

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

---

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

---

**PUBLIC VERSION**

DATE SERVED: June 12, 2019  
DATE ADMITTED: \_\_\_\_\_

Peoples Statement No. 11-SR

**PREPARED SURREBUTTAL 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 AND REBUTTAL**  
10 **TESTIMONY BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
11 **(“COMMISSION”) IN THIS PROCEEDING?**

12 A. Yes. I previously submitted direct and rebuttal testimony in this proceeding on behalf of  
13 Peoples Natural Gas Company LLC (“Peoples” or the “Company”) to present and address  
14 its filed cost of service studies (“COSS”), proposed class revenues and rate design (Peoples  
15 Statement Nos. 11 and 11-R).

16

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

19 A. The purpose of my surrebuttal testimony is to respond to the supplemental direct testimony of  
20 the Pennsylvania Office of Consumer Advocate (“OCA”) witness Glenn A. Watkins related to  
21 the cost to serve Peoples’ negotiated rate Customer #41.

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

**Q. PLEASE SUMMARIZE THE ISSUE YOU WILL ADDRESS IN YOUR SURREBUTTAL TESTIMONY?**

A. My surrebuttal testimony addresses Mr. Watkins’ recommended upward revenue adjustment of [BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL] for negotiated rate Customer #41, which reflects the level of discount below full tariff rates. While no revenue adjustment for this customer would be appropriate for the reasons discussed by Peoples’ witness Joseph Gregorini, I will demonstrate that the negotiated rate for this customer is greater than its cost to serve and, therefore, an upward revenue adjustment to full tariff rates as recommended by Mr. Watkins is not supported by the cost analysis I have conducted for Customer #41. I will also address Mr. Watkins’ claim that “Peoples is requesting that captive ratepayers fully fund the discount offered to a selected few Commercial and Industrial customers.”<sup>1</sup>

**OVERALL CONCLUSIONS**

**Q. CAN YOU PLEASE SUMMARIZE YOUR CONCLUSIONS RELATED TO THE COST TO SERVE PEOPLES’ NEGOTIATED RATE CUSTOMER #41?**

A. Yes. Based on my review and analysis of the plant in service used to serve Customer #41 and the associated Operations and Maintenance (O&M) and Administrative and General (A&G) expenses required to serve Customer #41, the embedded cost to serve this customer is [BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL] for the fully forecasted test year. The revenue from Customer #41 based on test year throughput under its negotiated rate is [BEGIN HIGHLY

---

<sup>1</sup> Including the rate discount for Customer #41.

1           **CONFIDENTIAL** [REDACTED] **[END HIGHLY CONFIDENTIAL]**. The difference  
2 between the cost of service and negotiated rate revenue for Customer #41 is **[BEGIN**  
3 **HIGHLY CONFIDENTIAL**] [REDACTED] **[END HIGHLY CONFIDENTIAL]**,  
4 demonstrating that the negotiated rate revenue exceeds the cost to serve Customer #41.

5           In addition, Mr. Watkins' claim is incorrect that the Company is requesting that  
6 captive ratepayers fully fund the discount offered to Peoples' Commercial and Industrial  
7 customers who are priced on a negotiated rate basis.

8  
9 **Q. DO YOU AGREE WITH MR. WATKINS' RECOMMENDED UPWARD REVENUE**  
10 **ADJUSTMENT OF [BEGIN HIGHLY CONFIDENTIAL] [REDACTED] [END**  
11 **HIGHLY CONFIDENTIAL] REFLECTING THE DIFFERENCE BETWEEN THE**  
12 **NEGOTIATED RATE REVENUE AND THE FULL TARIFF RATE UNDER THE**  
13 **LGS RATE SCHEDULE?**

14 A. No. The revenue adjustment proposed by Mr. Watkins incorrectly assumes that the cost to  
15 serve Customer #41 is equivalent to the full tariff rate under the LGS Rate Schedule. The cost  
16 analysis described below results in a unit cost of service for Customer #41 that is less than the  
17 negotiated rate this customer is currently being charged. Therefore, the negotiated rate for  
18 Customer #41 generates a greater level of revenue than required to recover the cost to serve  
19 this customer.

20

1 **DETAILED COST ANALYSIS TO SERVE CUSTOMER #41**

2 **Q. CAN YOU PLEASE DESCRIBE THE ANALYSIS THAT WAS CONDUCTED TO**  
3 **DETERMINE THE ASSIGNMENT OF PLANT THAT IS USED TO SERVE**  
4 **CUSTOMER #41?**

5 A. Yes. The plant that is used to serve Customer #41 was specifically identified and directly  
6 assigned for the following FERC accounts:

- 7 • Account No. 367 – Transmission Mains
- 8 • Account No. 369 – Transmission Measuring and Regulating Equipment
- 9 • Account No. 376 – Distribution Mains
- 10 • Account No. 380 – Services
- 11 • Account No. 381 – Meters

12 The plant balances were identified as of April 30, 2019, and not at the end of the fully projected  
13 future test year because of time limitations to prepare the cost analysis for Customer #41 in  
14 response to Mr. Watkin’s supplemental direct testimony. The April 30, 2019 balances were  
15 readily available and are suitable for purposes of comparing the specific cost analysis and  
16 negotiated rate revenues for Customer #41.

17  
18 **Q. PLEASE EXPLAIN HOW ACCOUNT NO. 367 – TRANSMISSION MAINS WAS**  
19 **DIRECTLY ASSIGNED TO CUSTOMER #41**

20 A. Peoples identified the pipeline segments that specifically serve Customer #41 from each city-  
21 gate (*i.e.*, the connection to an interstate gas pipeline) to the customer service line and the  
22 associated original cost and accumulated depreciation reserve for these plant components.  
23 Peoples also identified the portion of the peak day gas flow on each pipeline segment that is

1           attributable to Customer #41. The weighting of the peak gas flow percentages attributable to  
2           Customer #41 times the plant in service and accumulated depreciation reserve balances of the  
3           applicable pipeline segments was used to directly assign the cost of transmission mains to  
4           Customer #41.

5  
6   **Q.   PLEASE EXPLAIN HOW ACCOUNT NO. 369 – TRANSMISSION MEASURING**  
7           **AND REGULATING EQUIPMENT WAS DIRECTLY ASSIGNED TO CUSTOMER**  
8           **#41.**

9   A.   Peoples identified the regulator station that reduces pressure between the two pipeline  
10       segments that serve Customer #41 from the city-gate to the customer service line, including  
11       the original cost and the accumulated depreciation reserve. Peoples identified the peak day  
12       gas flow through the regulator station as being 100 percent attributable to Customer #41.  
13       Therefore, the full original cost and depreciation reserve balances of the identified  
14       transmission M&R equipment were directly assigned to Customer #41.

15  
16   **Q.   PLEASE EXPLAIN HOW ACCOUNT 376 NO. – DISTRIBUTION MAINS WAS**  
17       **DIRECTLY ASSIGNED TO CUSTOMER #41.**

18   A.   Peoples identified the pipeline segment that serves Customer #41 from the above-mentioned  
19       regulator station (which reduces the operating pressure from transmission pressure to  
20       distribution pressure) to the customer service line, including the original cost and the  
21       accumulated depreciation of the mains. Peoples identified the peak day gas flow through the  
22       distribution main segment as being 100 percent attributable to Customer #41. Therefore, the

1 full original cost and depreciation reserve balances of identified distribution main were  
2 directly assigned to Customer #41.

3  
4 **Q. PLEASE EXPLAIN HOW ACCOUNT NO. 380 – SERVICES AND ACCOUNT NO.**  
5 **381 - METERS WERE DIRECTLY ASSIGNED TO CUSTOMER #41.**

6 A. Peoples identified each of the customer metering points and the size of the meters to serve  
7 Customer #41. The current costs for each size service and meter was used to calculate the  
8 original cost of services and meters directly assigned to Customer #41. The ratio of total  
9 meters and services plant for the LGS rate class to their respective depreciation reserve  
10 balances was used to determine the amount of depreciation reserve to directly assign to  
11 Customer #41.

12  
13 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE ASSIGNMENT OF**  
14 **THE ABOVE-DESCRIBED PLANT ACCOUNTS TO CUSTOMER #41?**

15 A. Yes. HIGHLY CONFIDENTIAL Peoples Exhibit RAF-13 shows the derivation of the direct  
16 assignment of Transmission Mains, Transmission M&R Equipment, Distribution Mains,  
17 Services, and Meters on page 5. The resulting rate base amounts are shown on page 2 of  
18 HIGHLY CONFIDENTIAL Peoples Exhibit RAF-13.

19  
20 **Q. ARE THERE ANY OTHER RATE BASE ITEMS THAT WERE INCLUDED IN THE**  
21 **COST TO SERVE CUSTOMER #41?**

22 A. Yes. In addition to the assignment of plant directly used to serve Customer #41 as described  
23 above, an allocation of Intangible Plant and General Plant was included in the net rate base

1 amount for Customer #41. The allocation was based on the proportion of the directly assigned  
2 transmission and distribution plant for Customer #41 to the total allocated plant for the LGS  
3 rate class. The net rate base for Customer #41 is shown on page 2 of HIGHLY  
4 CONFIDENTIAL Peoples Exhibit RAF-13.

5  
6 **Q. PLEASE EXPLAIN HOW THE O&M EXPENSES REQUIRED TO SERVE**  
7 **CUSTOMER #41 WERE DETERMINED.**

8 A. The O&M expenses allocated to Customer #41 were derived from the total O&M expense  
9 accounts for the LGS rate class based on the proportion of direct assigned plant to total plant.  
10 The O&M expenses allocated to serve Customer #41 are shown on page 4 of HIGHLY  
11 CONFIDENTIAL Peoples Exhibit RAF-13.

12  
13 **Q. PLEASE EXPLAIN HOW THE CUSTOMER ACCOUNTS EXPENSES REQUIRED**  
14 **TO SERVE CUSTOMER #41 WERE DETERMINED.**

15 A. The customer accounts expenses in Account No. 902 – Meter Reading Expense and Account  
16 No. 903 - Customer Records and Collections Expense were allocated to Customer #41 from  
17 the total amounts for the LGS rate class based on the number of customer bills. The amount  
18 of customer accounts expense allocated to serve Customer #41 is shown on page 4 of  
19 HIGHLY CONFIDENTIAL Peoples Exhibit RAF-13.

20  
21 **Q. PLEASE EXPLAIN HOW ACCOUNT NO. 912 – DEMONSTRATING AND**  
22 **SELLING EXPENSES REQUIRED TO SERVE CUSTOMER #41 WERE**  
23 **DETERMINED.**



1 A. A study of the required interactions by Peoples staff with the various sized LGS  
2 customers was performed, and it was determined that the largest LGS customers required  
3 **[BEGIN HIGHLY CONFIDENTIAL]** [REDACTED] **[END HIGHLY CONFIDENTIAL]**  
4 interactions with a sales representative per month. Based on the allocation of Account  
5 No. 912 – Demonstrating and Selling Expenses to the LGS rate class and the total annual  
6 number of interactions for LGS customers, the cost of each customer contact equals  
7 **[BEGIN HIGHLY CONFIDENTIAL]** [REDACTED] **[END HIGHLY CONFIDENTIAL]**.  
8 Therefore, since Customer #41 requires **[BEGIN HIGHLY CONFIDENTIAL]** [REDACTED]  
9 **[END HIGHLY CONFIDENTIAL]** contacts per month, the allocation of Account No.  
10 912 to Customer #41 is **[BEGIN HIGHLY CONFIDENTIAL]** [REDACTED] **[END**  
11 **HIGHLY CONFIDENTIAL]** as shown on page 6 of HIGHLY CONFIDENTIAL  
12 Peoples Exhibit RAF-13.

13  
14 **Q. PLEASE EXPLAIN HOW THE A&G EXPENSES REQUIRED TO SERVE**  
15 **CUSTOMER #41 WERE DETERMINED.**

16 A. The labor-related portion of Administrative and General expenses allocated to the LGS  
17 rate class was allocated to Customer #41 based on the proportion of O&M expenses  
18 allocated to Customer #41 relative to the O&M expenses allocated to the LGS rate class.  
19 Account No. 924 – Property Insurance, Account No. 925 – Injuries and Damages, and  
20 Account No. 932 – Maintenance of General Plant were allocated to Customer #41 based  
21 on total plant. Account No. 928 – Regulatory Commission Expense, Account No. 930 –  
22 Miscellaneous General Expenses, and Account No. 931 - Rents were allocated to  
23 Customer #41 based on a 50/50 weighting of O&M expenses and total plant. The amount

1 of A&G expenses allocated to Customer #41 is shown on page 4 of HIGHLY  
2 CONFIDENTIAL Peoples Exhibit RAF-13.

3  
4 **Q. WERE ANY OTHER EXPENSES ATTRIBUTED TO CUSTOMER #41?**

5 A. Yes. Depreciation expense for the plant required to serve Customer #41 was calculated based  
6 on the depreciation rates proposed in this proceeding. The depreciation expense calculation is  
7 shown on page 3 of HIGHLY CONFIDENTIAL Peoples Exhibit RAF-13.

8  
9 **Q. CAN YOU PLEASE DESCRIBE THE RESULTING DERIVATION OF THE TOTAL  
10 COST TO SERVE CUSTOMER #41?**

11 A. Yes. First, I should note that this is a preliminary cost analysis that was prepared to respond to  
12 the OCA's supplemental direct testimony under a short timeframe within the constraints of the  
13 procedural schedule. While this cost analysis could be refined with the benefit of additional  
14 time, it is my opinion that its results are directionally reasonable for purposes of this required  
15 cost and rate comparison. As shown on page 1 of HIGHLY CONFIDENTIAL Peoples  
16 Exhibit RAF-13, the Company's required rate of return and interest rate on debt was applied  
17 to the net rate base assigned to Customer #41 to calculate the return on equity and cost of debt.  
18 Depreciation expense, O&M and A&G expenses were then added to the plant-related costs.  
19 Finally, the income taxes on the return on equity based on the Company's effective income tax  
20 rate. The total of these revenue requirement components equals [BEGIN HIGHLY  
21 CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]. The total forecasted  
22 fully projected future test year volumes for Customer #41 are [BEGIN HIGHLY  
23 CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL]. Therefore, the

1 total unit cost of service for Customer #41 equals [BEGIN HIGHLY CONFIDENTIAL]  
2 [REDACTED] [END HIGHLY CONFIDENTIAL]. This compares to the negotiated  
3 volumetric rate for Customer #41 of [BEGIN HIGHLY CONFIDENTIAL] [REDACTED]  
4 [REDACTED] [END HIGHLY CONFIDENTIAL], which is [BEGIN HIGHLY  
5 CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL] times the unit cost of  
6 service. Furthermore, this volumetric rate comparison does not include the additional revenue  
7 generated from the monthly customer charges also assessed to Customer #41. The total  
8 revenue for Customer #41 for the fully projected future test year is [BEGIN HIGHLY  
9 CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL], which is [BEGIN  
10 HIGHLY CONFIDENTIAL] [REDACTED] [END HIGHLY CONFIDENTIAL] more than  
11 the cost to serve this customer.

12  
13 **FUNDING OF RATE DISCOUNTS TO NEGOTIATED RATE CUSTOMERS**

14 **Q. AT PAGE 11 OF HIS SUPPLEMENTAL DIRECT TESTIMONY, MR. WATKINS**  
15 **CLAIMS THAT “PEOPLES IS REQUESTING THAT CAPTIVE RATEPAYERS**  
16 **FULLY FUND THE DISCOUNT OFFERED TO A SELECTED FEW**  
17 **COMMERCIAL AND INDUSTRIAL CUSTOMERS.” DO YOU AGREE WITH HIS**  
18 **CLAIM?**

19 **A.** No. Mr. Watkins’ claim is incorrect. As I described in my direct testimony, the Company has  
20 negotiated rate customers in its SGS, MGS and LGS rate classes. In determining the  
21 Company’s proposed class revenue apportionment, any increase assigned to those three rate  
22 classes could not be recovered from the negotiated rate customers in each rate class.  
23 Therefore, the full tariff rates to the other customers (*i.e.*, the non-negotiated rate customers)

1           were increased to recover the entirety of the revenue increase assigned to each of these three  
2           rate classes. Since there are no negotiated rate customers served in Peoples' residential rate  
3           class, there are no rate discounts attributable to the Company's commercial and industrial  
4           customers funded by its residential customers. Mr. Watkins' claim should be ignored.

5

6   **Q.    DOES THIS COMPLETE YOUR PREPARED SURREBUTTAL TESTIMONY?**

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