

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY
COMMISSION

v.

PEOPLES NATURAL GAS COMPANY LLC

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Docket No. R-2018-3006818

**PREPARED REBUTTAL TESTIMONY OF
JOHN J. SPANOS**

DATE SERVED: May 28, 2019
DATE ADMITTED: _____

Peoples Natural Gas Statement No. 10-R

1 Q. Please state your name and address.

2 A. John J. Spanos. My business address is 207 Senate Avenue, Camp Hill,
3 Pennsylvania.

4 Q. Are you the same John J. Spanos who previously provided testimony in this
5 proceeding?

6 A. Yes. My direct testimony was filed as Peoples Statement No. 10.

7 Q. What is the purpose of your rebuttal testimony?

8 A. The purpose of this testimony is to address and rebut the depreciation expense
9 adjustments set forth by Office of Consumer Advocate ("OCA") witness Dante
10 Mugrace. Mr. Mugrace's position includes adjustments to plant in service
11 amounts, accumulated depreciation balances and depreciation expense for the
12 fully projected future test year ("FPFTY"). Mr. Mugrace utilizes average plant
13 balances to the fully projected future test year. I will primarily address his
14 proposals as they relate to depreciation expense, although I will also briefly
15 discuss a recent ALJ recommended decision and Commission final order as they
16 relate to the issue of end-of-year versus average rate base and depreciation
17 expense for the FPFTY.

18 Q. What is the basis for OCA's adjustments to depreciation expense?

19 A. Mr. Mugrace's adjustments for depreciation expense are the result of his proposal
20 to use average balances to determine rate base for FPFTY. This contrasts with
21 the approach I have used to develop plant in service, accumulated depreciation
22 and depreciation expense as of the end of the future test year as of October 31,
23 2020.

1 Q. Has witness Mugrace recommended adjustments to the plant in service as of
2 September 30, 2019 and October 31, 2020?

3 A. No. Mr. Mugrace does not challenge the additions, retirements or test year-end
4 plant balances.

5 Q. Has witness Mugrace recommended adjustments to the accumulated depreciation
6 balances as of September 30, 2019 and October 31, 2020?

7 A. No. Witness Mugrace agrees with the development of the test year-end
8 accumulated depreciation balances.

9 Q. Are the methods and procedures that you employed for developing the plant
10 balance and accumulated depreciation balance in the Depreciation Studies
11 consistent with Pennsylvania practices?

12 A. Yes. The development of the plant in service and accumulated depreciation
13 levels are based on standard practices within Pennsylvania.

14 Q. Is the methodology you describe consistent with the process set forth in the
15 Depreciation Studies?

16 A. Yes.

17 Q. Has this process been consistently approved before this Commission?

18 A. Yes. The calculations and determinations of all depreciation parameters in the
19 Depreciation Studies are consistent with past practices for Peoples Natural Gas
20 Company, LLC ("Peoples") and all other Pennsylvania utilities.

21 Q. Can you detail witness Mugrace's adjustment to rate base, plant in service,
22 accumulated depreciation and depreciation expense for the fully projected future
23 test year?

1 A. Yes. Witness Mgrace has oversimplified the entire development of the
2 depreciation components. He has taken an average plant in service, depreciation
3 expense, amortization of net salvage, and accumulated depreciation for the 13-
4 month period between September 30, 2019 and October 31, 2020. A simple
5 average of a 13-month period of each of these components inappropriately
6 computes annual depreciation rates and how the development of accumulated
7 depreciation is established through depreciation theory.

8 Q. Is the calculation of depreciation rates and expense for future test years a simple
9 average as witness Mgrace has proposed?

10 A. No, it is not. First, the book reserve is brought forward based on many
11 calculations to annualize the depreciation accruals, retirements, amortization of
12 net salvage, cost of removal, gross salvage, acquisitions and adjustments. The
13 annualized depreciation accruals are determined by calculating the average plant
14 balance for the test year by the depreciation rates for each individual account.
15 The amortization of net salvage is determined based on the incurred cost of
16 removal and gross salvage for the five years prior. The projected retirements,
17 cost of removal and gross salvage are determined on a yearly basis in order to
18 properly establish an end of test year book reserve. This is critical in order to
19 properly annualize the book reserve in a consistent manner to the plant balance.
20 This removes the over or under recovery concerns for new vintages within the
21 year. Once the future test year (September 30, 2019) is determined, the same
22 process must occur for the fully projected future test year (October 31, 2020).
23 Consequently, each account's depreciation rate and expense needs to be
24 calculated on the vintage plant balance and book reserve as of the same date.

1 Q. Can you summarize the adjustments made by witness Mgrace?

2 A. Yes. Witness Mgrace attempts to reduce rate base by establishing an average
3 fully projected future test year balance which is an over simplification of the
4 developed plant in service and accumulated depreciation balances. His
5 methodology ignores the approved standard practices for developing future test
6 year rate base as well as inappropriately develops accumulated depreciation
7 components by mixing factors of different time periods to achieve his desired
8 amounts. His inappropriate calculations should not be used in developing rate
9 base for the fully projected future test year.

10 Q. In his discussion of the issue of average rate base, does Mr. Mgrace cite to any
11 previously filed Pennsylvania rate cases?

12 A. No. Mr. Mgrace does not cite to any other cases in Pennsylvania. Most cases
13 were resolved through settlement, so no Commission order had been issued to
14 address the average rate base methodology. However, the most recent case
15 there was an order, Docket No. R-2017-2640058 for UGI Utilities, Inc. – Electric
16 Division (“UGI Electric”), the ALJs have issued a recommended decision that
17 ruled in favor of the utility’s approach of using year-end balances as opposed to
18 an average rate base for the FPFTY.

19 Q. Please explain.

20 A. In the UGI case, I&E and OCA raised the average rate base issue as they had in
21 prior cases. In that case, UGI Electric proposed to use year-end FPFTY balances
22 for determining rate base and depreciation expense, just as Peoples Natural Gas
23 Company, LLC has done in the instant proceeding. OCA proposed to use average

1 FPFTY balances, as they have done in the instant proceeding. In the
2 recommended decision in the UGI Electric case, the ALJs stated:

3 We find in favor of UGI Electric on this issue. We find that the plain
4 language and policy of Act 11 supports UGI Electric's position.
5 Historically, a fundamental principle of utility regulation is that a public
6 utility should be permitted to include projects in rate base and earn a
7 reasonable return on its investments after they became "used and
8 useful" for the utility's public service. However, Act 11 fundamentally
9 altered ratemaking in Pennsylvania by adopting the FPFTY to reduce
10 the risks associated with regulatory lag. As noted by the Commission,
11 under the FPFTY approach, "the risks associated with regulatory lag
12 will be substantially reduced because the new rates will be consistent
13 with the test year used to establish those rates for at least the first
14 year." (See, *Implementation Order*, comments under "Chapter 3 -
15 General Provisions").

16 Q. Did the Commission agree with the ALJ recommended decision?

17 A. Yes. As stated on page 76, Opinion and Order, R-2017-2640018:

18 "For the reasons set forth in our disposition of the issue pertaining to
19 End of Year vs. Average Rate Base Methodology, supra, we find that
20 the ALJ's properly permitted UGI to use end-of-year methodology in
21 its FPFTY. Accordingly, we shall deny the Exceptions of I&E and the
22 OCA on this issue and adopt UGI's annual depreciation expense for
23 the FTY in the amount of \$4,265,854 and for the Rebuttal FPFTY in
24 the amount of \$5,333,752."

25 Q. Does this conclude your direct testimony?

26 A. Yes, it does.