Medical Trend Rates		Annual General Inflation Rate	Annual Medical Trend Rates	
		Gross	Net		Gross	Net
***MEA** (continued)*						
Democratic Republic of the Congo	10.0	12.0	2.0	13.7	13.7	0.0
Egypt	16.9	35.0	18.1	13.0	25.0	12.0
Ethiopia	7.5	12.5	5.0	8.6	9.0	0.4
Ghana	9.0	15.0	6.0	8.0	16.0	8.0
Israel	n/a	n/a	n/a	1.3	6.5	5.2
Ivory Coast	2.0	9.0	7.0	2.0	18.0	16.0
Jordan	n/a	n/a	n/a	2.5	13.0	10.5
Kenya	2.4	12.0	9.6	5.0	12.5	7.5
Kuwait	3.6	12.0	8.4	3.7	10.0	6.3
Lebanon	2.0	16.0	14.0	3.0	15.0	12.0
Malawi	10.6	14.0	3.4	7.6	20	12.4
Nigeria	17.5	22.5	5.0	14.8	19.8	5.0
Qatar	5.7	15.0	9.3	3.5	12.5	9.0
Saudi Arabia	5.1	13.5	8.4	2.0	10.0	8.0
Senegal	2.0	0.5	(1.5)	1.5	2.5	1.0
Sierra Leone	8.5	10.0	1.5	11.2	15.0	3.8
South Africa	5.5	10.4	4.9	5.3	11.0	5.7
Sultanate of Oman	3.0	7.5	4.5	3.5	7.5	4.0
Tunisia	3.8	8.0	4.2	6.1	10.5	4.4
Uganda	6.0	15.0	9.0	4.3	20.0	15.7
United Arab Emirates	3.7	10.0	6.3	2.5	10.5	8.0
Zambia	8.0	10.0	2.0	8.0	10.0	2.0
Zimbabwe	6.6	12.0	5.4	6.3	15.0	8.7

Notes:

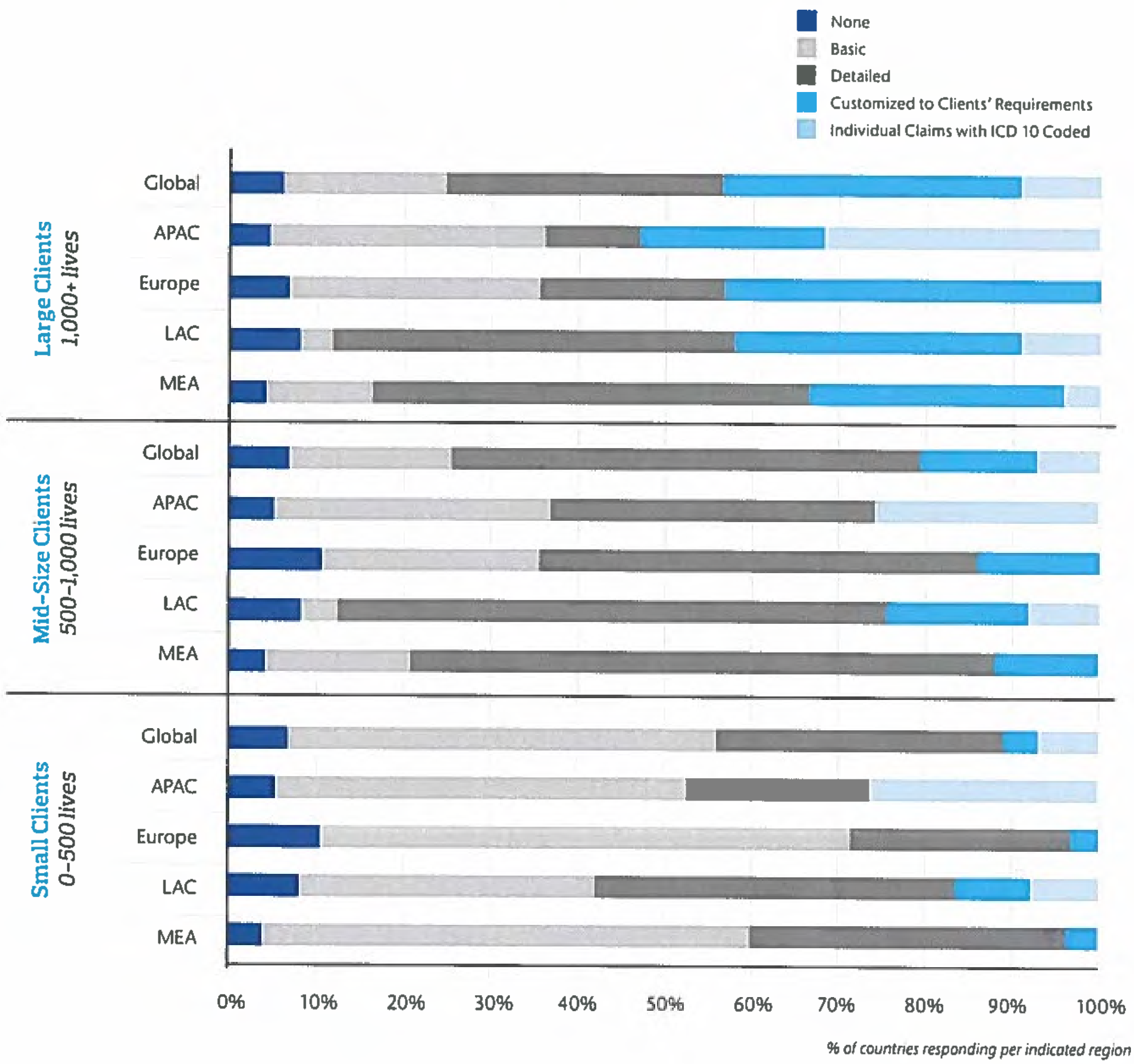
- "Net" indicates medical trend rates net of domestic general inflation rates.
- The 2019 medical trend rate for the United States was obtained from Aon's Health Value Initiative database as applicable to PPO plans and adjusted to reflect expected increases prior to any plan, program, or carrier changes for cost containment.
- Venezuela has been excluded from region and global averages in both the 2018 and 2019 figures.

Other Survey Results

Level of Claims Information Available from Carriers

A deep understanding of the specific factors driving a company's medical plan cost is fundamental for the development of a sound mitigation strategy. The figures below represent the prevalence and level of claims information available by client size reported by Aon offices in their respective region.

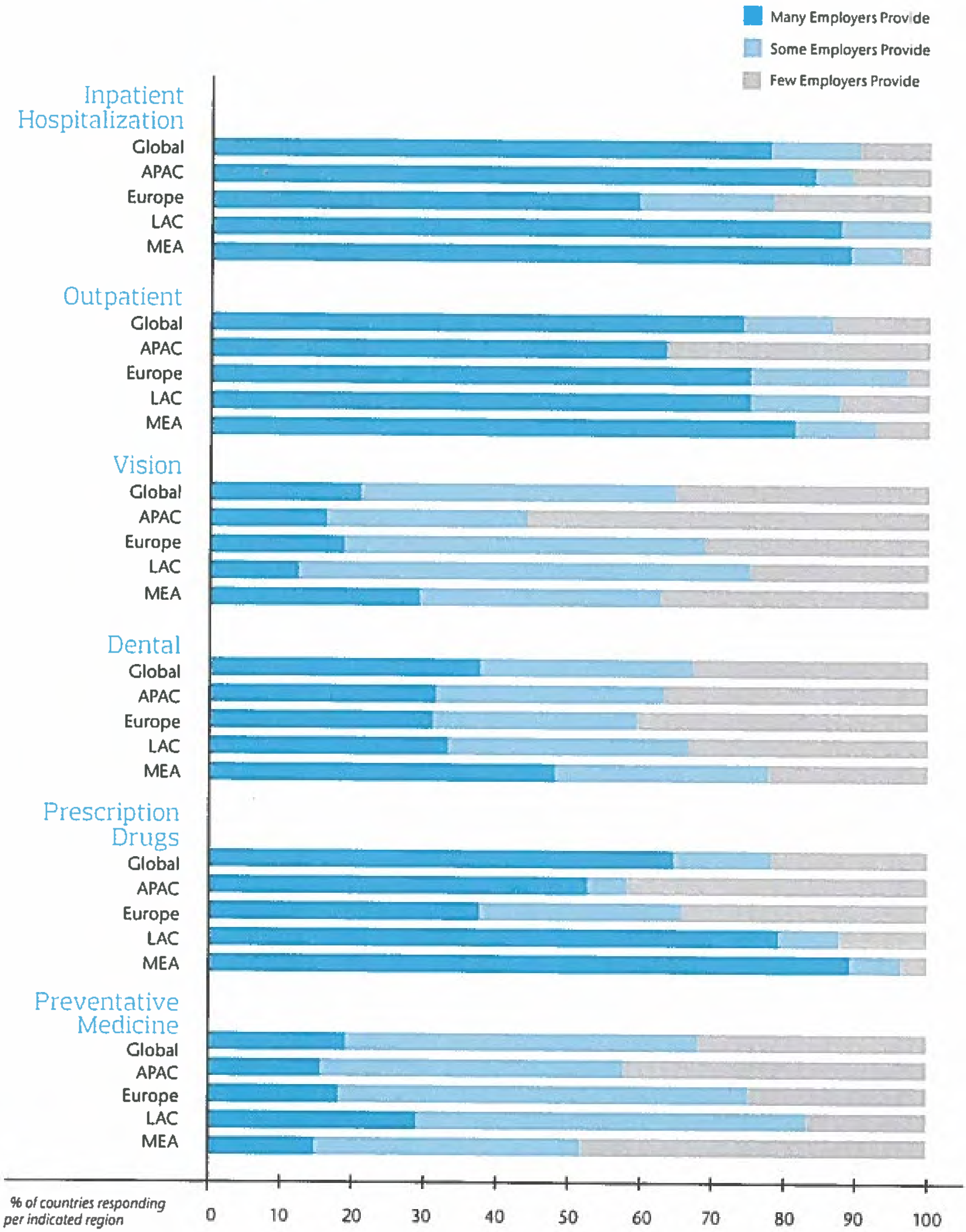
Exhibit 15: Level of Claims Information Available



Prevalence of Medical Plan Features and Derivative Benefits

The surveyed countries reported on typical medical benefit provision practices. The main results are summarized in the following tables:

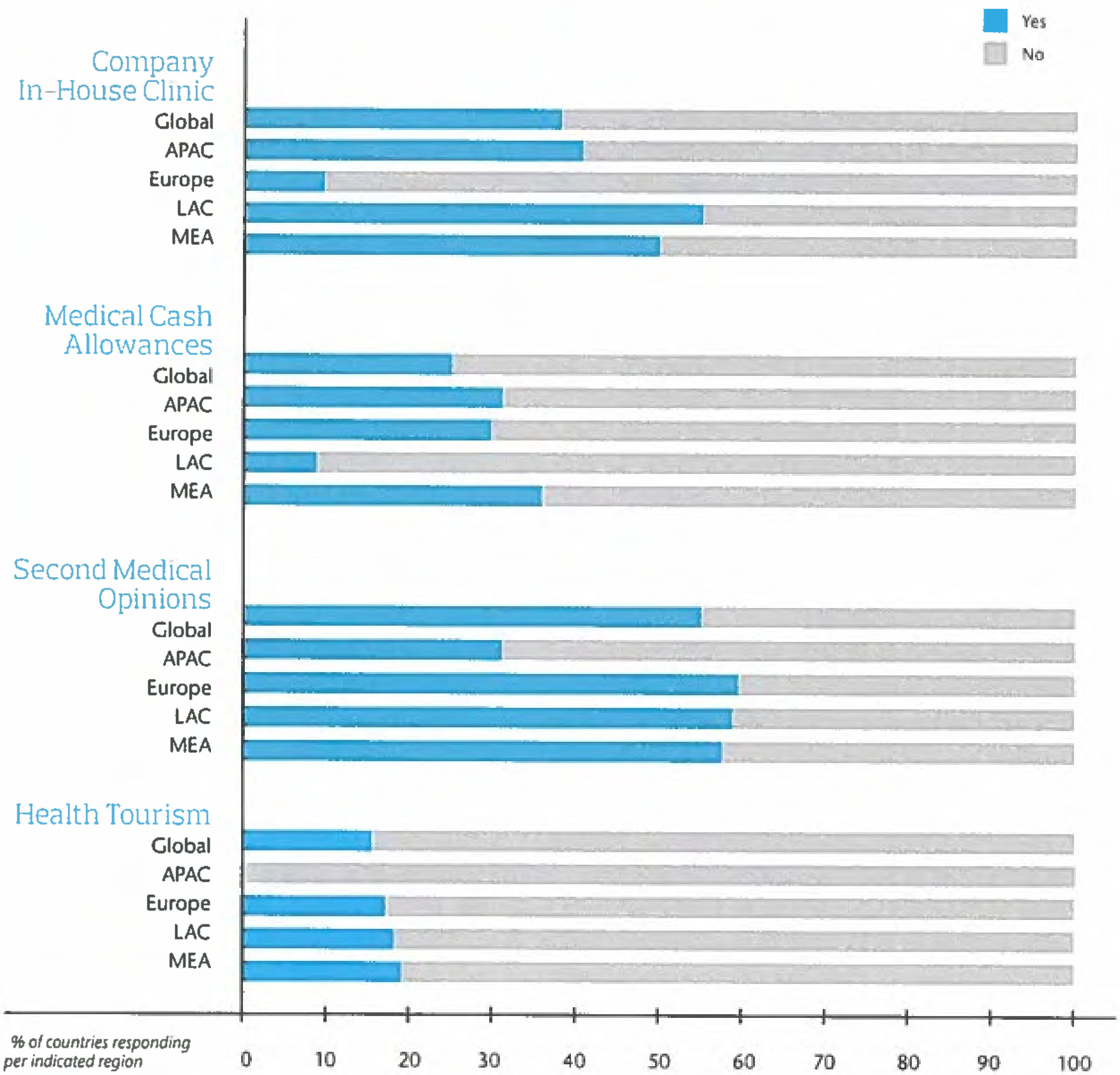
Exhibit 16: Employer Provided Benefits (%)



Alternative/Innovative Delivery Mechanisms

Aon offices reported prevalence of the following delivery mechanisms supporting medical benefit plans:

Exhibit 17: Delivery Mechanisms Supporting Medical Benefits Plans (%)



Regional Summary of Practices on Employee Cost Sharing on Premiums

The table below shows the prevalence of most common practices in terms of required employee contributions under the typical medical plan in each country in regard to premiums assessed to cover the employee, spouse and/or dependents.

Exhibit 18: Offices Reporting Most Common Practices

	Global	APAC	Europe	LAC	MEA
EE Only	2	5	3	0	0
Spouse Only	0	0	0	0	0
Children Only	0	0	0	0	0
EE + Spouse Only	1	0	0	0	4
EE + Children Only	0	0	0	0	0
Spouse + Children Only	33	37	52	22	22
All-EE + Spouse + Children	42	26	39	69	30
Plan requires some form of premium contribution from employees	78	68	94	91	56

% of countries responding per indicated region

Regional Summary of Country Practices on Employee Cost Sharing on Claim Outlays *(Please refer to Glossary of Terms for definition of indicated element.)*

The table below shows the most common practices per country reported by Aon offices in regard to financial contributions required of employees toward meeting the costs of claims incurred.

Exhibit 19: Offices Reporting Indicated Plan Design Element

	Global	APAC	Europe	LAC	MEA
Deductible Only	8	0	19	9	0
Copay Only	6	0	10	0	11
Coinsurance Only	17	21	19	9	19
Deductible + Copay Only	3	5	6	0	0
Deductible + Coinsurance Only	14	11	3	22	19
Copay + Coinsurance Only	13	26	6	9	15
All-Deductible + Copay + Coinsurance	23	11	13	43	22
Plan requires some form of employee contribution toward claims*	93	89	84	96	100

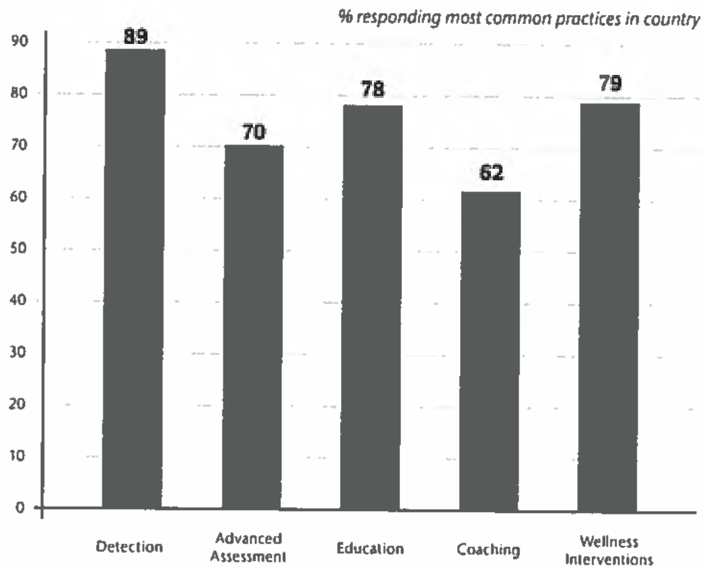
*Includes respondents that reported employee contribution toward medical expenses above allowable limits

% of countries responding per indicated region

Global Wellness and Health Promotion Initiatives

The figures below represent the percentages of responses from Aon offices that reported the indicated wellness program as commonly provided by employers in their respective countries.

Exhibit 20: Wellness Programs Reported as Commonly Provided



Detection

Vision Screening	67
Hearing Screening	45
Mammograms	55
Physical Check-ups	84

% of countries responding

Advanced Assessment

Advanced Check-ups	39
Heart Health	51
Nutrition	38
Substance Use	23
Level of Fitness	37

% of countries responding

Education

Communication Materials on Wellness	72
Wellness Kits	62
Informational Web Services	57
Fitness Education	49

% of countries responding

Coaching

Health Specialist	31
Health Coaching Management System	23
Incentive Programs	56

% of countries responding

Wellness Interventions

Healthy Eating	63
Quitting Smoking/Tobacco Use	52
Physical Activity	63
Healthy Weight	51
Back Care	40
Reducing Risk for Heart Disease	46
Employee Assistance Program	49

% of countries responding

Exhibit 21: Asia Pacific

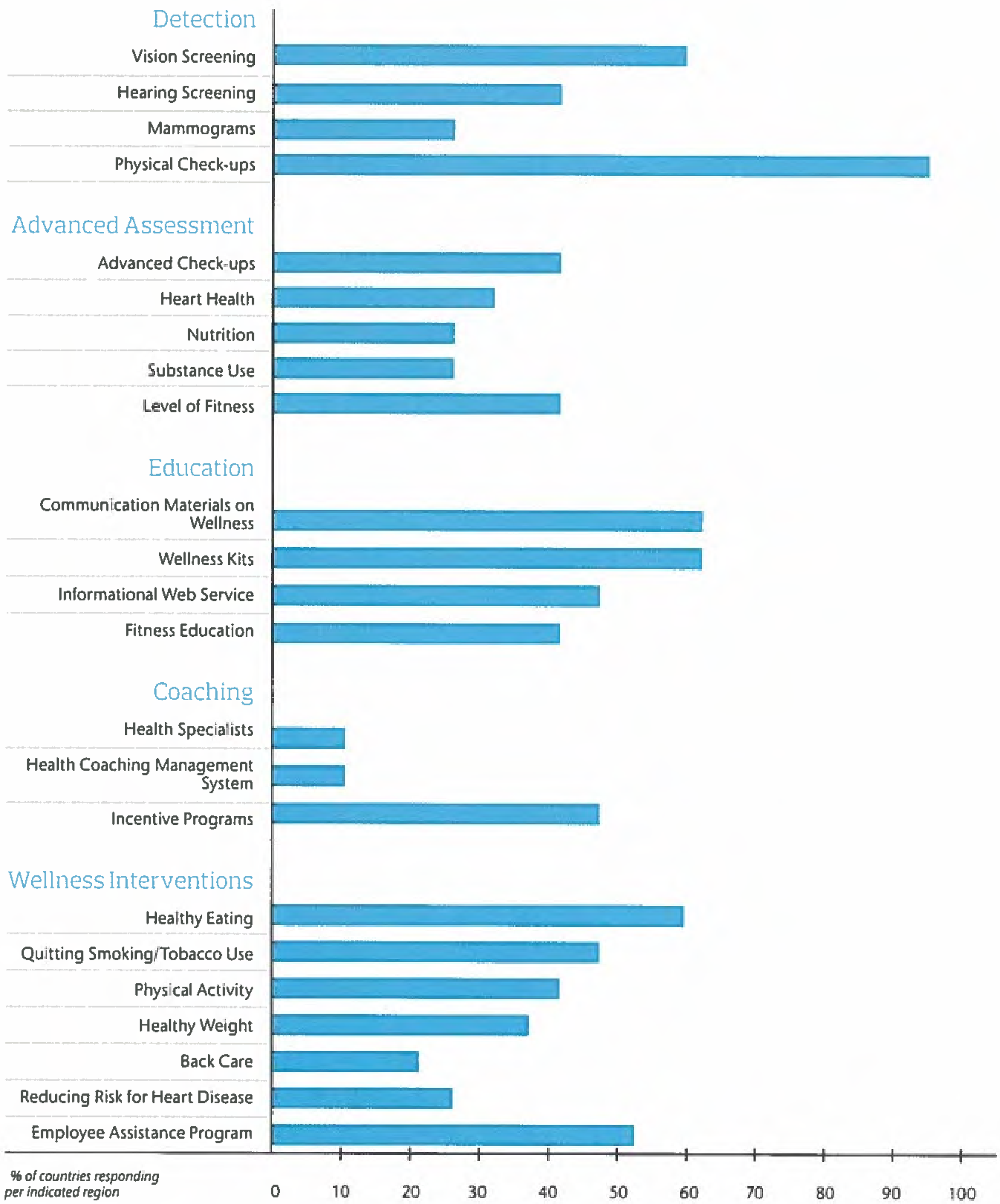


Exhibit 22: Europe

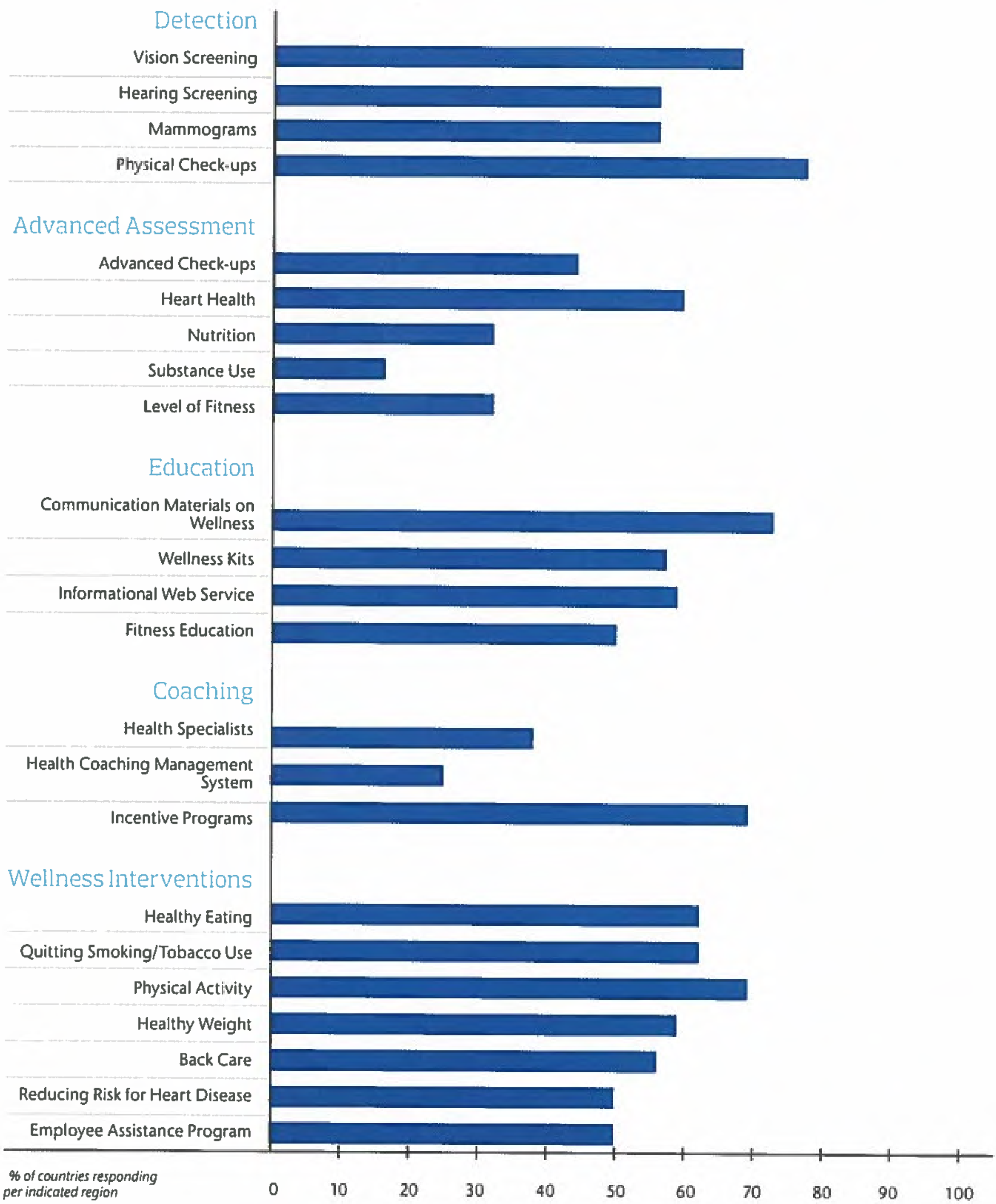


Exhibit 23: Latin America & Caribbean

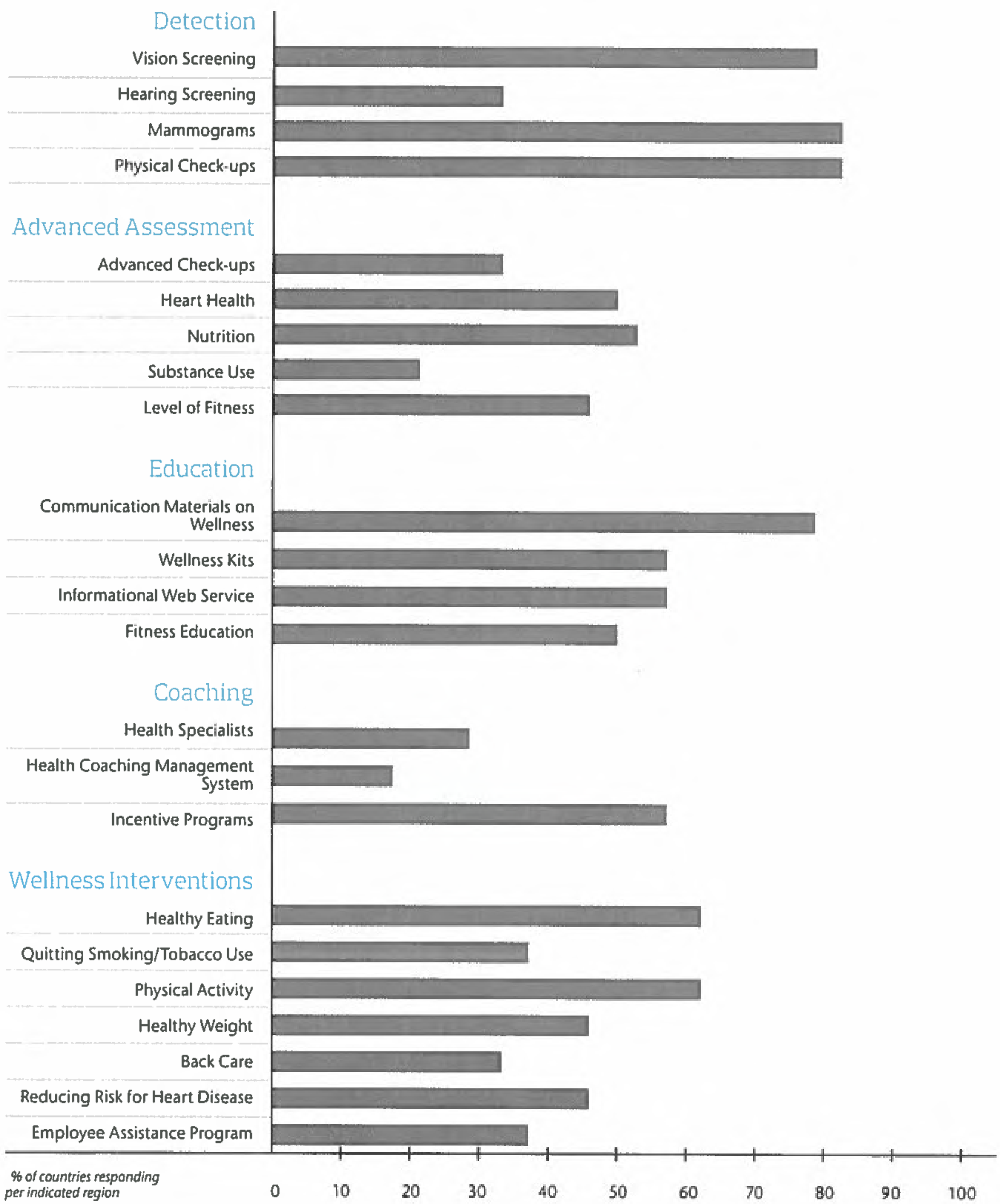


Exhibit 24: Middle Eastern Africa

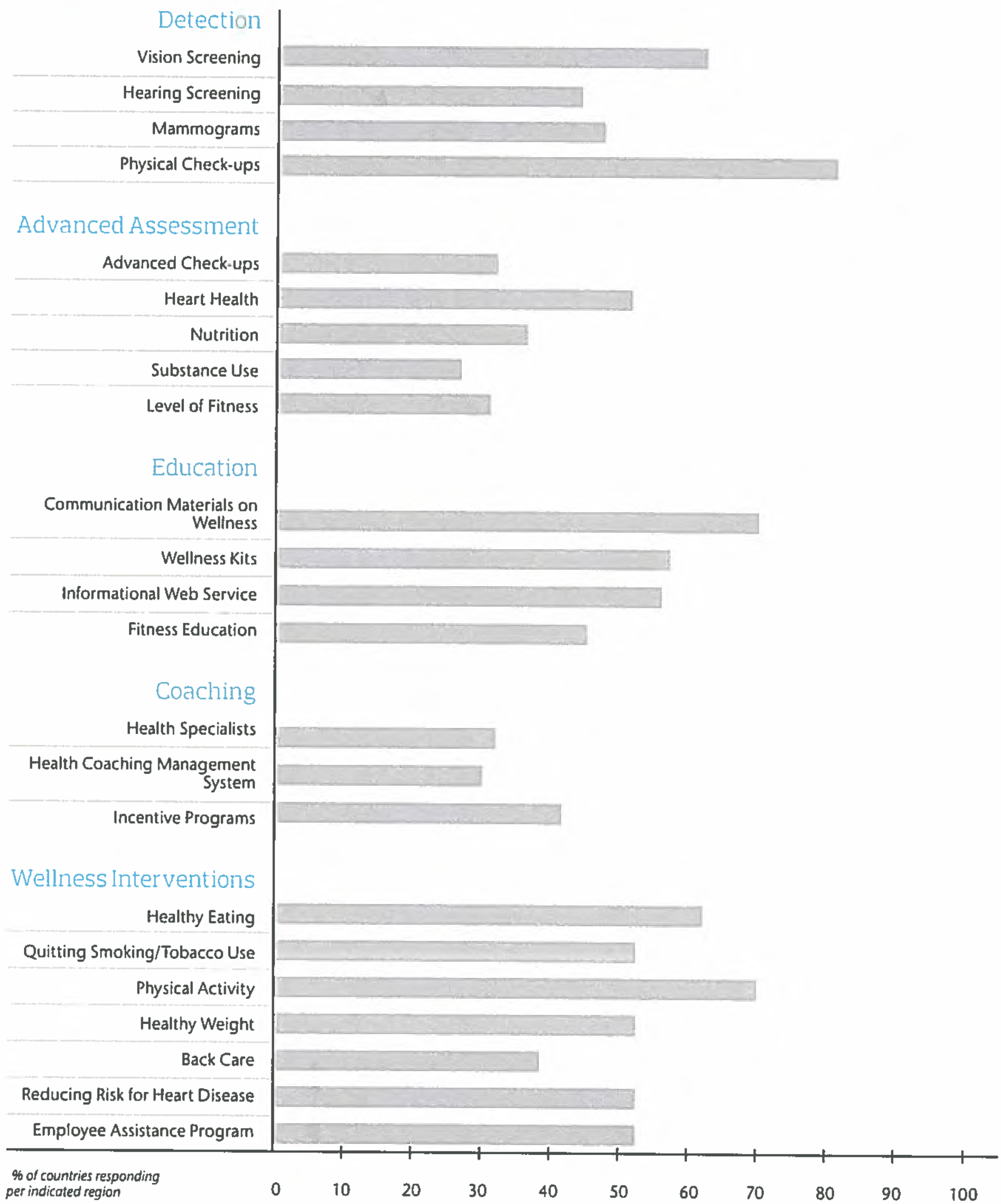


Exhibit 25: Wellness Programs

Reported as Commonly Provided by Geographical Regions

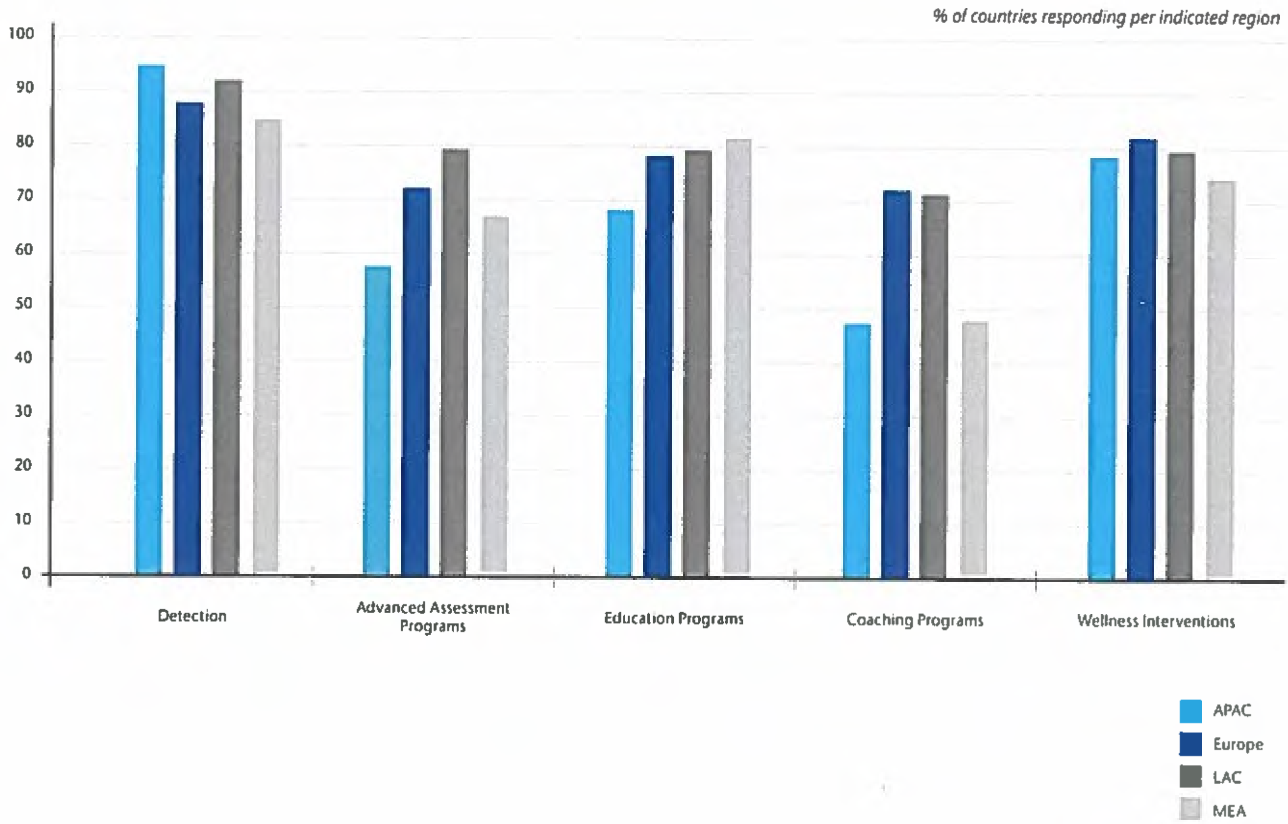


Exhibit 26: Detection Programs

Reported as Commonly Provided by Geographical Region

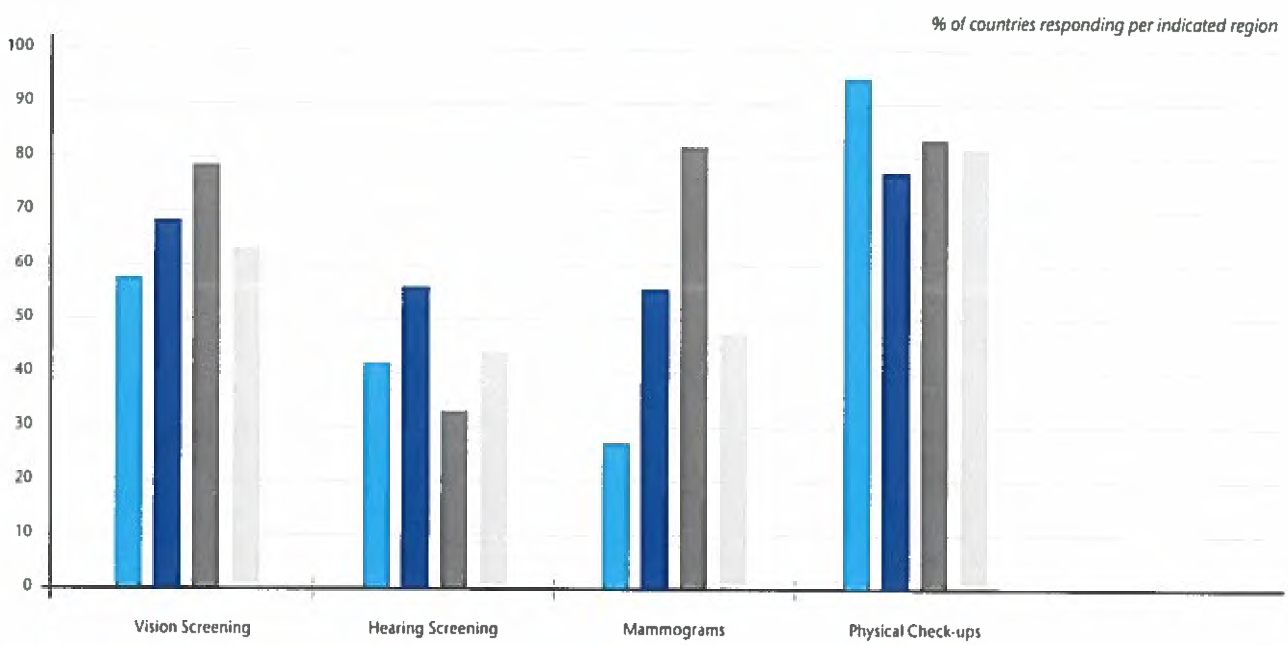


Exhibit 27: Advanced Assessment Programs

Reported as Commonly Provided by Geographical Region

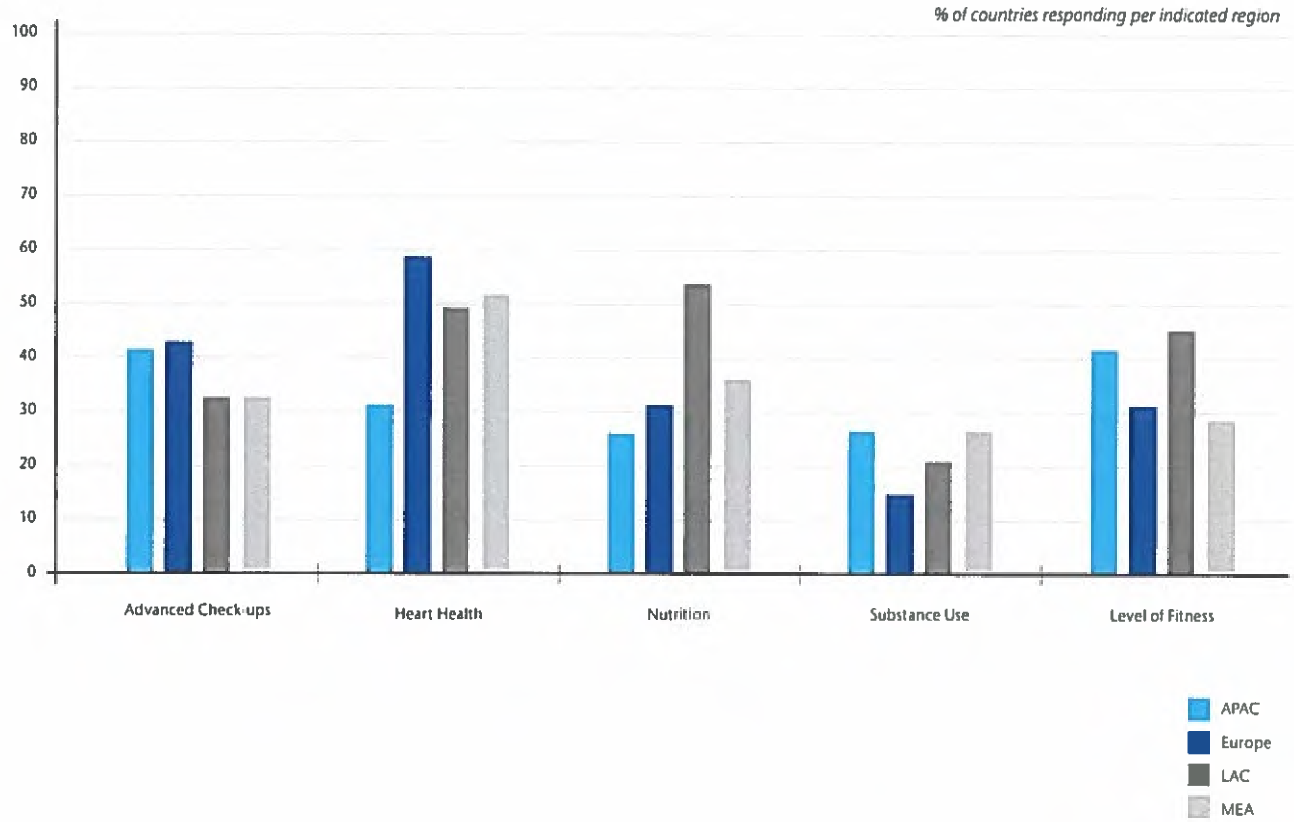


Exhibit 28: Education Programs

Reported as Commonly Provided by Geographical Region

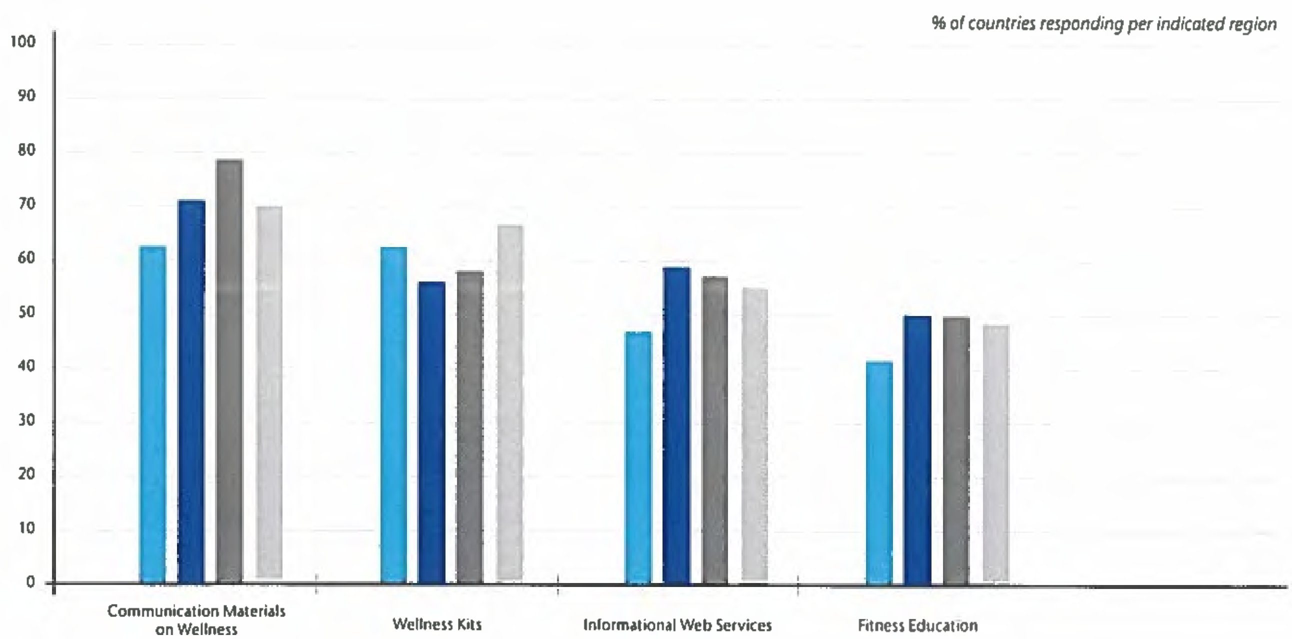


Exhibit 29: Coaching Programs

Reported as Commonly Provided by Geographical Region

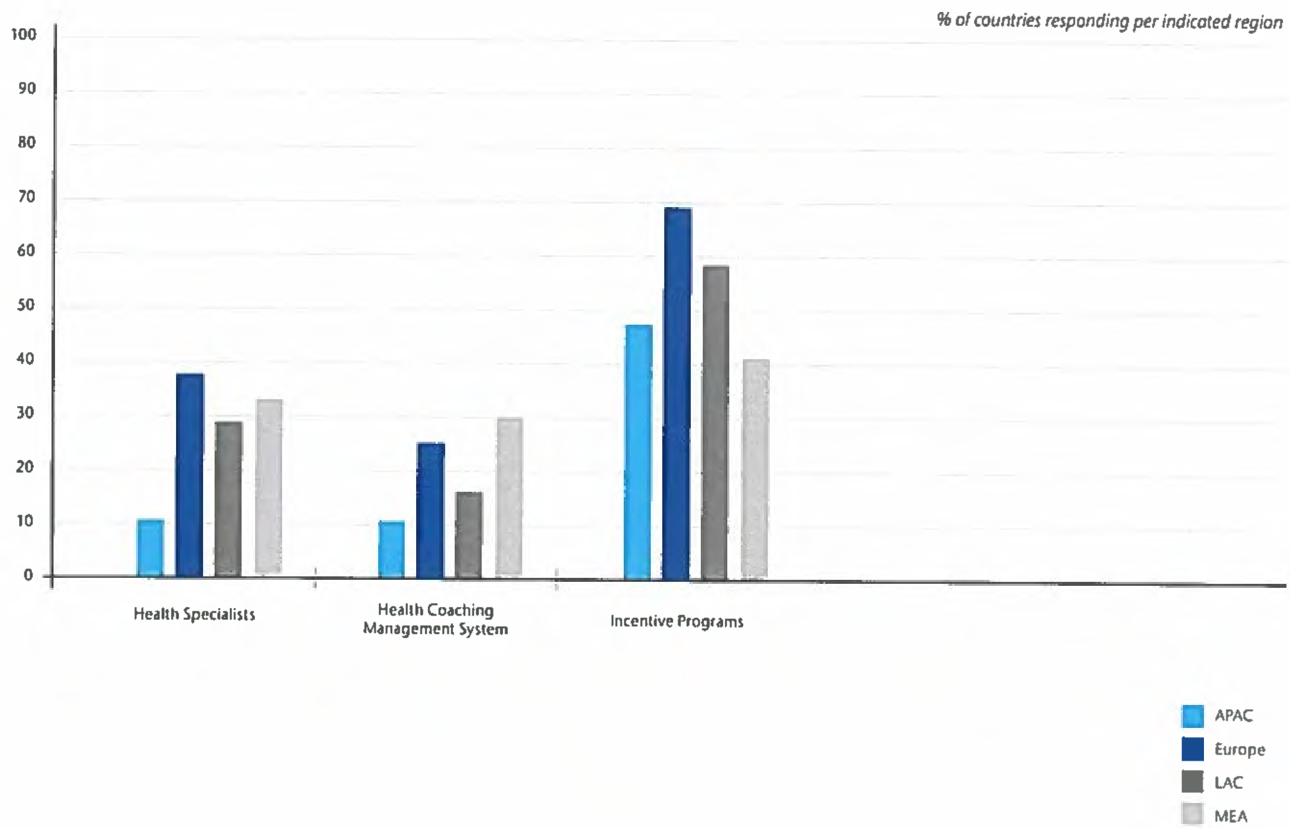
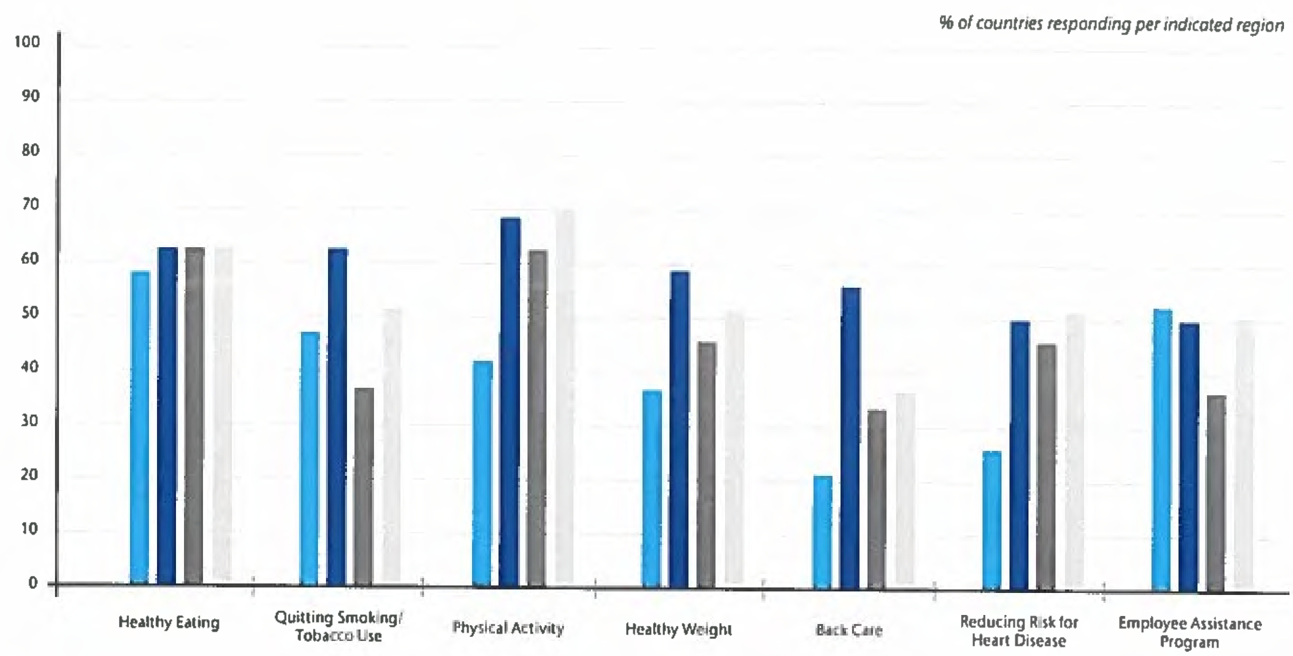


Exhibit 30: Wellness Interventions Programs

Reported as Commonly Provided by Geographical Region



Glossary of Terms

Coinsurance: A form of medical cost sharing in a health insurance plan that requires an insured person to pay a stated percentage of medical expenses after the deductible amount, if any, was paid. In health insurance, an equivalent term is "percentage participation."

Copayment (Copay): A form of medical cost sharing in a health insurance plan that requires an insured person to pay a fixed dollar amount when a medical service is received. The insurer is responsible for the rest of the reimbursement. There may be separate copayments for different services. Some plans require that a deductible first be met for some specific services before a copayment applies.

Access & Delivery Restrictions: Measures designed to incentivize plan members to seek care in a cost-effective manner (e.g., restrictions on the use of expensive hospitals, mandated use of general physicians prior to using specialists, avoidance of emergency rooms for non-emergency situations, etc.)

Cost Containment Measures: Initiatives aimed at reducing or controlling over-utilization such as introduction of deductible, copays, coinsurance in plan design, required use of referrals for expensive surgeries, limitations on reimbursement per type of expense or medical service.

Deductible: A fixed dollar amount during the benefit period - usually a year - that an insured person pays before the insurer starts to make payments for covered medical services. Plans may have both per individual and family deductibles. Some plans may have separate deductibles for specific services.

Preferred Provider Organization (PPO) (Medical Provider Network): An indemnity medical plan where coverage is provided to participants through a network of selected health care providers (such as hospitals and physicians). The plan participants may go outside the network, but would incur larger costs in the form of higher deductibles, higher coinsurance rates, or non-discounted charges from the providers.

Self-Insured Plan: A plan offered by employers who directly assume the major cost of health insurance for their employees. Some self-insured plans bear the entire risk. Some self-insured employers insure against large claims by purchasing stop-loss coverage. Some self-insured employers contract with insurance carriers or third party administrators (TPA) for claims processing and other administrative services; other self-insured plans are self-administered.

Stop Loss: A type of reinsurance designed to transfer the loss from the ceding company to the reinsurer at a given point. A provision in a policy designed to cut off the insurance company's loss at a given point. Aggregate benefits and maximum benefits are an example.

Third Party Administrator (TPA): An individual or firm hired by an employer to handle claims processing, pay providers, and manage other functions related to the operation of health insurance. The TPA is not the policyholder or the insurer.

Mitigate: To make less severe; steps to eliminate further damage after a loss occurs.

Appendix

Technical Note

The trend rates shown in this report represent national averages and are the predicted increase in premium costs. Trend increases for a specific company may vary significantly from these trend rates due to regional cost variations, company plan design, company demographics, and other factors. In addition, insured rate increases may be higher or lower than these trend rates based on an insurance company's profitability, the plan's claims-loss ratio, the plan design, insured demographics, and other factors. It is important to note that these trend rates might not be appropriate for other purposes.

Medical trend rate is defined as the percentage of change in the cost of health care prior to any cost containment measure undertaken by plan sponsors.

The components of health care trends that we have considered include:

- **Price inflation.** This is the projected annual change in the domestic retail consumer price index of the health care element in each country. In the absence of information on projected inflation for the medical plan component in any given country, we have used the change in the overall consumer price index.
- **Leveraging impact on fixed-amount elements of plan design.** This is the additional cost added to a health plan due to the leveraging effect of increasing expected claims on unchanging deductible, copays, or out-of-pocket maximums.
- **Utilization.** This component reflects an increase in the demand for medical care services in response to factors such as increased access to medical services, plan design, participant age, and new medical technology and services.
- **Technology advances.** This reflects the change in cost due to new procedures, information, experience, and equipment replacing older techniques.
- **Cost shifting.** This reflects a provider of medical services, such as a government social health care program, transferring its cost to private-sector supplementary plans.

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About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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DSIC Capex Coverage **Exhibit APW-R-5**
Peoples Natural
(in millions)

	OCA's Proposal	I&E's Proposal	Company as filed	
2021 & 2022 LTIIP Capex (a)	$ 348.2	$ 348.2	$ 348.2	
Rate Base Equity %	50.09%	53.66%	53.66%	
Rate Base Debt %	49.91%	46.34%	46.34%	
Cost of Debt	4.23%	4.08%	4.23%	
Return on Equity	8.75%	8.97%	10.15%	
Effective Income Tax Rate	20.75%	20.39%	22.30%	
Equity Return	$ 15.3	$ 16.8	$ 19.0	
Cost of Debt	$ 7.4	$ 6.6	$ 6.8	
Depreciation	$ 13.5	$ 13.5	$ 13.5	
Expenses	$ -	$ -	$ -	
Income Taxes	$ 4.0	$ 4.3	$ 5.4	
Revenue Requirement	$ 40.1	$ 41.1	$ 44.7	
Base Revenues-5% cap	$ 23.4	$ 24.5	$ 27.0	see below
(Deficient) Sufficient	**$ (16.6)**	**$ (16.6)**	**$ (17.7)**	
DSIC Revenue at Present Rates	$ 22.3	$ 22.3	$ 22.3	
5% of Rate Increase	$ 1.1	$ 2.2	$ 4.7	
	$ 23.4	$ 24.5	$ 27.0	

(a) Note: The 2021 amount represents total LTIIP Capital Expenditures. The 2022 amount included is for mains and services only as the other spend was not disclosed in the referenced LTIIP filing.