

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

---

**PREPARED REBUTTAL TESTIMONY OF  
RUSSELL A. FEINGOLD,  
VICE PRESIDENT  
BLACK & VEATCH MANAGEMENT CONSULTING, LLC**

---

DATE SERVED: May 28, 2019  
DATE ADMITTED: \_\_\_\_\_

Peoples Statement No. 11-R

**PREPARED REBUTTAL TESTIMONY  
OF RUSSELL A. FEINGOLD**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Russell A. Feingold and my business address is 2525 Lindenwood Drive,  
3 Wexford, Pennsylvania 15090.

4

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

6 A. I am employed by Black & Veatch Management Consulting, LLC (“Black & Veatch”) as  
7 a Vice President and I lead its Rates & Regulatory Services Practice.

8

9 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY BEFORE THE**  
10 **PENNSYLVANIA PUBLIC UTILITY COMMISSION (THE “COMMISSION”) IN**  
11 **THIS PROCEEDING?**

12 A. Yes. I previously submitted direct testimony in this proceeding on behalf of Peoples Natural  
13 Gas Company LLC (“Peoples” or the “Company”) to present and address its filed cost of  
14 service studies (“COSS”), proposed class revenues and rate design (Peoples Statement No.  
15 11).

16

17 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
18 **PROCEEDING?**

19 A. The purpose of my rebuttal testimony is to respond to the direct testimony of the  
20 Commission’s Bureau of Investigation and Enforcement (“I&E”), the Pennsylvania Office of  
21 Consumer Advocate (“OCA”), the Pennsylvania Office of Small Business Advocate

1 (“OSBA”), the Peoples Industrial Intervenors (PII”), Snyder Brothers, Inc. (“SBI”), the  
2 Coalition For Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-  
3 PA”) and the Community Action Association of Pennsylvania (“CAAP”) related to the  
4 Company’s COSS, associated customer cost analyses, class revenue and rate design proposals.  
5 I will specifically respond to the claims made in the direct testimonies of I&E witness Ethan  
6 H. Cline, OCA witnesses Glenn A. Watkins and Roger D. Colton, OSBA witness Brian  
7 Kalcic, PII witnesses James L. Crist and Thomas Anderson, SBI witness Diane Meyer  
8 Burgraff, CAUSE-PA witness Harry Geller and CAAP witness Susan A. Moore related to the  
9 manner in which the Company’s COSS and associated customer cost analyses should be  
10 conducted, the apportionment of the Company’s proposed revenue increase by rate class, and  
11 the derivation and related customer impacts of the Company’s proposed rates.

12  
13 **Q. HOW HAVE YOU ORGANIZED YOUR REBUTTAL TESTIMONY TO ADDRESS**  
14 **THESE ISSUES?**

15 A. My rebuttal testimony is organized according to the following sections to address each of the  
16 cost of service, class revenue and rate design related issues raised by the intervenors:

- 17 • Cost of Service Studies (“COSS”)
- 18 • Minimum Customer Cost Analysis
- 19 • Class Revenue Apportionment
- 20 • Residential Rate Design
- 21 • Small General Service (“SGS”) and Medium General Service (“MGS”) Rate Design
- 22 • Large General Service (“LGS”) Rate Design
- 23 • Appalachian Gathering Service (Rate AGS)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

**CONCLUSIONS AND RECOMMENDATIONS**

**Q. CAN YOU PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS RELATED TO THESE PARTIES' PRESENTATIONS?**

A. Yes. Based on my review of the points and underlying support provided by the above-named witnesses, I have reached the following conclusions and recommendations:

1. I have considered certain of the minor adjustments to the Company's COSS recommended by Mr. Watkins and agree that those adjustments are warranted. However, I have not made any changes to the Company's originally filed COSS since the changes would yield very similar class rates of return<sup>1</sup> and I used the COSS results only as a guide to establish the Company's proposed class revenues and rates in this proceeding.
2. I continue to believe that it is appropriate to use a design day demand allocation method and to recognize a customer cost component of distribution mains in the Company's COSS for purposes of determining the embedded costs of providing gas utility services to its customers.
3. On that basis, I recommend that the Commission use in its evaluation of Peoples' class revenues the range of results derived from the Company's two COSS filed in this proceeding and approve the class revenue apportionment proposed by the Company.
4. While the regulatory precedents established in the past by the Commission appear to indicate it prefers the use of a peak and average demand allocation method in the COSS conducted for gas distribution utilities, the Commission has consistently

---

<sup>1</sup> See the Direct Testimony of Glenn A. Watkins, page 17 (Table 4).

1           accepted a peak demand allocation method<sup>2</sup> in the COSS conducted for electric  
2           distribution utilities. The cost causative factors which support the Commission’s  
3           acceptance of a purely demand-based allocation method for electric distribution  
4           utilities are very similar to the cost causative factors that can support the  
5           Commission’s acceptance of a design day demand allocation method for gas  
6           distribution utilities.

7           5. While the regulatory precedents established in the past by the Commission appear to  
8           indicate it does not recognize a customer cost component of distribution mains in the  
9           COSS conducted for gas distribution utilities, the Commission has consistently  
10          recognized a customer cost component of distribution-related facilities (e.g., overhead  
11          and underground lines) in the COSS conducted for electric distribution utilities.  
12          Since distribution mains for a gas utility and overhead/underground lines for an  
13          electric utility are functionally equivalent, it follows that the cost causative factors  
14          recognized by the Commission supporting a demand and customer classification and  
15          allocation basis for electric overhead/underground lines are the same cost causative  
16          factors that should be recognized for gas distribution mains.

17          6. I disagree with Mr. Watkins’ recommendation to allocate both low pressure and  
18          regulated pressure mains on a systemwide basis to all rate classes because it does not  
19          reflect the fact that larger customers served in the LGS rate class are not, and cannot  
20          be, served from the Company’s low pressure distribution mains.

21          7. I disagree with the recommendation of Messrs. Cline and Watkins that it is necessary  
22          for the Company’s COSS to be restructured to separate the negotiated rate customers

---

<sup>2</sup> For example, the Non-Coincident Peak Demand (“NCP”) demand allocation method has been used frequently by the electric distribution utilities in Pennsylvania to allocate their distribution-related costs.

1 (i.e., the SGS, MGS and LGS customers) into their own rate classes to be able to  
2 reasonably determine the cost of serving the standard rate customers in the SGS,  
3 MGS and LGS rate classes.

4 8. The contention made by Mrs. Meyer-Burgraff that local gas producers should not be  
5 responsible for any portion of the non-gas costs of Peoples' gathering system should  
6 be rejected because it fails to recognize the cost causative characteristics of the  
7 Company's gas gathering system and is contrary to the recent conclusion reached by  
8 the Commission that, "[a]s beneficiaries of the gathering system, we believe it is fair  
9 and in the public interest that the producers also contribute to the costs associated  
10 with the Company's gathering system. The record in this proceeding is clear that the  
11 gathering system often provides the only way that producers can move their gas to  
12 market."<sup>3</sup>

13 9. The criticisms raised by Mr. Watkins concerning the Company's minimum customer  
14 cost analysis should be rejected because they ignore the precedent of the Commission  
15 on the issue of deriving a cost basis for evaluating a utility's monthly customer charge  
16 and his recommended costing approach fails to reflect all of the relevant customer-  
17 related costs that should be recoverable in the Company's monthly customer charges.

18 10. The changes recommended by Messrs. Cline, Watkins and Crist to the Company's  
19 proposed class revenue apportionment should be rejected because they fail to  
20 recognize the true costs of serving the Company's customers and do not account for  
21 the inability of certain rate classes to absorb additional revenue increases due to the  
22 existence of competitively situated customers in these rate classes.

---

<sup>3</sup> Pennsylvania Public Utility Commission, R-2018-2645278, Peoples Natural Gas Company LLC, Final Order, pp. 53-54.

1 11. The recommendations made by Mr. Kalcic to modify the Company’s proposed rate  
2 design for its SGS and MGS rate classes should be rejected because the changes  
3 proposed by the Company are reasonable and fairly balance the levels of the  
4 customer-related costs to serve these customers, the desire to achieve meaningful  
5 progress toward rate parity between the rates of the Company’s Peoples and Equitable  
6 Divisions and the ratemaking concept of gradualism.

7 12. The recommendations made by Mr. Crist to modify the Company’s proposed rate  
8 design for its LGS rate class should be rejected because his claims in support of his  
9 recommendations are shortsighted and misleading since they primarily address rate  
10 design for customers in the Peoples Division and ignore rate design for customers in  
11 the Equitable Division and the overall changes in revenues and rates for LGS  
12 customers proposed by the Company.

13 13. The claims made by Messrs. Colton and Geller and Ms. Moore that the Company’s  
14 proposed monthly customer charge for its residential customers will impact  
15 customers’ ability to conserve natural gas are incorrect and should be ignored by the  
16 Commission because they are based on faulty economics and an overreaching view of  
17 how consumers will respond to any price signals they receive from changes in the  
18 structure and level of Peoples’ residential gas rates.

19  
20 **ISSUES RELATED TO PEOPLES’ COSS**

21 **Q. CAN YOU PLEASE SUMMARIZE THE POSITIONS OF THE INTERVENORS ON**  
22 **THE USE OF THE COMPANY’S PROPOSED COSS FOR CLASS REVENUE AND**  
23 **RATE DESIGN PURPOSES?**

1 A. Yes. The positions of the intervenors on the COSS issue are as follows:

2 • I&E – Witness Cline recommends that the Commission rely upon one of the Company’s  
3 filed COSS which uses the peak and average demand allocation method without a  
4 customer cost component of distribution mains for class revenue apportionment and rate  
5 design purposes.

6 • OCA – Witness Watkins recommends that the Commission not use either the Company’s  
7 COSS or the one he has conducted based on the peak and average demand allocation  
8 method without a customer cost component of distribution mains because he believes these  
9 COSS provide very little meaningful insight into the relative class profitability or class  
10 revenue responsibility due to a certain deficiency he claims exists in each COSS.

11 • PII – Witness Crist recommends the Commission rely upon the Company’s preferred  
12 COSS which uses the design day demand allocation method with a customer cost  
13 component of distribution mains for class revenue and rate design purposes.

14 • SBI – Witness Meyer Burgraff recommends that local gas producers not be allocated any  
15 portion of the plant and expenses of Peoples’ gas gathering system and claims that the  
16 treatment of the services and revenues of local gas producers in the Company’s COSS in  
17 this proceeding is not consistent with the way these components were treated in the COSS  
18 submitted in past Peoples and Equitable rate cases.

19 The other parties in this proceeding do not specifically address either the costing methods or  
20 cost allocation factors used by the Company in its COSS.

21  
22 **Q. PLEASE COMMENT ON THE CHOICE OF COSS RECOMMENDED BY THESE**  
23 **PARTIES.**



1 A. I disagree with and will respond to each of the criticisms raised by I&E and the OCA related  
2 to the Company's preferred COSS and address why the cost allocation methods recommended  
3 by these parties are inappropriate and not reflective of the costs to serve Peoples' customers. I  
4 will also separately respond to the claim made by SBI regarding the treatment of the services  
5 and revenues of local gas producers in the Company's COSS filed in this proceeding  
6 compared to the way they were treated in its past rate cases.

7 I continue to believe there is significant value in the Commission utilizing the  
8 Company's preferred COSS in this proceeding to properly estimate the level of customer-  
9 related costs incurred by the Company so that their cost causative characteristics can be  
10 properly captured in the class revenues and rates established for the Company.

11  
12 **Q. WHY ARE YOU RESPONDING TO MR. WATKINS' CRITICISM OF THE**  
13 **COMPANY'S PREFERRED COSS IF HE IS RECOMMENDING THAT NONE OF**  
14 **THE COSS PRESENTED IN THIS PROCEEDING BE UTILIZED BY THE**  
15 **COMMISSION?**

16 A. I do not agree with Mr. Watkins' recommendation to reject each of the COSS presented in this  
17 proceeding for class revenue apportionment purposes as I will explain later in my rebuttal  
18 testimony. Therefore, I believe it is necessary and appropriate for me to respond to each of his  
19 criticisms of the Company's preferred COSS which include Mr. Watkins' rejection of a design  
20 day demand allocation method and a customer cost component of distribution mains.

21

1 **Q. AS A BACKDROP FOR YOUR DISCUSSION OF THE SPECIFIC COSS ISSUES**  
2 **YOU WILL ADDRESS, CAN THE RESULTS OF A UTILITY’S COSS BE**  
3 **IMPACTED BY WHICH COST ALLOCATION FACTORS ARE USED?**

4 A. Yes. Different cost allocation factors can result in different COSS results. It is important to  
5 note that the different results may be considered more favorable by different interested parties.  
6 As a result, there is a potential bias that may exist if an interested party advocates for a specific  
7 COSS or cost allocation factor. The degree of objectivity and operational grounding required  
8 to properly conduct a utility’s COSS can be compromised if the primary objective is to  
9 achieve a certain outcome by a particular party. This natural bias is to be expected when it is  
10 recognized that the COSS results typically are directly relied upon to guide the particular  
11 party’s determination of how the utility’s proposed increase in revenues is assigned to its  
12 various classes of service, and in turn, its determination of the level of proposed rates. Because  
13 the various parties to a utility’s rate case have strong interests to minimize costs allocated to  
14 different rate classes, there will likely be multiple demand cost allocation methods presented  
15 in any one rate case proceeding, as is the case in this proceeding.

16  
17 **Q. IN YOUR EXPERIENCE, DO INTERVENORS OFTEN PROPOSE COSS**  
18 **METHODOLOGIES WHICH BENEFIT THE CLASS THAT THEY REPRESENT?**

19 A. Yes. This happens in most rate case proceedings since, within any one rate class, a shift  
20 between using one type of cost allocation factor over another can impact the utility’s COSS  
21 results. For example, in a gas utility’s residential rate class, to the extent there is less reliance  
22 placed on a peak day allocation factor and more placed on an annual volume-based allocation  
23 factor (e.g., the peak and average method), this rate class will experience a decrease in its total

1 cost of service. The converse is true for the larger volume commercial and industrial rate  
2 classes. It is no surprise then to see intervenors that represent residential classes proposing a  
3 COSS methodology that has a higher total cost of service for commercial and industrial  
4 classes and a lower total cost of service for residential classes. The ability of any one  
5 intervenor to affect the end result through the cost allocation process is present.

6  
7 **Q. DOES A GAS UTILITY SUCH AS PEOPLES HAVE AN INHERENT BIAS WHEN**  
8 **CONDUCTING ITS COSS?**

9 A. No. However, I do recognize that some parties have raised this type of issue in past utility  
10 regulatory proceedings in which I have participated. The Company has a fundamental  
11 obligation and an operational responsibility to serve all customers and to charge rates for gas  
12 service that are just and reasonable. To fulfill this requirement, the Company must be able to  
13 quantify the costs to serve all of its customers, not just one particular rate class or customer  
14 group, in terms of both the nature and level of the costs. As I described in my direct testimony,  
15 the Company must balance a number of important considerations when determining how its  
16 total revenue requirement should be recovered from its customers through rates so that no  
17 single rate class or customer group receives an overly favorable outcome. Since it is widely  
18 recognized that the cost of providing utility service is the most quantitative measure to  
19 consider in setting a utility's class revenues and rates, it is imperative that the Company  
20 determine the cost basis for rates in its COSS in an objective and unbiased manner.

21  
22 **Q. IN YOUR OPINION, IS IT EVER APPROPRIATE TO DEVIATE FROM THE**  
23 **UTILITY'S COSS RESULTS?**

1 A. Yes. At the same time, though, it is critically important that the COSS stand on its own  
2 objective merits. The operational and engineering underpinnings of the utility’s gas system  
3 should be the primary determinants in guiding the cost analyst’s choice of cost allocation  
4 methods and the derivation of cost allocation factors. However, if a party decides to deviate  
5 from the results contained in the utility’s COSS for purposes of assigning the utility’s  
6 proposed revenue increase to its classes of service or setting rate levels, this should be done on  
7 the basis of non-cost considerations – and characterized as such. It should not be done by first  
8 “adjusting” the COSS to achieve a desired end result, and then attempting to characterize the  
9 COSS as “being based on cost causative principles.” Very simply, a utility’s COSS drives its  
10 rate design, and rate design should never drive the COSS.

11 While cost of service is an important guide in the setting of a utility’s class revenues  
12 and rates, regulators can and do rely upon non-cost considerations in making those  
13 determinations. If this Commission determines that it is appropriate to deviate from the results  
14 derived from the Company’s COSS for purposes of assigning the utility’s proposed revenue  
15 increase to its classes of service and/or setting rate levels, it is entirely appropriate that such a  
16 determination be made on the basis of non-cost considerations (e.g., gradualism, fairness) –  
17 and characterized as such. In my judgment, this approach is greatly preferred over one that  
18 attempts to find a COSS (or a series of COSS) which provide results closely matching the  
19 desired class revenue and rate design outcomes of a particular party, but with a COSS that  
20 fails to reflect the utility’s true cost of service.

21 The Company’s class revenue and rate design proposals presented in this proceeding  
22 are based upon a balancing of cost of service and non-cost considerations. And while such an  
23 approach does not require a singular reliance on the Company’s COSS results, it should not

1 relieve the Company's responsibility to present a COSS that properly reflects the true cost  
2 causative characteristics of its customers.

3  
4 **Q. PLEASE SUMMARIZE WHY MESSRS. WATKINS AND CLINE PREFER A COSS**  
5 **USING THE PEAK AND AVERAGE DEMAND ALLOCATION METHOD**  
6 **WITHOUT A CUSTOMER COMPONENT OF DISTRIBUTION MAINS.**

7 A. At page 8 of his direct testimony, Mr. Watkins states, "[t]he Peak and Average approach is the  
8 most fair and equitable method to assign natural gas distribution Mains to the various  
9 customer classes. This method recognizes each class's utilization of the Company's facilities  
10 throughout the year yet also recognizes that some classes rely upon the Company's facilities  
11 (Mains) more than others during peak periods." At page 14 of his direct testimony, Mr. Cline  
12 claims that cost causation with respect to demand-related costs is related to average demand  
13 characteristics because, "[t]he average demand represents the fact that customers are not only  
14 served during their peak times and that gas must be available at all times."

15  
16 **Q. DO YOU AGREE WITH THESE STATEMENTS OF MESSRS. WATKINS AND**  
17 **CLINE?**

18 A. Absolutely not, for the reasons I provide below. At the outset, I would point out that Mr.  
19 Watkins' statement is very telling in the sense that it suggests "fairness and equity" are more  
20 important objectives to achieve in conducting a COSS compared to reflecting cost causation  
21 principles in the methods used to allocate the utility's total cost of service to each of its rate  
22 classes. As I stressed earlier, measures of "fairness and equity" are more appropriately

1 characterized as non-cost considerations and applied in the class revenue apportionment and  
2 rate design steps of the utility ratemaking process.

3  
4 **Q. WHY DO SOME COST ANALYSTS RELY SOLELY ON A DEMAND COST**  
5 **ALLOCATION METHOD THAT INCLUDES A VOLUMETRIC OR**  
6 **COMMODITY-BASED ALLOCATION FACTOR AS MESSRS. WATKINS AND**  
7 **CLINE HAVE DONE IN THIS PROCEEDING?**

8 A. The use of a commodity-based allocation factor (such as the peak and average method)  
9 assigns more cost to higher load factor customers and less cost to lower load factor  
10 customers. On most gas distribution systems, the practical result of such an allocation is  
11 to reduce costs for residential customers and increase costs for industrial or large volume  
12 customers. The rationale for using a commodity-based allocation factor is usually  
13 discussed by cost analysts supporting such a method by arguing that the gas distribution  
14 system would not be built if it were not for customers' commodity consumption. Their  
15 argument relies upon the concept I characterize as the "commodity delivery function."  
16 The concept of a "commodity delivery function" relates to the notion that a gas  
17 distribution utility delivers a gas commodity through its distribution system. In other  
18 words, these cost analysts view the "commodity delivery function" as the reason for the  
19 existence of gas distribution utilities, and it is the reason why those facilities were  
20 originally installed. While it is obvious that all customers utilize the utility's gas  
21 distribution system to receive delivery service throughout the year, that fact provides  
22 little, if any, insight into the manner in which the utility actually incurs costs to provide  
23 such service.

1           In reality, customers value the availability of the design day capacity when it is  
2 needed and are willing to pay for that capacity because of the importance of service  
3 reliability under design day conditions. Once capacity is available to serve the design  
4 day, commodity use during all other days of the year has no impact at all on a utility's  
5 delivery system costs. Simply stated, annual usage does not cause any delivery system  
6 costs to be incurred by the utility. The installation of additional distribution mains (i.e.,  
7 main extensions) to move gas from the existing system to new customers is more  
8 correctly thought of as being customer-related. For larger customers, the unit cost is  
9 lower than for smaller customers simply because they require either larger diameter or  
10 higher pressure mains to serve their higher design day demands – and those mains have  
11 lower unit costs due to the economies of scale inherent in a utility's gas distribution  
12 system.

13  
14 **Q. IF THE UNIT COST OF DISTRIBUTION MAINS CAPACITY IS LOWER FOR**  
15 **CLASSES COMPOSED OF LARGER CUSTOMERS, WHAT DOES THIS**  
16 **SUGGEST ABOUT ANY COMMODITY-BASED ALLOCATION METHOD**  
17 **USED TO ASSIGN THESE FIXED COSTS TO A UTILITY'S CLASSES OF**  
18 **SERVICE?**

19 A. Any commodity-based allocation method will assign higher total costs to larger  
20 customers based on the use of commodity when system unit costs are either the same or  
21 less for these higher commodity users. This allocation violates the fundamental principle  
22 of cost causation because these larger customers cause the same or less unit cost to be  
23 incurred by the utility.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

**Q. WHAT ARE THE RESULTS OF USING THIS METHOD FOR COST ALLOCATION PURPOSES?**

A. As the cost analyst relies more heavily on the concept of a “commodity delivery function” to establish a cost allocation method for distribution mains, the resulting cost allocation factor based on a greater weighting of commodity volumes would quickly cause a result where the unit cost to serve each customer class would be identical. This would occur because the customers’ use of the utility’s gas distribution system, as measured by annual volume, would create a cost allocation factor that simply assigns costs to the utility’s classes of service on a pro-rata basis without regard for either economies of scale or customers’ annual load factors.

**Q. DOES THE COSS PREPARED BY MR. WATKINS AND THE COSS PREFERRED BY MR. CLINE ASSIGN MORE COSTS THAN APPROPRIATE TO THE COMPANY’S HIGHER LOAD FACTOR CUSTOMERS AND LESS COSTS TO ITS LOWER LOAD FACTOR CUSTOMERS?**

A. Yes. As I will discuss later in my rebuttal testimony, the allocation of distribution mains using a peak and average demand allocation method without a customer component of distribution mains as the sole basis for cost allocation, as preferred by Messrs. Watkins and Cline, results in a misallocation of costs to the Company’s classes of service in the manner I just described.



1 **Q. DO YOU AGREE WITH MESSRS. WATKINS AND CLINE THAT ANNUAL**  
2 **THROUGHPUT IS A REASONABLE BASIS FOR ASSIGNING COSTS TO A GAS**  
3 **UTILITY’S CUSTOMERS?**

4 A. Absolutely not. In my opinion, there is no cost causative basis for using annual throughput to  
5 allocate the costs of a gas utility such as Peoples to its classes of service. A simple example  
6 will illustrate the fundamental flaw in the logic relied upon by Messrs. Watkins and Cline.  
7 Consider two customers that impose the same design day demand on the gas utility’s  
8 distribution system, but have different annual load factors. To serve the identical demand or  
9 capacity requirements of these customers, the gas utility must provide sufficient distribution  
10 mains capacity for each based on the design characteristics of their loads. Therefore, the  
11 demand-related costs are the same to serve these two customers because their design day  
12 demands are the same. However, each customer would be allocated a different level of costs  
13 if an annual throughput allocation factor was used. This occurs because the customer with the  
14 higher load factor (and higher annual usage) would receive a greater proportionate share of  
15 costs relative to the customer with the lower load factor (and lower annual usage). In effect,  
16 the customer with a high load factor, who is using Peoples’ gas system most efficiently, is  
17 penalized for his efficiency.

18  
19 **Q. DO YOU AGREE WITH MR. WATKINS’ CONTENTION AT PAGE 11 OF HIS**  
20 **DIRECT TESTIMONY THAT IT WOULD BE UNREASONABLE TO**  
21 **ALLOCATE A PORTION OF DISTRIBUTION MAINS INVESTMENT SOLELY**  
22 **ON DESIGN DAY DEMANDS AS THE COMPANY HAS DONE IN ITS DESIGN**  
23 **DAY COSS?**

1 A. No. Design day demands are most reflective of the design characteristics that cause a gas  
2 distribution utility like Peoples to incur distribution mains costs. The decision by a gas  
3 utility such as Peoples to install distribution system facilities, which drives the costs the  
4 utility incurs to serve its customers during all times of the year, is determined by the  
5 demand requirements of the utility's customers that it must be ready and able to serve on  
6 a design day, and not by the service received by its customers during all other times of  
7 the year.

8

9 **Q. AT PAGE 11 OF HIS DIRECT TESTIMONY, MR. WATKINS CONTENDS**  
10 **THAT PEOPLES' MAIN EXTENSION POLICY IS CONSISTENT WITH THE**  
11 **NOTION THAT CUSTOMERS UTILIZE NATURAL GAS THROUGHOUT THE**  
12 **YEAR AND NOT JUST ON A SINGLE DAY, WHICH JUSTIFIES THE**  
13 **ALLOCATION OF A PORTION OF DISTRIBUTION MAINS ON AN AVERAGE**  
14 **DEMAND BASIS. DO YOU AGREE WITH HIS CONTENTION?**

15 A. No. The Company's main extension policy simply takes into account the costs to serve  
16 particular customers. The construction cost estimates associated with connecting a new  
17 customer to the Company's gas distribution system are an integral part of the calculations  
18 associated with its main extension policy. These cost estimates are always based upon  
19 the capacity level necessary to meet each customer's peak hour demands. An excellent  
20 proxy for the peak hour demands used in distribution cost estimating is the customer's  
21 design day demand. At the same time, that construction cost estimate for each customer  
22 will be premised upon how far the customer is located from the Company's existing  
23 distribution grid and the demands expected to be imposed on the system by the customer.

1 Again, the recognition of a customer component of distribution mains simply captures the  
2 cost causation aspect of these construction characteristics.

3  
4 **Q. WHAT CAN YOU INFER FROM MR. WATKINS' STATEMENT CONCERNING**  
5 **THE COMPANY'S MAIN EXTENSION POLICY AS IT RELATES TO THE BASIS**  
6 **FOR THE ALLOCATION OF DEMAND-RELATED COSTS?**

7 A. In my opinion, Mr. Watkins is suggesting that because the operation of a gas utility's main  
8 extension policy requires annual revenues from a customer to economically justify the utility's  
9 distribution main extensions, the use of a demand allocation method that relies upon annual  
10 volumes (i.e., average daily demands) is entirely appropriate. I disagree with his logic because  
11 it is circular in nature.

12 There is no denying that the Company's main extension policy is based on customer  
13 revenues. A large portion of those revenues are volumetric, especially in the residential class,  
14 because monthly customer charges are low relative to the customer's annual gas bill and  
15 because demand charges are non-existent in this class. On that basis, I believe Mr. Watkins is  
16 suggesting that the cost basis for distribution mains is more volumetric in nature.

17 To break this circular logic, one must recognize the actual components of costs, and  
18 not the cost recovery mechanisms that have evolved without reference to cost. The circular  
19 reasoning of Mr. Watkins is demonstrated as follows. If the Commission were to establish  
20 and approve monthly customer charges and demand charges for all rate classes which were  
21 fully cost compensatory, then the nature of the Company's revenues reflected in its main  
22 extension policy would change. Mr. Watkins' support for commodity-related cost treatment,  
23 using the Company's main extension policy as justification, would quickly disappear.

1           Unfortunately, Mr. Watkins has fallen into the trap of attempting to justify *cost causation*  
2           based on the Company’ existing *cost recovery* mechanisms.

3  
4   **Q.    AT PAGE 14 OF HIS DIRECT TESTIMONY, MR CLINE PROVIDES A SIMPLE**  
5    **EXAMPLE WHICH HE CONTENDS SUPPORTS THE CONCLUSION THAT**  
6    **“THE NUMBER OF CUSTOMERS HAS NO BEARING ON THE SIZE OR COST**  
7    **OF THE MAIN IN HIS EXAMPLE.” DO YOU AGREE WITH THE**  
8    **APPROPRIATENESS OF MR. CLINE’S EXAMPLE?**

9    A.    No. Mr. Cline’s example is flawed since it does not reflect the reality of how a gas  
10    distribution utility such as Peoples designs and constructs its gas system to serve  
11    customers throughout its service area. Very simply, Mr. Cline only recognizes one factor  
12    in determining the material and installation costs of a gas distribution main – the size or  
13    capacity of the main. In his example, it is true that the size of the main would not change  
14    if it served ten residential customers each using 1 Dth, four residential customers and one  
15    small business each using 2 Dth, or one larger business using 10 Dth. However, Mr.  
16    Cline has ignored the length (or footage) of main required to connect each of these  
17    different customer configurations to the gas utility’s distribution system – which is the  
18    second factor determining the cost of a gas distribution main.

19           In his example, if we make the reasonable assumption that each of these  
20    customers are located equidistant from one another, the ten residential customers would  
21    require the most footage of main to extend the gas utility’s distribution system to reach  
22    each customer while the one larger business would require the least footage of mains to  
23    be connected to the gas distribution system. On that basis, the size and footage of

1 distribution mains *both* affect the costs incurred to serve customers which is why *both* a  
2 demand and customer allocation basis is the most appropriate method to classify and  
3 allocate mains in a gas utility's COSS.  
4

5 **Q. AT PAGE 17 OF HIS DIRECT TESTIMONY, MR. CLINE CONTENDS THAT**  
6 **THERE SHOULD NOT BE A CUSTOMER COMPONENT OF DISTRIBUTION**  
7 **MAINS BECAUSE “THE QUANTITY AND INVESTMENT IN DISTRIBUTION**  
8 **MAINS DOES NOT CHANGE SIGNIFICANTLY IF ONE CUSTOMER JOINS**  
9 **OR LEAVES THE SYSTEM.” HE FURTHER CONTENDS, “MAINS ARE**  
10 **BUILT TO DELIVER GAS, AND THE COST OF MAINS CANNOT BE**  
11 **ASSIGNED TO ONE SPECIFIC CUSTOMER.” HOW DO YOU RESPOND TO**  
12 **THESE CONTENTIONS?**

13 A. Mr. Cline's contentions are misplaced because the cost causative factors associated with  
14 distribution mains are not influenced by the fact that such facilities are common or jointly  
15 used rather than being specific to a single customer such as a service line, meter or  
16 regulator. He fails to consider the fact that the Company's cost of distribution mains allocated  
17 to its classes of service is based upon the combined application of two allocation factors – a  
18 design day demand allocation factor and a customer allocation factor. The utilization of these  
19 allocation factors does not attempt to assign the cost of each main extension to the Company's  
20 classes of service. Rather, they treat Peoples' low pressure and regulated pressure distribution  
21 mains each as an integrated gas system, which includes main extensions that are added  
22 throughout the evolution of the gas system, such that the combination of the two allocation  
23 factors recognizes the two factors that influence the level of distribution mains facilities

1 installed by a gas utility in expanding its gas distribution system. First, the total installed  
2 footage of distribution mains is influenced by the need to expand the distribution system  
3 grid over time to connect new customers to the system. Secondly, the size of the  
4 distribution main (i.e., the diameter of the main) is directly influenced by the coincident  
5 peak gas demand placed on the gas utility's system by its firm customers. Therefore, to  
6 recognize that these two cost factors influence the level of investment in distribution  
7 mains, it is appropriate to allocate such investment and the related operation and  
8 maintenance ("O&M") expenses based on both the number of customers served by the  
9 gas utility and its design day demands.

10 To further explain, the customer component of distribution mains is premised  
11 upon the concept of a "minimum system." The "minimum system" for a gas distribution  
12 utility is the smallest hypothetical system a gas utility would construct to connect its  
13 customers. The classification of the costs associated with the minimum system as  
14 customer-related, rather than capacity-related, recognizes the fact that the gas utility must  
15 install a network of distribution mains simply to have a physical connection with its  
16 customers, regardless of the level of demand a particular customer will actually impose  
17 on the gas system. A customer cannot be served at any level if the customer is not  
18 physically interconnected with the utility's gas distribution system.

19 Using the minimum system concept as a foundation, it is widely recognized that a  
20 large portion of a gas utility's total cost of distribution mains must be borne regardless of  
21 customers' peak day or annual use. To illustrate this point, it is useful to summarize a  
22 gas utility's process for physically connecting new customers. To extend gas service to a  
23 typical residential subdivision, the utility must first design the gas system. Based on this

1 design, the utility determines the length and size of pipe needed to serve the area and  
2 procures the necessary material. A field crew is then dispatched to the site, together with  
3 the facilities and equipment required to install the natural gas facilities. The activities  
4 necessary to install gas mains include digging a trench, installing the main into the trench,  
5 and backfilling the trench. Pipeline boring (i.e., a trenchless installation method) may be  
6 necessary to install some main segments if the utility is unable to open trench a portion of  
7 the line due to existing surface conditions along the route of the main. After the main is  
8 installed, it will be pressure tested, tied into the existing gas system, and purged and filled  
9 with natural gas. The main is then ready to provide utility service to the new customers.  
10 These steps are necessary regardless of how much gas the new customers are projected to  
11 use during the year or during a peak day. The design work must still be completed, the  
12 crews, materials, and equipment dispatched to the site, the trench dug, the main installed  
13 in the trench, the trench backfilled, testing performed, and the other activities performed.

14 The additional costs associated with any larger mains required are mostly the  
15 incremental material costs of the larger mains themselves, the additional labor involved  
16 with digging a wider trench for very large mains, and possibly the need for additional  
17 equipment to handle larger diameter mains. As a result, a large percentage of the costs of  
18 providing gas delivery service to a gas utility's customers are incurred before they ever  
19 use one unit of gas. These are the costs the gas utility must incur simply to extend its gas  
20 distribution system to customers, irrespective of whether they will demand a small or  
21 large volume of gas on a peak day. As a result, the costs of such a minimum system are  
22 fundamentally customer-related in nature.

23

1 **Q. IS THERE A BASIS FOR ILLUSTRATING THAT THE NUMBER OF**  
2 **CUSTOMERS SERVED BY PEOPLES INFLUENCES ITS INVESTMENT IN**  
3 **DISTRIBUTION MAINS FROM A PLANNING PERSPECTIVE?**

4 A. Yes. Peoples **Exhibit RAF-11** presents a simplified diagram of a Local Distribution  
5 Company's ("LDC") gas system. The city gate is the point of interconnection of the  
6 LDC with its interstate gas pipeline supplier. The diagram shows how larger industrial  
7 customers may be connected by their own line as a direct feed off of the larger  
8 transmission or distribution portion of the gas system. The diagram also shows how  
9 larger commercial customers are connected from larger or higher pressure mains that  
10 move gas for these customers and for smaller customers further downstream from the city  
11 gate. In some instances, a single residential customer may be served off of larger mains  
12 with higher pressures because it is more convenient to do so for the utility, as shown in  
13 the middle left portion of the diagram. This arrangement is often referred to as a farm  
14 tap. In that case, the utility incurs added costs for regulation because of the greater  
15 pressure drop to serve a customer off of these larger and typically higher pressure mains.  
16 More commonly, residential and small customers are served from a network of pipes that  
17 run throughout the neighborhood. This is illustrated by the residential neighborhood in  
18 the lower right-hand corner of the diagram. I would note that the development might also  
19 include small general service customers.

20 The important point to be made is that the diagram illustrates an LDC such as  
21 Peoples must provide sufficient footage of distribution mains to cover a larger area based  
22 on the density of its customer mix. It is easy to see from the diagram that there is more  
23 footage of mains simply because of the existence of a greater number of smaller



1 customers. This conclusion is also consistent with many existing residential line  
2 extension policies that provide for a designated length of main to connect new residential  
3 customers. Essentially, the gas system expands distribution mains to connect new areas  
4 of customers and that growth in the miles of main is related to extending the network to  
5 add new customers. It is obvious that customers cause investment in distribution mains  
6 from a planning perspective just by reviewing the diagram.

7  
8 **Q. AT PAGE 9 OF HIS DIRECT TESTIMONY, MR. WATKINS CLAIMS THAT**  
9 **“BECAUSE THERE IS NO ECONOMIC UTILITY (BENEFIT) DERIVED FROM**  
10 **SIMPLY BEING CONNECTED TO A SYSTEM, THERE IS NO ECONOMIC**  
11 **(OR COST CAUSATIVE) BASIS FOR ASSIGNING SOME VALUE OF A LDC’S**  
12 **DISTRIBUTION MAINS REQUIRED TO SIMPLY CONNECT CUSTOMERS?**  
13 **DO YOU AGREE WITH HIS CLAIM?**

14 A. No. Mr. Watkins’ claim is simply incorrect because he appears to be confusing the  
15 “purpose” of a gas utility’s distribution system with the cost causative factors which give  
16 rise to the cost of distribution mains. While the economic benefit received by a gas  
17 customer by being connected to the gas utility’s distribution system cannot be separated  
18 from the ultimate receipt of gas volumes by the customer, it is not a relevant  
19 consideration in determining how the costs of distribution mains are incurred, and who is  
20 causing such costs. As I discussed earlier, the recognition and use of a customer cost  
21 component of distribution mains is to reflect the manner in which these facilities are  
22 installed and how costs are incurred by the gas utility.

23

1 **Q. CAN YOU PLEASE DISCUSS MR. WATKINS' POSITION THAT CUSTOMER**  
2 **DENSITY SHOULD BE TAKEN INTO ACCOUNT WHEN DECIDING THE**  
3 **APPROPRIATNESS OF CLASSIFYING AND ALLOCATING A PORTION OF**  
4 **DISTRIBUTION FACILITIES ON A CUSTOMER BASIS.**

5 A. Mr. Watkins' position at page 10 of his direct testimony is that an understanding of  
6 customer density should provide insights into the appropriateness of recognizing a  
7 customer cost component for a utility's distribution facilities. More specifically, he  
8 contends that a customer/demand classification of distribution facilities is "rarely  
9 appropriate for natural gas LDCs with more densely populated service areas that are not  
10 required to serve all potential residences and businesses."

11  
12 **Q. IS MR. WATKINS' POSITION A VALID BASIS TO REJECT A CUSTOMER**  
13 **COMPONENT OF DISTRIBUTION MAINS FOR COST ALLOCATION**  
14 **PURPOSES?**

15 A. No. Variations in the customer density of a utility's service area should not influence  
16 whether a customer component for the utility's distribution facilities is an appropriate  
17 costing method. While customer density can vary across the service areas of most  
18 utilities, Mr. Watkins fails to acknowledge that the unit cost of installing distribution  
19 facilities also varies by location. More densely populated areas tend to be served from  
20 facilities that require more expensive maintenance, and often repair, due to disturbances  
21 caused by the myriad of facilities (e.g., electric cable conduit, water lines,  
22 telecommunications lines) that are buried near or co-located with gas distribution mains.

1 Further, the rules and regulations applicable to utility service in urban areas  
2 typically impose additional costs on the utility for the monitoring of repairs. It is also  
3 common that urban areas have strict requirements that limit how and when work can be  
4 done to install, maintain, repair and replace distribution system components. As  
5 population density increases, it is typical for the safety-related requirements placed on  
6 operators to increase as well.

7 This type of variation in the cost of providing gas distribution service effectively  
8 offsets any differences in customer density across Peoples' service area. For this reason,  
9 it is incorrect to assume, as Mr. Watkins has done, that differences in customer density  
10 between utility service areas invalidate the use of a customer component for a utility's  
11 distribution facilities. Moreover, class average costs are the standard for embedded  
12 COSS, not geographically differentiated costs within a class, as rates are not set on a  
13 geographic basis.

14 For the sake of argument, even if Mr. Watkins' contention was valid, Peoples'  
15 serves customers in relatively densely populated areas like Allegheny County that  
16 includes the city of Pittsburgh (about 75 customers/mile of main) and in relatively rural,  
17 sparsely populated areas like Somerset County (about 20 customers/mile of main) and  
18 Vanango County (about 4 customers/mile of main). This type of variability in Peoples'  
19 customer density levels certainly does not portray a "natural gas LDC with a more  
20 densely populated service area" which Mr. Watkins would claim does not support the use  
21 of a customer and demand classification of distribution mains. For these reasons, Mr.  
22 Watkins' position on this issue should be rejected by the Commission.

23

1 **Q. AT PAGES 17-20 OF HIS DIRECT TESTIMONY, MR. WATKINS EXPLAINS**  
2 **WHY HE REJECTS THE COMPANY’S BIFURCATED COST ALLOCATION**  
3 **TREATMENT FOR ITS LOW PRESSURE AND REGULATED PRESSURE**  
4 **DISTRIBUTION MAINS. DO YOU ACCEPT HIS EXPLANATION AS SUPPORT**  
5 **FOR HIS SYSTEMWIDE COST ALLOCATION TREATMENT OF**  
6 **DISTRIBUTION MAINS?**

7 A. No. While Mr. Watkins spends a good deal of time attempting to analyze and rationalize  
8 how the Company’s system of gas distribution mains has evolved over the years, and  
9 makes certain broad and generalized assumptions on the different sizes of mains that he  
10 believes serve smaller and larger volume customers, he fails to acknowledge two  
11 important facts: (1) all of the Company’s LGS customers are served from its regulated  
12 pressure system of mains; and (2) none of the Company’s LGS customers are connected  
13 to its low pressure system, nor can they be served indirectly through a back-feeding of  
14 gas from such facilities. Very simply, Mr. Watkins is incorrect in his recommended  
15 recombining of the Company’s low pressure and regulated pressure systems for purposes  
16 of allocating the cost of distribution mains to Peoples’ rate classes. Therefore, his  
17 proposed costing approach should be rejected by the Commission.

18  
19 **Q. DO THE PREFERENCES OF MESSRS. CLINE AND WATKINS FOR A COSS**  
20 **BASED ON THE PEAK AND AVERAGE METHOD WITHOUT A CUSTOMER**  
21 **COST COMPONENT OF DISTRIBUTION MAINS RESULT IN AN**  
22 **ALLOCATION OF DISTRIBUTION MAINS COSTS TO THE COMPANY’S**

1           **RATE CLASSES THAT IS REFLECTIVE OF THE EXPECTED COST**  
2           **CHARACTERISTICS OF A GAS UTILITY'S DISTRIBUTION SYSTEM?**

3    A.    No. The COSS prepared by Mr. Watkins results in the allocation of distribution mains to  
4    Peoples' rate classes that does not reflect the expected economies of scale observed in gas  
5    distribution systems. These scale economies reflect the relationship between the installed  
6    cost of pipe by size and type coupled with the increased capacity from pressure and pipe  
7    diameter. For gas distribution mains, when the size of the main is doubled, the available  
8    design day capacity of that main more than doubles. The unit cost of the larger main is  
9    approximately one-fourth the cost of the smaller size main, all else being equal. The  
10   resulting cost causation implies that larger, higher load factor customers impose lower  
11   unit costs on the distribution system than do smaller, lower load factor customers.

12           **Peoples Exhibit No. RAF-12** presents the results of the allocation of distribution  
13   mains in Mr. Watkins' COSS based on the peak and average demand allocation method  
14   without a customer component of distribution mains compared to the results under the  
15   Company's COSS based on the design day demand allocation method and a customer  
16   component of distribution mains. As can be seen from this Exhibit, the resulting cost per  
17   unit of demand (Mcf/d) in the Company's preferred COSS reflects a *decreasing* unit cost  
18   across its rate classes, reflecting the expected economies of scale, while Mr. Watkins'  
19   COSS actually results in an *increasing* unit cost, which means his cost allocation method  
20   reflects diseconomies of scale for Peoples' gas distribution system and the costs to serve  
21   its customers. This is a counterintuitive result and one that does not properly capture the  
22   cost causative characteristics of a gas distribution utility such as Peoples. This result  
23   strongly suggests that OCA's COSS is biased since it has under-allocated distribution

1 mains costs to the residential rate class and over-allocated these costs to the SGS, MGS  
2 and LGS rate classes. More broadly, the use of a peak and average demand allocation  
3 method without a customer cost component of distribution mains as the sole basis for cost  
4 allocation fails to reflect the cost causative characteristics that are representative of the  
5 design and operations of a gas utility's distribution system.

6  
7 **Q. MESSRS. WATKINS AND CLINE BOTH POINT OUT THAT THE**  
8 **COMMISSION HAS EXPRESSED ITS PREFERENCE IN THE PAST FOR THE**  
9 **USE OF THE PEAK AND AVERAGE DEMAND ALLOCATION METHOD AND**  
10 **HAS NOT RECOGNIZED A CUSTOMER COMPONENT OF DISTRIBUTION**  
11 **MAINS WHEN CONDUCTING A COSS FOR A GAS DISTRIBUTION UTILITY.**  
12 **DO YOU HAVE ANY COMMENTS CONCERNING THESE REGULATORY**  
13 **PRECEDENTS?**

14 **A.** Yes. First, I should note that the Commission decisions referenced by Messrs. Watkins  
15 and Cline in support of their views on conducting a COSS for a gas distribution utility are  
16 relatively dated, with the most recent decision issued 12 years ago and the oldest one  
17 issued 35 years ago. Over that extended period of time, much has changed in the utility  
18 industry including a greater recognition by some utility regulators that most, if not all, of  
19 the costs of a distribution utility (gas or electric) are fixed in nature and exhibit cost  
20 causative characteristics which are not influenced by the annual level of sales, whether  
21 they are measured in Mcf or kilowatt hours.

22 Based on my review of its past rate case decisions for electric and gas distribution  
23 utilities, this Commission has shown a strong preference for a cost allocation treatment of

1 electric distribution facilities that is very different from that of gas distribution facilities.  
2 Specifically, the Commission has consistently accepted a peak demand allocation method  
3 in the COSS conducted for electric distribution utilities. Yet, for gas distribution utilities,  
4 the Commission has historically preferred the use of a demand allocation method which  
5 is based partly on annual gas volumes (e.g., a peak and average method). In my opinion,  
6 the cost causative factors which support the Commission's acceptance of a purely  
7 demand-based allocation method for electric distribution utilities are very similar to the  
8 cost causative factors that should support the Commission's acceptance of a design day  
9 demand allocation method for gas distribution utilities.

10 Similarly, the Commission has consistently recognized a customer cost  
11 component for electric distribution facilities such as overhead and underground lines (i.e.,  
12 conductors) in the COSS conducted for electric distribution facilities. Yet, for gas  
13 distribution utilities, the Commission has not historically accepted a customer cost  
14 component for distribution mains in the COSS conducted for gas distribution utilities. In  
15 my opinion, since distribution mains for a gas utility and overhead/underground lines for  
16 an electric distribution utility are functionally equivalent,<sup>4</sup> it follows that the cost  
17 causative factors recognized by the Commission supporting a demand and customer  
18 classification and allocation basis for overhead/underground lines are the same cost  
19 causative factors that should be recognized for distribution mains.

20 The Commission most recently addressed its preferences for the peak demand  
21 allocation method and a customer cost component for distribution facilities in the COSS  
22 conducted for electric distribution utilities in the rate case decisions issued for UGI

---

<sup>4</sup> At page 10 of his Direct Testimony, Mr. Watkins states that "conductors are synonymous with mains."

1 Utilities, Inc. – Electric Division and PPL Electric Utilities Corporation.<sup>5</sup> The  
2 Commission specifically affirmed the use of the “minimum system method” as the  
3 accepted approach to classify and allocate distribution system costs in several  
4 proceedings (see the 2012 and 2010 PPL Orders). Further, in the most recent UGI Order,  
5 the Commission found that UGI’s COSS was consistent with the Electric Utility Cost  
6 Allocation Manual published by the National Association of Regulatory Utility  
7 Commissioners (“NARUC”) and more accurately reflected the cost causation principles  
8 than the COSS methodology proposed in that case by the OCA.<sup>6</sup> The NARUC Manual  
9 states that the distribution plant costs in Accounts 364-368<sup>7</sup> have both a demand and a  
10 customer component. “When the utility installs distribution plant to provide service to a  
11 customer and to meet the individual customer’s peak demand requirements, the utility  
12 must classify distribution plant data separately into demand and customer-related costs.”<sup>8</sup>

13 Based on my review of past rate cases of other electric distribution utilities in  
14 Pennsylvania, I am also aware that Metropolitan Edison, Pennsylvania Electric Company,  
15 West Penn Power Company, Duquesne Light Company, and Philadelphia Electric  
16 Company each utilize a minimum system approach to classify a portion of its upstream  
17 distribution facilities (including overhead and underground lines/conductors) as partially  
18 customer-related.<sup>9</sup> The other portions of the costs of these facilities are classified as

---

<sup>5</sup> See Pennsylvania Public Utility Commission, R-2017-2640058, Opinion and Order (October 4, 2018), pp. 154-160; R-2012-2290597, Opinion and Order (December 5, 2012), pp. 105-113; R-2010-2161694 (December 16, 2010), pp. 23-36.

<sup>6</sup> UGI Order, p. 160.

<sup>7</sup> Account 365 – Overhead Conductors and Devices, Account 366 – Underground Conduit, and Account 367 – Underground Conductors and Devices.

<sup>8</sup> Electric Utility Cost Allocation Manual, National Association of Utility Regulatory Commissioners, January 1992, p. 90.

<sup>9</sup> See the Direct Testimony of Thomas J. Dolezal at p.11 – Docket R-2016-2537349 (Metropolitan Edison); the Direct Testimony of Thomas J. Dolezal at p. 12 – Docket R-2016-2537352 (FirstEnergy – Pennsylvania Electric Company); the Direct Testimony of Thomas J. Dolezal at p. 13 – Docket R-2016-2537359 (First Energy – West



1 demand-related and allocated on a peak demand basis – with no portion of these costs  
2 classified or allocated on an energy basis (or average demand basis).

3  
4 **Q. PLEASE EXPLAIN WHY YOU BELIEVE DISTRIBUTION MAINS FOR A GAS**  
5 **UTILITY AND OVERHEAD/UNDERGROUND LINES FOR AN ELECTRIC**  
6 **DISTRIBUTION UTILITY ARE FUNCTIONALLY EQUIVALENT.**

7 A. These two types of distribution-related facilities serve the same purpose which is to  
8 deliver electricity or natural gas to the end-use customers of the electric or gas  
9 distribution utility. And in serving that same purpose, the utility's costs of gas  
10 distribution mains or electric distribution lines are incurred based on the same two factors  
11 which are reflective of the sizing and installation requirements to serve customers: (1) the  
12 total installed miles of gas mains or electric lines is influenced by the need to expand the  
13 utility's distribution grid over time to connect new customers to the system; and (2) the  
14 size of the gas main or electric line is directly influenced by the peak demand placed on  
15 the utility's system by its customers.

16  
17 **Q. IS THE UNDERLYING PRINCIPLE OF COST CAUSATION THE SAME WHEN**  
18 **CLASSIFYING AND ALLOCATING EITHER GAS DISTRIBUTION MAINS OR**  
19 **ELECTRIC OVERHEAD/UNDERGROUND LINES IN A UTILITY'S COSS?**

20 A. Yes. Whether used for a gas or electric distribution utility when conducting its COSS, as  
21 described above, the cost causative characteristics under the minimum system approach  
22 are based on the specific design and operating characteristics of the utility's distribution

---

Penn Power Company; the Direct Testimony of Jiang Ding at p. 17 – Docket R-2018-3000164 (PECO); and the Direct Testimony of Howard Gorman – Docket R-2018-3000124 (Duquesne Light).

1 system and provides a more accurate and consistent measure of class cost responsibility  
2 than other approaches for the provision of distribution service to its customers.

3  
4 **Q. CAN YOU PLEASE SUMMARIZE YOUR RECOMMENDATION ON THIS**  
5 **ISSUE?**

6 A. Yes. I recommend that the Commission consider the adoption of a common and  
7 consistent method of classifying and allocating the costs of mains for a gas distribution  
8 utility and the costs of overhead and underground lines for an electric distribution utility  
9 which recognizes the strong similarities in the functionality and cost causative  
10 characteristics of these distribution-related facilities through the recognition of a  
11 customer cost component in the utility's COSS. However, if the Commission does not  
12 adopt the Company's preferred COSS methodology in this proceeding, it is my  
13 recommendation that the Commission give significant consideration to the Company's  
14 proposed class revenue apportionment since it relies upon multiple COSS as a guide and  
15 reflects important non-cost factors such as gradualism and value of service.

16  
17 **PROPOSED SEPARATE CLASS FOR DISCOUNTED CUSTOMERS**

18 **Q. MESSRS. CLINE AND WATKINS CONTEND THAT IT IS NECESSARY FOR**  
19 **THE COMPANY'S COSS TO BE RESTRUCTURED TO SEPARATE THE**  
20 **NEGOTIATED RATE CUSTOMERS INTO THEIR OWN RATE CLASSES TO**  
21 **BE ABLE TO REASONABLY DETERMINE THE COST OF SERVING THE**  
22 **STANDARD RATE CUSTOMERS IN THE SGS, MGS AND LGS RATE**  
23 **CLASSES. DO YOU AGREE WITH THEIR CONTENTION?**

1 A. No. I believe the claimed deficiencies in the Company’s COSS raised by Messrs. Cline  
2 and Watkins are without merit as I will explain below. At page 20 of his direct  
3 testimony, Mr. Cline claims that separation of negotiated rate customers into their own  
4 rate class “would allow for the accurate determination of the revenue shortfall caused by  
5 Peoples providing discounted rates to these customers.” He goes on to claim, “[a] clear  
6 picture of the overall revenue shortfall will allow the Commission to appropriately  
7 evaluate the allocation of that shortfall and determine the proper allocation of that  
8 shortfall.” The revenue shortfall (i.e., the difference between revenues under negotiated  
9 rates and revenues under standard rates) sought by Mr. Cline can be calculated from the  
10 rate and billing determinant data provided in the Company’s revenue schedules on a  
11 combined division basis (Exhibit No. 3, Schedule No. 15, Attachment E) submitted in its  
12 rate case filing.

13 At page 22 of his direct testimony, Mr. Watkins claims that the results of the  
14 COSS filed in this case for the SGS, MGS and LGS rate classes provide “no way of  
15 knowing the relative contributions to profitability (ROR) for the full tariff customers in  
16 these classes.” I disagree with his claim as it relates to the SGS and MGS rate classes  
17 simply because the portions of gas volumes for the negotiated rate customers compared  
18 to the total gas volumes in those rate classes are very small. The percentage of negotiated  
19 rate volumes for the SGS rate class is only 0.08% and for the MGS rate class it is 2.2%.  
20 Therefore, contrary to Mr. Watkins’ claim, it is my opinion that the COSS results for the  
21 Company’s SGS and MGS rate classes are not skewed and can be used a reasonable  
22 measure of the cost to serve these classes for class revenue and rate design purposes.

1           Regarding the LGS rate class, although most of the gas volume in that class is  
2 associated with the negotiated rate customers (about 72%), we already know that the rate  
3 of return (“ROR”) on net rate base for the full tariff customers in that rate class must be  
4 greater than the ROR shown in the COSS prepared by the Company for that rate class  
5 because the negotiated rate customers must be contributing a lower ROR since their  
6 effective rates are less than those charged to the full tariff customers. Since the ROR for  
7 the LGS rate class is already well above the system average ROR in the Company’s  
8 preferred COSS at present revenues, an even higher ROR for the full tariff customers  
9 (assuming the negotiated rate customers were excluded from this rate class) likely could  
10 not be accommodated in the Company’s proposed class revenue apportionment because it  
11 would require an even smaller revenue increase to the LGS rate class than the amount  
12 that was proposed.

13  
14 **ISSUES RELATED TO PEOPLES’ MINIMUM CUSTOMER COST ANALYSIS**

15 **Q. CAN YOU PLEASE SUMMARIZE THE POSITIONS OF THE INTERVENORS ON**  
16 **THE COMPANY’S MINIMUM CUSTOMER COST ANALYSIS.**

17 A. Yes. Mr. Cline appears to have accepted the results of the Company’s minimum customer  
18 cost analysis based on his acceptance of the Company’s proposed monthly customer charges  
19 for the residential, SGS, MGS and LGS rate classes (page 24 of his direct testimony) which  
20 were guided by the Company’s minimum customer cost analysis. At page 31 of his direct  
21 testimony, Mr. Watkins states that he disagrees with the Company’s minimum customer cost  
22 analysis specifically regarding the amount calculated for Peoples’ residential rate class. He  
23 contends that there are certain costs he has characterized as “overhead” or “indirect” costs that

1 are included in the Company's minimum customer cost analysis that he believes should not be  
2 included in a customer cost analysis. As a result, he has conducted a minimum customer cost  
3 analysis for Peoples' residential customers which he believes should guide the level of the  
4 Company's monthly customer charge proposed in this proceeding.

5  
6 **Q. HOW DO YOU RESPOND TO MR. WATKINS' REJECTION OF THE**  
7 **COMPANY'S MINIMUM CUSTOMER COST ANALYSIS?**

8 A. I believe the arguments he makes in support of his approach to conducting a minimum  
9 customer cost analysis should be rejected by the Commission because they are contrary to the  
10 most recent regulatory precedent established by the Commission on this issue and they  
11 attempt to support exactly the wrong ratemaking treatment for costs that are fixed in nature.  
12 As a result, the minimum customer cost analysis Mr. Watkins has conducted should be  
13 rejected by the Commission because it does not reflect all the relevant customer-related costs  
14 that should be recoverable in the Company's monthly customer charges.

15  
16 **Q. HAS MR. WATKINS CHOSEN TO IGNORE THE MOST RECENT PRECEDENT**  
17 **ESTABLISHED BY THE COMMISSION ON THE ISSUE OF CONDUCTING A**  
18 **UTILITY'S MINIMUM CUSTOMER COST ANALYSIS?**

19 A. Yes. He has completely ignored the Aqua Decision I referenced in my direct testimony, based  
20 on how he interprets its guidance and applicability, and attempts to justify his reliance on  
21 much older Commission precedents from rate cases that are anywhere from twenty-five (25)  
22 to thirty-four (34) years old.

23

1 **Q. HOW DO THE RESULTS OF MR. WATKINS' MINIMUM CUSTOMER COST**  
2 **ANALYSIS FOR THE RESIDENTIAL RATE CLASS COMPARE TO THE**  
3 **RESULTS OF THE MINIMUM CUSTOMER COST ANALYSIS CONDUCTED BY**  
4 **THE COMPANY?**

5 A. Mr. Watkins' minimum customer cost analysis results in a monthly customer cost for  
6 residential customers of \$13.98, which is \$10.43 lower (or about 43% less) than the \$24.41  
7 amount derived under the Company's minimum customer cost analysis guided by  
8 Commission's regulatory precedent from the Aqua Decision.

9  
10 **Q. PLEASE EXPLAIN WHY MR. WATKINS' RESIDENTIAL CUSTOMER COST IS**  
11 **SO MUCH LOWER THAN THE COMPANY'S AMOUNT.**

12 A. Mr. Watkins' minimum customer cost analysis is too narrowly focused and fails to capture  
13 many of the true customer-related costs that should be recovered through the Company's  
14 monthly customer charges. Mr. Watkins' approach fails to capture many costs that are  
15 influenced by the number of customers served by the Company, and these are the same costs  
16 he has treated as customer-related in his own COSS. As a result, his customer cost analysis  
17 severely understates the true level of customer costs incurred by the Company. In doing so,  
18 Mr. Watkins has effectively mischaracterized numerous costs as being partially volumetric in  
19 nature (through his use of the peak and average demand allocation method without a customer  
20 cost component of mains) rather than customer-related. Using this approach, I believe he has  
21 devised a basis for their inclusion in the consumption-based components of the Company's  
22 rate structure. In my opinion, it is indefensible to treat fixed, customer costs as though they  
23 were a function of the volumetric consumption of a utility's customers.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

**Q. DO YOU KNOW WHICH COSTS MR. WATKINS HAS EXCLUDED FROM HIS MINIMUM CUSTOMER COST ANALYSIS?**

A. Yes. The costs he has excluded from his minimum customer cost analysis are the rate base (plant) and expense related items he has listed in Table 10 at page 33 of his direct testimony.

**Q. ON WHAT BASIS DOES MR. WATKINS CONTEND SUCH COSTS SHOULD BE EXCLUDED FROM A MINIMUM CUSTOMER COST ANALYSIS?**

A. At page 33 of his direct testimony, Mr. Watkins contends that because “most, if not all, of the costs identified in the table above [Table 10] are sunk, or fixed costs in the short-run, these costs are overhead costs and simply the cost of doing business for any business enterprise.” He further argues that because, “these costs do not vary with usage does not mean that they should be collected in a fixed monthly customer charge.”

**Q. DO YOU AGREE WITH THE BASIS MR. WATKINS PROVIDES FOR EXCLUDING THESE COSTS FROM A CUSTOMER COST ANALYSIS?**

A. No. Mr. Watkins’ approach to conducting a customer cost analysis fails to recognize that there are costs in addition to just those related to the cost of the meter, service, regulator and direct customer accounting costs, such as meter reading and billing activities, which support customer-related utility services. This method violates utility accounting principles by excluding certain plant-related costs that support the connection of customers to the utility’s system (e.g., distribution mains) and a variety of other O&M and A&G expenses that must be

1           accounted for on a “fully loaded cost basis.”<sup>10</sup> For example, meter reading activities require  
2           transportation and electronic devices to record meter readings and the associated computer  
3           hardware and software to electronically record the meter data into the utility’s billing system.  
4           Yet, under Mr. Watkins’ minimum customer cost analysis, those costs would be excluded as  
5           customer-related costs based on the argument that such costs are not “directly related” to the  
6           customer. However, if such costs are not classified as customer-related since they are not  
7           directly related to the customer cost function, then out of necessity they must be classified as  
8           either demand or commodity related so that the total amount of classified costs is equal to the  
9           utility’s total cost of service. This approach skews the results of the cost classification process  
10          because it ignores the fact that there are plant and expense components which support the  
11          plant and expenses that are directly related to the customer cost function. These support costs  
12          are also related to the customer function and, therefore, are appropriately classified as  
13          customer-related costs in a utility’s COSS. Because the cost classification step in conducting a  
14          COSS requires the development of, and accounting for, classified costs on a “fully loaded  
15          basis,” Mr. Watkins’ costing method understates the portion of the utility’s total costs of  
16          service classified as customer-related and overstates the portion of the utility’s total cost of  
17          service that is either classified as demand-related or commodity-related. This outcome, in  
18          turn, will skew the allocation of costs to the rate classes in the COSS because there will be  
19          certain costs that are related to the customer cost function which will be misallocated to the  
20          rate classes on a demand and/or commodity basis.

---

<sup>10</sup> A “fully loaded cost basis” means that the sum of the costs classified as customer, demand and commodity related in a utility’s COSS must equal the utility’s total cost of service.



1 **Q. DO YOU HAVE ANY OTHER COMMENTS RELATIVE TO MR. WATKINS'**  
2 **MINIMUM CUSTOMER COST ANALYSIS?**

3 A. Yes. While Mr. Watkins accepted many of the direct assignments and cost allocation  
4 methods in the Company's COSS that he used for specific customer-related expenses in  
5 his COSS for purposes of evaluating class revenues, at the same time, he chose to ignore  
6 parts of his COSS for purposes of deriving his minimum customer cost analysis. In my  
7 opinion, if you accept as appropriate the characterization, classification, and allocation of  
8 certain costs in a COSS as being customer-related, as Mr. Watkins has done, you cannot  
9 then turn around and characterize those same costs as not being customer-related in  
10 deriving the cost support for the utility's monthly customer charges. If this is done, you  
11 are effectively treating fixed, customer-related costs as though they were purely  
12 volumetric costs for rate design purposes, thereby, overstating the level of the utility's  
13 volumetric charges. With the continuing declines in use per customer experienced in the  
14 gas distribution utility segment of the natural gas industry, it would be ill-advised to  
15 artificially raise such consumption-based charges through this type of ratemaking  
16 approach.

17 Some examples of Mr. Watkins' inconsistent treatment of costs in his COSS and  
18 minimum customer cost analysis include his costing treatment of Account No. 874 –  
19 Operation Mains and Services,<sup>11</sup> Account No. 908 – Customer Assistance Expenses,  
20 Account No. 909 – Informational and Instructional Advertising Expense (Supervision),  
21 Account No. 910 – Misc. Customer Service and Informational Expense, and Account No.  
22 912 – Demonstration and Selling Expenses. For each of these expenses, Mr. Watkins  
23 allocated them to the rate classes using either a direct assignment developed by the

---

<sup>11</sup> Mr. Watkins excluded the Services-related portion of this expense item in his minimum customer cost analysis.

1 Company (to reflect the specific customer-related activities provided to each rate class) or  
2 a cost allocation factor based on customer count. In each case, his COSS allocated these  
3 expenses on a customer-related basis, but his minimum customer cost analysis excluded  
4 each of these expenses.

5  
6 **ISSUES RELATED TO PEOPLES' CLASS REVENUE APPORTIONMENT**

7 **Q. CAN YOU PLEASE SUMMARIZE THE POSITIONS OF THE INTERVENORS ON**  
8 **THE APPORTIONMENT OF PEOPLES' PROPOSED REVENUE REQUEST TO**  
9 **ITS RATE CLASSES?**

10 A. Yes. The positions of the intervenors on the apportionment of class revenues are as follows:

- 11 • I&E – Witness Cline reallocated the Company’s proposed revenue increase among its rate  
12 classes “to better align with the results of the peak and average COS study.” Specifically,  
13 he reduced the increase to the Company’s residential class by \$19.1 million, added \$2.1  
14 million to the SGS rate class, added \$6.8 million to the MGS rate class, and added \$10.2  
15 million to the LGS rate class.
- 16 • OCA – Witness Watkins recommends that the overall revenue increase authorized by the  
17 Commission should be allocated on an equal percentage basis across the rate classes.
- 18 • PII – Witness Crist recommends that the proposed revenue increase amount for the LGS  
19 rate class should be reduced to \$353,095 from the Company’s increase amount of  
20 \$1,293,389. He then recommends that the reduced revenue amount to the LGS rate class  
21 be reallocated to all other rate classes on the proportional basis of the revenue allocation  
22 proposed by the Company.

23

1 **Q. DO YOU AGREE WITH THE CLASS REVENUE APPORTIONMENT**  
2 **RECOMMENDATIONS MADE BY I&E, THE OCA AND PII?**

3 A. No. Since I explained earlier in my rebuttal testimony why I do not agree with the use of the  
4 COSS using the peak and average demand allocation method without a customer cost  
5 component of distribution mains recommended by Mr. Cline, and with Mr. Watkins'  
6 conclusion that no COSS presented in this proceeding should be used, I also reject the class  
7 revenue apportionment recommended by Messrs. Cline and Watkins since they do not  
8 properly reflect the cost of serving the Company's customers.

9 I also disagree with the class revenue adjustment to the LGS rate class recommended  
10 by Mr. Crist because the Company's proposed revenue increase to the LGS class already  
11 results in: (1) the lowest percentage increase in revenues of all the Company's rate classes; and  
12 (2) a meaningful movement towards the cost to serve (as measured by the movement of the  
13 relative ROR for the LGS rate class toward the system average ROR in the Company's COSS  
14 under present and proposed rates). In addition, the magnitude of the reduction in LGS  
15 revenues recommended by Mr. Crist which he derived using the ratio of annual volumes for  
16 full tariff rate customers to total annual volumes for the LGS class (which is equal to 27.3%)  
17 has no supportable basis from a cost of service perspective.

18  
19 **Q. PLEASE FURTHER EXPLAIN EACH OF THESE POINTS RELATED TO MR.**  
20 **CRIST'S CLASS REVENUE RECOMMENDATION.**

1 A. First, Table 1 below summarizes the Company’s proposed increases in class revenues (stated  
2 as a percent of non-gas revenues at current rates and as a percent of the Company’s total  
3 revenue increase):<sup>12</sup>

4 **TABLE 1 – SUMMARY OF PROPOSED CLASS REVENUE INCREASES**

Rate Class	Percent Change	Percent of Total
Residential Service	29.1%	84.2%
Small General Service	25.8%	9.2%
Medium General Service	11.0%	5.2%
Large General Service	3.0%	1.4%

5  
6 As readily observed, the lowest percentage increase has been proposed by the  
7 Company for the LGS rate class, and the increase represents only 1.4% of the Company’s total  
8 revenue increase request. Next, the referenced table in Peoples Exhibit RAF-4 also shows that  
9 the relative ROR for the LGS class moves from 2.24 under current rates to 1.29 under  
10 proposed rates, which represents a meaningful movement towards the cost to serve LGS  
11 customers (which would be unity or 1.0). Finally, Mr. Crist’s use of a purely volume-based  
12 ratio to quantify the reduction to the Company’s revenue increase for the LGS rate class is not  
13 supported on a cost of service basis because the Company’s preferred COSS (which Mr. Crist  
14 has accepted) uses only demand and customer related cost allocation factors to apportion the  
15 total cost of service (i.e., the Company’s non-gas revenue requirement) to its rate classes.

16  
17 **Q. AT PAGES 10-12 OF HIS DIRECT TESTIMONY, MR. CRIST RECOMMENDS**  
18 **THAT HIS REDUCED REVENUE AMOUNT TO THE LGS RATE CLASS BE**  
19 **REALLOCATED TO ALL OTHER RATE CLASSES ON THE PROPORTIONAL**

---

<sup>12</sup> See Peoples Exhibit RAF-4, page 3 of 3, Table 4.

1           **BASIS OF THE REVENUE ALLOCATION PROPOSED BY THE COMPANY. DO**  
2           **YOU AGREE WITH HIS RECOMMENDATION?**

3    A.    No. Mr. Crist’s recommendation is partly based on his belief that the revenue increase to the  
4           LGS rate class proposed by the Company will result in a disproportionately larger increase to  
5           the standard rate customers in that class since the negotiated rate customers will be unable to  
6           bear any portion of the rate increase. His belief is incorrect because although the annual gas  
7           volumes of the standard rate customers represents a relatively small portion of the total  
8           volume level for the class (about 28%), the base rate revenues at current rates for these  
9           customers represents a much greater share of the total revenues for the class (about 69%). As  
10          a result, the Company’s proposed revenue increase to the LGS rate class of \$1,293,289,  
11          representing 3.1% of the class’ current revenues, increases to about 5.4% for the standard rate  
12          customers in the LGS rate class, which is not an “excessively large” increase for these  
13          customers as was assumed by Mr. Crist.

14  
15    **Q.    AT PAGE 29 OF HIS DIRECT TESTIMONY, MR. CLINE RECOMMENDS A**  
16          **SCALE BACK OF RATES IF THE COMMISSION GRANTS LESS THAN THE**  
17          **COMPANY’S FULL RATE INCREASE BASED UPON A PROPORTIONAL**  
18          **REDUCTION TO CLASS REVENUES USING THE COSS THAT THE**  
19          **COMMISSION APPROVES IN THIS PROCEEDING. DO YOU AGREE WITH**  
20          **THIS APPROACH?**

21    A.    No. If the Commission approves a lower revenue requirement than proposed by the  
22          Company, a proportionate scale back method should be used which would proportionately  
23          decrease or increase the proposed revenues from each rate class based on the approved total

1 revenue requirement for the Company. The approved increase would be apportioned to each  
2 rate class based on its share, at proposed revenues, of the total revenue requirement increase  
3 proposed by the Company. Mr. Cline's recommended method using the results of the COSS  
4 approved by the Commission to adjust class revenues to tie to the Company's total revenue  
5 increase would not be able to reflect the non-cost considerations recognized by the Company  
6 and intervenors in their original class revenue apportionments proposals. Presumably, those  
7 considerations would need be carried forward when a final revenue determination is made by  
8 the Commission.

9  
10 **ISSUES RELATED TO PEOPLES' RESIDENTIAL RATE DESIGN**

11 **Q. CAN YOU PLEASE SUMMARIZE THE POSITIONS OF THE INTERVENORS**  
12 **ON THE COMPANY'S PROPOSED RATE DESIGN FOR ITS RESIDENTIAL**  
13 **CUSTOMERS?**

14 A. Yes. The positions of the intervenors on the Company's proposed residential rate design  
15 are as follows:

- 16 • I&E – Witness Cline recommends that the Company's proposed monthly customer  
17 charge of \$20.00 for its residential customers be approved by the Commission subject  
18 to a scale back of the level of the charge in the event the Commission grants less than  
19 the full revenue increase requested by the Company.
- 20 • OCA – Witness Watkins recommends a monthly customer charge of \$14.00 for the  
21 Company's residential customers based on the results of his customer cost analysis.  
22 Witness Colton recommends that Mr. Watkins' rate design proposal be adopted.

- 1 • CAUSE-PA – Witness Geller recommends that the Company’s current monthly  
2 customer charges for its residential customers (\$13.95 for customers in the Peoples  
3 Division and \$13.25 for customers in the Equitable Division) not be increased and  
4 any revenue increase assigned to the residential class should be applied to the  
5 volumetric charge only.
- 6 • CAAP – Witness Moore opposes any increase to the Company’s monthly customer  
7 charges for its residential customers.

8

9 **Q. DO YOU AGREE WITH THE RESIDENTIAL RATE DESIGN**  
10 **RECOMMENDATIONS MADE BY I&E, THE OCA, CAUSE-PA AND CAAP?**

11 A. I agree with the recommendation made by Mr. Cline to accept the Company’s rate design  
12 proposal for its residential customers, but I disagree with the recommendations made by  
13 the OCA, CAUSE-PA and CAAP witnesses. Specifically, I recommend that the  
14 Commission reject Mr. Watkins’ proposal to implement a \$14.00 per month customer  
15 charge because the minimum customer cost analysis he conducted is seriously flawed as I  
16 discussed earlier in my rebuttal testimony. The result of his cost analysis does not provide  
17 a reasonable cost basis to guide the determination of a proper level for the Company’s  
18 monthly customer charge for its residential customers. On the same basis, I reject the rate  
19 design recommendation made by Mr. Colton that endorses Mr. Watkins’ \$14.00 per  
20 month customer charge. In addition, Peoples witness Rita Black responds to Mr.  
21 Colton’s claims that the Company’s proposed increase in its residential customer charge  
22 will have negative impacts on low income customers. Finally, I reject the  
23 recommendations of Mr. Geller and Ms. Moore to maintain the current level of the

1 Company's monthly customer charges for its residential customers because the  
2 arguments they claim support their recommendations are based on faulty economics and  
3 an overreaching view of how consumers will respond to any price signals they  
4 receive from changes in the structure and level of Peoples' gas rates.

5  
6 **Q. AT PAGE 27 OF HIS DIRECT TESTIMONY, MR. COLTON CLAIMS THAT**  
7 **“BUDGET BILLING WOULD HELP PEOPLES STABILIZE ITS RECEIPT OF**  
8 **REVENUES OVER THE COURSE OF THE YEAR, THUS AMELIORATING**  
9 **ANY NEED ON THE PART OF THE COMPANY TO MOVE MORE OF ITS**  
10 **BILLING INTO FIXED MONTHLY CHARGES TO ACCOMPLISH THAT**  
11 **SAME END.” DO YOU AGREE WITH HIS CLAIM?**

12 A. No. The Budget Billing plan offered by the Company has no impact on its total level of  
13 revenue recognized or the timing for such recognition. From a strict accounting  
14 standpoint, revenue is recognized by the Company as gas service is provided to  
15 customers, irrespective of whether the customer is on a Budget Billing plan. Budget  
16 billing only impacts the Company's cash flow as the timing of cash provided by  
17 customers is more consistent throughout the year. As a result, it is not appropriate to  
18 consider Budget Billing as a ratemaking substitute for a monthly customer charge. In  
19 fact, if the Company's proposed increase to the monthly customer charge for its  
20 residential customers was reduced, as recommended by Mr. Colton, it would likely cause  
21 larger annual true-ups for customers under the budget billing plan. This would occur  
22 because the revenue impact of any change in actual gas usage over the year compared to  
23 the estimated gas usage used to set the budget billing amount would be magnified by



1 attempting to recover a greater level of non-gas revenues through the volumetric delivery  
2 charge.

3  
4 **Q. WHAT CONCERNS WERE RAISED BY CAUSE-PA AND CAAP WITH**  
5 **RESPECT TO THE IMPACT OF THE COMPANY’S PROPOSED INCREASE IN**  
6 **ITS RESIDENTIAL MONTHLY CUSTOMER CHARGES ON THE ABILITY OF**  
7 **CONSUMERS TO CONSERVE NATURAL GAS?**

8 A. Mr. Geller and Ms. Moore explain in their direct testimonies why they believe an  
9 increase in the Company’s residential monthly customer charge will diminish customers’  
10 ability to conserve.

11  
12 **Q. WILL THE COMPANY’S RESIDENTIAL CUSTOMERS STILL FINANCIALLY**  
13 **BENEFIT FROM REDUCTION IN NATURAL GAS USAGE UNDER PEOPLES’**  
14 **PROPOSED MONTHLY CUSTOMER CHARGE?**

15 A. Of course. These witnesses do not appear to disagree with the fact that customers will  
16 still benefit from reducing their natural gas usage. They appear to simply prefer  
17 customers to benefit even more financially from a lower monthly customer charge  
18 (relative to the level proposed by the Company) with little regard to other rate design  
19 considerations. Further, it is important to keep in mind that the total bill paid for by  
20 customers includes their gas commodity charges, which vary with the amount of Mcf  
21 consumed; not just the customer charge, the cost of which does not change with Mcf use.  
22 Referring to Exhibit 11, Schedule No. 8 (page 2 of 14), the annual bill comparisons show  
23 that for a residential customer about 76% of the customer’s annual bill will be based on

1 variable Mcf charges. In my opinion, this result still allows for a meaningful level of  
2 financial benefits from reduced gas usage through customers' energy efficiency and  
3 conservation actions.

4  
5 **Q. DO THE ENERGY CONSERVATION-RELATED ARGUMENTS PROVIDED BY**  
6 **THESE WITNESSES SUPPORT LIMITING THE COMPANY'S MONTHLY**  
7 **CUSTOMER CHARGES FOR ITS RESIDENTIAL CUSTOMERS?**

8 A. No. The arguments presented by Mr. Geller and Ms. Moore suffer from two main  
9 fallacies. First, inherent in their arguments is an unreasonably narrow definition of  
10 conservation and in their discussions, they value only this consideration in their rate  
11 design recommendations. Second, they over generalize their premises when reaching  
12 conclusions. Their premise is that a higher percentage of cost recovery in a fixed monthly  
13 charge leads to less conservation and, therefore, the increase in the Company's proposed  
14 monthly customer charges for residential customers from either \$13.25 or \$13.95 to  
15 \$20.00 will result in less conservation. In short, they introduce two overgeneralizations:  
16 (1) they assume the only motivation for conservation by consumers is caused by price  
17 signals from gas rates; and (2) customers will respond to a rate change of the degree  
18 proposed by the Company.

19  
20 **Q. WHAT DEFINITION OF ENERGY CONSERVATION DO THESE WITNESSES**  
21 **UTILIZE AS A BASIS FOR THEIR ARGUMENTS?**

22 A. Very simply, they see conservation as an absolute reduction in natural gas use. However,  
23 this is an unreasonably narrow view of conservation and other energy efficiency

1 measures when deciding the appropriateness of utility rate proposals. Conservation is the  
2 act of preserving, guarding, and protecting the wise use of energy. In this case, it is the  
3 wise use of natural gas and, in effect, it is also the wise use Peoples' gas distribution  
4 system resources. As further detailed below, the issue under consideration is much  
5 broader than simply a concept of reducing natural gas usage.

6 Certain costs of operating a gas distribution utility such as Peoples are incurred  
7 regardless of the level of natural gas consumed. These costs are incurred simply to attach  
8 a customer and to meet their peak demand requirements. By charging customers on a  
9 volumetric basis for these fixed costs, customers can spend time and resources on  
10 reducing their gas bills. However, this does not reduce the costs incurred by the utility.  
11 This is not an efficient use of our resources as a society as the consumer spends time and  
12 resources to "save" money, but this doesn't reduce the costs incurred by the utility (i.e.,  
13 any bill savings under a lower monthly customer charge would exceed the actual savings  
14 of the resources used to provide service). Those costs are simply charged to some other  
15 customer or reduces the earnings of the utility. This is a zero-sum game; the gain to one  
16 customer by reducing how much they pay for the utility's fixed costs is the loss to either  
17 another customer or to the utility.

18 Households and companies have a fixed amount of time and resources at their  
19 disposal, so if environmental stewardship is a value to them, they will spend money on  
20 activities that have socially beneficial environmental outcomes. Reducing natural gas  
21 usage so customers don't have to pay their fair share of the fixed costs to attach their  
22 residence or business to the gas utility's distribution grid to satisfy their "readiness to  
23 serve" expectation does not result in a socially beneficial environmental outcome. An

1 effective price signal would incentivize the customer to spend time and resources  
2 reducing their natural gas usage only if that reduction in usage would decrease the costs  
3 of delivery service incurred by the utility.  
4

5 **Q. PLEASE EXPLAIN HOW THESE WITNESSES OVER GENERALIZE IN THE**  
6 **POSITIONS THEY TAKE ON ENERGY CONSERVATION AND RATES.**

7 A. Their conclusion is that a higher percentage of cost recovery in a fixed charge leads to  
8 less reduction in gas usage than otherwise would occur with a lower fixed charge. They  
9 then conclude that the increase in the Company's monthly customer charge from either  
10 \$13.25 or \$13.95 to \$20.00 will result in lower reductions in gas usage. First, any  
11 reduction in gas usage is not just a function of price signals from the rates of the gas  
12 utility. Any energy efficiency gains and reductions in gas usage experienced to date were  
13 based on several actions, including, but not limited to: capital investment in appliances  
14 (partially due to rebate and tax policies and federal efficiency mandates), the thermal  
15 envelop of the housing stock, fuel switching, and other societal/cultural responses that  
16 will not be diminished with an increase in the Company's monthly customer charge.  
17 Second, the conclusion that a change in the Company's monthly customer charge from  
18 either \$13.25 or \$13.95 to \$20.00 will lessen the reduction in gas usage, or even result in  
19 an increase in gas usage, is based on an incorrect interpretation of price elasticity of  
20 demand concepts.  
21

1 **Q. WHAT INTERPRETATION OF THE PRICE ELASTICITY OF DEMAND IS**  
2 **INHERENT IN THE ARGUMENTS MADE BY THESE WITNESSES ON THE**  
3 **CONSERVATION IMPACTS CAUSED BY A CHANGE IN RATE DESIGN?**

4 A. Inherent in the opinions of these witnesses is the conclusion that residential gas  
5 customers are price sensitive at the margin.<sup>13</sup> This assumption, by itself is not contested,  
6 but the degree to which they are price sensitive is essential to concluding how a change in  
7 the level of the Company's monthly customer charge will impact their behavior. These  
8 witnesses assume all residential customers are practically capable of responding to a price  
9 change and that they all have the desire to respond, which is simply not correct.

10  
11 **Q. WHAT LIMITATIONS WOULD THERE BE TO A CONSUMER BEING PRICE**  
12 **SENSITIVE TO THE RATES OF A GAS UTILITY?**

13 A. Utility customers have mixed abilities to respond to prices based on numerous  
14 contributing factors including, heating fuel source, ambient temperatures, alternative fuel  
15 options, family size, access to capital, and other factors. They also have mixed desires to  
16 respond to prices as they face numerous competing concerns and may simply choose not  
17 to spend time and effort on managing their energy use.

18  
19 **Q. ARE THERE ANY OTHER RATE DESIGN-RELATED CONSIDERATIONS**  
20 **YOU BELIEVE ARE INHERENT IN THE ARGUMENTS MADE BY THESE**  
21 **WITNESSES?**

22 A. Yes. I believe also inherent in these witnesses' arguments is that the Company's rate  
23 design proposal for its residential customers will only cause the current monthly customer

---

<sup>13</sup> The point at which the consumer is considering the consumption of one more or one less unit of natural gas.

1 charges to increase and, in turn, the volumetric charges will decrease. In reality, under the  
2 Company's proposal, the monthly customer charges and the volumetric delivery charges  
3 will increase for the residential class. The volumetric delivery charge for the Peoples  
4 Division is proposed to increase by about 24% and in the Equitable Division that charge  
5 is proposed to increase by about 22%.

6  
7 **Q. WHAT CONCLUSION CAN YOU DRAW WITH RESPECT TO THE PRICE**  
8 **RESPONSE EXPECTED FROM RESIDENTIAL CUSTOMERS UNDER THE**  
9 **COMPANY'S PROPOSED MONTHLY CUSTOMER CHARGE OF \$20.00?**

10 A. There is no evidence provided by Mr. Geller or Ms. Moore that a 22 to 24 percent  
11 increase in the Company's volumetric delivery charge for the residential class will result  
12 in a change in consumers' behavior, especially a change causing an *increase* in gas  
13 usage as inferred by the claims made by these witnesses supporting their rate design  
14 recommendations.

15 Most importantly, any bill savings under a lower monthly customer charge would  
16 exceed the actual savings of the Company's resources used to provide gas delivery  
17 service. As noted above, this mismatch between gas bill savings and cost savings is  
18 wasting societal resources - not conserving them. Finally, freezing the monthly customer  
19 charge at its current level is inconsistent with the cost causation principles established in  
20 *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commonwealth. 2006).

21  
22 **ISSUES RELATED TO PEOPLES' SGS AND MGS RATE DESIGN**

1 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS MADE BY MR. KALCIC**  
2 **REGARDING CHANGES TO THE COMPANY’S SGS AND MGS RATE**  
3 **DESIGN PROPOSALS.**

4 A. Mr. Kalcic recommends two changes be made to the Company’s proposed rate design for  
5 its SGS and MGS rate classes:

6 1. He recommends that the Company’s volumetric delivery charge for the customers  
7 designated as the Peoples Transitional Industrial Ratepayers in the SGS rate class be  
8 increased to reduce the current rate differential between transitional and non-  
9 transitional delivery charges by 50% (at pages 6-7 of his direct testimony).

10 2. He recommends that the monthly customer charges for the MGS rate class in the  
11 Peoples Division be reduced from the levels proposed by the Company to limit the  
12 increases to 50% (at pages 8-10 of his direct testimony).

13  
14 **Q. DO YOU AGREE WITH THE CHANGE TO THE COMPANY’S PROPOSED**  
15 **SGS RATE DESIGN RECOMMENDED BY MR. KALCIC?**

16 A. No. I believe the Company’s proposed increase to the current volumetric delivery charge  
17 for the Peoples Industrial Transitional Ratepayers is appropriate and provides for  
18 reasonable progress in this proceeding towards creating rate parity between the delivery  
19 charges of this group of customers and that of the Company’s other SGS customers. In  
20 support of the Company’s proposal, I should note that the proposed increase in the  
21 current delivery charges of the Peoples Industrial Transitional Ratepayers was about 1.5  
22 times the percent increase in *base rate revenues* of approximately 26%, as presented in  
23 Table 4 of Peoples Exhibit RAF-4, page 3 of 3.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

**Q. DO YOU AGREE WITH THE CHANGES TO THE COMPANY’S PROPOSED MGS RATE DESIGN RECOMMENDED BY MR. KALCIC?**

A. No. I believe the Company’s proposed changes to the monthly customer charges for its MGS customers fairly balances the level of customer-related costs to serve this rate class and the need to significantly reduce the current monthly customer charges for MGS customers in the Equitable Division. The resulting charges reflect the Company’s decision to address this need in a gradual manner. Contrary to the view expressed by Mr. Kalcic, the Company’s proposal does recognize and balance cost of service, rate consolidation and gradualism considerations. Moreover, the overall rate impacts proposed by the Company for the MGS rate class were not discussed by Mr. Kalcic which I believe should also be considered in evaluating the reasonableness of the Company’s rate proposal. The overall increase in base rates for the MGS rate class proposed by the Company is 11%, which is less than 50% of the Company’s overall non-gas, base rate revenue increase. In addition, the Company’s annual bill comparisons show that customers in the Peoples Division will receive a 10.1% increase in the average annual bill, customers in the Equitable Division will experience a 4.2% decrease, and Peoples Industrial Transitional Ratepayers will experience a 16.2% increase. For these reasons, I believe the monthly customer charges for MGS customers proposed by the Company are set at reasonable levels.

**ISSUES RELATED TO PEOPLES’ LGS RATE DESIGN**



1 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS MADE BY MR. CRIST**  
2 **REGARDING CHANGES TO THE COMPANY’S LGS RATE DESIGN**  
3 **PROPOSAL.**

4 A. Mr. Crist recommends one change be made to the Company’s proposed rate design for its  
5 LGS rate class:

- 6 • He recommends that the Company’s rate design for its LGS rate class reflect “similar  
7 changes (increases or decreases) across all the customer charges and volumetric rate  
8 blocks.” (at pages 9-10 of his direct testimony).

9  
10 **Q. WHAT IS THE BASIS FOR MR. CRIST’S RECOMMENDATION?**

11 A. At page 8 of his direct testimony, Mr. Crist claims that the Company’s proposed rate  
12 design for its LGS rate class results in “significant increases in both the monthly  
13 customer service charges for the several volumetric blocks of the class, as well as certain  
14 rate blocks for the volumetric charges for Peoples’ ‘Transition Rates.’ The increases are  
15 extreme and should not be allowed.” He further contends that the Company has  
16 misapplied the ratemaking principle of gradualism in determining its LGS rate design  
17 proposal.

18  
19 **Q. DO YOU AGREE WITH THE RATE DESIGN RECOMMENDATIONS MADE**  
20 **BY MR. CRIST FOR THE COMPANY’S LGS RATE CLASS AND THE BASIS**  
21 **FOR HIS RECOMMENDATIONS?**

22 A. No. Mr. Crist’s claims are shortsighted and misleading since his rate design concerns  
23 were focused primarily on the magnitude of the increases to the monthly customer

1 charges for the LGS rate class proposed by the Company. In addition, he has focused  
2 only on the rate changes proposed by the Company for customers in the Peoples Division  
3 and has ignored the rate changes proposed for LGS customers in the Equitable Division.  
4 With this emphasis, Mr. Crist has failed to also focus on the overall changes in revenues  
5 and rates for LGS customers proposed by the Company as depicted in the bill  
6 comparisons presented by the Company in its original filing.

7 Regarding the proposed monthly customer charges for the LGS customers in the  
8 Equitable Division, Table 2 below mirrors Mr. Crist’s Exhibit \_\_\_ (JC-1) in which he  
9 presents the current and proposed monthly customer and delivery charges for LGS  
10 customers in the Peoples Division except that Table 2 presents the rate changes for LGS  
11 customers in the Equitable Division.

12 Table 2 shows that for the LGS customers in the Equitable Division the changes  
13 they will experience in their monthly customer charges and volumetric delivery charges  
14 are far from “extreme” which is how Mr. Crist characterized the Company’s LGS rate  
15 design proposals. Due to the current relatively large disparity between certain of these  
16 charges for customers in the Peoples and Equitable Divisions, and the desire to  
17 consolidate the rates of each Division at the completion of this proceeding, it was  
18 inevitable that some rates would have to be increased while others would have to be  
19 decreased to achieve the desired rate consolidation objective.

20 **TABLE 2**

21 **COMPARISON OF CURRENT AND PROPOSED CHARGES – EQUITABLE DIVISION**

Monthly Customer Charges			
Volume Tier	Current Charge	Proposed Charge	Percent Change
25,000 – 49,999 Mcf	\$1,600.00	\$700.00	-56.3%
50,000 – 99,999 Mcf	\$1,600.00	\$1,300.00	-18.8%
100,000 – 199,999 Mcf	\$1,600.00	\$1,400.00	-12.5%
Over 200,000 Mcf	\$1,600.00	\$1,600.00	-
Delivery Charges			
25,000 – 49,999 Mcf	\$2.50	\$2.46	-1.5%
50,000 – 99,999 Mcf	\$2.50	\$2.41	-3.4%
100,000 – 199,999 Mcf	\$2.50	\$2.36	-5.3%
200,000 – 749,999 Mcf	\$2.50	\$2.25	-10.0%
750,000 – 1,999,999 Mcf	\$2.50	\$1.96	-21.4%
Over 2,000,000 Mcf	\$2.50	\$1.51	-39.4%

Table 3 below summarizes the annual bill comparisons presented by the Company in Exhibit 11, Schedule No. 8 for the average LGS customer.

**TABLE 3**

**SUMMARY OF ANNUAL BILL COMPARISONS FOR THE LGS RATE CLASS**

Volume Tier	Percent Change in Annual Bill <sup>(1)</sup>		
	Peoples Division	Equitable Division	Peoples' Transitional
25,000 – 49,999 Mcf	1.7%	-4.6%	6.7%
50,000 – 99,999 Mcf	1.5%	-1.5%	6.7%
100,000 – 199,999 Mcf	-0.3%	-1.7%	4.3%
Over 200,000 Mcf	-2.7%	-3.2%	2.0%

<sup>(1)</sup> For full tariff customers.

The percentages presented in this Table are within a range around the overall increase in revenues proposed for the LGS rate class of 3.0%. Moreover, the portion of the average LGS customer's total annual bill represented by the monthly customer charge only ranges between 1% and 4% depending upon the volume tier in which the customer resides. In both cases, these type of rate impacts cannot be characterized as "significant" by any stretch of the imagination.

1 **ISSUES RELATED TO PEOPLES' RATE AGS**

2 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS MADE BY MRS. MEYER**  
3 **BURGRAFF REGARDING THE COMPANY'S PROPOSED APPALACHIAN**  
4 **GATHERING SERVICE RATE ("RATE AGS").**

5 A. The recommendations made by Mrs. Meyer Burgraff regarding the Company's Rate AGS  
6 proposal are summarized below:

- 7 • Rate AGS as proposed by the Company should be rejected by the Commission based  
8 on a variety of claims she makes in her direct testimony.
- 9 • If the Commission decides to approve Rate AGS proposed by the Company, she  
10 recommends that many changes be made to the structure and pricing under the tariff.

11 I will not repeat the list of changes proposed by Mrs. Meyer Burgraff which are listed on  
12 pages 46-48 of her direct testimony. My rebuttal testimony will respond to issues related  
13 to the ratemaking concepts that impact the appropriateness of implementing Rate AGS  
14 and the other issues she raises pertaining to the Company's past and current treatment of  
15 Rate AGS within the context of its COSS. Mr. Gregorini will respond to the specific  
16 claims made by Mrs. Meyer Burgraff related to the structure and pricing under Rate  
17 AGS.

18  
19 **Q. MRS. MEYER BURGRAFF HAS A LENGTHY DISCUSSION IN HER DIRECT**  
20 **TESTIMONY (AT PAGES 11-16) CLAIMING THAT AS THE COMPANY'S**  
21 **COSS WITNESS OVER THE YEARS YOU HAVE TAKEN VARYING**  
22 **POSITIONS ON HOW THE COSTS OF GATHERING SHOULD BE**  
23 **ALLOCATED TO THE COMPANY'S RATE CLASSES AND HOW**

1           **GATHERING SERVICES SHOULD BE TREATED WITHIN THE COMPANY’S**  
2           **COSS. HOW DO YOU RESPOND TO HER CLAIMS?**

3    A.    I believe there are two primary issues that arise from her discussion that I have addressed  
4           over the past thirty-six (36) years as the Company’s COSS witness: (1) should local gas  
5           producers be assessed any of the Company’s costs of its gathering system; and (2) should  
6           the Company’s gathering services provided to local gas producers be reflected as a  
7           separate rate class in the Company’s COSS and does that treatment help determine an  
8           appropriate rate for its gathering services. My further discussion of these issues below  
9           will provide a background context for why and how my positions on these issues have  
10          evolved over this extended period of time.

11  
12   **Q.    WHAT IS THE POSITION OF MRS. MEYER BURGRAFF ON THE ISSUE OF**  
13          **WHETHER LOCAL GAS PRODUCERS SHOULD BE ASSESSED ANY OF THE**  
14          **COMPANY’S COSTS OF ITS GATHERING SERVICE?**

15   A.    At page 16 of her direct testimony, Mrs. Meyer Burgraff argues that producers should not  
16          be responsible for the non-gas costs of Peoples’ gathering system because it was  
17          “installed to move local gas, including at the time Peoples-owned production wells to  
18          end-use customers.” Presumably, on that basis, she later recommends that Rate AGS be  
19          rejected by the Commission *for the Peoples Division*. Interestingly, at the same time, she  
20          also recommends that the voluntary Producer Enhancement Services (“PES”) Program  
21          offered to producers by the Peoples Division and the current Rate AGS for the Equitable  
22          Division should both remain in effect.

1 **Q. DO YOU AGREE WITH HER POSITION ON THIS ISSUE?**

2 A. No. I believe that local gas producers should be assessed a portion of the costs of the  
3 Company's gas gathering facilities because this approach recognizes that producers and  
4 end-users both require the deliverability capabilities of the gathering system to,  
5 respectively, move gas to market and to receive local gas supplies which serve a portion  
6 of their gas demand requirements.

7

8 **Q. HAS THE COMMISSION RECENTLY MADE A DETERMINATION ON HOW**  
9 **CERTAIN COSTS OF PEOPLES' GAS GATHERING SYSTEM SHOULD BE**  
10 **RECOVERED FROM THOSE THAT ARE CONNECTED TO THE COMPANY'S**  
11 **GAS GATHERING SYSTEM?**

12 A. Yes. In the Company's most recently concluded 1307(f) gas cost proceeding, the  
13 Commission concluded that, "[a]s beneficiaries of the gathering system, we believe it is  
14 fair and in the public interest that the producers also contribute to the costs associated  
15 with the Company's gathering system. The record in this proceeding is clear that the  
16 gathering system often provides the only way that producers can move their gas to  
17 market."

18

19 **Q. ON THE SECOND ISSUE, DO YOU BELIEVE THAT THE INCLUSION OF A**  
20 **RATE CLASS FOR THE COMPANY'S PROPOSED RATE AGS IN THE COSS**  
21 **FILED IN THIS PROCEEDING WOULD PROVIDE VALUE TO THE**  
22 **COMMISSION AS IT CONSIDERS THE REASONABLENESS OF RATE AGS?**

1 A. No. It is my opinion that since the Company's gathering service rates under Rate AGS  
2 are proposed to be set using value of service considerations rather than strict cost of  
3 service principles, a COSS providing a rate of return measure which relates the revenues  
4 from Rate AGS to Peoples' cost of gathering service would not provide any guidance to  
5 the Commission on the reasonableness of Rate AGS. Instead, Peoples' total gathering  
6 cost of service was derived at the Company's proposed rate of return on net rate base, and  
7 a comparison of the resulting total cost of gathering service to the revenue contributions  
8 made by local producers under present and proposed pricing for gathering service was  
9 provided in Peoples Exhibit No. RAF-3 as a measure of the portion of the total cost of  
10 gathering service proposed to be recovered through Rate AGS. I believe this type of cost  
11 and revenue information is of value to the Commission in evaluating the reasonableness  
12 of Rate AGS.

13  
14 **Q. AT PAGE 12 OF HER DIRECT TESTIMONY, MRS. MEYER BURGRAFF**  
15 **POINTS OUT THAT YOU CONDUCTED A COSS IN EQUITABLE GAS**  
16 **COMPANY'S LAST RATE CASE IN 2008, WHICH INCLUDED A RATE CLASS**  
17 **FOR RATE AGS, BUT IN PEOPLES' 2012 RATE CASE AND IN THE**  
18 **CURRENT CASE YOU EXCLUDED THAT RATE CLASS FROM THE COSS.**  
19 **HOW DO YOU RESPOND TO THIS ALLEGED CHANGE IN POSITION?**

20 A. With the passage of almost eleven years since the filing of the Equitable rate case, I have  
21 had the opportunity to review in greater detail the functionality of the gas gathering  
22 system owned and operated by Peoples, which now also includes the gathering facilities  
23 of the former Equitable Gas Company. In the Equitable Gas rate case, a simple

1 assumption was made that only local gas producers caused Equitable to incur the costs of  
2 its gathering system, and that the local producers should be the only customers from  
3 which those costs should be recovered through rates. On that basis, it was decided that a  
4 rate class for Rate AGS should be included in the COSS filed by Equitable Gas, even  
5 though the cost of service result for that rate class provided no value since it was not used  
6 to set the negotiated rates under Rate AGS. Because the approved negotiated rate levels  
7 under Rate AGS generated revenues below the indicated cost of service, Equitable Gas'  
8 end-use customers were effectively assigned a portion of the cost of the gathering system  
9 through the portions of the total revenue requirement assigned to each rate class after  
10 excluding the rate revenues recoverable from Rate AGS customers.

11 It is my current understanding that Peoples' gathering system is used to transport  
12 gas supplies delivered to its gas distribution system for its system supply and its end-use  
13 customers from local production facilities located within its service area. In addition,  
14 there are portions of the gathering system that serve Peoples' end-use customers directly  
15 with local gas supplies. Because of this dual-functionality, I concluded in Peoples' 2012  
16 rate case that it was reasonable to assign the cost of Peoples' gathering system to end-  
17 users and local gas producers, but that it was not appropriate to use strict cost allocation  
18 methods to determine an appropriate level of cost responsibility for each group. This  
19 conclusion was reached since Peoples' gathering service charges were proposed to be set  
20 in 2012 using value of service considerations rather than strict cost of service principles,  
21 as is the situation in this rate case. On this basis, the portion of Peoples' total gathering  
22 cost of service attributable to each of these two groups (end-users and local gas  
23 producers) was determined using the same method used in this case that I described in



1 my direct testimony. This method does not require the establishment of a separate rate  
2 class for Rate AGS and a separate rate class would not provide useful insights into how  
3 the cost responsibility between these two groups should be determined.  
4

5 **Q. GOING BACK ANOTHER TWENTY-FIVE (25) YEARS, IN PEOPLES' 1983**  
6 **RATE CASE CITED BY MRS. MEYER BURGRAFF, WHY DIDN'T YOU**  
7 **TREAT ITS GAS GATHERING FACILITIES WITHIN ITS COSS IN A**  
8 **SIMILAR MANNER TO HOW YOU TREATED THE GAS GATHERING**  
9 **FACILITIES IN THIS PROCEEDING?**

10 A. In the 1983 rate proceeding, I recommended that the costs of the gas gathering facilities  
11 owned by Peoples be allocated only to system supply and "self-help" customers because  
12 gas distribution utilities did not offer unbundled utility services at that time and Peoples  
13 did not have a gathering service rate. As a point of reference, Mrs. Meyer Burgraff was  
14 the Director of Rates for Peoples in 1983 and was closely involved in the preparation and  
15 filing of that utility's rate case. As I stated in my direct testimony in this proceeding, a  
16 COSS is conducted to assign to each customer or rate class its proportionate share of the  
17 utility's total cost of service. Because utility rates in the natural gas distribution industry  
18 were not unbundled at that time, there was no rate class for the provision of gathering  
19 service and no opportunity for me to assign a proportionate share of Peoples' total cost of  
20 service in its cost of service study to a rate class that simply did not exist.  
21

22 **Q. BACK IN 1983, DID GAS DISTRIBUTION UTILITIES LIKE PEOPLES**  
23 **REGULARLY OFFER UNBUNDLED SERVICES TO ITS CUSTOMERS?**

1 A. No. Thirty-six (36) years ago when Peoples filed the rate case cited by Mrs. Meyer  
2 Burgraff, the structure of the gas industry was fundamentally very different, in many  
3 respects, then it is today. First, unbundled services for a gas distribution utility simply  
4 did not exist. Transportation service as we know it today did not exist for the simple  
5 reason that interstate gas pipelines had not yet unbundled the cost of their system gas  
6 supplies from the costs of their underlying delivery services. FERC Order No. 436  
7 addressing the unbundling of pipeline services and rates would not be issued for another  
8 two years. Also, at that time, gas distribution utilities such as Peoples did not yet have  
9 the ability and responsibility to directly acquire its gas supplies from gas marketers. In  
10 1983, the U.S. spot market for natural gas was just in its infancy relative to its maturity in  
11 today's market. These utilities purchased system supply gas from interstate pipelines  
12 under fully bundled, demand-commodity pricing structures.

13  
14 **Q. BASED ON THE POSITION OF MRS. MEYER BURGRAFF ON THE FIRST**  
15 **ISSUE, WOULD YOU NEED TO CONDUCT A COSS TO REFLECT HER VIEW**  
16 **THAT LOCAL GAS PRODUCERS DID NOT CAUSE THE COMPANY'S GAS**  
17 **GATHERING SYSTEM TO BE BUILT AND THAT THE SYSTEM SERVES THE**  
18 **SOLE PURPOSE OF PROVIDING LOCAL GAS SUPPLIES TO END-USE**  
19 **CUSTOMERS?**

20 A. No. One does not require a COSS to determine what portion of the Company's cost of  
21 gathering should be assessed to local gas producers if one believes there should be no  
22 cost responsibility attributed to that group for Peoples' gathering system.

23

1 **Q. AT PAGES 15-16 OF HER DIRECT TESTIMONY, MRS. MEYER BURGRAFF**  
2 **CLAIMS THAT VALUE-OF-SERVICE PRINCIPLES ARE NOT BEING USED IN**  
3 **THIS PROCEEDING BY THE COMPANY TO SET RATE AGS. DO YOU**  
4 **AGREE WITH HER CLAIM?**

5 A. No. Very simply, since a strict cost of service approach is not being used to set prices  
6 under the Company's proposed Rate AGS in recognition of the market and producer  
7 operating conditions in the Western Pennsylvania region, it should be clear that  
8 competitive considerations, which I view as value-of-service related, are being  
9 recognized in setting the rate levels for Rate AGS. And while the charges set under Rate  
10 AGS for conventional gas producers will not be set on an individual producer basis,  
11 changing market conditions will affect the level of these charges, and the charges under  
12 Rate AGS for Marcellus producers will be set on an individual negotiated basis. This  
13 would not occur if the charges under Rate AGS were set on the underlying cost of  
14 service. As a result, Mrs. Meyer Burgraff's claim should be rejected.

15  
16 **Q. AT PAGES 17-18 OF HER DIRECT TESTIMONY, MRS. MEYER BURGRAFF**  
17 **POINTS OUT THAT THE COMPANY INCORRECTLY INCLUDED A RETURN**  
18 **COMPONENT FOR THE WORKING CAPITAL INCURRED BY THE**  
19 **COMPANY TO FUND ITS PURCHASED GAS COSTS WHICH SHE CLAIMS**  
20 **OVERSTATES THE PROPOSED MAXIMUM RATE UNDER RATE AGS, AND**  
21 **THAT THIS NEEDS TO BE CORRECTED BY THE COMPANY. HAVE YOU**  
22 **CALCULATED HOW THIS REDUCTION IN THE COST OF GATHERING**  
23 **IMPACTS THE MAXIMUM RATE UNDER RATE AGS?**

1 A. Yes. Referring to pages 27-28 of Exhibit \_\_\_(EDB-1), the Company's explanation of the  
2 required adjustment is provided in response to SBI-Peoples-II-24. It states that the total  
3 gathering cost of service of \$26,559,887 used to establish the maximum rate under Rate  
4 AGS should be reduced by \$78,893. When this reduction in gathering costs is divided by  
5 the annual gathering volumes of 34,668,213 Mcf, it results in a rate reduction of \$0.002  
6 per Mcf. On that basis, the maximum rate of \$0.76 per Mcf continues to be appropriate  
7 because the resulting rate reduction from the reduction in the cost of gathering is too  
8 small to have an impact on the original rate level.

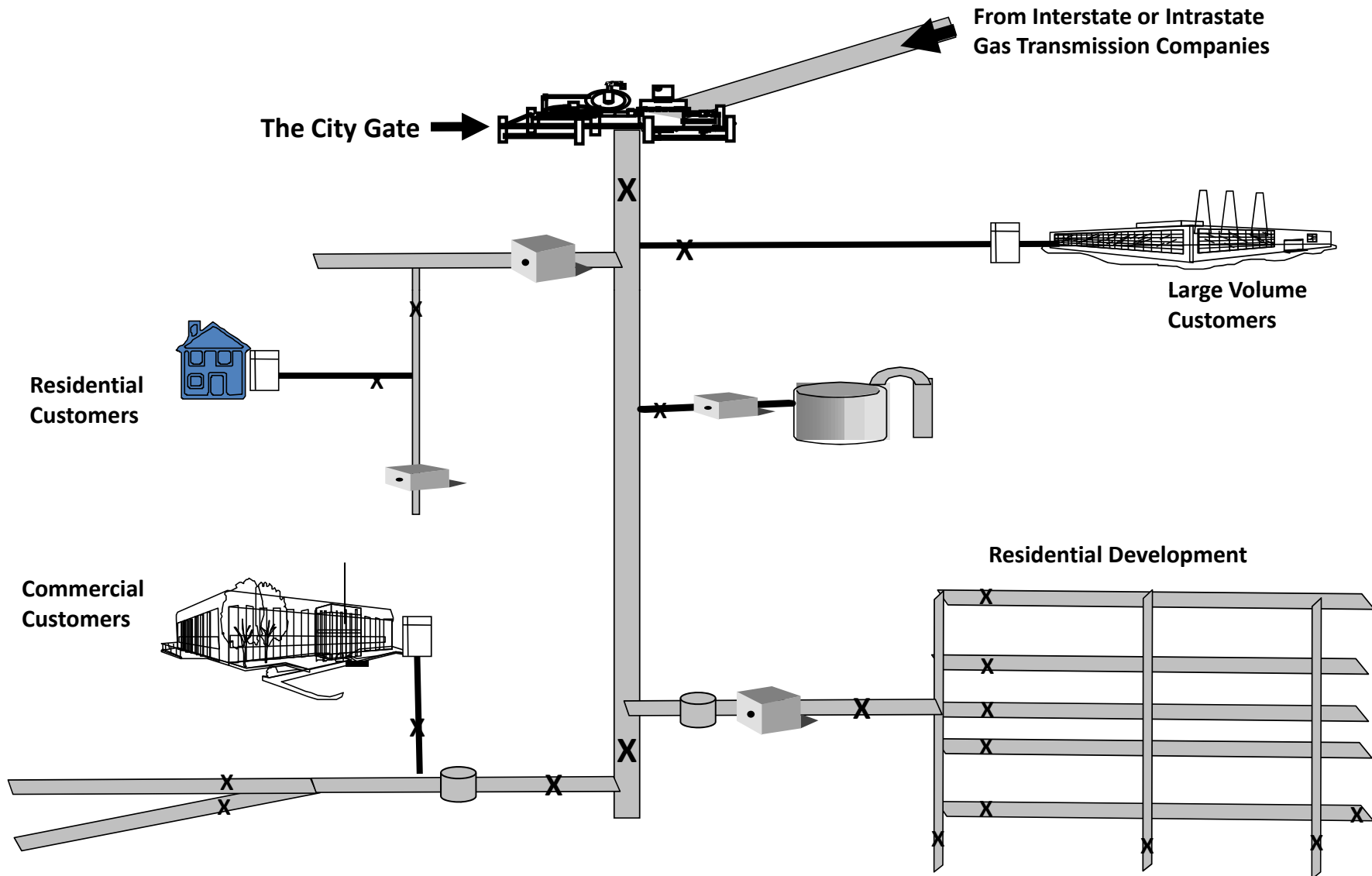
9

10 **Q. DOES THIS COMPLETE YOUR PREPARED REBUTTAL TESTIMONY?**

11 A. Yes. I reserve the right to submit supplemental testimony as additional issues arise  
12 during the course of this proceeding. Thank you.

# Peoples Natural Gas Company, LLC Gas Distribution System Behind the City Gate

Peoples Exhibit RAF-11



Source: American Gas Association and Black & Veatch Corporation

Peoples Natural Gas Company LLC  
 Comparison of Cost of Service Study Results  
 Distribution Mains Investment

Rate Class	Company Cost of Service Study (1)			OCA Cost of Service Study (2)		
	Total Allocated Distribution Mains Plant	Design Day Demand (Mcf/d)	Unit Cost (\$/Mcf/d)	Total Allocated Distribution Mains Plant	Design Day Demand (MMcf/d)	Unit Cost (\$/Mcf/d)
Residential Service	\$1,163,569,914	682,227	\$1,706	807,573,391	682,227	\$1,184
Small General Service	\$168,797,260	137,419	\$1,228	160,817,360	137,419	\$1,170
Medium General Service	\$200,754,497	202,949	\$989	250,294,827	202,949	\$1,233
Large General Service	\$101,208,070	198,406	\$510	415,644,163	198,406	\$2,095
<b>Total Company</b>	<b>\$1,634,329,741</b>	<b>1,221,001</b>	<b>\$1,339</b>	<b>\$1,634,329,741</b>	<b>1,221,001</b>	<b>\$1,339</b>

(1) Peoples Exhibit 11, Schedule No. 1 - 53.53 IV-B-1(A) Page 4 of 146

(2) Schedule GAW-4, Page 3 of 15

Peoples Natural Gas Company LLC  
Comparison of Cost of Service Study Results  
Distribution Mains Plant per Design Day (\$/Mcf)

