

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REBUTTAL TESTIMONY OF
ANTHONY CALDRO
RATE CONSULTANT
ON BEHALF OF
PEOPLES NATURAL GAS COMPANY LLC**

DATE SERVED: May 28, 2019
DATE ADMITTED: _____

Peoples Natural Gas Statement No. 7-R

1 **REBUTTAL TESTIMONY OF**
2 **ANTHONY CALDRO**

3
4 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

5 A. My name is Anthony Caldoro and my business address is 375 North Shore Drive,
6 Pittsburgh, Pennsylvania 15212.

7
8 **Q. DID YOU SUBMIT PREVIOUS TESTIMONY IN THIS PROCEEDING?**

9 A. Yes, I submitted Peoples Natural Gas Statement No. 7.

10
11 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY SUBMITTED BY OTHER**
12 **PARTIES?**

13 A. Yes. In particular, with regard to this Rebuttal Testimony, I have reviewed the Direct
14 Testimony submitted by Dante Mugrace on behalf of the Office of Consumer Advocate
15 (“OCA”) and Holly Gilliland on behalf of the Bureau of Investigation and Enforcement
16 (“I&E”).

17
18 **Q. HAVE YOU ALSO REVIEWED THOSE WITNESSES’ ANSWERS TO THE**
19 **INTERROGATORIES AND REQUESTS FOR DOCUMENTS PROPOUNDED BY**
20 **PEOPLES IN THIS PROCEEDING?**

21 A. Yes.

22
23 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
24 **PROCEEDING?**

1 A. The purpose of my Rebuttal Testimony is threefold: 1) address the OCA recommendation
2 regarding use of an average Fully Projected Future Test Year (“FPFTY”) plant balances
3 versus an end-of-FPFTY plant balances, 2) respond to I&E recommendations concerning
4 use of the 13-month actual average for Prepayments and Gas Stored Underground – Current
5 and 3) respond to I&E’s recommendation to provide updates related to plant in service for
6 specific future periods.

7
8 **Q. WHAT IS THE OCA WITNESS MUGRACE’S RECOMMENDATION WITH**
9 **RESPECT TO THE USE OF A FPFTY?**

10 A. OCA Witness Mugrace recommends that Peoples Natural Gas use an “...average test
11 year GPIS balance instead of the Company’s proposed test year end balances as of
12 October 31, 2020.” He further states that “The purpose of the use of a fully projected test
13 year period is to calculate the Company’s revenue requirement that will be in effect, on
14 average, for the first year of new rates...”. (OCA St. No. 1 p. 6.)

15
16 **Q. WHAT IS YOUR RESPONSE TO OCA WITNESS MUGRACE’S**
17 **RECOMMENDATION?**

18 A. I disagree with his recommendation. Act 11 of 2012 clearly provides for the use of a
19 FPFTY. Further, the use of an end of test year plant balance versus the use of an average
20 plant balance within the context of a FPFTY has been adjudicated by the Pennsylvania
21 Public Utility Commission (“Commission”) in the UGI Electric base rate case proceeding
22 in Docket No. R-2017-2640058 and the Commission has ruled in favor of the end of test
23 year methodology. Peoples Natural Gas witness Wachter’s rebuttal testimony contains

1 the Company's comprehensive response with respect to the use of an end of test year
2 methodology.

3
4 **Q. IN ADDITION TO BEING CONTRARY TO COMMISSION PRECEDENT, ARE**
5 **THERE ANY METHODOLOGICAL FLAWS WITH OCA'S PROPOSAL?**

6 A. Yes. Mr. Mugrace averages the balances at September 30, 2019 and October 31, 2020,
7 which is a 13 month period. (OCA St. No. 1, p. 8.) The FPFTY is the 12 month period
8 from October 31, 2019 through October 31, 2020. OCA's methodology is flawed
9 because it uses a 13 month average period and not the 12 month FPFTY period.

10
11 **Q. WHAT IS I&E WITNESS GILLILAND'S RECOMMENDATION WITH**
12 **RESPECT TO GAS STORED UNDERGROUND – CURRENT AND**
13 **PREPAYMENTS?**

14 A. I&E witness Gilliland recommends that Gas Stored Underground – Current and
15 Prepayments should be reflected in rate base using the most recent 13 month average of
16 the balances in those accounts.

17
18 **Q. WHAT IS YOUR RESPONSE TO I&E WITNESS GILLILAND'S**
19 **RECOMMENDATION WITH RESPECT TO GAS STORED UNDERGROUND -**
20 **CURRENT?**

21 A. I disagree with her recommendation to use the most recent 13 month average. First, it
22 appears that the recommendation is results driven to arrive at a lower rate base claim
23 since her testimony fails to provide any reasoning as to why the recent 13 month average

1 is more appropriate than the Company's proposal. Second, by using the most recent 13
2 month average her recommendation does not capture the Company's approved proposal
3 to switch from last-in/first-out ("LIFO") storage accounting to weighted average
4 commodity cost of gas ("WACOG") storage accounting as of January 1, 2020. Third,
5 I&E witness Gilliland's response to Peoples Natural Gas data request PNG to I&E-II-12
6 shows that I&E does not fully understand the timing and effects of Peoples Natural Gas'
7 approved proposal to switch from LIFO to WACOG storage inventory accounting
8 effective January 1, 2020.

9
10 **Q. WHEN DID PEOPLES NATURAL GAS FILE THE PETITION FOR**
11 **AUTHORIZATION TO SWITCH THE STORAGE INVENTORY ACCOUNTING**
12 **FOR THE PEOPLES DIVISION FROM LIFO TO WACOG?**

13 A. On February 8, 2019, Peoples Natural Gas filed a petition with the Commission for
14 authorization to revise the Peoples Division's accounting methodology for gas in storage
15 inventory from a LIFO methodology to the WACOG methodology. That petition was
16 approved by the Commission by order entered April 25, 2019. The Petition and the
17 Commission's order are attached to my testimony as Peoples Natural Gas Exhibit No.
18 AC-R-1.

19
20 **Q. WHAT WAS I&E'S RESPONSE TO PEOPLES NATURAL GAS DATA**
21 **REQUEST PNG TO I&E-II-12?**

22 A. The I&E data response to PNG to I&E-II-12 is attached as Peoples Natural Gas Exhibit
23 No. AC-R-2. In its response, I&E states:

1 It is I&E's understanding that the monthly balances of Gas Stored
2 Underground reflect the conversion to ("WACOG") as described
3 on People's Gas Statement No. 6, page 8, which were used to
4 calculate the 13-month average. It is also I&E's understanding that
5 the Company's response to I&E-RB-8 reflected the conversion to
6 ("WACOG"). Therefore, I&E based its 13-month average
7 recommendation upon the Commission-approved switch from
8 last-in/first-out ("LIFO") methodology to the weighted average
9 cost of gas ("WACOG") methodology as of January 1, 2020.

10
11 **Q. WHAT IS YOUR REACTION TO I&E'S RESPONSE?**

12 A. I&E may not fully understand the data presented in the response to I&E-RB-8. I&E's
13 statement that the monthly balances of gas stored underground for the Peoples Division
14 in the response to I&E-RB-8 reflect the conversion to WACOG is incorrect. While it is
15 correct that the switch from LIFO to WACOG will occur on January 1, 2020, the historic
16 data presented with respect to Peoples Division storage inventory in this proceeding
17 reflects LIFO storage accounting.

18 The data used to calculate gas stored underground for the FPFTY should reflect
19 WACOG balances because the LIFO balances are not representative of future conditions.
20 I&E's 13-month average for the Peoples Division relies on historic LIFO costs from
21 February 2018 through February 2019. See I&E Exhibit No. 5, Schedule 6. It is
22 unreasonable to rely on historic LIFO balances for the FPFTY when the WACOG
23 methodology will be implemented on January 1, 2020 and used thereafter.

24
25 **Q. HOW DOES THE CHANGE FROM LIFO ACCOUNTING TO WACOG**
26 **ACCOUNTING FOR STORAGE INVENTORY AFFECT THE AVERAGE**
27 **ANNUAL STORAGE BALANCE?**

1 A. The change increases the average storage balance. This occurs because the storage
2 balances are set at current prices for recent purchases. In contrast, the LIFO method
3 maintains prices in the balance for gas placed in storage more than 35 years ago.
4

5 **Q. WILL CUSTOMERS BENEFIT FROM THE CHANGE IN ACCOUNTING FOR**
6 **STORAGE?**

7 A. Yes. As explained in the Petition, customers will receive a one-time refund for the
8 difference between the accounting values in the first quarter of 2020. We estimate that
9 the refund will be approximately \$13 million.
10

11 **Q. WHAT WOULD BE THE EFFECT OF ADOPTING I&E WITNESS**
12 **GILLILAND'S RECOMMENDATION AS FOR THE STORAGE BALANCE?**

13 A. Customers would be inappropriately provided with the refund related to the difference in
14 the storage balances from the accounting change to WACOG and would also receive the
15 benefit of the lower storage balance under the prior LIFO method in this rate case. This
16 would not be fair treatment to the Company. In addition, the change in accounting is
17 known and certain and is reflected in the accounting values for the FPFTY as shown in
18 the Company's Ex. No. 8. For these reasons, I&E's adjustment must be rejected.
19

20 **Q. WHAT IS YOUR RESPONSE TO I&E WITNESS GILLILAND'S**
21 **RECOMMENDATION WITH RESPECT TO PREPAYMENTS?**

22 A. Ostensibly, it appears that the recommendation is also results driven to arrive at a lower
23 rate base claim since her testimony fails to provide any reasoning as to why the recent 13

1 month average is more appropriate than the Company's proposal. However, upon review
 2 of I&E Witness Gilliland's workpaper several errors (highlighted in the workpaper
 3 below) were discovered that lead to an incorrect amount for the 13 month average
 4 balance as she claimed of \$4,308,774. I have added a column to her workpaper that
 5 shows the correct amount for the current 13 month average for Prepayments-Combined is
 6 \$7,124,749. I recommend that if the Commission approves of I&E witness Gilliland's
 7 proposal to use the current 13 month average then it should reflect the corrected amount
 8 of \$7,124,749.

Peoples National Gas Company, LLC							
Docket No. R-2018-3006818							
Current, Actual Prepayment Amounts							
Line No.	Month	Year	People's Prepayments	Equitable Prepayments	I&E Testimony Combined Prepayments	Combined Prepayments Corrected	
(A)	(B)	(C)	(D)	(E)	(F)	D+E	
1	February	2018	\$4,459,159	\$1,610,925	\$3,089,459	\$6,070,084	
2	March	2018	\$5,407,893	\$1,488,832	\$2,871,673	\$6,896,725	
3	April	2018	\$5,111,725	\$1,873,893	\$2,756,758	\$6,985,618	
4	May	2018	\$4,286,155	\$1,608,559	\$2,687,341	\$5,894,714	
5	June	2018	\$4,551,455	\$1,941,733	\$2,733,505	\$6,493,188	
6	July	2018	\$5,001,323	\$1,588,727	\$2,805,372	\$6,590,050	
7	August	2018	\$4,345,156	\$1,366,381	\$2,860,885	\$5,711,537	
8	September	2018	\$4,478,821	\$1,914,130	\$2,974,555	\$6,392,951	
9	October	2018	\$5,544,787	\$2,983,309	\$8,528,097	\$8,528,096	
10	November	2018	\$4,562,240	\$2,789,351	\$7,351,592	\$7,351,591	
11	December	2018	\$6,483,987	\$2,796,403	\$928,039	\$9,280,390	
12	January	2019	\$5,682,161	\$2,532,299	\$8,214,460	\$8,214,460	
13	February	2019	\$5,132,296	\$3,080,031	\$8,212,328	\$8,212,327	
14	13 Mo. Avg.		\$5,003,628	\$2,121,121	\$4,308,774	\$7,124,749	

11 **Q. HAS PEOPLES NATURAL GAS WITNESS PETRICHEVICH PROVIDED YOU**
 12 **WITH A REVISED CASH WORKING CAPITAL PROJECTION BASED ON HIS**
 13 **REBUTTAL TESTIMONY?**

14 **A.** Yes. Peoples' Witness Eric Petrichevich describes the derivation of the revised cash
 15 working capital amount in his rebuttal testimony in this proceeding, and he provided that
 16 amount to me, \$195,165, to include as an adjustment to the future test year rate base.

1 This is the only adjustment to the future test year rate base. Due to the size of this
2 adjustment, the Company is not providing a revised Exhibit 8.

3

4 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO I&E'S**
5 **PROPOSAL TO PROVIDE UPDATES TO PEOPLES NATURAL GAS EXHIBIT**
6 **NO. AC-1?**

7 A. I can agree with I&E's recommendation to provide updates to Peoples Natural Gas
8 Exhibit No. AC-1 no later than January 2, 2020, for 12 months ending October 31, 2019,
9 and an additional update for actuals through October 31, 2020, by February 1, 2021.

10

11 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY AT THIS TIME?**

12 A. Yes, it does. I reserve the right to present additional testimony as the case proceeds.



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File #: 144101

February 8, 2019

VIA ELECTRONIC FILING

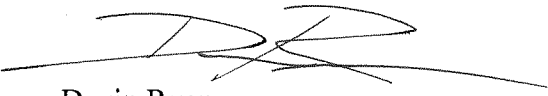
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Petition of Peoples Natural Gas Company LLC for an Order Authorizing the Company to Revise its Peoples Division's Accounting Methodology for Gas in Storage Inventory - Docket No. P-2019-

Dear Secretary Chiavetta:

Enclosed for filing is Peoples Natural Gas Company LLC Petition for Accounting Order in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Devin Ryan

DTR/jl
Enclosures

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

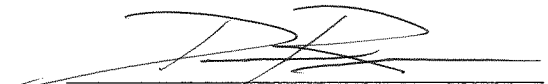
VIA E-MAIL & FIRST CLASS MAIL

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Date: February 8, 2019



Devin T. Ryan

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Peoples Natural Gas Company :
 LLC For An Order Authorizing The : Docket No. P-2019-_____
 Company To Revise Its Peoples Division’s :
 Accounting Methodology For Gas In Storage :
 Inventory :

**PEOPLES NATURAL GAS COMPANY LLC
 PETITION FOR ACCOUNTING ORDER**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

Peoples Natural Gas Company LLC (“Peoples Natural Gas” or the “Company”), pursuant to the Special Instructions to Accounts 117.1, 117.2 and 117.3 of the Uniform System of Accounts for Gas Companies, 18 C.F.R. Part 201, and Section 5.41 of the Pennsylvania Public Utility Commission’s (“Commission”) regulations, 52 Pa. Code § 5.41, hereby requests that the Commission issue an order authorizing Peoples Natural Gas to revise its Peoples Division’s accounting methodology for gas in storage inventory from a last-in/first-out (“LIFO”) methodology to the weighted average cost of gas (“WACOG”) methodology. A pro forma tariff supplement is attached hereto as **Appendix A**. Peoples Natural Gas notes that its Peoples-Equitable Division already utilizes the WACOG accounting methodology for gas in storage inventory. Therefore, Peoples Natural Gas proposes to revise its accounting methodology for the Peoples Division, so that both divisions use a consistent accounting methodology for storage inventory. Peoples Natural Gas also requests that the Commission issue an order by April 30, 2019, so that the Company may reflect the change effective January 1, 2020, in its accounting records, and the accounting change will be consistent with projected amounts presented in its current rate case (Docket No. R-2018-3006818).

In support of this Petition, Peoples Natural Gas respectfully states as follows:

I. BACKGROUND

1. Peoples Natural Gas is a limited liability company formed under the laws of the Commonwealth of Pennsylvania for the purpose of providing natural gas transmission, distribution, and supplier of last resort services subject to the Commission's regulatory jurisdiction. Peoples Natural Gas currently operates two divisions – the Peoples Division and Peoples-Equitable Division. Peoples Natural Gas also is an affiliate of Peoples Gas Company LLC (“Peoples Gas”).

2. Peoples Natural Gas is a “public utility” and a “natural gas distribution company” as those terms are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S. §§ 102, 2202.

3. Peoples Natural Gas's counsel in this proceeding are:

Michael W. Gang (ID # 25670)
Anthony D. Kanagy (ID # 85522)
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II. DESCRIPTION OF LIFO AND WACOG STORAGE ACCOUNTING

A. LIFO ACCOUNTING PROCEDURES

4. The Peoples Division currently uses an annual LIFO method to price gas injected into and withdrawn from storage. Under the annual LIFO method, the Peoples Division utilizes an average annual inventory rate, which is not finalized until the end of the fiscal year, *i.e.*, December 31, after all storage gas has been purchased, injected, and withdrawn during the same year. This annual LIFO method requires the Peoples Division to set an initial LIFO injection/withdrawal inventory rate by initially projecting the average cost of all storage gas purchases for the entire fiscal year and using that rate for injections and withdrawals. The total annual average estimated purchase cost per Mcf becomes the estimated inventory rate used for injections and withdrawals. The price of prior and future injections and withdrawals is then updated quarterly as actual costs for purchased volumes and revised projected costs per Mcf for remaining purchase volumes become available throughout the fiscal year.

5. As the estimated annual inventory rate based on all purchases is adjusted, a corresponding year-to-date "LIFO adjustment" is also recorded to bring storage inventory pricing of experienced injections and withdrawals in line with the updated rate. The LIFO adjustments are made quarterly. The quarterly pricing adjustments can have a measurable effect upon quarterly gas costs, as prior injections and withdrawals for the year are repriced to the updated LIFO price. Since the fiscal year starts on January 1, which is about two months after the start of the storage withdrawal season, Peoples Division is effectively withdrawing gas from storage inventory for much of the storage withdrawal season based on an estimated price that is only known and fully reconciled the subsequent December 31, after the storage fields are refilled in the summer following the storage withdrawal season.

6. When there is a net annual injection of gas into storage, a LIFO layer for that year is established that equals the storage volume increase multiplied by the actual annual inventory rate based on all purchases for the fiscal year (the “layer rate”). When there is a net annual withdrawal of gas from storage, the most recent prior-year LIFO layer(s) (equal to the net withdrawal volume) and layer rate(s) are used to price the net withdrawal volumes.

7. Under Peoples Division’s annual LIFO method, the determination of whether a layer has been created or eliminated occurs only at fiscal year-end. In compliance with generally accepted accounting principles for the use of LIFO, the effects of interim inventory increases or decreases are excluded if the increases or decreases are expected to be eliminated by year-end.

B. WACOG ACCOUNTING PROCEDURES

8. Under the WACOG accounting methodology, the actual cost and volume of the current month’s injections are added to the inventory value calculated at the end of the previous month and a new average cost per Mcf is calculated for the current month. The current month’s withdrawals are deducted from the balance at the new average cost per Mcf. When storage gas is being injected (April through October), the inventory cost for the current month is added to the inventory cost from the previous month(s). At the end of the injection season, the storage cost for the winter is well established. During the withdrawal season (November through March), withdrawals are made at the average price primarily resulting from the injection season.

9. Unlike the Peoples Division’s annual LIFO method, the WACOG method does not require repricing of prior months’ injections or withdrawals. As a result, the price of monthly injections and withdrawals are far more stable and certain than those under the LIFO method.

III. REASONS FOR CHANGE IN STORAGE ACCOUNTING

A. THE WACOG ACCOUNTING METHODOLOGY WILL REDUCE PURCHASED GAS COST (“PGC”) RATE VOLATILITY

10. Use of the WACOG accounting methodology will significantly enhance Peoples Natural Gas’s ability to forecast PGC costs and reduce associated PGC rate volatility. Because the Peoples and Peoples Equitable Division’s PGC rate have been merged, the reduced volatility will benefit both Divisions’ customers.

11. Under its annual LIFO method, Peoples Division cannot with certainty price the value of either (1) storage costs that are factored into the PGC or (2) the price for winter storage withdrawals until after the fiscal year is complete and the quarterly LIFO adjustments are made. Therefore, for PGC purposes, Peoples Division must forecast a storage withdrawal rate for the winter season that will only be known at fiscal year’s end. Specifically, for the first two months of the winter season, November and December, the final rate will not be known until after December 31. For the remaining three winter months, January through March, the final rate will not be known until after December 31 of the following year. In times of high wholesale gas price volatility, the variance between forecasted prices and actual annual prices under LIFO can significantly increase the under/over collection position for Peoples Natural Gas and its customers.

12. The potential distorting effects of LIFO on gas costs are exacerbated by the timing differences between the LIFO year, which ends December 31, and the PGC year, which for the Peoples and Peoples-Equitable Divisions is the twelve months ending September 30. This means that the PGC year overlaps two annual LIFO periods. Here, the Company implements a brand new LIFO rate at the beginning of the fiscal year and assigns a final price to

the previous year's LIFO layer if one is created for that year. That price is then applied retroactively to all withdrawals made during the prior fiscal year.

13. As a result of these timing differences, forecasted storage withdrawals for PGC purposes will be priced at the most recent quarterly-adjusted LIFO prices, but the final prices, and adjustment, cannot be known until the close of the December books in the following year. As a result, the actual injection/withdrawal prices and costs are not subject to reasonably accurate forecasting for PGC purposes.

14. By having more stable storage inventory pricing, the Company will be able to minimize volatility of PGC rates, including under and over collections, and reduce fluctuations in PGC rates.

B. THE WACOG ACCOUNTING METHODOLOGY WILL ALLOW PEOPLES DIVISION TO MAKE MORE INFORMED GAS PURCHASING DECISIONS IMPACTING THE COMBINED PGC RATE

15. As explained above, under the LIFO accounting methodology, Peoples Division cannot know the final prices for storage injections and withdrawals until the fiscal year is complete, well after purchasing decisions are made. In comparison, as also stated above, under the WACOG accounting methodology, the price of gas withdrawn from storage is reasonably known and certain during the winter months, when decisions to purchase gas in the market or to dispatch gas from storage inventory are made. Therefore, under the WACOG accounting methodology, Peoples Division will be able to act with greater consistency and certainty in making gas purchasing decisions.

C. THE WACOG ACCOUNTING METHODOLOGY WILL PROMOTE ADMINISTRATIVE EFFICIENCIES

16. Since acquiring Equitable Gas Company ("Equitable"), which is now Peoples-Equitable Division, Peoples Natural Gas has undertaken considerable efforts to integrate the

operations of its two operating divisions. In this case, eliminating the LIFO method will permit the use of only one inventory accounting method on Peoples Natural Gas' books.

17. The primary purpose of Peoples Natural Gas's integration efforts is to reduce administrative and operational costs. To the extent that the Company is able to make procedures and operations consistent among its divisions, Peoples Natural Gas experiences increased efficiencies that ultimately translate into lower costs for customers.

18. As explained above, Peoples-Equitable Division utilizes the WACOG accounting methodology for storage gas. If the Commission grants this Petition, both Peoples Division and Peoples-Equitable Division will utilize the WACOG methodology, which will increase the Company's administrative efficiencies.

D. ADDITIONAL BENEFITS

19. Peoples Natural Gas's accounting transactions are recorded and reported in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). Convergence efforts have been undertaken by the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") to align US GAAP and International Financial Reporting Standards ("IFRS"). One item of divergence between US GAAP and IFRS is LIFO inventory valuations. Under IFRS, LIFO accounting is not a permitted method of valuing inventory for financial reporting purposes, whereas US GAAP does permit LIFO valuations of inventory. If and when US GAAP is aligned to IFRS regarding LIFO inventory valuations, the Peoples Division would be required to change its stored gas inventory valuation methodology.

IV. PROCEDURE FOR ACCOMPLISHING STORAGE ACCOUNTING CHANGE/IMPACT ON RATES

20. The Special Instructions to Accounts 117.1, 117.2 and 117.3 of the Uniform System of Accounts for Gas Utilities (adopted by the Commission pursuant to 52 Pa. Code § 59.42(a)) provides, in pertinent part:

Withdrawals of gas must be priced using the first-in-first-out, last-in-first-out, or weighted average cost method, provided the method adopted by the utility is used consistently from year to year and appropriate inventory records are maintained. Approval of the Commission must be obtained for any other pricing method, or change in the pricing method adopted by the utility.

21. For reasons explained above, Peoples Natural Gas requests Commission approval to change Peoples Division's method of storage accounts from LIFO to WACOG.

22. To accommodate the change from LIFO to WACOG accounting, Peoples Division will reprice its entire current storage gas inventory at the WACOG rate for Peoples-Equitable Division beginning January 1, 2020. This conversion will create an immediate credit to gas storage costs charged to 1307(f) customers. Therefore, Peoples Natural Gas proposes to establish a WACOG bill credit that would be designed to provide a credit to customers equal to the immediate conversion credit which the Company currently estimates to be approximately \$13.6 million. This credit would be flowed back to 1307(f) sales customers over the three-month period from January 1, 2020, through March 31, 2020, to provide customers with the credit during the winter billing months. Such credit will be provided to customers as an offset to the commodity component of the Purchase Gas Cost Rider but will not affect the Price to Compare. Because the Peoples Division and Equitable Division PGC rates have been merged and Equitable Division customers have been paying LIFO costs, the credit will be provided to sales customers

of both Divisions.¹ The credit will be reconciled with interest for over or undercollections of the actual refund amount through the PGC E-factor effective October 1, 2020. The Company will estimate the January 1, 2020 immediate conversion credit to be effective on January 1, 2020. However, when that amount is finalized, the actual January 1, 2020 immediate conversion credit will be used to calculate the over or undercollection for reconciliation purposes. This will enable the Company to begin refunding the credit on the effective date of the change despite not having the actual immediate conversion credit amount.²

¹ The pro forma tariff contained in Appendix A reflects merger of the rate schedules of the Company's Peoples and Equitable Divisions as proposed in the pending base rate case at Docket No. R-2018-3006818.

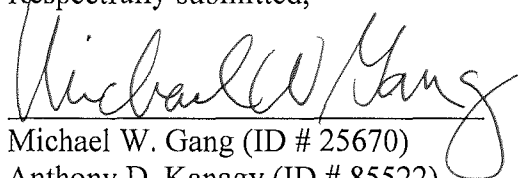
² Peoples Natural Gas notes that the Commission previously has approved petitions for UGI Central Penn Gas, Inc. (now, UGI Utilities, Inc. – Central Rate Division) and Columbia Gas of Pennsylvania, Inc. to revise their accounting methodologies for gas in storage inventory from LIFO to WACOG. *See Petition of Central Penn UGI Gas, Inc. for an Order Authorizing the Company to Revise Its Accounting Methodology for Gas in Storage Inventory*, Docket No. P-2010-2171611 (Order entered Sept. 23, 2010); *Petition of Columbia Gas of Pennsylvania, Inc. for an Order Authorizing the Company to Revise Its Accounting Methodology for Gas in Inventory*, Docket No. P-2010-2209925 (Feb. 15, 2011) (Recommended Decision), *adopted without modification*, Docket No. P-2010-2209925 (Order entered Mar. 31, 2011).

V. CONCLUSION

WHEREFORE, for the foregoing reasons, Peoples Natural Gas Company LLC respectfully requests that the Pennsylvania Public Utility Commission authorize the Company to revise its Peoples Division's accounting methodology for valuing gas in storage inventory from the LIFO methodology to the WACOG methodology.

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Respectfully submitted,



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Date: February 8, 2019

Counsel for Peoples Natural Gas Company
LLC

Appendix “A”

RIDER B

PURCHASED GAS COSTS

STORAGE ACCOUNTING ADJUSTMENT

This adjustment shall be applicable to sales service rate schedules Rate RS, Rate SGS, Rate MGS, and Rate LGS.

CHARACTER OF ADJUSTMENT

This adjustment has been established to reimburse storage inventory gas costs resulting from the change in storage accounting methodology from Last In, First Out (LIFO) to Weighted Average Cost of Gas (WACOG).

RATE

The Company will estimate the conversion credit to be effective January 1, 2020. The estimated credit of \$_____ shall be applied as an offset to the commodity component of Rider B for each Mcf of sales volumes or distribution volumes distributed by the Company to applicable customers. This credit will not affect the Price to Compare and will be effective through March 31, 2020. For reconciliation purposes, the Company will use the actual January 1, 2020 conversion credit and will reconcile any over or under collection of the conversion credit with interest through the PGC E-factor effective October 1, 2020.

ISSUED: XXXX

EFFECTIVE: XXXXX

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Peoples Natural Gas Company :
LLC For An Order Authorizing The : Docket No. P-2019-_____
Company To Revise Its Peoples Division's :
Accounting Methodology For Gas In Storage :
Inventory :

VERIFICATION

I, Andrew P. Wachter, Director, Finance and Regulation for PNG Companies LLC, hereby state that the facts set forth in the above Petition are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: February 8, 2019



Andrew P. Wachter

**PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17105-3265**

Public Meeting held April 25, 2019

Commissioners Present:

Gladys Brown Dutrieuille, Chairman
David W. Sweet, Vice Chairman
Norman J. Kennard
Andrew G. Place
John F. Coleman, Jr.

Petition of Peoples Natural Gas Company LLC
for Authorization to Revise its Peoples Division's
Accounting Methodology for Gas in Storage
Inventory

P-2019-3007889

ORDER

BY THE COMMISSION:

On February 8, 2019, Peoples Natural Gas Company LLC (Peoples or the Company) filed a petition requesting that the Commission issue an order pursuant to the Special Instructions to Accounts 117.1, 117.2 and 117.3 of the Uniform System of Accounts for Gas Companies, 18 C.F.R. Part 201, and Section 5.41 of the Commission's regulations, 52 Pa. Code § 5.41, granting the Company authorization to revise its Peoples Division's accounting methodology for gas in storage inventory from a last-in/first-out (LIFO) methodology to the weighted average cost of gas (WACOG) methodology (the Petition).

The Petition was served on the Bureau of Investigation and Enforcement, Office of Consumer Advocate, and the Office of Small Business Advocate. Further notice was not required, and no protests or comments have been received. For the reasons set forth below, we shall grant the Petition subject to the conditions contained in this Order.

Background

Peoples is a jurisdictional limited liability company formed under the laws of the Commonwealth of Pennsylvania to provide natural gas transmission, distribution, and supplier of last resort services. Peoples currently operates two divisions, including the Peoples Division and the Peoples-Equitable Division, and is an affiliate of Peoples Gas Company LLC.

The Company is requesting authority from the Commission to revise its accounting methodology for gas in storage inventory for its Peoples Division from an annual LIFO method to price gas injected into and withdrawn from storage to the WACOG method. Peoples notes that its Peoples-Equitable Division already utilizes the WACOG accounting method for gas in storage inventory.

Under the LIFO method, an average annual inventory rate is determined after all storage gas has been purchased, injected, and withdrawn throughout the year, and is not finalized until the end of the fiscal year, or December 31. This method requires Peoples to set an initial LIFO injection/withdrawal inventory rate by initially projecting the average cost of all storage gas purchases for the entire fiscal year (January 1 to December 31). The total annual average estimated purchase cost per Mcf becomes the estimated inventory rate used for injections and withdrawals. The price of prior and future injections and withdrawals is then updated quarterly as actual costs for purchased volumes and revised projected costs per Mcf for remaining purchase volumes become available throughout the fiscal year.

Along with each quarterly update to the estimated annual inventory rate, a corresponding year-to-date LIFO adjustment is also recorded to bring storage inventory pricing of experienced injections and withdrawals in line with the updated rate. The quarterly pricing adjustments can have a measurable effect on quarterly gas costs, as prior injections and withdrawals for the year are repriced to the updated LIFO price.

Using the LIFO method, Peoples cannot with certainty price the value of either storage costs that are factored into the Company's purchased gas cost (PGC), or the price for winter withdrawals until after the fiscal year is complete and the quarterly LIFO adjustments are made. For PGC purposes, Peoples is forecasting a storage withdrawal rate for the winter season that will only be known at the end of the fiscal year. More specifically, for the first two months of the winter withdrawal season, November and December, the final rate will not be known until after December 31. For the remaining three winter months, January through March, the final rate will not be known until after December 31 of the following year, after the storage fields are refilled in the summer following the storage withdrawal season. In times of high wholesale gas price volatility, the variance between forecasted prices and actual annual prices under LIFO can significantly increase over/under collections.

The Company avers that the WACOG method results in a more stable and certain pricing of injections and withdrawals. The WACOG method does not require repricing of prior injections and withdrawals. The actual cost and volume of the current month injections are added to the inventory value calculated at the end of the previous month and a new average cost per Mcf is calculated for the current month. Current month withdrawals are deducted from the balance at the new average cost per Mcf. At the end of the injection season, April through October, the storage cost for the winter withdrawal season is well established.

Discussion

Before us is Peoples' Petition for Accounting Order pursuant to the Special Instructions to Accounts 117.1, 117.2 and 117.3 of the Uniform System of Accounts for Gas Companies, 18 C.F.R. Part 201, and Section 5.41 of the Commission's regulations, 52 Pa. Code § 5.41, requesting that the Commission issue an order authorizing Peoples to revise its accounting methodology for gas in storage inventory for its Peoples Division from a LIFO methodology to the WACOG methodology. The Special Instructions to Accounts 117.1, 117.2 and 117.3 of the Uniform System of Accounts for Gas Utilities (adopted by the Commission pursuant to 52 Pa. Code § 59.42(a)) provides, in pertinent part,

Withdrawals of gas must be priced using the first-in-first-out, last-in-first-out, or weighted average cost method, provided the method adopted by the utility is used consistently from year to year and appropriate inventory records are maintained. Approval of the Commission must be obtained for any other pricing method or change in the pricing method adopted by the utility.

Since the Company seeks a change in accounting method, the Commission's approval must first be obtained. See 18 C.F.R Part 201, Special instructions to accounts 117.1, 117.2 and 117.3, and 52 Pa. Code § 59.42(a). For the reasons offered by the Company and summarized below, the Commission shall approve Peoples' change to its method of storage accounts for regulatory accounting purposes from LIFO to WACOG effective January 1, 2020.

Peoples avers that changing to the WACOG accounting method for inventory storage will reduce PGC volatility:

- the WACOG method will significantly enhance the Company's ability to forecast purchased gas costs and reduce associated PGC rate volatility
- reduced rate volatility will benefit both the Peoples and Peoples-Equitable Divisions because their PGC rates have been merged
- timing differences between the LIFO year ending December 31 and the Company's PGC year ending September 30, which exacerbates inaccurate forecasting of actual injection/withdrawal prices and costs for PGC purposes, will be eliminated

Peoples avers that changing to the WACOG accounting method for inventory storage will allow the Company to make more informed gas purchasing decisions impacting the PGC rate:

- under the LIFO method, final prices for storage injections and withdrawals are not known until the fiscal year is complete, after purchasing decisions have been made
- under the WACOG method, the price of gas withdrawn from storage is reasonably known and certain during the winter months when decisions to purchase gas in the market are made

Peoples avers that changing to the WACOG accounting method for inventory storage will promote administrative efficiencies:

- in an ongoing effort to integrate the operations of the Peoples and Peoples-Equitable Divisions, eliminating the LIFO method will permit the use of only one inventory accounting method for the Company
- consistency in procedures and operations between the Company's divisions reduces administrative costs, ultimately benefiting customers in lower prices

The Company's accounting transactions are recorded and reported in accordance with United States Generally Accepted Accounting Principles (US GAAP). The Company points out that efforts have been underway to align US GAAP and International Financial Reporting Standards (IFRS) amongst accounting standard-setting organizations. LIFO accounting is not a permitted method of valuing inventory for financial reporting purposes under IFRS; therefore, if the reporting standards of US GAAP are aligned to IFRS regarding LIFO inventory valuations, the Company will be required to change its stored gas inventory valuation method.

If approved, Peoples states that to accommodate the change in accounting method from LIFO to WACOG, the Peoples Division's current storage gas inventory will be repriced at the WACOG rate for Peoples-Equitale Division beginning January 1, 2020. This will result in a credit to gas storage costs. Peoples proposes to establish a WACOG bill credit, currently estimated at approximately \$13.6 million, to be flowed back to 1307(f) sales customers over the three-month period from January 1, 2020 through March 31, 2020.¹ The credit will offset the commodity component of the PGC Rider but will not affect the price to compare for shopping purposes.

The credit will be reconciled with interest for over/under collections of the actual refund amount through the PGC E-factor effective October 1, 2020. The immediate conversion credit effective January 1, 2020 will be estimated and when the amount is finalized, the actual January 1, 2020 immediate conversion credit will be used to calculate the over/under collections for reconciliation purposes. This will enable Peoples to begin refunding the credit on the effective date of the change despite not having the actual immediate conversion credit amount.

¹ Since PGC rates for the Peoples and Peoples-Equitale Divisions have been merged and Peoples-Equitale Division sales customers have been paying LIFO costs, the credit will apply to sales customers of both divisions.

Peoples requests that the Commission issue an order by April 30, 2019 so that the Company may reflect the change in accounting records effective January 1, 2020, and so that the accounting change will be consistent with projected amounts presented in its current rate case at Docket R-2018-3006818. A change in accounting method from LIFO to WACOG will affect rate base by increasing the claim for gas storage for the fully projected future test year. Peoples would like to time the proposed refund in its PGC with its pending rate case.

The Commission has previously approved petitions to revise accounting methodologies for gas in storage inventory from LIFO to WACOG. See *Petition of Central Penn UGI Gas, Inc. for an Order Authorizing the Company to Revise Its Accounting Methodology for Gas in Storage Inventory*, Docket No. P-2010-2171611 (Order entered September 23, 2010), and *Petition of Columbia Gas of Pennsylvania, Inc. for an Order Authorizing the Company to Revise Its Accounting Methodology for Gas in Inventory*, Docket No. P-2010-2209925 (Order entered March 31, 2011).

We remind the Company that its use of WACOG does not of itself constitute least cost purchasing. The Company's decisions to withdraw gas from inventory or to forego withdrawals and purchase spot gas are reviewable in Section 1307(f) proceedings regardless of the inventory accounting method utilized. **THEREFORE,**

IT IS ORDERED:

1. That Peoples Natural Gas Company LLC's Petition for authorization to revise its Peoples Division's accounting methodology for gas in storage inventory from a last-in/first-out methodology to the weighted average cost of gas methodology is granted.

2. That Peoples Natural Gas Company LLC's proposal to establish a WACOG bill credit to be flowed back to 1307(f) sales customers over the three-month

period from January 1, 2020 through March 31, 2020 to offset the commodity component of the PGC Rider is approved, in accordance with this Order.

3. That this approval is not an adjudication of the ratemaking impact of the change in accounting methodology.

4. That the Company shall maintain LIFO accounting for its gas in storage inventory for comparison purposes until the ratemaking impact of the change in accounting methodology is reviewed in the Company's pending base rate proceeding.

5. That a copy of this Order be served upon Peoples Natural Gas Company LLC, the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate.

BY THE COMMISSION



Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: April 25, 2019

ORDER ENTERED: April 25, 2019

**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: Holly Gilliland**

PNG to I&E-II-12 Please reference I&E Statement No. 5, p. 9, line 1 to p. 10, line 2. Please explain in detail how I&E witness Gilliland's recommendation to use the most recent 13-month average (as of February 2019) for the Gas Stored Underground takes into account the impact of Peoples Division's Commission-approved switch from last-in/first-out ("LIFO") methodology to the weighted average cost of gas ("WACOG") methodology as of January 1, 2020.

Response: It is I&E's understanding that the monthly balances of Gas Stored Underground reflect the conversion to ("WACOG") as described on People's Gas Statement No. 6, page 8, which were used to calculate the 13-month average. It is also I&E's understanding that the Company's response to I&E-RB-8 reflected the conversion to ("WACOG"). Therefore, I&E based its 13-month average recommendation upon the Commission-approved switch from last-in/first-out ("LIFO") methodology to the weighted average cost of gas ("WACOG") methodology as of January 1, 2020.