OCA Statement No. 1

**BEFORE THE**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**DIRECT TESTIMONY OF**

**DANTE MUGRACE**

**ON BEHALF OF THE**

**COMMONWEALTH OF PENNSYLVANIA**

**OFFICE OF CONSUMER ADVOCATE**

**April 29, 2018**

**PUBLIC VERSION**

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# I. STATEMENT OF QUALIFICATIONS

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

**A.** My name is Dante Mugrace. My business address is 22 Brooks Avenue, Gaithersburg, MD 20877.

**Q. WHAT IS YOUR PRESENT OCCUPATION?**

**A.** I am a Senior Consultant with the Economic and Management Consulting Firm of PCMG and Associates, LLC. ("PCMG"). In my capacity as a Senior Consultant, I am responsible for evaluating and examining rate and rate related proceedings before various governmental entities, preparing expert testimony recommending revenue requirement, as well as, offering opinions on economic policy and policy issues and methodologies used to set a value on a utility's rate base and cost of service components of revenue requirement.

**Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

**A.** PCMG is an association of experts in utility regulation and policy, economics, accounting and finance. PCMG's members have over 75 years collective experience providing assistance to counsel and expert testimony regarding the regulation of electric, gas, water and wastewater utilities that operate under local, state and federal jurisdictions. PCMG focuses on areas regarding revenue requirement, cost of service, rate design, cost of capital and rate of return. Prior to my association with PCMG, I was employed as a Senior Consultant with the consulting firm of Snavely King Majoros and Associates ("SKM") from 2013 to 2015, in the same capacity as PCMG. Prior to SKM I was employed by the New Jersey Board of Public Utilities ("NJBPU") from 1983 to my retirement in 2011. During my tenure at the NJBPU, I held various Accounting, Rate Analyst, Supervisory and Management Positions. My last position was Bureau Chief of Rates in the Agency's Water Division (Bureau Chief of Rates). I held this position for nearly 10 years. My resume is attached as Appendix A.

**Q. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY RATE SETTING PROCEEDINGS AND OTHER UTILITY MATTERS?**

**A.** In my capacity as Bureau Chief of Rates at NJBPU, I was responsible for overseeing the rate process regarding administrative, financial, and managerial functions of the Rates Bureau. My primary duties were to ensure that the jurisdictional utilities had sufficient revenues to cover their operating expenses, the ability to earn a reasonable rate of return on plant investments, and to ensure that the provision of safe, adequate and proper service at reasonable rates was met. During my time at the NJBPU, I was involved in hundreds of rate and rate related proceedings. In my capacity as a Senior Consultant previously with SKM and now with PCMG, I have been and am currently involved in rate and rate related proceedings before the Commissions in the Commonwealth of Massachusetts and Pennsylvania, and the States of Maine, Maryland, New Jersey, New York, North Dakota, and Ohio. I was involved in the Generic Proceedings to Establish Parameters for the Next Generation Performance Based Rate Plans before the Alberta Utilities Commission. I was involved in transmission formula rate plans before the Federal Energy Regulatory Commission (FERC) regarding the PECO Energy Company on behalf of the Pennsylvania OCA and the Rockland Electric Company on behalf of the NJ Division of Rate Counsel.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

**A.** I hold a Master of Business Administration ("MBA") degree with a concentration in Strategic Management from Pace University-Lubin School of Business in New York, New York. I hold a Master of Public Administration ("MPA") degree from Kean University in Union, New Jersey. I hold a Bachelor of Science ("BS") degree in Accounting from Saint Peter's University in Jersey City, New Jersey.

## II. PURPOSE OF TESTIMONY

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

**A.** I am testifying on behalf of the Pennsylvania Office of the Consumer Advocate ("OCA").

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

**A.** The purpose of my testimony is to calculate and to make a recommendation regarding the Peoples Natural Gas Company, LLC. (Peoples or Company) base rate case proceeding. My recommendation includes the setting of the Company's Rate Base Valuation, and Pro Forma Operating Income at Present Rates for the Fully Projected Future Test Year Period Ending October 31, 2020. On January 28, 2019, Peoples filed a base rate case with the Pennsylvania Public Utility Commission (PAPUC or Commission) requesting an overall increase in rates for its gas distribution service of $94.9 million or 14.23% above current rates. The filing is predicated on the combined operations of Peoples Natural Gas and the Equitable Natural Gas (Equitable) Companies. Peoples acquired Equitable in 2013.[1] Peoples is requesting consolidation of base rates into one unified company and the elimination of the requirements to maintain separate divisions. My recommendations incorporate the components of Peoples as one single entity (combined basis). Included in my recommended position on Rate Base Valuation and Operating Income, I am also incorporating the recommendations of OCA witness Mr. O'Donnell with respect to the overall rate of return, OCA witness Mr. Watkins on certain operating revenue adjustments, and OCA witness Mr. Colton on Universal Service adjustments.

[1] The Commission approved the consolidation of Peoples and Equitable in 2015 (Docket Nos. R-2015-2465172 and R-2015-2465181).

## III. REVENUE REQUIREMENT ISSUES

### A. SUMMARY

**Q. WHAT REVENUE DEFICIENCIES OR ADJUSTMENTS ARE YOU RECOMMENDING?**

**A.** Based upon the use of the Company's proposed fully projected future test year ending October 31, 2020, I have the following recommendations:

- My recommended Rate Base balance is $1,934,517,384 which is $117,793,690 lower than the Company's proposed Rate Base balance of $2,052,311,067.
- My overall Rate of Return based upon OCA witness O'Donnell's recommendation is 6.499%, which includes a Common Equity component of 8.75%.
- My recommended Rate of Return on Rate Base is 6.499%, which is 149.99 basis points lower than the Company's Rate of Return on Rate Base of 8.00%.
- My recommended Operating Revenue at Present Rates is computed at $667,765,638, which is $746,247 higher than the Company's Present Rate Revenue of $667,019,391.[2]
- My recommended total Gas Supply Expenses is $271,922,701 which is $959,148 higher than the Company's proposed Gas Supply Expenses of $270,963,553.
- My recommended Income Taxes is $16,073,756, which is $19,388,286 lower than the Company's proposed Income Taxes of $35,462,041. This includes the Flow Back of Excess Deferred Income Taxes pursuant to the Tax Cuts and Jobs Act of 2017.

[2] Any differences between Company Operating Revenues at Present Rates in its filing and my Schedules are due to rounding.

- Overall, I recommend a revenue requirement increase of $22,949,558 which is $71,898,651 lower than the Company's proposed revenue requirement increase of $94,848,211.

## B. RATE BASE (Measures of Value)

### 1. <u>Gas Plant in Service (GPIS)</u>

**Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS GAS PLANT IN SERVICE?**

**A.** The Company has proposed a GPIS balance in the combined amount of $3,244,481,314[3] for the fully projected future test year of the twelve months ending October 31, 2020. Included in that balance are plant additions that the Company expects to place in service during the future test year period ending September 30, 2019, in the amount of $279,756,307, and an additional $292,720,536 for the Fully Projected Future Test period ending October 31, 2020, a total addition to plant of $572,476,843. (Company Exhibit 8, Schedule 3 page 4 line 66). The Company's Fully Projected Future Test Period (FPFTY) and its Measure of Value is in accordance with Act 11 of 2012.

**Q. WHAT ARE THE REQUIREMENTS OF THE USE OF A FPFTY PERIOD?**

**A.** With the enactment of Act 11 of 2012, the Company is allowed to use a fully projected future test year to establish base rates. The FPFTY is defined as the 12-month period that begins with the first month that the new rates will be placed in service, after application of the full suspension period permitted under Section 1308(d).

**Q. DID THE COMPANY COMPLY WITH THESE REQUIREMENTS?**

**A.** Yes.

[3] Differences between the Company's balance and my balance are due to rounding.

**Q. WHAT CHANGES DO YOU HAVE WITH RESPECT TO THE COMPANY'S PROPOSED LEVEL OF GPIS FOR ITS FULLY PROJECTED FUTURE TEST YEAR PERIOD ENDING OCTOBER 31, 2020?**

**A.** I made an adjustment to the Company's plant in service balance with the use of an average test year GPIS balance instead of the Company's proposed test year end balances as of October 31, 2020.

**Q. DOESN'T ACT 11 ALLOW UTILITIES TO USE A FULLY PROJECTED FUTURE TEST YEAR IN SETTING RATES?**

**A.** Yes, but this does not require using year end plant balances in the setting of base rates. The use of an average test year balance is appropriate and should be the method to calculate the Company's revenue requirement. The use of an average test year balance closely matches the revenue requirement at the time when new rates are expected to be set by the Commission. The Company will not have the fully projected level of GPIS in service at the end of its FTY period September 30, 2019, but rather at the fully projected future test year period ending October 31, 2020. The purpose of the use of a fully projected test year period is to calculate the Company's revenue requirement that will be in effect, on average, for the first year of new rates (on or about January 1, 2020). The use of an average test year GPIS balance better reflects the matching of all components in the calculation of rate base.

**Q. ARE YOU AWARE OF OTHER STATES THAT PERMIT THE USE OF A FULLY FORECASTED FUTURE TEST YEAR WITH THE USE OF AN AVERAGE TEST YEAR UTILITY PLANT IN SERVICE (UPIS) BALANCE IN SETTING RATES?**

**A.** Yes. Other states that permit the use of a fully forecasted future test year in setting rates, are Illinois, Maine and North Dakota, which utilize an average test year or mid-year UPIS balance (with the average balance related to other rate base components such as accumulated depreciation and accumulated deferred income taxes).

**Q. WHY IS IT APPROPRIATE TO UTILIZE AN AVERAGE TEST YEAR UPIS BALANCE APPROACH RATHER THAN THE TEST YEAR END BALANCES (OCTOBER 31, 2020) THAT THE COMPANY HAS PROJECTED IN ITS FILING?**

**A.** In this case, the Company filed for a base rate increase in January 28, 2019. Evidentiary Hearings in this matter are set for the period June 18-20, 2019, with an expected Commission decision on the Company's rate filing expected in the 4th quarter 2019. If rates go into effect at that time, and under the Company's proposal to use a fully forecasted test year-end balance, ratepayers will be charged for costs that have not been placed in service at that time but will be paying a return on those balances as if the plant is in service. Therefore, it is not prudent nor reasonable to allow ratepayers to pay for capital expenditures for a full year that will not be in service and may not be in service until the end of the October 31, 2020, the fully projected future test year period.

Another reason for the use of an average test year rate base balance, is that the Company's GPIS balance is changing significantly during the test year period(s), which could affect the value of the revenue requirement proposal. In this case, the Company is expected to add approximately $279.756 million of plant additions during the period ending September 30, 2019, and an additional $292.720 million during the period ending October 31, 2020, a total of $572.477 million in this proceeding or 21% over the HTY period. This is a significant capital expenditures change. The use of an average test year rate base methodology better matches the level of rate base that will be in service during the rate year period.

The Company would not have that level of rate base/plant in service throughout the fully projected forecasted test year period. This could cause a discrepancy or a mismatch in the measurement of the Company's year-end values, i.e. rate base. It is expected that new rates for this rate case proceeding will become effective the fourth quarter 2019 and continuing throughout 2019 and into 2020. Therefore, if a year-end rate base/plant in service balance is used, this would result in an inconsistency of the utility's earnings and result in a windfall for the Company. The use of an average test year GPIS balance will approximately match the collection of the revenue requirement during the first year that new rates are set. The purpose of the fully projected forecasted test year is to calculate the Company's revenue requirement that will be in effect, on average, for the rate year.

**Q. USING YOUR AVERAGE GPIS TEST YEAR BALANCE APPROACH, WHAT IS YOUR RECOMMENDATION?**

**A.** Using my average GPIS test year balance, my recommended GPIS balance before any specific adjustments is computed in the amount of $3,099,932,489 (Schedule DM-32).

**Q. HOW DID YOU CALCULATE YOUR AVERAGE TEST YEAR GPIS BALANCE?**

**A.** I calculated my average test year GPIS balance by taking the Company's September 30, 2019, balance of $2,951,760,778 and the Company's October 31, 2020 balance of $3,244,481,320, averaging those balances, to arrive at an average balance of $3,099,932,489[4]. This is $144,548,832 less than the Company's proposal of $3,244,481,320. With this average balance computation, I am also adjusting the Company's accumulated depreciation and the accumulated deferred income taxes to reflect the average test year balances in rate base. My recommendation is shown on my Schedule DM-32, Line 1, and DM-33 Line 29.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR GPIS BALANCE ADJUSTMENT?**

**A.** The revenue requirement impact of my GPIS adjustment is: $144,548,832 times the Rate of Return of 6.499% multiplied by the Revenue Conversion Factor of 1.35264919, which equals $12,707,096.

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[4] Refer to Schedule DM-32 for the calculation of the average UPIS balance.

### 2. Accumulated Depreciation

**Q. WHAT HAS THE COMPANY CALCULATED WITH RESPECT TO ITS ACCUMULATED DEPRECIATION?**

**A.** The Company computed accumulated depreciation in the amount of $1,057,114,519 as shown on Company Exhibit 8, Schedule No. 2 page 3, Exhibit 9 Schedule 3 and as reflected in Spanos Exhibit 5C. In the same manner as the Company used in the calculation of its GPIS, the Company calculated its accumulated depreciation using the end of year balance at the fully projected test year ending October 31, 2020.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** Consistent with what I used to compute the Company's GPIS balance and the reasoning for my use of an average test year balance, I am also using the same method to develop the accumulated depreciation balance. I am applying those average balances to compute my accumulated depreciation recommendation. My recommended average accumulated depreciation expense is $1,026,478,157 and is shown on my Schedule DM-33. This is an adjustment of $(30,636,363) from the Company FPFTY period balance of $1,057,114,519.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT TO THE COMPANY'S ACCUMULATED DEPRECIATION?**

**A.** The revenue requirement impact of my Accumulated Depreciation adjustment is: $30,636,363 times the recommended Rate of Return of 6.499% multiplied by the Revenue Conversion Factor of 1.35264919x which equals to $2,693,202 and is shown on my Schedule DM-33, Line 9.

### 3. Working Capital

**Q. WHAT IS INCLUDED IN THE COMPANY'S WORKING CAPITAL?**

**A.** The Company has included Materials and Supplies, Prepayments, Gas Storage Underground - Current balances and Cash Working Capital Requirements, as shown on Company Exhibit 8, Schedule 2, page 3 in the total amounts of:

| | |
|---|---|
| Gas Storage Underground - Current | $31,115,826 |
| Materials and Supplies - | $ 3,202,304 |
| Prepayments | $ 6,409,880 |
| Cash Working Capital | $35,194,786[5] |
| Total | $75,922,796 |

**Q. HOW DID YOU CALCULATE YOUR RECOMMENDED WORKING CAPITAL?**

**A.** In calculating my recommended working capital, I used the average balances (September 30, 2019 – October 31, 2020), only for the Gas Storage Underground – Current, as the Company did not make adjustments between its FTY and FPFTY period balances for its Materials and Supplies and Prepayments. For the Cash Working Capital Requirements, I used the Company's methodology utilizing my recommended O&M expense adjustments. My balances compute as follows:

| | Company | PAOCA |
|---|---|---|
| Materials and Supplies | $ 3,202,304 | $ 3,202,304 |
| Prepayments | $ 6,409,880 | $ 6,409,880 |
| CWC | $35,194,786 | $33,380,456 |
| Gas Storage Underground | $31,115,826 | $26,769,969 |
| Subtotal | $75,922,796 | $69,762,608 |

[5] Per OCA-I-54, the correct CWC balance should be $35,169,645. I have utilized the Company's $35,194,786 CWC balance so that the Company's schedules match the Rate Base.

**Q. WHAT CHANGES DO YOU HAVE REGARDING THE COMPANY'S CASH WORKING CAPITAL (CWC) REQUIREMENTS OF $35,194,786 AS NOTED ABOVE?**

**A.** Using my recommended levels of O&M Expenses along with the Company's CWC Factors for each of the Company's CWC components, my recommended level of CWC is $33,380,456, and is shown on my Schedule DM-34, Line 36.

**Q. WHAT IS THE TOTAL REVENUE REQUIREMENT IMPACT OF YOUR WORKING CAPITAL COMPONENTS?**

**A.** My recommended adjustments for the Working Capital Components is therefore, $33,380,456. The revenue requirement impact of my Working Capital Adjustments is: $1,814,690 times the recommended Rate of Return of 6.499% multiplied by the Revenue Conversion factor of 1.35264919x which equals $159,527.

**4. <u>Deferred Income Taxes</u>**

**Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS ACCUMULATED DEFERRED INCOME TAXES (ADIT)?**

**A.** The Company proposed in its initial filing, an ADIT balance of $207,849,485 as shown on Company Exhibit 8, Schedule 2, page 3, and Exhibit 7 Schedule 8-Attachment 2. Included in the $207,849,485 ADIT balance is an Excess Deferred Income Tax balance of $64,680,664 and the Historical Test Period Normalization Adjustment of $7,219,056. The Company identified its ADIT by deferred income taxes and by depreciation related taxes.

**Q. DID THE COMPANY ACCOUNT FOR ITS CALCULATION OF ITS ADIT WITH RESPECT TO THE TAX CUTS AND JOBS ACT OF 2017 (TCJA) IN ITS INITIAL FILING?**

A. Yes. In Mr. Wesolosky's testimony, he stated that the Company adjusted its deferred tax assets and liabilities and created a regulatory liability to re-measure the federal tax rate from 35% to 21% as per the TCJA of 2017. (Peoples Statement

No. 4 page 15). The majority of the excess Deferred Income Taxes (EDIT) relate to utility plant and are subject to the normalization rules. In response to OCA-I-51, the Company stated that all of the EDIT is Protected Plant and that the Company calculated its EDIT through its PowerTax Deferred Tax System. The Company utilizes the Average Rate Adjustment Method (ARAM) to amortize the EDIT over the remaining life of the assets, which cannot be amortized more rapidly than such reserve would be reduced under the ARAM. (Peoples Statement No. 4 page 15).

**Q. HOW DID YOU CALCULATE THE ADIT BALANCE?**

**A.** In the same manner as I calculated the Company's other Rate Base components, I am following the same in the calculation of my ADIT balance. I averaged-out the Company's ADIT balances for the FTY period and for the FPFTY period to arrive at an average ADIT balance of $202,906,158, a difference of $(4,943,328).

**Q. DO YOU HAVE ANY OTHER ADJUSTMENTS TO THE COMPANY'S ADIT BALANCE?**

**A.** No, I do not.[6]

**Q. WHAT IS YOUR TOTAL ADJUSTMENT RELATED TO THE COMPANY'S ADIT BALANCE?**

**A.** My adjusted Company ADIT balance is $202,906,158, a difference of $(4,943,328) from the Company's filed balance of $207,849,485. I am accepting the Company's Excess Deferred Income Tax balance of $7,219,056. My adjustment is reflected on my Schedule DM-35, Line 5.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

**A.** The revenue requirement impact of my Accumulated Deferred Income Taxes is: $4,943,328 multiplied by the Rate of Return of 6.499% times the Revenue Conversion Factor of 1.35264919x equals $434,561.

[6] I would note that the Company has accounted for the flow-back of the excess EDIT of its Property Related assets in its Federal Income Tax calculation. This flow-back amounts to $1,780,376 and is addressed in my Federal Income Tax section beginning on page 57.

### C. OPERATING INCOME

#### 1. Operating Revenues

**Q. WHAT HAS THE COMPANY PROPOSED AS ITS OPERATING REVENUE AT PRESENT RATES AND PROPOSED RATES?**

**A.** As shown on Company Exhibit 2, Schedule 4, page 2 of 7, and on Exhibit 3 Schedule 15 Attachment A, the Company has projected pro-forma revenues at present rates in the amount of $667,019,391. In computing its present rate revenues, the Company used a 20-year weather normalization period to normalize the revenues through the period ending December 31, 2017 (Peoples Statement No. 5 page 4). The Company has utilized a 20-year average in prior base rate cases to normalize sales and usage. The Company calculated its proposed revenue at proposed rates under its FPFTY by adding its revenue requirement increase of $94,848,602 to its present rate revenue of $667,019,391 to arrive at its proposed revenues at propose rates of $761,867,602. (Company Exhibit 2 Schedule 4 page 2 of 7).

**Q. DID THE COMPANY UPDATE ITS OPERATING REVENUE SUBSEQUENT TO THE INITIAL FILING?**

**A.** No, the Company did not update its Operating Revenue subsequent to the initial filing.

**Q. DO YOU HAVE ANY ADJUSTMENTS TO THE COMPANY'S PRESENT RATE REVENUE?**

**A.** Yes. I utilized the average of the Company's FTY and FPFTY Operating Revenues to calculate my Operating Revenues at Present Rates. Given that the Company's rate petition is expected to be decided by the Commission in the 4th quarter of 2019, averaging out the FTY and the FPFTY periods of Operating Revenues better aligns the revenues with the costs that will be incurred during the rate period. Averaging out the Operating Revenues between these two periods results in an adjustment of $749,249. My recommended Operating Revenues at Present Rates is therefore $667,765,638, which is $749,249 higher than the Company's Operating Revenues at Present Rates of $667,019,389. My recommendation is shown on my Schedule DM-4, Line 29.

## 2. OPERATION AND MAINTENANCE EXPENSES

### a. <u>Gas Supply Expenses</u>

**Q. WHAT DID THE COMPANY PROPOSE REGARDING ITS GAS SUPPLY EXPENSES?**

**A.** The Company proposed an annualized Gas Supply Expense for its FPFTY period of $270,963,553 as shown on Company Exhibit 2 Schedule 4 page 2 of 7 and on Exhibit 3 Schedule 15 Attachment C.

**Q. DO YOU HAVE ANY ADJUSTMENTS TO THE COMPANY'S GAS SUPPLY EXPENSE?**

**A.** Yes. Since Gas Supply Expense is a function of the Operating Revenues, I averaged out the Gas Supply Expenses between the FTY period balance of $272,881,849 and the FPFTY period balance of $270,963,553 to arrive at an average balance of $271,922,701, an increase of $959,148. I averaged out the Company's Gas Supply Expense to align these costs with the average Operating Revenues, in that these costs are expected to be in effect at the time the Commission makes a determination on the Company's rate case filing and to be incurred during the rate period. My recommendation is shown on my Schedule DM-5, Line 1

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT ON YOUR ADJUSTMENT?**

**A.** My recommended revenue requirement impact is an adjustment of $959,148 minus the tax effect of 30.99% (21.00% FIT plus 9.99% PA State) equals $661,908.

**b. <u>Labor</u>**

**Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS LABOR EXPENSE?**

**A.** As shown on Company Exhibit 4, Schedule 1, page 4, the Company proposed to increase Labor Expenses from its HTY period of $59,585,556 to $67,633,076 for its FPFTY period, an increase of $8,047,520. Included in the Company's calculation of its Labor are increases and adjustments related to Merit Increases (3% for Clerical Labor and Exempt Labor, 2.50% for Clerical Union and 2.75% for Manual Union Employees) during the FTY and FPFTY periods; Increases related to Progression and Promotion to its Clerical – Union and Manual Union Employees and; Additional Employee Headcount and Vacancies to be filled through the FTY and FPFTY periods. (Exhibit 4, Schedule 1, page 5). The Company allocated its Labor Expense by applying an O&M Labor Percentage with respect to the type of work employees perform based upon payroll information during the October 1, 2017 though the September 30, 2018 period (Peoples Statement No. 3 page 14).

**Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S TOTAL LABOR EXPENSE CLAIM OF $67,633,076?**

**A.** I noted that the Company is proposing to include approximately 17 additional employees for the FPFTY period October 31, 2020. (Peoples Statement No. 3 page 13). These additional employees will add $951,997 to the Company's Labor Expense ($559,805 for PNG and $392,192 for PED) (Peoples Exhibit 4, Schedule 1, page 5). These employees are expected to be hired in the FPFTY period between October 1, 2019 through October 31, 2020. Not all of these employees will be hired at the time the Commission makes a determination on rates in this proceeding. Given that these additional employees will be hired periodically throughout the FPFTY period up to October 31, 2020, I am recommending that 50% of these employee vacancies or $475,999 be included in the Company's workforce and Labor Expense.

**Q. WHAT ARE YOUR RECOMMENDATIONS RELATED TO THE ADDITIONAL EMPLOYEES TO BE HIRED IN THE FPFTY PERIOD AND INCLUDED IN THE LABOR COSTS?**

**A.** My adjustments to the Company's Labor Costs are as follows:

| | Company | PAOCA[7] | Difference |
|---|---|---|---|
| 17 Additional Employees | $951,996 | $475,999 | ($475,999) |
| O&M Labor Adjustment | 87.98% | 87.98% | 87.98% |
| Net Labor | $837,598 | $418,799 | ($418,799) |

**Q. WHAT OTHER ADJUSTMENT DID YOU MAKE REGARDING THE COMPANY'S LABOR?**

**A.** In response to (Highly Confidential) OCA-1-12, I made an adjustment of **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** related to the Company's Spot Awards. **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)**. The Company stated in response to (Highly Confidential) OCA-VII-3, that **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** I am recommending 50% of the Spot Awards to be included in rates.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** The revenue requirement impact of this adjustment is: **(BEGIN CONFIDENTIAL)** [redacted] **(END CONFIDENTIAL)** and is shown on my Schedule DM-6, Line 37.

[7] Allow 50% or 8.5 additional employees

c. Annual Performance Incentive Program (APIP)

**Q. WHAT DID THE COMPANY PROPOSE TO INCLUDE REGARDING ITS APIP - INCENTIVE COMPENSATION?**

**A.** The Company has proposed to include total APIP-Incentive Compensation of $7,002,919 for the FPFTY period as shown on Exhibit 4, Schedule 1, pages 4 and 6. The Company began with an Incentive Compensation Balance of $7,603,940 HTY period. The Company made adjustments to is APIP -Incentive Compensation in the HTY normalized period of ($1,207,715), $331,571 in the FTY period and $275,347 in the FPFTY period. The Company then allocated its APIP-Incentive Compensation in the same manner as it allocates its Labor Charges to Capital using a Combined O&M Labor Percentage factor.

**Q. PLEASE DESCRIBE THE COMPANY'S APIP-INCENTIVE COMPENSATION PROGRAM.**

**A.** As described on OCA-I-13 (Highly Confidential), the Company's APIP is based upon **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** to attract, retain and reward talented employees necessary to provide safe and reliable service. **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** As shown in the Table below, the Company uses Corporate and Department goals for its Executive / Directors / Managers and All Others: **(BEGIN HIGHLY CONFIDENTIAL)**

TABLE I.

| | Corporate Goals | Department Goals |
|---|---|---|
| Executive/Directors/Managers | [redacted] | [redacted] |

| | | |
|---|---|---|
| All Others | [redacted] | [redacted] |

**(END HIGHLY CONFIDENTIAL)**

**Q. WHAT WAS THE AMOUNT OF INCENTIVE COMPENSATION THAT WAS SEGREGATED OUT TO EACH OF THE ABOVE GOALS BY EXECUTIVES/DIRECTORS/MANAGERS AND ALL OTHERS?**

**A.** In response to OCA-VII-4 (Highly Confidential), the Company provided the following: **(BEGIN HIGHLY CONFIDENTIAL)**

| | Corporate Goals | Department Goals |
|---|---|---|
| Executive/Directors Managers | [redacted] | [redacted] |
| All Others | [redacted] | [redacted] |
| Total | [redacted] | [redacted] |
| Total Corp/Dept Goals | [redacted] | |

**(END HIGHLY CONFIDENTIAL)**

**Q. DID THE COMPANY PROVIDE A MORE DETAILED BREAKDOWN OF ITS APIP THAT REFLECTS ITS CORPORATE BUSINESS PLAN GOALS?**

**A.** Yes. In response to OCA-I-14, the Company provided a detailed breakdown of its APIP that shows the weighting or percentages to total:

TABLE II.

| | Weighting | FTY$ | FPFTY$ |
|---|---|---|---|
| **APIP** | | **(BEGIN HIGHLY CONFIDENTIAL)** | |
| Customer Experience | | | |
| Overall Customer Satisfaction | 5.0% | [redacted] | [redacted] |
| Residential Customer Expansion | 5.0% | [redacted] | [redacted] |
| Customer Program New Contracts | 5.0% | [redacted] | [redacted] |
| Budget Billing Saturation | 5.0% | [redacted] | [redacted] |
| Other Customer Enhancements | 5.0% | [redacted] | [redacted] |
| Total | 25.0% | [redacted] | [redacted] |
| Safety & Environmental Leadership | | | |
| Methane Emission Mitigation | 15.0% | [redacted] | [redacted] |
| Carbon Footprint Reduction | 10.0% | [redacted] | [redacted] |
| Paperless Saturation | 5.0% | [redacted] | [redacted] |
| Utility Fault Damages | 5.0% | [redacted] | [redacted] |
| LD/RD Rate | 5.0% | [redacted] | [redacted] |

| | | |
|---|---|---|
| TOTAL | 40.0% | [redacted] |
| | | |
| Strategic Objectives | | |
| Financial Performance | 30.0% | [redacted] |
| Delta Integration -Other | 5.0% | [redacted] |
| Total | 35.0% | [redacted] |
| **TOTAL** | **100.00%** | [redacted] |
| | | |
| Allowable APIP | 65.00% | [redacted] |
| | | |
| **LTI** | | |
| Financial Performance | [redacted] | [redacted] |
| Customer Service | [redacted] | [redacted] |
| Safety | [redacted] | [redacted] |
| | | |
| **TOTAL** | **100.00%** | [redacted] |
| **GRAND TOTAL** | | [redacted] |
| | | |
| Allowable APIP | [redacted] | [redacted] |
| **Total Allowable** | | [redacted] |

**(END HIGHLY CONFIDENTIAL)**

I note that a difference exists between the Company's above total APIP and Long-Term Incentive (LTI) and what the Company has proposed and reflected in Company Exhibit 4 Schedule 1 page 6 as follows (net of O&M Labor Percentage):

| | FTY | FPFTY |
|---|---|---|
| **(BEGIN HIGHLY CONFIDENTIAL)** | | |
| Per OCA-VI-2 | [redacted] | [redacted] |
| **(END HIGHLY CONFIDENTIAL)** | | |
| Per Exh 4 Sch 1 p 6 | $6,727,572 | $7,002,919 |

**(BEGIN HIGHLY CONFIDENTIAL)**

[8] Differences due to rounding

Difference [redacted]

**(END HIGHLY CONFIDENTIAL)**

The Company stated that its APIP is based upon achievement of both Corporate and Department goals, which include goals targeting Customer Experience (25.0%), Safety and Environmental Leadership (40.0%) and Strategic Objectives and Initiatives (35.0%). In response to OCA-VI-2 Attachment A (Highly Confidential), the Company has included APIP related to LTI Incentive Compensation. **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)**

**Q. WHAT IS YOUR RECOMMENDATION REGARDING THE LEVEL OF APIP-INCENTIVE COMPENSATION TO BE INCLUDED IN REVENUE REQUIREMENT?**

**A.** I am recommending that the Company's APIP that was or expected to be paid out for Strategic Objectives/Financial Performance and Delta Integration be removed from the Company's revenue requirement increase (30.0% and 5% respectively). My recommendation is based upon the fact that this type of incentive compensation payments are aligned with the Company's financial goals and earnings per share growth with minimal or none being attributable to the benefit of customers, nor related to customer service performances and measures, safety and environmental issues, and other customer related issues. I do not believe that ratepayers should pay for this type incentive compensation, which promotes shareholders' interest and the alignment of shareholder growth. While I am not opposing the Company's APIP plan, what I am opposing are the costs related to the Company's recovery of its APIP related to financial performance through ratepayers. The shareholders, not the ratepayers, should be required to fund the APIP that is related to Financial Performance and other Incentive Compensation that relates to Financial Performance.

**Q. HOW DID YOU CALCULATE THE ADJUSTMENT TO REMOVE THE INCENTIVE COMPENSATION RELATED TO THE COMPANY'S APIP?**

**A.** I reviewed the Company's response to OCA I-14 and OCA-VI-2 (Highly Confidential) which I prepared Table II above. In relying on OCA I-14, I removed the Incentive Compensation that is related to Strategic Initiatives - Financial Performance (30.0%) and Delta Integration (5.0%) and allowed Incentive Compensation related to Customer Experience (25%), Safety and Environmental Leadership (40.0%). **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)**. As indicated in Table II my recommended allowance for the Company's APIP is **(BEGIN HIGHLY CONFIDENTIAL**[redacted] **(END HIGHLY CONFIDENTIAL)** from the Company's proposal of $7,002,919. As I indicated above, there is a difference between the response to OCA-VI-2 and the Company's Exhibit 4 Schedule 1 page 6. My adjustment is to the Company's $7,002,919. I am not sure where the differences between OCA-VI-2 and the Company's Exhibit 4 Schedule 1 page 6. The Company should reconcile these differences and provide an update.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

**A.** The revenue requirement impact based upon my adjustments is: **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** as shown on my Highly Confidential Schedule DM-7, Line 17.

### d. <u>Pension Expense</u>

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS PENSION EXPENSE?**

**A.** The Company has proposed and has calculated its Pension Expense based upon its proposed full-time equivalent level of employees at the end of the FPFTY period (1,200). (Peoples Statement No. 3 page 14). Employee's Pension costs are determined on a contributed basis. (Peoples Statement No. 3 page 16). The Company used a two-year average of contributions made in 2017 ($1,848,000) and 2018 ($2880,00) as reflected in the most recent actuary reports. The Company began with its HTY book balance of $194,518. (Exhibit 4 Schedule 1 page 4 and 10). The Company then took its two-year average contributions of $2,363,000 as its basis for its FPFTY Pension costs. The HTY adjustment was ($2,363,000 - $194,518 = $2,168,482).

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** In response to OCA-I-16, the Company provided a schedule of Pension Contributions for each of the PNG and PED subsidiaries. Upon review I am accepting the Company's Pension level of $2,363,000[9]. My recommendation is shown on my Schedule DM-8, Line 8.

### e. <u>Post-Retirement Other Than Pensions (PBOP)</u>

**Q. WHAT HAS THE COMPANY PROPOSED AND CALCULATED RELATED TO ITS POST-RETIREMENT BENEFITS OTHER THAN PENSIONS?**

**A.** The Company has proposed a PBOP balance for its FPFTY period of $2,320,140 as shown on Company Exhibit 4 Schedule 1 page 4 and 11. This balance is based upon a full complement of 1,200 employees at the end of the FPFTY period. The Company began with its HTY balance of $977,177. Pursuant to the Commission Order in Docket No. R-00943111 and R-2010-2201702, the Company included $1,337,486, the funding deficiency for costs incurred via the acquisition of Steel River, which is being amortized over a ten-year period. (Peoples Statement No. 3 page 16). The Company then added $39,481 in its FTY Period and ($34,004) in

[9] Pension Expense is not affected by the adjustment to Labor Expense, as the Company utilized historical balances to compute its FPFTY period adjustment.

its FPFTY period to arrive at the FPFTY period balance of $2,320,140. (Company Exhibit No. 4 Schedule 1, page 11 of 32). The Company is also proposing to track the actual PBOP costs and amortize the cumulative difference between actual and projected costs in the Company's next base rate proceeding, minus the prior recovery balance of $1,337,486. (Peoples Statement No. 3 page 17). The Company has proposed that differences between the rate allowance and the actual accruals be tracked and amortized over a period to be determined in the Company's next base rate proceeding (Peoples Statement No. 3 page 17).

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I am accepting the Company's approach to its proposed PBOP level of $2,320,140. What I am adjusting is my recommended employee vacancy to Labor Expense. I used the ratio of the Company's Labor Balance of $67,633,074 to the Company's PBOP Balance of $3,320,140 to arrive at a percentage of 3.4305%. I then took my recommended Labor Balance of $67,096,057 and multiplied it by 3.4305% to arrive at a PBOP Balance of $2,301,730, a reduction of $18,410.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

**A.** My revenue requirement impact is a reduction of $18,410 minus the tax effect of 30.99% equals $12,705 and is shown on my Schedule DM-9, Line 7.

### f. <u>Benefit Expense</u>

**Q. WHAT DID THE COMPANY PROPOSE RELATED TO ITS OTHER EMPLOYEE BENEFITS?**

**A.** The Company has proposed a level of Other Employee Benefits of $17,222,707 for the FPFTY period, which include the full complement of 1,200 employees at the end of the FPFTY period. The Company began with an HTY period balance of $14,168,862 as shown on Company Exhibit 4 Schedule 1 page 4 and 12. The Company then added $422,226 to annualize the benefits under the HTY period. (Company Exhibit No. 4 Schedule No. 1 page 12 of 32). The Company adjusted its FTY Benefits by adding $1,671,553 and $960,065 during its FPFTY period. (Company Exhibit No. 4 Schedule No. 1 page 12 of 32). These adjustments were based upon new FTEs and annualized for changes in costs relative to the anticipated results from future open seasons. Company witness Wachter stated that he increased the medical and benefits costs by 6% for the FPFTY period (OCA-VI-4) based upon a medical cost trend study prepared by PwC's Health and Research Institute dated June 2018. (Peoples Statement No. 3 page 17). Mr. Wachter only increased Medical, Dental and Vision expenses by 6% and in the FPFTY period adjustment. (OCA-VI-4).

**Q. WHAT IS INCLUDED IN THE COMPANY'S OTHER EMPLOYEE BENEFITS?**

**A.** According to Peoples Statement No. 3 page 17, Other Employee Benefits consists of Medical, Dental, Vision, Life Insurance, Long Term Disability Insurance, 401(K) plans and other such programs. 401(K) benefits were increased consistent with merit increases used to develop the Labor Expense. The Company provided a detailed breakdown of its Other Employee Benefits in OCA-I-19.

**Q. WHAT IS YOUR RECOMMENDATION AND YOUR ADJUSTMENTS TO THE COMPANY'S OTHER EMPLOYEE BENEFITS?**

**A.** I am recommending removal of the Company's proposed 6% medical trend under the FPFTY period increase. The Company has increased its Benefits Expenses under the FTY adjustment of $1,671,553; the Company is further asking for an additional 6% increase that was based upon the PwC Health Research Institute study. (Peoples Statement No. 3 page 17) (OCA-I-20) The Company has provided in OCA-I-20 a chart that shows the medical cost trend of which 6% represents the projected increase in the FPFTY period. I do not believe that the 6% medical trend is a known and measurable factor that should be taken into consideration in setting the Benefits Expense. This study is merely a suggestion that medical costs are continuing to grow and predicts that an increase of 6% will occur in 2019 (I&E-RE-23 Attachment A, page 3). There is a lot of variability in the PwC Study which accounts for the entire medical industry. The Company's proposed medical cost trend of 6% does not represent what will actually occur prospectively. As I stated previously, the Company has already included an increase in its Benefits Expense of $1,671,553 or 11.45% above the HTY period, (Company Exhibit 4 Schedule 1 page 12) and an additional $960,065 in the FPFTY. Removing the 6% Medical Trend increase would reduce the FPFTY Benefit Adjustment from $960,065 to $454,109, a reduction of $505,956.

**Q. WHAT OTHER ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S BENEFITS EXPENSE?**

**A.** Since I made a recommendation to remove 50% of the Company's vacancies, I am making a corresponding adjustment to the Company's 401K to reflect my recommended Labor Expense. As shown on OCA-I-21 Attachment, the Company based its 401K expense by computing total Salary Labor in the FPFTY, multiplied by the 401K rate of 9.25%, minus the O&M percentage to arrive at a Net 401K expense of $2,606,930. Similarly, the Company based its 401K expense by computing total Hourly Labor in the FPFTY, multiplied by the 401K rate of 12.00%, minus the O&M percentage to arrive at a Net 401K expense of $3,604,302, for a total 401K expense of $6,211,232. Using my recommended Salary and Hourly Labor as shown below, along with the Company's 401K rate for Salary of 9.25% and Hourly of 12.00%, minus the O&M percentages, I compute the following adjustment:

| | **Company** | **OCA** | **Difference** |
|---|---|---|---|
| Salary Labor | $45,500,211 | $45,262,211 | ($238,000) |
| 401K Rate | 9.25% | 9.25% | |
| Total 401K | $4,208,769 | $4,186,754 | ($22,015) |
| O&M % - 61.94% | $2,606,912 | $2,593,275 | **($13,637)**[10] |
| Hourly Labor | $48,357,066 | $48,119,066 | ($238,000) |
| 401K Rate | 12.00% | 12.00% | |

[10] Company's Salary PNG and PED Net 401K to the Gross 401K ($2,606,930/$4,208,769; differences due to rounding.

| | | | |
|---|---|---|---|
| Total 401K | $5,802,848 | $5,774,288 | ($28,560) |
| O&M % - | $3,604,302 | $3,586,410 | **($17,892)**[11] |
| **Total Adjustment - $13,637 + $17,892** | | | **<u>($31,529)</u>** |

**Q. WHAT IS YOUR FINAL ADJUSTMENT TO THE COMPANY'S BENEFITS EXPENSE?**

**A.** Since I removed 50% of the Company's proposed vacancies, I am making a corresponding adjustment to the Company's Benefits Expense. I took the Company's proposed FPFTY Benefits of $17,222,707 and divided that by the Company's proposed Labor Expense in the FPFTY of $67,633,074 to arrive at a ratio of 25.4649%. I then took my recommended Labor Expense of $67,096,057 and multiplied that by 25.4649% to arrive at a Benefits Expense of $17,085,943. This a reduction of ($17,222,707-$17,085,943) $136,763.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENTS?**

**A.** My revenue requirement impact is a reduction of $505,956 related to the removal of the proposed 6% Medical Trend, $136,763 related to the removal of the 50% of the Company's proposed vacancies, and $31,529 related to the adjustment of the Company's 401K based upon my recommended Labor balance; a total of $674,248 minus the tax effect of 30.99% equals $465,299 and is shown on my Schedule DM-10, Line 8.

### g. <u>Outside Services - Contracted</u>

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS OUTSIDE SERVICES – CONTRACTED?**

[11] Company's Hourly PNG and PED Net 401K to the Gross 401K ($3,604,302/$5,802,848; differences due to rounding.

**A.** The Company proposed total Outside Services – Contracted in the amount of $25,596,554 for the FPFTY period (Company Exhibit 4 Schedule 1 page 4 and 13). The Company began with its HTY balance of $24,416,858 and made adjustments for inflation of 2.33% during the FTY period and 1.89% during the FPFTY period. The Company also included $135,000 in the FTY period that relates to anticipated incremental costs associated with the Company's main storage field.

**Q. DO YOU HAVE ANY ADJUSTMENTS WITH RESPECT TO THE COMPANY'S OUTSIDE SERVICES-CONTRACTED?**

**A.** Yes. My adjustment is to the Company's inclusion of inflation related increases to adjust its FTY and FPFTY period balances. The Company's 2.33% inflation adjustment in the FTY period amounts to an increase of $569,039 and in the FPFTY period of $475,657 for a total inflationary increase of $1,044,696. These inflationary adjustments are not actually known and measurable because they do not reflect the true cost of expenses. Inflation adjustments are typically blanket adjustments or increases which do not directly relate to actual costs expected to be incurred by the Company in the period in which rates are to be set. Costs should be based upon evidence or documentation that supports the Company's adjustments. More definitive types of increases or adjustments are contractually related increases or escalation adjustments that are predetermined in contracts or service agreements entered into by the Company and third-party vendors. Essentially, my recommended Outside Services – Contracted stays the balance at the HTY period (adjusting only for the $135,000 related to the main storage field without any inflation adjustments).

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** My recommendation with respect to the Company's Outside Services- Contracted is an adjustment of $1,044,696 and is shown on my Schedule DM-11, Line 9.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** The revenue requirement impact is a reduction of $1,044,696 minus the tax effect of 30.99% equals 720,945.

**h. Outside Services – A&G**

**Q. WHAT DID THE COMPANY PROPOSE REGARDING ITS OUTSIDE SERVICES – A&G?**

**A.** The Company proposed a total expense level of $9,354,827 for its FPFTY period related to its Outside Services – A&G as shown on Company Exhibit 4 Schedule 1 page 4 and 14. The Company began with its HTY period of $7,279,186. The Company included an Inflation Factor of 2.33% in its FTY period, and $1,652,752 related to costs associated with technology related to increased maintenance expenses and licenses for additional users. The Company then added an Inflation Factor of 1.89% in its FPFTY period and costs associated with technology for additional bandwidth and data usage amounting to $80,911. The total adjusted expenses from the HTY period to the FPFTY period is an increase of $2,075,641.

**Q. WHAT ARE YOUR ADJUSTMENTS?**

**A.** My first adjustment is to the Company's use of Inflation factors of 2.33% or $169,643 in the FTY period and an additional 1.89% or $172,336 in the FPFTY period for a total Inflation adjustment of $341,979. As I previously stated above, in my Outside Services – Contracted Expense adjustments, I am removing the Inflation Adjustments in the FTY and the FPFTY periods. These costs are not reflective of true costs and are not under any service contract adjustments or escalation clause adjustments that are predetermined by the Company and third-party vendors.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** My recommendation reduces the Company's proposed Outside Services - A&G by $341,978.

**Q. WHAT IS YOUR REVENUE REQUIREMENT ADJUSTMENT IMPACT?**

**A.** The revenue requirement impact is a reduction of $341,978 minus the income tax effect of 30.99% equals $235,999 and is shown on my Schedule DM-12, Line 7.

### i. Building Lease Adjustment

**Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS BUILDING LEASES?**

**A.** The Company proposed a Building Lease balance of $2,198,714 for its FPFTY period. (Company Exhibit 4 Schedule 1 page 4 and 15). The Company began with its HTY period balance of $2,378,895 and reduced that balance by $80,181. The Company did not make any adjustments in the FTY and in the FPFTY periods.

**Q. WHAT IS INCLUDED IN THE COMPANY'S BUILDING LEASE EXPENSE?**

**A.** These Building Leases relate to the Company's main office and call center operations in Pittsburgh, PA and in Etna and Grove City field office facilities.[12]

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** In reviewing the updated responses to OCA-VI-8 I have no adjustments; I am accepting the Company's proposed FPFTY balance of $2,198,714. My recommendation is shown on my Schedule DM-13, Line 6.

### j. Corporate Insurance

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS CORPORATE INSURANCE?**

[12] A breakdown is shown on Company Exhibit 4 Schedule 8 page 1

**A.** The Company proposed a Corporate Insurance balance in its FPFTY period of $3,476,740 as shown on Company Exhibit 4 Schedule 1 page 4 and 16. The Company's Corporate Insurance is composed of Property Insurance, Other Miscellaneous Insurance and Workers Compensation Insurance. The Company began with its HTY balance of Corporate Insurance broken down as follows:

| | |
|---|---|
| Property Insurance | $ 159,637 |
| Other Misc. Insurance | $2,688,751 |
| Workers Compensation | $ 314,432 |
| Total Per Books | $3,162,821 |
| Adjustments | $ (129,927) |
| Total Insurance | $3,032,894 |
| FTY Increase | $ 214,349 |
| FPFTY Increase | $ 229,498 |
| Total | $3,476,741 |

The Company made adjustments under its FTY period to account for an estimated premium increase of 7.10% or $214,349, and an additional 7.10% or $229,498 under its FPFTY period representing premium increases experienced from its 2018 invoices to its 2017 invoices.

**Q. WHAT DID THE COMPANY STATE WAS THE REASON TO INCLUDE A 7.10% INCREASE DURING THE FPFTY PERIOD?**

**A.** In response to OCA-I-27, the Company made a calculation of the increase in its Insurance Premium that represents the change in overall premiums from the policy year 2017/2018 and the policy year 2018/2019 costs, representing an increase of 7.10%. The Company stated that its renewal dates for its Corporate Insurance is 9/30 except for Cyber Security which is 12/30. (OCA-VI-9).

**Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S CORPORATE INSURANCE?**

**A.** I am recommending removal of the 7.10% Premium Increases in each of the FTY and FPFTY periods. The Company's premiums adjustments show a $129,929 negative adjustment (Company Exhibit 4 Schedule 1 page 16). The Company proposes an overall increase of its Corporate Insurance of $443,847 or 14.63% over current costs. The Company's renewal dates for its Corporate Insurance will occur on 9/30 and 12/30 of this year (2019) and again on 9/30 and 12/30 of 2020. Including a 7.10% Premium Increase in the FTY and FPFTY period appears to be speculative.

**Q. WHAT OTHER ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S CORPORATE INSURANCE?**

**A.** I have an adjustment related to the Company's Insurance on Non-owned Aircraft Liability Insurance that is shown on I&E RE-26. The Company has included $7,199 related to non-owned aircraft insurance. I do not believe that this insurance item be included in the Company's Insurance expense. Since the Company does not utilize aircraft in its gas utility operations, but through a third-party vendor (which the vendor is paid for such services) to perform visual inspections of transmission right of way, I do not believe that the $7,199 of non-owned aircraft insurance be included in the revenue requirement.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

**A.** The revenue requirement impact is a reduction of $451,046 minus the tax effect of 30.99% equals $311,267 and is shown on my Schedule DM-14, Line 12.

**k. <u>Injuries and Damages</u>**

**Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS INJURIES AND DAMAGES EXPENSES?**

**A.** The Company proposed a level of Injuries and Damages of $1,611,241 for its FPFTY period as shown on Company Exhibit 4 Schedule 1 page 4 and 17. The Company utilized a three-year average of Injuries and Damages expenses for The Month Ending (TME) September 2016, September 2017 and September 2018 ($1,545,286). The Company then added an Inflation Factor of 2.33% ($36,013) in the FTY period and an additional Inflation Factor of 1.89% ($29,941) in the FPFTY period.

**Q. WHAT ARE YOUR ADJUSTMENTS TO THE COMPANY'S INJURIES AND DAMAGES?**

**A.** My first adjustment is to the Company's use of Inflation Factors of 2.33% in the FTY period and 1.89% in the FPFTY period. As I indicated previously in my testimony, I removed these inflationary adjustments because they do not reflect the true costs of expenses to be incurred by the Company. These adjustments amount to $65,955. ($36,013 in the FTY and $29,941 in the FPFTY period)[13] In addition, the use of a three-year average that the Company has proposed takes into consideration the adjustments from year to year, without adding additional costs such as inflation to develop the balance.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I am recommending that $65,955 be removed from the Company's Injury and Damages.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENTS?**

**A.** The revenue requirement adjustment is a reduction of $65,955 minus the income tax effect of 30.99% equals $45,516 and is shown on my Schedule DM-15, Line 8.

## I. <u>Employee Expenses</u>

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS EMPLOYEE EXPENSES?**

**A.** The Company has proposed Employee Expenses in the FPFTY period of $2,931,384 as shown on Company Exhibit 4 Schedule 1 page 4 and 18. The Company computed its FPFTY balance by starting with its HTY balance per books

[13] Difference due to rounding.

of $2,549,537 and adding $68,251 to annualize the complement of employees at the end of the HTY period. (Peoples Statement No. 3 page 19). The Company then added Inflation Adjustments of 2.33% or $61,008 in the FTY period, and an adjustment of $168,780 reflecting costs related to new service and employee recognition programs. (Peoples Statement No. 3 page 19). For the FPFTY period the Company added an additional 1.89% or $53,918 reflecting an Inflation Adjustment and an additional cost related to new services and employee recognition programs or $29,890.

**Q. DID THE COMPANY PROVIDE A BREAKDOWN OF THESE COSTS?**

**A.** Yes, in response to OCA-I-31, the Company provided a breakdown of these costs. In response to OCA-VI-11 the Company provided a further breakdown of certain Employee Benefits related to Employee Relations ($299,604), Miscellaneous ($332,217) Travel Expense ($431,674) Entertainment ($1,135,511) and Service Awards ($100,166).

**Q. WHAT ARE YOUR ADJUSTMENTS TO THE COMPANY'S EMPLOYEE EXPENSES?**

**A.** I first removed the Inflation Related adjustments of 2.33% in the FTY period of $61,008, and 1.89% in the FPFTY period of $53,918. As I stated previously in my testimony, these types of adjustments do not reflect the true costs of expenses expected to be incurred by the Company.

**Q. WHAT OTHER ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S EMPLOYEE EXPENSES?**

**A.** With respect to the Company's adjustments of its incremental employee costs of $98,504 and service employee recognition of $100,166 for a total of $198,670, (OCA-I-31) I am removing $91,060 that is related to employee recognition programs. Ratepayers should not pay for costs associated with Service Award recognition with the criteria that is related to years of employment at the Company.

In reviewing the response to OCA-VI-11, Employee Relations Department, I am removing costs associated with Corporate sponsored functions related to sports games and other events sponsored by Corporate in the amount of $257,275, as well as Human Resource related expenses that are Union Service Awards and others in the amount of $32,926. Under the Entertainment Expense Department, I am removing $992,804 that is related to Corporate Sports functions and other Company events in which the Company has partnerships with various sports teams. The remaining Entertainment Expenses amount to $142,707 ($1,135,511 minus $992,804) OCA-VII-11 Attachment A page 4 of 4 provides no information on what these Entertainment Expenses reflect. In fact, I do not think these types of costs should be included under an Entertainment category. In the event that the Company provides further details and a description of these remaining expenses, I reserve my right to re-adjust these Employee Expenses further, when additional information is available. As I indicated, in part, in my recommendation under Advertising Expenses, costs related to Corporate Sponsorships, sporting events, ticket purchases for employee recognition should not be recovered from ratepayers. These costs should be properly recovered by the Company or its Corporate Parent. As I indicated previously there is no breakdown as to what type of Service Awards employees receive related to service, safety, experience or satisfaction.

**Q. DO YOU HAVE ANY OTHER CONCERNS RELATED TO EMPLOYEE EXPENSES?**

**A.** Yes. In response to OCA-VI-11, Attachment A page 3 of 4, the Company provided a list of Travel Expenses amounting to $431,674. According to the Company, these costs represent transportation, mileage and other employee reimbursable travel expenses (OCA-VI-11 Attachment A page 3 of 4). The Company, however, has not provided a description of these costs. The Company should provide additional information related to these Travel Expenses, and I reserve my right to re-adjust these expenses.

**Q. WHAT ARE YOUR RECOMMENDATIONS?**

**A.** I am removing $1,283,005 of costs related to Corporate / Company sponsored sporting events and other Company events.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THESE ADJUSTMENTS?**

**A.** The revenue requirement impact, which includes the removal of the FTY and the FPFTY Inflation Adjustments, is a reduction of $1,488,991 minus the income tax effect of 30.99%, equals $1,027,553 and is shown on my Schedule DM-16, Line 9.

**m. <u>Company Memberships</u>**

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS COMPANY MEMBERSHIPS?**

**A.** The Company proposed a balance of $994,710 related to Company Memberships for its FPFTY period as shown on Company Exhibit 4 Schedule 1 page 4 and 19. The Company began with an HTY balance of $953,992 and adjusted for Inflation of 2.33% or $22,223 in the FTY period, and an additional Inflation of 1.89% or $18,485 in the FPFTY period.

**Q. WHAT ADJUSTMENTS DO YOU HAVE?**

**A.** First, to be consistent in my prior adjustments in removing Inflation Factors, I am making the same adjustments here. I am removing the 2.33% or $22,233 and the 1.89% or 18,485 Inflation Factors for the FTY and the FPFTY period, respectively, a total of $40,718. As I stated previously in my testimony, these Inflation Factors do not reflect the true cost of expenses but rather blanket type increases.

**Q. WHAT ARE YOUR OTHER ADJUSTMENTS?**

**A.** I have adjustments related to certain Company Memberships that I consider to be fraternal, social or sports club related. In 66 Pa.C.S. Section 1316.1, Recovery of club dues, “no public utility may charge to its customers as a permissible operating expense for ratemaking purposes membership fees, dues or charges to fraternal, social or sports clubs or organization." As I review Company Exhibit No. 19, Schedule RR-31 and RR-32, I have determined that certain of the Company's Company Memberships relate to and fall under the categories of social organization, chambers of commerce, convention and vacation visitor's bureaus and lobbying related expenses.

**Q. WHY ARE YOU REMOVING THESE COMPANY MEMBERSHIP COSTS?**

**A.** In reviewing Company Exhibit 19 RR-31 and 32 I believe that certain of the Company's Membership costs that are related to Community Development, Chambers of Commerce, tourism, health and energy related associations should not be recovered from ratepayers, as these types of costs do not provide any benefit to them. These types of costs mainly benefit the Company as being good corporate citizens, advocacy on policy issues before State and Governmental agencies, social and fraternal related, and civic related initiatives. Ratepayers of the Company should not be required to pay for such costs that do not benefit them with respect to distribution gas utility service.

**Q. PLEASE IDENTIFY WHICH COSTS YOU ARE ALLOWING AND TO WHAT EXTENT THOSE COSTS SHOULD BE INCLUDED IN THE COMPANY'S RATE PROPOSAL?**

**A.** In some of the Company's Company Memberships expenses, such as the Allegheny Conference on Community Development in the amount of $160,567 and Vibrant Pittsburgh (the Regional Opportunity Center) in the amount of $65,000 shown on Exhibit No. 19, RR-31 and 32, I am recommending 50% of the Company's proposal as I believe some of the expenses do benefit ratepayers that relate to customer service, customer satisfaction and customer safety. The remaining Company Members costs have been removed because they do not provide any direct benefit to customers The following Table provides a breakdown:

<u>TABLE III.</u>

| | Selected Company | OCA |
|---|---|---|

| Organization | Type | Expense | Disallow | |
|---|---|---|---|---|
| Allegheny Conference | Community Develop | $162,542 | $ 81,271 | 50% |
| Energy Association of PA | Lobbying | $140,541 | $140,541 | |
| Vibrant Pittsburgh | Workforce Develop | $ 65,000 | $ 32,500 | 50% |
| Corp. Executive Council | Social | $ 35,946 | $ 35,946 | |
| Pittsburgh Downtown | Civic | $ 20,000 | $ 20,000 | |
| PA Chamber of Bus/Ind. | Lobbying | $ 13,659 | $ 13,659 | |
| Visit Pittsburgh | Social/Tourism | $ 6,330 | $ 6,330 | |
| Pittsburgh Group on Health | Health Care/Benefits | $ 3,200 | $ 3,200 | |
| Beaver County COC | New Business/Civic | $ 3,081 | $ 3,081 | |
| Westmoreland COC | Social/Cultural | $ 2,302 | $ 2,302 | |
| Indiana COC | Business Develop | $ 2,125 | $ 2,125 | |
| African Amer. COC | Business Develop | $ 1,250 | $ 1,250 | |
| Greater Wilkinsburg COC | Business Develop | $ 1,000 | $ 1,000 | |
| Northside COC | Business Develop | $ 1,000 | $ 1,000 | |
| TOTAL | | $457,976 | $344,205 | |

In response to OCA-VI-12, I removed an additional $8,237 of costs that I believe do not benefit ratepayers as they represent Chambers of Commerce dues, Subscriptions to municipalities, Magazine subscriptions and convention and vacation visitors bureaus.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** Based upon the above, I am recommending that $334,205 as listed above plus an additional $8,237 for a total of $342,442 of Company Membership expenses be excluded from the Company's total Company Membership expenses. These expenses do not appear to benefit ratepayers in the provision of distribution gas utility service, nor do they provide any direct benefits to ratepayers as far as customer service, safety, reliability or other service performance metrics.

**Q. WHAT IS THE TOTAL COMPANY MEMBERSHIP COSTS YOU ARE DISALLOWING?**

**A.** I am recommending that $343,442 of costs as indicated above be disallowed, in addition to the removal of inflation related adjustments of $22,233 in the FTY period, and $18,485 in the FPFTY period, for a total of $383,159.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** The revenue requirement impact is a reduction of $393,159 times the income tax effect of 30.99% = $271,319 as shown in my Schedule DM-17, Line 7.

### n. Utilities and Fuels Used in Company Operations

**Q. WHAT HAS THE COMPANY PROPOSED REGARDING ITS UTILITIES AND FUELS USED IN COMPANY OPERATIONS?**

**A.** The Company has proposed a level of Utilities and Fuels Used in Company Operations of $2,406,080 for the FPFTY period as shown on Company Exhibit 4 Schedule 1 page 4 and 20. The Company began by using its HTY per books balance of $2,227,941 and removing $83,529 related to the use of gas in Company operations. The Company then adjusted the HTY–adjusted balance by an Inflation Factor of 2.33% or $49,976 in the FTY period, along with $166,980 related to ongoing satellite phones the Company expects to incur related to measurement (Peoples Statement No. 3 page 20). The Company included a 1.89% Inflation Factor or $44,712 to calculate its FPFTY balance.

**Q. WHAT ADJUSTMENTS DO YOU HAVE RELATED TO THE COMPANY'S UTILITIES AND FUELS USED IN ITS OPERATIONS?**

**A.** As I have done in prior adjustments, I removed the FTY Inflation Adjustment of 2.33% or 49,976 and 1.89% or $44,712 for the FPFTY period.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I am accepting the Company's proposals related to the remainder of the balance related to Utilities and Fuels.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** My revenue requirement impact is a reduction of $94,688 minus the income tax effect of 30.99% = $65,344, as shown in my Schedule DM-18, Line 9.

### o. Advertising

**Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS ADVERTISING EXPENSE?**

**A.** The Company has proposed a total Advertising Expense of $3,133,754 for the FPFTY period as shown on Company Exhibit 4 Schedule 1 page 4 and 21. The Company stated that it included only expenses that satisfy at least one criteria set forth in Section 1316(a) of the Public Utility Code. (Peoples Statement No. 3 page 20).

**Q. HOW DID THE COMPANY DEVELOP ITS FPFTY PERIOD BALANCE?**

**A.** The Company began with its HTY balance of $3,118,055[14] and subtracted $112,678 to arrive an adjusted HTY balance of $3,005,477. The Company then added 2.33% or $70,043 in the FTY period and 1.89% or $58,234 in the FPFTY period for Inflation Adjustments for a total balance of $3,133,754.

**Q. WHAT TYPES OF ADVERTISING EXPENSES ARE INCLUDED IN THE COMPANY'S BALANCE?**

**A.** The Company has included Advertising Expenses related to Public Notices related to rate changes, health and safety issues, energy conservation and energy independence, financing, pipeline and infrastructure replacement, and the promotion of community service and economic development (Peoples Statement No. 3 page 21-22).

**Q. WHAT DOES THE PA PUBLIC UTILITY CODE PROVIDE ABOUT WHAT SHOULD BE RECOVERED BY RATEPAYERS REGARDING ADVERTISING EXPENSES?**

**A.** In 66 Pa.C.S.§1316, "no public utility may charge to its customers as a permissible operating expense for ratemaking purposes any direct or indirect expenditure by the utility for political advertising. The commission shall also disallow as operating expense for ratemaking purposes expenditures for other advertising, unless and

[14] A detailed breakdown is shown on Company Exhibit 4 Schedule 4 page 2.

only to the extent that the commission finds that such advertising is reasonable and meets one or more of the following criteria:

(1) Is required by law or regulation.
(2) Is in support of the issuance, marketing or acquisition of securities or other forms of financing.
(3) Encourages energy independence by promoting the wise development and use of domestic sources of coal, oil or natural gas and does not promote one method of generating electricity as preferable to other methods of generating electricity.
(4) Provides important information to the public regarding safety, rate changes, means of reducing usage or bills, load management or energy conservation.
(5) Provide a direct benefit to ratepayers.
(6) Is for the promotion of community service or economic development.

**Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S ADVERTISING EXPENSES?**

**A.** To be consistent with my other adjustments, I am removing the Company's Inflation Adjustments of 2.33% or $70,043 for the FTY period, and 1.89% or $58,234 for the FPFTY period.

**Q. WHAT OTHER ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S ADVERTISING EXPENSES?**

**A.** In reviewing the Company's response to OCA-VI-14 (Confidential), the Company stated that the majority of the Company's Advertising Expense related to **(BEGIN HIGHLY CONFIDENTIAL)** [redacted]

[redacted] **(END HIGHLY CONFIDENTIAL)**

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** While I commend the Company for being good corporate citizens, I believe that requiring the ratepayers of Peoples to absorb almost $2.6 million, as shown on OCA-VI-14, of Advertising Expense through the use of **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** is a stretch. Not only are the customers of Peoples presumably being benefitted through these **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)**, but presumably non-customers and local residents are also benefitting but not required to pay for these events in their utility service rates. I do not believe that customers of Peoples should be subsidizing non-customers of Peoples for the benefits that Peoples customers are solely paying for. While there is no way to separate out customers and local residents on what benefits are being provided, I am recommending 50% of the Company's $2.6 million of Advertising Expense related to **(BEGIN HIGHLY CONFIDENTIAL)** [redacted] **(END HIGHLY CONFIDENTIAL)** be included in rates. This adjustment, along with my removal of the Inflation Factors for the FTY and the FPFTY periods, reduces the Company's proposed Advertising Expense from $3,133,754 to $1,722,370, an adjustment of $1,411,385.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** My revenue requirement impact is a reduction of $1,411,385 minus the income tax effect of 30.99% = $973,997 as shown on my Schedule DM-19, Line 7.

**p. <u>Fleet Maintenance & Fuel</u>**

**Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS FLEET MAINTENANCE & FUEL?**

**A.** The Company proposed a level of Fleet Maintenance & Fuel of $3,768,093 for the FPFTY period as shown on Company Exhibit 4 Schedule 1 page 4 and 22. The Company began with its HTY balance of $3,613,850 and added an FTY Inflation Adjustment of 2.33% or $84,221 and a FPFTY Inflation Adjustment of 1.89% or $70,022.

**Q. WHAT OTHER ADJUSTMENTS DO YOU HAVE?**

**A.** As I adjusted out the Inflation Factors for the FTY and the FPFTY periods, I am making the same adjustments for Fleet Maintenance & Fuel, which reduces the Company's adjustments by $84,221 and $70,022, respectively. I am also removing an expense related to Executive of $2,155, and to Government Affairs of $1,019 as shown on OCA-VI-15 Attachment B. I do not believe this cost should be in the Company's Fleet Maintenance & Fuel as I believe it does not relate to Auto Parts Supplies and Maintenance.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I removed the Company's Inflation Adjustment of 2.33% ($84,221) under the FTY period, the 1.89% ($70,022) consistent with my prior Inflation Adjustment removals, and the $2,155 related to Executive for a total adjustment of $157,417.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** My revenue requirement impact is a reduction of $157,417 minus the tax effect of 30.99% = $108,633 and is shown on my Schedule DM-20, Line 4.

### q. Materials & Supplies

**Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO ITS MATERIALS & SUPPLIES?**

**A.** The Company has proposed a balance to its Materials & Supplies of $8,928,199 as shown on Company Exhibit 4 Schedule 1 page 4 and 23. The Company began with its HTY balance of $8,562,732 and added a 2.33% or $199,556 Inflation Adjustment in its FTY period, and a 1.89% or $165,911 Inflation Adjustment in its FPFTY period.

**Q. WHAT ADJUSTMENTS DO YOU HAVE REGARDING THE COMPANY'S MATERIALS & SUPPLIES?**

**A.** First, I removed the Inflation Adjustments of $199,556 and $165,911, a total of $365,467, in the Company's FTY and FPFTY periods, respectively. I then reviewed the response to OCA-VI-15, Attachment A. I removed the following expenses because I do not believe they are related to Materials and Supplies:

| | |
|---|---|
| • Executive | $21 |
| • Government Affairs | $12 |
| • Community Relations | $64,638 |
| • Executive | $14,854 |
| • Government Affairs | $410 |
| • Community Affairs | $18,446 |
| Total | $98,381 |

**Q. WHAT IS YOUR REVENUE REQUIREMENT ADJUSTMENT?**

**A.** My revenue requirement adjustment is a reduction of $463,848 (Inflation Factor removals of $365,467 plus Materials and Supplies costs of $98,381) minus the tax effect of 30.99% = $320,101 and is shown on my schedule DM-21, Line 4.

### r. Other O&M

**Q. WHAT DID THE COMPANY PROPOSE RELATED TO ITS OTHER O&M?**

**A.** The Company proposed a FPFTY balance of $8,661,157 as shown on Company Exhibit 4 Schedule 1 page 4 and 24.

**Q. WHAT ADJUSTMENTS HAS THE COMPANY MADE TO ARRIVE AT ITS FTY AND FPFTY BALANCES RELATED TO ITS OTHER O&M?**

**A.** The Company began with its HTY balance of $5,415,928, added Other adjustments of $156,010, and added an adjustment of $2,608,086 related to Charitable – Civic Contributions. The Company then added 2.33% or $190,637 for an Inflation Adjustment in the FTY, and an additional 1.89% or $158,496 for an Inflation Adjustment in the FPFTY. The Company also included $132,000 related to Mountain Energy costs.

**Q. WHAT WAS THE REASONING THE COMPANY PROVIDED TO INCLUDE $2,608,086[15] OF CHARITABLE CONTRIBUTIONS IN RATES?**

**A.** According to Mr. Wachter, the Company included these contributions because it provides benefits to customers. These benefits represent costs related to economic development, environmental, human services and youth contributions. (Peoples Statement No. 3 page 23). Mr. Wachter testified that these contributions help attract new businesses to the Company's service territory, encourage the expansion of existing businesses, retain existing businesses and reduce unemployment. These contributions provide a direct stimulus to the maintenance or enhancement of the market for natural gas within the Company's service territory and an opportunity to spread the cost of service among the widest possible base sales and transportation volumes. (Peoples Statement No. 3 page 23). Mr. Wachter stated that under the youth and human services categories, these contributions foster the development of a qualified and productive work force within the Company's service territory, which is a necessary complement to the Company's economic development activities as a means to attract new businesses and enhance and retain existing businesses. (Peoples Statement No. 3 page 23-24). Mr. Wachter testified that these contributions improve the the economic self-sufficiency of people within the Company's service territory and create an opportunity for the Company to reduce its costs of service in the area of uncollectible expenses, customer assistance and other social programs. (Peoples Statement No. 3 page 24).

[15] A breakdown of the Company's charitable and civic contributions are shown on Exhibit 4 Schedule 1 page 30.

**Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S OTHER O&M?**

**A.** I have several adjustments. My first adjustment is to remove the FTY Inflation Adjustment of $190,637, and the FPFTY Inflation Adjustment of $158,496, consistent to what I have done in prior Inflation Adjustments removals.

**Q. WHAT ADJUSTMENTS DO YOU HAVE WITH RESPECT TO THE COMPANY'S PROPOSED CHARITABLE AND CIVIC CONTRIBUTIONS OF $2,608,086?**

**A.** In the response to OCA-I-36, the Company provided a breakdown of its Charitable / Civic Contributions ($1,908,313) and Youth ($556,074), a total of $2,464,387. A list of these Charitable / Civic Contributions are related to environmental, human services, economic development, religious, medical societies, and other costs that I believe are not specifically related to providing utility service to customers. Mr. Wachter stated that these costs provide direct benefits to customers as described above (Peoples Statement No. 3 page 23), however, I believe these costs should not be borne by ratepayers. Thus, I am removing $2,464,387 of costs from the Company's Other O&M Expenses.

**Q. WHY DO YOU BELIEVE THESE CHARITABLE / CIVIC AND YOUTH CONTRIBUTIONS SHOULD NOT BE INCLUDED IN THE COMPANY'S O&M EXPENSES?**

**A.** I do not believe that ratepayers should bear the costs related to any charitable contributions related to any organization. First, ratepayers do not have a say of what type of contribution they are paying for and the amount of the contribution; the Company determines that. Secondly, I am not certain what direct benefits utility customers receive that are related to contributions that are essentially medical and disease related, the development of economic activities, regional workforce enhancement, the expansion of regional businesses, the reduction of unemployment and the funding of youth related services. I believe these costs should be funded by the cities, the state and the local municipalities and government services, as well as, private citizens and entities who have the option to choose and select the level of money and where it should go. Having the 620,000 customers of Peoples bearing the costs for a region or regions of a population, who may or may not be utility customers of Peoples, is not appropriate and should not be included for ratemaking purposes. If the Company wants to be a good corporate citizen, the Company should pay for these contributions and receive the tax benefit through the corporate entity. Further, I am not sure whether any of these contributions relate to lobbying expenses, which should not be included for ratemaking purposes. With respect to the Company's Youth Service Contributions, these too are charitable contributions that should not be charged to ratepayers.

**Q. WHAT HAS THE COMMISSION STATED WITH RESPECT TO CHARITABLE CONTRIBUTIONS?**

**A.** In various Commission Decisions, the Commission has viewed Charitable Contributions to be the responsibility of all citizens in a community including corporations. According to a Pa. P.U.C. January 26, 1996 case:

> "A Charitable Contribution loses much of its philanthropic character if the donor has the ability to turn [*120] around and pass responsibility for its payment on to someone else. In that case, it becomes a form of involuntary "taxation" of ratepayers. We would hope that [the utility] will continue to meet its civic obligations to aid worthy causes; but if we in turn assessed ratepayers for these contributions, we would in fact be excusing the utility's owners from that obligation. Neither this commission or [the utility] as a corporation has the right to make others pay for its charitable inclinations. The company's claim should be rejected."[16]

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

**A.** My revenue requirement is a reduction of $2,813,520 ($2,464,387 plus the Inflation Factors of $190,637 and $158,496) minus the income tax effect of 30.99% equals $1,941,610 and is shown on my Schedule DM-22, Line 9.

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[16] Pa. PUC v. Citizens Utility Water Company of Pennsylvania, 1996 Pa. PUC LEXIS 164 *119-120 (Pa. P.U.C. January 26, 1996).

### s. Debt Issuance Costs

**Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS DEBT-ISSUANCE COSTS?**

**A.** The Company proposed a Debt Issuance Costs of $1,092,522 under its FPFTY period as shown on Exhibit 4 Schedule 1 page 4 and 25. The Company did not have any HTY costs related to its Debt Issuance Costs.

**Q. WHAT DO THESE COSTS REPRESENT?**

**A.** Mr. Wachter stated that these costs are used to finance capital expenditures and to fund working capital, particularly in the summer months when revenues are low. These issuance costs, along with the remaining issuances costs from the prior facility have been amortized over five years, the life of the new credit facility. (Peoples Statement No. 3 page 25). The Company included one year's worth of the amortization of $410,099 along with other expenses associated with the issuance costs such as credit fees ($42,707), agency fees ($19,053) and a commitment fee on the unused credit line ($620,522). (OCA-I-37). In that data response, Mr. Wachter stated that the intercompany demand notes between Peoples and PNG Companies, were approved in Docket No. S-2017-2626432. Mr. Wachter stated that these costs are necessary to obtain proper liquidity to operate Peoples' business. Mr. Wachter goes on to state that these debt issuance costs are not incorporated into the Company's long-term debt or in the calculation of interest, and that the only way to recover these debt issuance costs are through the O&M claim.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I am accepting the Company's proposal, I have no changes to the Company's adjustments. These costs appear to be known and measurable. The Company's issuance costs, along with the remaining issuance costs from the prior facility have been amortized over a five-year period, which is the life of the new credit facility. These debt issuance costs are expected to be used to help finance capital expenditures and to fund working capital as stated above by Mr. Wachter. In the event additional information is received with respect to the Company's claim for debt issuance costs, I reserve the right to change my recommendation. My recommendation is shown on my Schedule DM-23, Line 10.

**t. <u>Payment Processing</u>**

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS PAYMENT PROCESSING FEE?**

**A.** Company witness Mr. Wachter stated that currently, the Company's customers make payment through various channels such as mail, web and automatic telephone (IVR). The costs of processing a majority of these payment channels are currently borne by the customer through base rates. The costs of processing third party payments for certain web, IVR and walk-in payments are borne by the customer. (Peoples Statement No. 3 page 26). The Company is proposing to pay for all costs associated with customer payments directly to its service providers and recover these costs from customers through base rates rather than a customer-paid transaction cost. (Peoples Statement No. 3 page 26). All customers would be able to select a payment channel of their choice without consideration of additional convenience or transaction fees subject to certain limitations. (Peoples Statement No. 3 page 26). The Company stated that based upon information obtained from AITE Group Paper, the percentage of payments made by debit/credit cards are expected to increase by 31% through the FPFTY period, which represent one-time fee payments for oil or gas payments. (Peoples Statement No. 3 pages 27-28). The Company does not anticipate an increase in the walk-in payments' costs (Peoples Statement No. 3 page 28).

**Q. PLEASE DESCRIBE THESE COSTS.**

**A.** Company witness Mr. Wachter stated that under this no-fee for the customer model, the Company will pay a fixed fee per payment to the third-party service provider. (Peoples Statement No. 3 page 26). The Company will have to agree to certain limitations such as capping the cost of individual payments and limiting the frequency of payments one customer may make in a given period. (Peoples Statement No. 3 page 26). These limitations help reduce the per transaction fee. (Peoples Statement No. 3 page 26). The Company is proposing to include $2,303,208 of costs; third party payments of $2,281,476 and walk-in payments of $137,998.

**Q. WHAT ADJUSTMENTS DO YOU HAVE?**

**A.** I do not have any changes or adjustments to the Company's proposed Payment Processing Fee.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I am accepting the Company's level of its proposed Payment Processing Fee in the amount of $2,308,208 as is shown on my Schedule DM-24. Line 9.

**u. <u>Rate Case Expenses</u>**

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS RATE CASE EXPENSE?**

**A.** The Company has proposed Rate Case Expenses of $2,389,000 amortized over a two-year period for an annual amount of $1,194,500 as shown on Exhibit 4 Schedule 1 page 4 and 27.

**Q. WHEN WERE PEOPLES' AND EQUITABLE' S LAST BASE RATE FILINGS?**

**A.** Mr. Wachter stated that Peoples filed a base rate case proceeding in 2010 and in 2012. (Peoples Statement No. 3 page 29). The Company did not file another rate case until this instant proceeding in 2019, due to the rate stay out period resulting from the Equitable acquisition. The Company is expected to file another base rate case in 2021, given the Company's Long-Term Infrastructure Improvement Plans

(LTIIP) commitments for infrastructure replacement. (Peoples Statement No. 3 page 20).

**Q. WHAT ARE YOUR RECOMMENDATIONS?**

**A.** I am accepting the Company's Rate Case Expenses in the amount of $2,389,000 but it should be normalized. I am also making an adjustment to the Company's Rate Case Expense by using a three-year normalization based upon the Company's Rate Case Expenses in the 2008 Equitable Gas filing, and the 2010 and 2012 Peoples Gas filings.

**Q. WHAT ARE YOUR SPECIFIC ADJUSTMENTS?**

**A.** I reviewed the response to the Company's OCA-I-39. The Company incurred Rate Case Expenses for Equitable and Peoples as follows:

| Year | Entity | Requested Amount | Actual Amount |
|---|---|---|---|
| 2008 | Equitable | $1,051,160 | $1,040,640 |
| 2010 | Peoples | $1,591,800 | $ 975,455 |
| 2012 | Peoples | $1,549,466 | $ 775,929 |
| Total | | | $2,792,024 |
| Amortization Period | | | 3 |
| Normalized Rate Case Expenses | | | $ 930,765 |

In each of the prior rate cases, the Company reached a resolution through settlement agreements. In reviewing the Company's prior Rate Case Expenses, I note that what was requested compared to what was the actual amount varies from as little as 10% in the 2008 Equitable rate case filing, to as great as 50% in the 2012 Peoples rate case filing. (OCA-I-39).

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** My revenue requirement adjustment is a reduction of $263,825 (Company proposed $1,194,500 less my recommended balance of $930,675) minus the income tax effect of 30.99% equals $182,066, as shown on my Schedule DM-25., Line 8.

### v. Uncollectible Accounts

**Q. WHAT HAS THE COMPANY PROPOSED RELATED TO ITS UNCOLLECTIBLE ACCOUNTS?**

**A.** The Company has proposed an Uncollectible Accounts Expense of $12,017,436 for the FPFTY period as shown on Company Exhibit No 4 Schedule 1 page 4 and 28. The Company developed its Uncollectible Accounts Expense based upon the relationship between write-offs and revenues. (Peoples Statement No. 3 page 29). Company witness Mr. Wachter calculated an uncollectible write – off rate by the use of a three – year average for each of PNGs and PEDs Residential, Commercial and Industrial revenues. (Peoples Statement No. 3 pages 29-30).

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I am accepting the Company's methodology regarding its composite uncollectible accounts expense. What I am adjusting is my recommended average operating revenues (FTY 2019/ FPFTY2020) to compute the uncollectible accounts expense at current rates and before any rate increase. I averaged out each of the Company's Residential, Commercial and Industrial revenues for the FTY and FPFTY periods, and used the Company's three-year average of each of the Residential, Commercial and Industrial uncollectible rate as shown on Company Exhibit 4 Schedule 1 page 28. This computation reflects an adjustment of $128,363 which is shown on my Schedule DM-26.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THIS ADJUSTMENT?**

**A.** My revenue requirement adjustment is an increase of $128,363 minus the tax effect of 30.99% equals $88,583 as shown on my Schedule DM-26., Line 8.

**w. Interest on Customer Deposits**

**Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS CUSTOMER DEPOSITS?**

**A.** The Company proposed an interest balance on its Customer Deposits of $116,686 using a 4% interest rate and based upon an average Customer balance of $2,917,148 as shown on Company Exhibit 4 Schedule 1 page 4 and 31. The Company did not project any adjustment for its FTY and its FPFTY periods as the Company has not projected any changes to the Customer Deposits balance.

**Q. WHAT IS YOUR RECOMMENDATION?**

**A.** I do not have any adjustments to the Company's Customer Deposits. I am accepting the Company's proposal. My recommendation is shown on my Schedule DM-27, Line 2.

## 3. DEPRECIATION EXPENSE

**Q. WHAT DID THE COMPANY PROPOSE WITH RESPECT TO ITS DEPRECIATION AND AMORTIZATION EXPENSE?**

**A.** The Company proposed a Depreciation and Amortization Expense of $79,388,675 as shown on Company Exhibit 2 Schedule 4 page 2, and Mr. Spanos Exhibit 5C page I-5. The Company has also proposed a five-year amortization of net salvage accrual of $7,237,473 as shown on Mr. Spanos Exhibit 5C page I-10.

**Q. DID THE COMPANY HAVE DEPRECIATION STUDIES PERFORMED FOR USE IN THIS RATE PROCEEDING?**

**A.** Yes. In Peoples Statement No. 10 page 2, Mr. Spanos stated that depreciation studies were conducted for the Company as of September 30, 2018, September 30, 2019 and October 31, 2020.

**Q. WHAT ARE YOUR RECOMMENDATIONS RELATED TO THE COMPANY'S DEPRECIATION AND AMORTIZATION EXPENSE?**

**A.** In order to calculate the Depreciation Expense associated with my recommended plant in service balance, I took the average of the Company's FTY Depreciation Expense balance of $69,897,582 (Spanos Exhibit 5B), and the FPFTY Depreciation Expense balance of $79,388,675 (Spanos Exhibit 5C) to compute an average Depreciation Expense balance of $74,644,729. This is the same methodology that I used to compute my recommended Accumulated Depreciation balance discussed in my Rate Base testimony section. The average Depreciation Expense balance is $4,743,946 less than the Company's proposed Depreciation Expense of $79,388,582. My adjustment is shown on my Schedule DM-28.

**Q. DO YOU HAVE ANY ADJUSTMENTS TO THE COMPANY'S NEGATIVE NET SALVAGE VALUE OF $7,237,473?**

**A.** No. The Company has used a five-year amortization of its Negative Salvage (2015-2019). I accept the Company's level of its Negative Net Salvage Value of $7,237,473.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTED DEPRECIATION AND AMORTIZATION EXPENSE?**

**A.** The revenue requirement impact of the adjusted Depreciation Expense is a decrease of $4,743,946 minus the income tax effect of 30.99% equals $3,273,797 and is shown on my Schedule DM-28, Line 9.

### 4. <u>TAXES OTHER THAN INCOME</u>

**Q. WHAT HAS THE COMPANY PROPOSED WITH RESPECT TO TAXES OTHER THAN INCOME TAXES?**

**A.** The Company proposed total Taxes Other than Income in the amount of $10,431,213 as shown on Exhibit 6 Schedule 2 Attachment 1 page 2. These taxes are comprised of related payroll taxes, property taxes, PUC Assessments, Sales and Use taxes and other. This is an increase of $633,234 over the Company's HTY period balance of $9,797,979.

**Q. HOW WERE THE PAYROLL, PUC ASSESSMENTS, PROPERTY, AND OTHER TAXES COMPUTED?**

**A.** For the Payroll related taxes, the Company used an Experience Factor based upon historical test year balances and carried that Experience Factor over to the FPFTY labor. (OCA-I-42). The PUC Assessments were adjusted to reflect the most recent Assessment by the PUC. In response to OCA-I-43, the Company did not calculate an effective tax rate for its PUC/Other Assessments. The Company used the 2018 actual expense with any true-up of over or under accruals during that period. All other taxes have been kept at historical levels, such as Sales and Use Tax and Other Miscellaneous Taxes. (OCA-I-46). (Peoples Statement No. 4 page 20).

**Q. WHAT ARE YOUR ADJUSTMENTS AND YOUR RECOMMENDED LEVEL OF TAXES OTHER THAN INCOME TAXES?**

**A.** I am accepting the Company's methodology in the calculation of its Taxes Other Than Income. I am making adjustments to the Company's FICA, FUTA and SUTA taxes that reflect my recommended Labor balance, which includes my adjustments to the Company's vacancy positions and my adjustments to the Company's APIP. I removed costs associated with certain APIP compensation, and 50% of the Company's proposed vacancy positions, which are reflective in the Company's payroll rates accordingly. In calculating my recommended payroll taxes, I am accepting the Company's use of an Experience Factor.

**Q. WHAT IS YOUR OTHER ADJUSTMENT TO TAXES OTHER THAN INCOME?**

**A.** I adjusted the Property Taxes to reflect the changes in my recommended GPIS balance. I used the Company's Property tax level of $1,039,000 to the Company's proposed GPIS balance of $3,244,481,314 to calculate a composite Property tax rate of 0.000320%. In using my recommended average GPIS balance of $3,099,932,489 times the composite tax rate of 0.000320%, I computed a Property Tax expense of $991,978, a reduction of $47,022.

**Q. WHAT ARE YOUR TOTAL ADJUSTMENTS TO THE COMPANY'S TAXES OTHER THAN INCOME?**

**A.** My total adjustments are as follows:

| | |
|---|---|
| Payroll Taxes | ($270,308) |
| Property Taxes | ($47,022) |
| Assessments | ($ 129) |
| Total | ($317,459)[17] |

My recommendation is shown on my Schedule DM-29. Line 9.

**Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF YOUR ADJUSTMENT?**

**A.** The revenue requirement impact of my adjusted Taxes Other Than Income is: $317,400 minus the income tax effect of 30.99%, which equals $219,038

## 5. INCOME TAXES

**Q. WHAT DID THE COMPANY CALCULATE WITH RESPECT TO ITS INCOME TAXES?**

**A.** The Company proposed total Income Taxes of $35,462,041. This is comprised of Net Federal Income Taxes of $15,161,413, (Line 25) State Income Taxes of $4,510,741, (Line 16) and Federal Deferred Income Tax of $15,789,887 (Line 29) as shown on Exhibit 7 Schedule 8 Attachment 1 page 2. The Company made a calculation to deduct interest expense using the interest synchronization method (Rate Base times weighted average cost of debt of 1.90% - Exhibit 2 Schedule 4 page 5), or $40,252,328.

**Q. WHAT OTHER ADJUSTMENTS DID THE COMPANY MAKE TO COMPUTE ITS INCOME TAX EXPENSE?**

[17] Difference between $317,459 and Schedule DM-29 of $317,400, are due to rounding.

**A.** According to Mr. Wesolosky, the Company made adjustments based on generally accepted accounting principles required to conform with regulatory accounting rules. (Peoples Statement No. 4 page 8). Certain Items of income and expenses are treated differently for income taxes (permanent and temporary adjustments) such as meals and entertainment (permanent), depreciation (straight line vs. modified accelerate cost recovery system), (Peoples Statement No. 4 page 9) Section 165 Loss on Asset Retirements, Contributions in Aid of Construction and Cost of Removal (temporary or deferred). (Peoples Statement No. 4 page 9-10). Mr. Wesolosky made an adjustment to derive the State Taxable Income by the Company's operating losses which is limited to 40% of the state taxable income produced in the future test year ($30.1 million) (Peoples Statement No. 4 page 10).

**Q. DID THE COMPANY ADJUST ITS PROPOSED REVENUE REQUIREMENT TO ACCOUNT FOR THE TAX CUTS AND JOBS ACT OF 2017 (TCJA)?**

**A.** Yes. The Company utilized the federal tax rate of 21% and also incorporated this tax rate into the Company's revenue conversion factor to account for the change. Mr. Wesolosky stated that the Company made special consideration to ensure that the calculations of income taxes do not yield a normalization violation. (Peoples Statement No. 4 page 15-17).

**Q. PLEASE EXPLAIN THE NORMALIZATION VIOLATION ISSUE.**

**A.** According to Mr. Wesolosky, deferred tax assets and liabilities are measured at the currently enacted tax rate expected to apply to taxable income in the period which the deferred tax liability or asset is expected to be settled or realized. (Peoples Statement No. 4 page 15). When a change in the tax rate is realized, deferred tax assets and liabilities are adjusted in the period which the change in the tax rate is enacted into law. (Peoples Statement No, 4 page 15). Prior to the TCJA the deferred tax assets and liabilities were measured at a 35% corporate tax. (Peoples Statement 4 page 15). The TCJA corporate tax rate was reduced to 21% effective January 1, 2018. The re-measurement thus gives rise to excess deferred income taxes recorded as a regulatory liability. The majority of the accumulated excess deferred income taxes relate to utility plant and are subject to the normalization rules. (Peoples Statement No. 4 page 15). The TCJA normalization provisions require that the reserve for the excess deferred income taxes to be amortized and reduced no more rapidly than such reserve would be reduced under the average rate assumption method (ARAM). (Peoples Statement No. 4 page 15). The ARAM reduces the deferred income taxes that are set in this proceeding. In response to OCA-I-51, the Company stated that all amortization of the excess deferred income taxes using the IRS ARAM method is related to protected plant.[18] The Company utilized the PowerTax Deferred Tax System to calculate excess deferred income taxes. This reduction is also reflected in Rate Base for both accumulated deferred income taxes and excess deferred income taxes (Peoples Statement 4 pages 15-16).

**Q. WHAT ARE THE CONSEQUENCES OF NOT ADHERING TO THE NORMALIZATION RULES?**

**A.** Mr. Wesolosky stated that failure to comply with the normalization requirements results in a utility's tax liability for a given year to increase by the amount which it reduced its excess tax reserve in excess of the amount permitted under the normalization rules. (Peoples Statement No. 4 page 16). The utility becomes ineligible to deduct accelerated depreciation or federal income tax purposes and instead may only deduct the amount of depreciation expensed for regulatory purposes. (Peoples Statement No. 4 page 16). A normalization violation would result in loss of accelerated tax depreciation and the ongoing deductions to Rate Base for deferred taxes, which results in increasing utility rates to customers. (Peoples Statement No. 4 p 16-17).

**Q. DID THE COMPANY PROVIDE THE CALCULATION REGARDING THE REMEASUREMENT OF THE ACCUMULATED DEFERRED TAX INCOME AND THE FLOW-BACK OF THE EXCESS DEFERRED INCOME TAXES (EDIT) AS A REDUCTION TO REVENUES IN THIS CASE?**

---

[18] Protected plant is required to be amortized using the ARAM. Protected plant cannot be amortized more rapidly than such reserve would be reduced. Unprotected plant has no definite amortization period and can be amortized over any number of years.

**A.** Yes. In response to OCA-I-51, the Company provided the information and re-measured the accumulated deferred income taxes at December 31, 2017, with respect to the change in the Federal Income Tax rate from 35% to 21%. Mr. Wesolosky stated that the Company used its PowerTax Deferred Tax System to support and calculate its EDIT of $1,780,376 using the ARAM (OCA-I-51). Mr. Wesolosky stated that all of the EDIT is related to Protected Plant. (OCA-I-51). Mr. Wesolosky stated that the impact of the TCJA was considered in Docket No. R-2018-2611242 but did not establish EDIT balances. (OCA-I-51).

**Q. WHAT ARE THE EDIT BALANCES AND THE RELATED AMORTIZATION PERIODS THAT THE COMPANY USED FOR ITS RE-MEASUREMENT OF ITS EDIT AND THE AMOUNT THAT IS INCLUDED IN THE COMPANY'S INCOME TAX CALCULATION?**

**A.** As shown on OCA-I-51, although the Company did not specifically address the amortization period used to amortize the EDIT, based upon the below analysis, the a 32.69-year amortization period for its Property Protected - Combined PNG and PED EDIT, is calculated which was used in setting rates in this proceeding as follows:

| | Beg. EDIT | End. EDIT | Amort. | Yrs. |
|---|---|---|---|---|
| 2018 Combined | $61,856,403 | $60,405,183 | $1,451,220 | 42.63 |
| 2019 Combined | $60,405,183 | $58,700,957 | $1,704,226 | 35.44 |
| 2020 Combined | $58,700,957 | $56,905,351 | $1,795,606 | 32.69 |

**Q. WAS THE EDIT BALANCE OF $1,795,606 USED AND INCLUDED TO CALCULATE THE COMPANY'S INCOME TAX EXPENSE (FLOW-BACK)?**

**A.** No. The Company allocated the EDIT balance of $1,795,606 in relation to the HTY, (September 2018), FTY (September 2019) and FPFTY (October 2020) months to develop its appropriate test year periods:

HTY balance $1,451,220 – 9 months 2018 - ($1,451,220 x .75) **$1,088,415**

| | | |
|---|---|---|
| FTY balance $1,704,226 – 3 months 2018 – ($1,451,220 x 25) | | $ 362,805 |
| | - 9 months 2019 – ($1,704,226 x.75) | $1,278,170 |
| | | **$1,640,975** |
| FPFTY balance $1,795,606 – 2 months 2019 – ($1,704,226 x .1667) | | $ 284,094 |
| | - 10 months 2020 - ($1,795,606) x .833) | $1,496,281 |
| | | **$1,780,376** |

**Q. WHAT IS YOUR RECOMMENDED FEDERAL INCOME TAXES AND RECOMMENDED STATE INCOME TAXES?**

**A.** I reviewed the methodology that the Company used to compute its Federal and State Income Taxes and I accept the Company's methodology. I also reviewed the Company's re-measurement of its EDIT flow-back related to the TCJA of 2017 and I accept the back-up documentation provided by the Company and the related data responses. The Company has included $1,780,376 as the offset, or flow-back, of the Excess Deferred Income Taxes. Using the Company's methodology shown on Company Exhibit 7, Schedule 8 page 2, and the Income Tax rate of 21% and a PA State Income Tax Rate (SIT) of 9.99%, I am making adjustments that are related to my recommended Operating Income as follows:

| | |
|---|---|
| Net Federal Income Tax Expense -Current | $ 288,854 |
| PA State Income Tax Expense | $ ($4,985) |
| Federal Deferred Income Tax Expense | $15,789,887 |
| Total | $16,073,756 |

**Q. DID YOU MAKE ANY ADJUSTMENTS TO THE COMPANY'S SCHEDULE M ITEMS AND DEFERRED ADJUSTMENTS?**

No, I am accepting the Company's adjustments.

**Q. WHAT IS YOUR ADJUSTMENT RELATED TO THE COMPANY'S INTEREST EXPENSE CALCULATION?**

**A.** Using my recommended Rate Base Balance of $1,937,181,384 and using OCA O'Donnell's recommended cost of debt of 2.12%, my recommended Interest Expense is $40,994,322.

**Q. WHAT IS YOUR TOTAL INCOME TAX EXPENSE?**

**A.** My total Income Tax Expense is $16,073,756 which is $19,388,286 lower than the Company's $35,462,042, which is shown on my Schedule DM-30.

## 6. TAX CUTS AND JOBS ACT OF 2017 (TCJA)

**Q. HOW DID THE COMPANY ACCOUNT FOR THE REFUND TO CUSTOMERS WITH REGARD TO THE TCJA?**

**A.** According to Mr. Wesolosky, the Company incorporated a Rider TCJA to pass back the revenues from the difference in the Federal Income Taxes (35% to 21%). (Peoples Statement No, 4, page 17). This is reflected in the Company's historical test period revenues. The Rider TCJA is eliminated with calculating revenue at proposed rates which incorporates the 21% Federal Income Tax rate. (Peoples Statement No. 4 p 17). Mr. Wesolosky indicated that the Company established a Deferred Regulatory Balance related to the tax savings associated with the TCJA for the period January 1 through June 30, 2018 (Stub Period Revenues). A Rider TCJA has been reflected in the Company's historical test period revenues. The Company's proposed revenue incorporates a 21% federal income tax rate. (Peoples Statement No. 4 page 17). The Rider TCJA has been eliminated when calculating the revenue at proposed rates. (Peoples Statement No. 4 page 17). Mr. Wesolosky stated that once the proposed rates are effective, the Company will evaluate any over or under collection and calculate the final amount to be refunded to customers with 60 days of the date of new rates (Stub Period Revenues) and the accumulated over or under collection of revenues while the Rider TCJA rate was in effect. (Peoples Statement No. 4 page 17). The Company will issue a one-time bill credit within 120 days of the effective date of new rates in this proceeding (Peoples Statement No.4 page 17). The tax savings associated with TCJA for

January 1, 2018 through June 30, 2018 amount to $16.6 million and have been deferred as a regulatory liability on the Company's balance sheets shown on Exhibit MDW-1. (Peoples Statement No.4 page 18). The Company proposed to refund this $16.6 million to customers beginning November 1, 2019 through the Rider TCJA (Peoples Statement No. 4 page 18).

**Q. WHEN WILL THE RIDER TCJA BE REMOVED FROM CUSTOMER BILLS?**

**A.** Mr. Wesolosky stated that once the proposed rates become effective, the amounts refunded under the Rider TCJA will be evaluated for any over or under collection. (Peoples Statement No. 4 page 17). The tariff change resulting from the base rate case will reduce the Rider TCJA to zero and within sixty-days of the effective date of new rates, the Company will calculate the final amount to be refunded to customers including the stub period savings (January 2018 to June 2018) and the accumulated over or under collection while the Rider TCJA was in effect. (Peoples Statement No. 4 page 17). These amounts will be refunded to customers by means of a one-time bill credit within 120 days of the effective date of new rates set in this proceeding (Peoples Statement No. 4 p 17).

**Q. HOW HAS THE COMPANY COMPLIED WITH THE COMMISSION ORDER IN CASE NO. R-2018-3000502 DATED MAY 17, 2018?**

**A.** The Company calculated the stub period revenues (from January 1 through June 30, 2018) in the amount of $16.6 million as shown on Company Exhibit MDW-1 attached to Peoples Statement 4. This amount has been deferred as a regulatory liability on the Company's balance sheet. The tax savings associated with the stub period has not been reflected in the claim for the current case, as the Company proposes to refund the stub period revenues to customers beginning November 1, 2019 through the Rider TCJA (Peoples Statement No. 4 page 18).

**Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S ADJUSTMENTS RELATED TO THE TCJA OF 2017?**

**A.** I've reviewed the documents, and the data responses to the Company's TCJA of 2017, and I accept the Company's proposal. The Company is proposing to refund the stub period tax savings as shown on MDW-1 attached to Peoples Statement No. 4, in the amount of $16.6 million within 120 days (4 months) of the effective date of the new base rates in this proceeding. (Peoples Statement No. 4 page 17).

**D. Act 40 Requirements (Act 40 of 2016)**

**Q. WHAT ARE THE ACT 40 REQUIREMENTS?**

**A.** Act 40 took effect on August 11, 2016, which among other things, eliminated the consolidated tax savings adjustment. Prior to Act 40, the Company would have been required to adjust its revenue increase request downward to reflect tax savings associated with filing taxes as part of a parent or holding company. This practice recognized that the Company's ratepayers only paid through rates those taxes that the Company actually paid. Act 40 requires the Company to continue its performance of the consolidated tax savings calculation and provide that consolidated tax savings differential as part of its rate case filing. In part, Act 40 states:

> If an expense or investment is allowed to be included in a public utility's rates for ratemaking purposes, the related income tax deductions and credits shall also be included in the computation of current or deferred income tax expense to reduce rates. If an expense or investment is not allowed to be included in a public utility's rates, the related income tax deductions and credits, including tax losses of the public utility's parent or affiliated companies, shall not be included in the computation of income tax expense to reduce rates. The deferred income taxes used to determine the rate base of a public utility for ratemaking purposes shall be based solely on the tax deductions and credits received by the public utility and shall not include any deductions or credits generated by the expenses or investments of a public utility's parent or any affiliated entity. The income tax expense shall be computed using the statutory income tax rates.

Act 40 further states:

> REVENUE USE- If a differential accrues to a public utility resulting from applying the ratemaking methods employed by the commission prior to the effective date of subsection (a) for ratemaking purposes, the differential shall be used as follows:
>
> (1) Fifty percent to support reliability or infrastructure related to the rate-base eligible capital investment as determined by the commission; and
>
> (2) Fifty percent for general corporate purposes.

As a result, ratepayers now pay taxes in excess of those taxes that the Company actually pays, and the revenue use requirement specifies how those additional revenues are to be applied. Section 1301.1 (b) requires the Company to use 50% of that differential for reliability or infrastructure related capital investment and the remaining 50% for general corporate purposes.

**Q. HAS THE COMPANY CALCULATED A CONSOLIDATED TAX EXPENSE ADJUSTMENT (CTA)?**

**A.** According to Mr. Wesolosky, the Company has calculated a CTA, but not for the purposes of flowing through as a ratemaking adjustment to federal income tax expense (Peoples Statement No. 4 page 12). Mr. Wesolosky stated that with the passage of Act 40, a utility's tax expense for regulatory purposes is calculated on a stand – alone basis and is not subsidized by its affiliates. (Peoples Statement No. 4 page 12).

**Q. HAS THE COMPANY SATISFIED THE FIRST REQUIREMENT UNDER ACT 40 – 50% OF THE DIFFERENTIAL SPENT ON INFRASTRUCTURE REPLACEMENT?**

**A.** No. As shown on Company Exhibit 7 Schedule 3 page 2, the Company calculated a combined CTA of $5.3 million, of which 50% of the differential is $2.7 million. The differential of $2.7 million is ratepayer supplied money that is addressed in Act 40 as the "Revenue Use" differential. I also note that this is ratepayer supplied money for an expense that the Company will not incur, as taxes are not paid by the Company or its parent company due to filing a consolidated tax return through the parent company. Moreover, since the Company's calculation was based on tax years 2015, 2016, and 2017, the federal income tax rate of 35 percent was used.

**Q. HOW DOES PEOPLES PROPOSE TO APPLY THE REVENUE USE "DIFFERENTIAL"?**

**A.** Peoples has not presented a specific plan related to the investment of the fifty percent of the "differential" in projects to conform to Section 1301.1(b). Peoples has simply stated that it intends to spend more than the differential for its rate base additions

**Q. DO YOU AGREE WITH PEOPLES?**

**A.** No. Peoples has failed to actually apply any of the revenue use "differential" in the current rate case.

**Q. SHOULD THE REVENUE USE "DIFFERENTIAL" BE APPLIED IN THE CURRENT PEOPLES RATE CASE?**

**A.** Yes. The current Peoples rate case is using a fully projected future test year of the 12 months ending October 31, 2020 as the basis for establishing the Company's revenue requirement. New rates are anticipated to be effective in the fourth quarter of 2019 and will continue throughout 2019 and into 2020. The FPFTY "Revenue Use" differential of 50% that is to be used to support reliability or infrastructure related to the rate-base eligible capital investment as determined by the Commission should be reflected in the current rate case.

**Q. WHAT ADJUSTMENT FOR THE 50% "REVENUE USE" DIFFERENTIAL THAT IS TO BE USED TO SUPPORT RELIABILITY OR INFRASTRUCTURE?**

**A.** For the 50% infrastructure amounts, if the Company's proposed approach to the FPFTY rate case were to be used (against my recommendation), then the 50% infrastructure amount should be used to offset rate base in the current case. The offset to rate base reflects that the amounts of "Revenue Use" differential are being used to support infrastructure related to the rate-base eligible capital investment as determined by the Commission. Since I used an average rate base methodology, I am averaging out the $2.7 million or 50% or $1.332 million as a rate base offset deduction for reliability or infrastructure use. This is shown on my Schedule DM-31 Line 17.

**Q. WHY SHOULD THE REVENUE USE "DIFFERENTIAL" RELATED TO INFRASTRUCTURE BE REFLECTED AS A RATE BASE REDUCTION?**

**A.** By the rate base reduction, the revenue is used to support infrastructure and reliability investment and reducing the burden of the FPFTY rate-base eligible capital investment on ratepayers. The use of the increased revenue to Peoples that is being supplied by ratepayers is applied as non-investor-supplied funding for the 12 months ending October 30, 2020 rate base infrastructure. This appears to be consistent with the requirement of Act 40 for infrastructure use. It is also consistent with an objective that the additional ratepayer-supplied funds supports infrastructure investments in Pennsylvania to benefit consumers and are not merely passed to the parent company, shareholders, or affiliated companies.

**Q. WHAT IS PEOPLES' PROPOSAL FOR THE OTHER 50% OF THE DIFFERENTIAL, WHICH SECTION 1301.1(b)(2) STATES MUST BE USED FOR "GENERAL CORPORATE PURPOSES"?**

**A.** Peoples does not appear to propose a specific treatment for the other 50% of the differential, which Section 1301.1(b)(2) states must be used for "general corporate purposes."

**Q. WHAT DO YOU CONCLUDE FROM PEOPLES' FAILURE TO SPECIFY A USE FOR THE 50% OF THE DIFFERENTIAL THAT ACT 40 REQUIRES TO BE USED FOR "GENERAL CORPORATE PURPOSES"?**

**A.** Peoples has identified no specific ways in which that 50% of the differential would be used in any way to benefit Pennsylvania ratepayers. One might conclude from this that Peoples therefore basically intends to use that money for the benefit of its stockholders, and not apply it in any manner to provide a quantifiable ratepayer benefit or in a manner that directly benefits service to Pennsylvania customers.

**Q. WHAT DOES "GENERAL CORPORATE PURPOSES" AS USED IN ACT 40 MEAN?**

**A.** Because Peoples is a regulated utility in Pennsylvania, its "general corporate purpose" is to provide regulated utility service in the Commonwealth of Pennsylvania. While the term "general corporate purposes" is rather vague, consistent with that general corporate purpose of regulated utilities, general corporate purposes would include uses for such "differential" revenues as supporting capital expenditures necessary to execute utility business plans, paying off debt, funding construction projects, paying dividends, paying for maintenance and operating expenses, investing in utility plant in Pennsylvania, and providing a source of working capital. Many of these uses for "general corporate purposes" would have a quantifiable benefit to Pennsylvania ratepayers. As I read the entirety of Act 40, the "revenue use differential" addressed in the Act for "general corporate purposes" should mean public utility purposes and uses that result in having some identifiable and quantifiable benefit to Pennsylvania and Peoples ratepayers, rather than just resulting in a windfall of $2.7 million annually (based on the new 21 percent federal income tax rate) to Peoples' shareholders or affiliates.

**Q. WHAT SPECIFIC RECOMMENDATION DO YOU HAVE IN THE CURRENT PEOPLES RATE CASE FOR APPLYING THE 50% OF THE "REVENUE USE" DIFFERENTIAL THAT ACT 40 REQUIRES TO BE FOR "GENERAL CORPORATE PURPOSES"?**

**A.** I have reflected the 50% differential for general corporate purposes as a source of non-investor-supplied funding for utility working capital.

**Q. WHAT ABOUT IF YOUR RECOMMENDED AVERAGE TEST YEAR RATE BASE APPROACH TO THE FPFTY IS USED?**

**A.** If my recommended average test year rate base approach to the FPFTY is used, the rate base CWC support from ratepayers would be one-half of the above-identified amount, to reflect that the amounts of the ratepayer-provided 50% "Revenue Use" differential for "general corporate purposes" was zero at October 1, 2019 (the beginning of the FPFTY) and reaches the "Revenue Use" amounts at October 31, 2020 (the end of the FPFTY). Accordingly, the non-investor-supplied funding to support the Peoples rate base CWC for the application of the 50% of the "general corporate purposes" Revenue Use differential should reflect a reduction of $1.332 million and is shown on Schedule DM-31 Line 18.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

**A.** Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Dante Mugrace, hereby state that the facts above set forth in my Direct Testimony OCA Statement No. 1 are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature: Dante Mugrace

Dante Mugrace
PCMG and Associates, LLC
90 Moonlight Court
Toms River, NJ 08753
dmugrace@pcmgregcon.com

DATED: April 29, 2019
*270927

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# EXHIBITS ACCOMPANYING
# Direct Testimony of
# Dante Mugrace

# On Behalf of:
# Office of Consumer Advocate

## STATEMENT OF INCOME

| | | (1) Company Present Rates | Adjustments | Company Proposed Rates | Adjustments | Present Rates OCA | References |
|---|---|---|---|---|---|---|---|
| 1 | Operating Revenues | $ 667,019,391 | $ 94,848,211 | $ 761,867,602 | $ 746,247 | $ 667,765,638 | DM-4 |
| 2 | Gas Supply Expense | $ 270,963,553 | $ - | $ 270,963,553 | $ 959,148 | $ 271,922,701 | DM-5 |
| 3 | O & M Expenses | $ 192,027,628 | $ 2,212,976 | $ 194,240,604 | $ (15,347,947) | $ 178,892,658 | |
| 4 | Depreciation / Amortization | $ 79,388,675 | $ - | $ 79,388,675 | $ (4,743,946) | $ 74,644,729 | DM-28 |
| 5 | Net Salvage Amortized | $ 7,237,473 | $ - | $ 7,237,473 | $ - | $ 7,237,473 | DM-28 |
| 6 | Taxes Other Than Income | $ 10,431,213 | $ - | $ 10,431,213 | $ (317,400) | $ 10,113,813 | DM-29 |
| 7 | Total Operating Expenses | $ 560,048,541 | $ 2,212,976 | $ 562,261,518 | $ (19,450,144) | $ 542,811,373 | |
| 8 | Net Operating Income Before FIT | $ 106,970,850 | $ 92,635,235 | $ 199,606,084 | $ (74,651,820) | $ 124,954,264 | |
| 9 | Income Taxes | $ 12,445,156 | $ 23,016,885 | $ 35,462,042 | $ (19,388,286) | $ 16,073,756 | DM-30 |
| 10 | Operating Income | $ 94,525,694 | $ 69,618,350 | $ 164,144,042 | $ (55,263,534) | $ 108,880,508 | |
| 11 | Interest Charges | $ 40,252,328 | $ - | $ 40,252,328 | $ 685,619 | $ 40,937,947 | DM-30 |
| 12 | Net Income | $ 54,273,366 | $ 69,618,350 | $ 123,891,714 | $ (55,949,154) | $ 67,942,561 | |
| 13 | Rate Base | $ 2,052,311,067 | $ - | $ 2,052,311,074 | $ (117,793,690) | $ 1,934,517,384 | DM-3 |
| 14 | Rate of Return | 4.606% | | 7.998% | | 6.499% | |
| | Revenue Conversion Factor | | 1.35264919 | | 1.35264919 | | DM-3 |
| | | | $ 94,169,204 | | $ 22,785,265 | | |
| | Additional Late Fees | | $ 679,006 | | $ 164,293 | | |
| | | | $ 94,848,210 | | $ 22,949,558 | | |

(1) Company Exhibit 2 Schedule 4 p 2

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-2
# COC

## COST OF CAPITAL

| | | (1) | | | |
|---|---|---|---|---|---|
| | **Company Proposed** | Ratios | Cost Rate | Weighted Cost | References |
| 1 | Debt | 46.340% | 4.240% | 1.96% | |
| 2 | Equity | 53.660% | 11.250% | 6.04% | |
| 3 | **Total** | 100.000% | | 8.00% | |
| | **OCA Recommendation** | | | | |
| 4 | Debt | 49.910% | 4.240% | 2.116% | |
| 5 | Equity | 50.090% | 8.750% | 4.383% | |
| 6 | **Total** | 100.000% | | 6.499% | KOD-Table II |

(1) Exhibit PRM-1 Schedule 1

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-3
# RevReq

## REVENUE REQUIREMENT

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Rate Base | $ 2,052,311,074 | $ (117,793,690) | $ 1,934,517,384 | DM-31 |
| 2 | Rate of Return | 7.998% | | 6.499% | DM-2 |
| 3 | Operating Income | $ 164,144,042 | $ (38,418,616) | $ 125,725,426 | |
| 4 | Operating Income Present Rates | $ 94,525,694 | $ 14,354,814 | $ 108,880,508 | DM-1 |
| 5 | Operating Deficit | $ 69,618,349 | $ (52,773,431) | $ 16,844,918 | |
| 6 | Revenue Conversion Factor | 1.35264919 | | 1.35264919 | |
| 7 | Additional Revenues | $ 94,169,203 | $ (71,383,938) | $ 22,785,265 | |
| 8 | Additional Late Fees | $ 679,006 | $ (514,713) | $ 164,293 | |
| 9 | Additional Revenue Requirement | $ 94,848,209 | $ (71,898,651) | $ 22,949,558 | |

(1) Company Exhibit 2 Schedule 4 p 6

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-4
# OpRev

OPERATING REVENUES

| | | (1) Company Present Rates | Adjustments | Company Proposed Rates | Adjustments | Present Rates OCA | References |
|---|---|---|---|---|---|---|---|
| 1 | Tariff Sales | | | | | | |
| 2 | Residential | $ 406,018,601 | $ 66,993,708 | $ 473,012,309 | | | |
| 3 | SGS | $ 48,182,088 | $ 6,235,730 | $ 54,417,818 | | | |
| 4 | MGS | $ 24,410,097 | $ 962,307 | $ 25,372,404 | | | |
| 5 | LGS | $ 1,154,394 | $ (12,865) | $ 1,141,529 | | | |
| 6 | Total Tariff Sales | $ 479,765,180 | $ 74,178,880 | $ 553,944,060 | $ 1,451,891 | $ 481,217,071 | Exh. 3 Sch 15 Attach A Page 2 |
| 7 | Transportation Sales | | | | | | |
| 8 | Residential | $ 62,696,266 | $ 14,010,479 | $ 76,706,745 | | | |
| 9 | SGS | $ 14,769,329 | $ 3,358,828 | $ 18,128,157 | | | |
| 10 | MGS | $ 42,777,490 | $ 4,445,408 | $ 47,222,898 | | | |
| 11 | LGS | $ 48,168,946 | $ 2,484,639 | $ 50,653,585 | | | |
| 12 | Total Transportation Sales | $ 168,412,031 | $ 24,299,354 | $ 192,711,385 | $ (982,610) | $ 167,429,422 | Exh 3 Sch 15 Attach A Page 2 |
| 13 | Other Operating Revenues | | | | | | |
| 14 | Sales for Resale | $ 4,405,264 | $ 679,006 | $ 5,084,270 | | | |
| 15 | Forfeited Discounts | $ 3,254,481 | $ (2,378,514) | $ 875,967 | | | |
| 16 | Miscellaneous Service Revenue | $ 3,376,781 | $ - | $ 3,376,781 | | | |
| 17 | Rent from Gas Property | $ 173,982 | $ - | $ 173,982 | | | |
| 18 | Other Gas Revenues | $ 7,631,670 | $ (1,930,514) | $ 5,701,156 | | | |
| 19 | Total Other Operating Revenues | $ 18,842,178 | $ (3,630,022) | $ 15,212,156 | $ 276,967 | $ 19,119,145 | Exh 3 Sch 15 Attach A Page 2 |
| 20 | Total Operating Revenues | $ 667,019,389 | $ 94,848,212 | $ 761,867,601 | $ 746,249 | $ 667,765,638 | |

(1) Company Exhibit 3 Schedule 15 Attachment A page 3

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-5
# OpEx

## OPERATING AND MAINTENANCE EXPENSES

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Gas Supply Expenses | $ 270,963,553 | $ 959,148 | $ 271,922,701 | Exh No 2 Sch 4 |
| | Operation and Maintenance | | | | |
| 2 | Labor | $ 67,633,074 | $ (537,017) | $ 67,096,057 | DM-6 |
| 3 | APIP/Incentive Compensation | $ 7,002,919 | $ (3,040,521) | $ 3,962,398 | DM-7 |
| 4 | Pension | $ 2,363,000 | $ - | $ 2,363,000 | DM-8 |
| 5 | PBOP | $ 2,320,140 | $ (18,410) | $ 2,301,730 | DM-9 |
| 6 | Other Employee Benefits | $ 17,222,707 | $ (674,248) | $ 16,548,459 | DM-10 |
| 7 | Outside Services - Contracted | $ 25,596,554 | $ (1,044,696) | $ 24,551,858 | DM-11 |
| 8 | Outside Services - A&G | $ 9,354,827 | $ (341,978) | $ 9,012,849 | DM-12 |
| 9 | Building Leases | $ 2,198,714 | $ - | $ 2,198,714 | DM-13 |
| 10 | Corporate Insurance | $ 3,476,741 | $ (451,046) | $ 3,025,695 | DM-14 |
| 11 | Injuries and Damages | $ 1,611,240 | $ (65,955) | $ 1,545,286 | DM-15 |
| 12 | Employee Expenses | $ 2,931,384 | $ (1,488,991) | $ 1,442,393 | DM-16 |
| 13 | Company Memberships | $ 994,709 | $ (393,159) | $ 601,550 | DM-17 |
| 14 | Utilities & Fuel - Company Operations | $ 2,406,080 | $ (94,688) | $ 2,311,392 | DM-18 |
| 15 | Advertising | $ 3,133,754 | $ (1,411,385) | $ 1,722,370 | DM-19 |
| 16 | Fleet Maintenance & Fuel | $ 3,768,093 | $ (157,417) | $ 3,610,676 | DM-20 |
| 17 | Materials & Supplies | $ 8,928,199 | $ (463,848) | $ 8,464,351 | DM-21 |
| 18 | Other O&M | $ 8,661,157 | $ (2,813,520) | $ 5,847,637 | DM-22 |
| 19 | Debt Issuance Costs | $ 1,092,521 | $ - | $ 1,092,521 | DM-23 |
| 20 | Payment Processing | $ 2,303,210 | | $ 2,300,581 | DM-24 |
| 21 | Rate Case Expenses | $ 1,194,500 | $ (263,825) | $ 930,675 | DM-25 |
| 22 | Uncollectible Accounts | $ 12,017,436 | $ 128,363 | $ 12,145,799 | DM-26 |
| 23 | Total USP/SCR Rider | $ 5,699,982 | | $ 5,699,982 | RC- |
| 24 | Interest on Customer Deposits | $ 116,686 | $ - | $ 116,686 | DM-27 |
| 25 | Total Operation and Maintenance | $ 192,027,628 | $ (13,134,970) | $ 178,892,658 | |

(1) Company Exhibit 4 Schedule 1 p 4

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-6
# Labor

| | LABOR | | (1) Company Proposed | | Adjustments | OCA | References |
|---|---|---|---|---|---|---|---|
| 1 | Per Books 9/30/2018 | $ | 59,585,556 | [redacted] | | [redacted] | Exh 4 Sch 3 p 5 |
| | | | | | | [redacted] | OCA-VII-3 (2) |
| 2 | Annualized Gross Payroll | $ | 1,993,457 | $ | - | [redacted] | Exh 4 Sch 1 |
| 3 | HTY Period | $ | 61,579,013 | $ | - | [redacted] | |
| 4 | Clerical Merit Increase 3.00% | $ | 38,245 | $ | - | [redacted] | OCA-I-8 |
| 5 | Exempt Labor Increase 3.00% | $ | 1,041,734 | $ | - | [redacted] | |
| 6 | Clerical Union Increase 2.50% | $ | 118,211 | $ | - | [redacted] | |
| 7 | Manual - Union 2.75% | $ | 1,209,707 | $ | - | [redacted] | |
| 8 | Total | $ | 2,407,897 | $ | - | [redacted] | |
| 9 | O&M Labor Percentage 61.41% | $ | 1,478,663 | $ | - | [redacted] | |
| 10 | Clerical Union Progression/Promotion | $ | 38,017 | $ | - | [redacted] | Exh 4 Sch 1 p 5 |
| 11 | Manual Union Progression/Promotion | $ | 478,342 | $ | - | [redacted] | |
| 12 | Total | $ | 516,359 | $ | - | [redacted] | |
| 13 | O&M Labor Percentage 50.20% | $ | 259,202 | $ | - | [redacted] | |
| | | | | | | [redacted] | Vacancies |
| 14 | Clerical FTY Adjustments | $ | 38,274 | $ | - | [redacted] | |
| 15 | Exempt FTY Adjustments | $ | 1,350,312 | $ | - | [redacted] | |
| 16 | Clerical Union FTY Adjustments | $ | 225,395 | $ | - | [redacted] | |
| 17 | Manual FTY Adjustments | $ | 592,889 | $ | - | [redacted] | |
| 18 | Total | $ | 2,206,870 | $ | - | [redacted] | |
| 19 | O&M Labor Percentage 74.80% | $ | 1,650,706 | | | [redacted] | |
| 20 | FTY Period | $ | 3,388,571 | $ | - | [redacted] | |
| 21 | Clerical Merit Increase 3.00% | $ | 40,540 | | | [redacted] | OCA-I-8 |
| 22 | Exempt Labor Increase 3.00% | $ | 1,113,496 | | | [redacted] | |
| 23 | Clerical Union Increase 2.50% | $ | 127,752 | | | [redacted] | |
| 24 | Manual Union Increase 2.75% | $ | 1,272,432 | | | [redacted] | |
| 25 | Total | $ | 2,554,220 | | | [redacted] | |
| 26 | O&M Labor Percentage 61.68% | $ | 1,575,272 | | | [redacted] | |
| 27 | Clerical Union Progression/Promotion | $ | 96,921 | $ | - | [redacted] | Exh 4 Sch 1 p 5 |
| 28 | Manual Union Progression/Promotion | $ | 405,942 | $ | - | [redacted] | |
| 29 | Total | $ | 502,863 | $ | - | [redacted] | |
| 30 | O&M Labor Percentage 50.24% | $ | 252,621 | $ | - | [redacted] | |
| | | | | | | [redacted] | Vacancies |
| 31 | Exempt Labor Adjustment | $ | 364,910 | $ | (182,455) | [redacted] | |
| 32 | Clerical Labor Adjustment | $ | 178,661 | $ | (89,331) | [redacted] | |
| 33 | Manual Labor Adjustment | $ | 408,426 | $ | (204,213) | [redacted] | |
| 34 | Total | $ | 951,997 | $ | (475,999) | [redacted] | Exh 4 Sch 1 p 28 |
| 35 | O&M Labor Percentage 87.98% | $ | 837,598 | $ | (418,799) | [redacted] | |
| 36 | FPFTY Period | $ | 2,665,491 | $ | (418,799) | [redacted] | |
| 37 | Total Labor (Lines 3, 20 51) | $ | 67,633,074 | $ | (537,017) | [redacted] | |

(1) Company Exhibit 4 Schedule 1 p 5
(2) [redacted]

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-7
# APIP

## ANNUAL PERFORMANCE INCENTIVE PROGRAM - APIP

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Per Books 9/30/2018 | $ 7,603,940 | [redacted] | | OCA-VI-2 Confidential |
| | Adjustments to Per Books 9/30/2018 | | | | |
| 2 | PNG - O&M 63.14% | $ 4,045,088 | | | |
| 3 | PED - O&M 58.62% | $ 2,351,137 | | | |
| | | $ 6,396,225 | [redacted] | | |
| 4 | Adjustment | $ (1,207,715) | [redacted] | | |
| 5 | HTY Period | $ 6,396,225 | [redacted] | | OCA-VI-2 Confidential |
| 6 | APIP - PNG O&M 63.14% | $ 4,166,440 | | | |
| 7 | APIP - PED O&M 58.62% | $ 2,421,672 | | | |
| 8 | APIP - PNG Progressions - 63.14% | $ 88,175 | | | |
| 9 | APIP - PED Progressions - 58.62% | $ 51,284 | | | |
| | | $ 6,727,572 | [redacted] | | |
| 10 | Adjustment | $ 331,347 | [redacted] | | OCA-VI-3 OCA-I-15 |
| 11 | FTY Period | $ 6,727,572 | [redacted] | | OCA-VI-2 Confidential |
| 12 | APIP - PNG O&M 63.35% | $ 4,396,568 | | | |
| 13 | APIP - PED O&M 58.98% | $ 2,562,691 | | | |
| 14 | APIP - PNG Progressions - 63.35% | $ 27,972 | | | |
| 15 | APIP - PED Progressions - 58.98% | $ 15,689 | | | |
| | | $ 7,002,919 | [redacted] | | OCA-VI-2 Confidential |
| 16 | Adjustment | $ 275,347 | [redacted] | | OCA-I-15 OCA-VI-3 |
| 17 | FPFTY Period | $ 7,002,919 | [redacted] | | |

(1) Company Exhibit 4 Schedule 1 p 6

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-8
# Pension

## PENSION

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Book Balance | $ 194,518 | $ - | $ 194,518 | |
| 2 | 2017 Net Contributions | $ 1,846,000 | $ 173,000 | $ 2,019,000 | OCA-I-16 |
| 3 | 2018 Net Contributions | $ 2,880,000 | $ (173,000) | $ 2,707,000 | OCA-I-16 |
| 4 | 2 Year Average | $ 2,363,000 | $ - | $ 2,363,000 | |
| 5 | HTY Adjustment (Line 4 - Line 1) | $ 2,168,482 | $ - | $ 2,168,482 | |
| 6 | FTY Balance (Line 4) | $ 2,363,000 | $ - | $ 2,363,000 | |
| 7 | FPFTY Adjustment | $ - | $ - | $ - | |
| 8 | FPFTY Balance | $ 2,363,000 | $ - | $ 2,363,000 | |

(1) Company Exhibit 4 Schedule 1 p 10

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-9
# PBOP

## POST RETIREMENT BENEFITS OTHER THAN PENSION (PBOP)

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Book Balance | $ 977,177 | $ - | $ 977,177 | |
| 2 | Prior PBOP Expense Amortization | $ 1,337,486 | $ - | $ 1,337,486 | OCA-I-17 |
| 3 | HTY Adjusted Balance 2018 | $ 2,314,663 | $ - | $ 2,314,663 | |
| 4 | FTY Adjustment | $ 39,481 | $ - | $ 39,481 | |
| 5 | FTY Balance | $ 2,354,144 | $ - | $ 2,354,144 | |
| 6 | FPFTY Adjustment | $ (34,004) | $ - | $ (34,004) | |
| 7 | FPFTY Balance | $ 2,320,140 | $ (18,410) | $ 2,301,730 | (2) |

(1) Company Exhibit 4 Schedule 1 p 11
Used ratio of Company Labor to OCA
(2) Labor - Schedule DM-6, Line 37

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-10
# Benefits

## BENEFITS EXPENSE

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Net Benefits | $ 14,168,863 | $ - | $ 14,168,863 | OCA-I-19 Attach |
| 2 | Annualized Benefits | $ 422,226 | $ - | $ 422,226 | |
| 3 | HTY Adjusted Benefits | $ 14,591,089 | | $ 14,591,089 | |
| 4 | 401K Adjustment | | | | |
| 5 | FTY Benefit Adjustments | $ 1,671,553 | $ - | $ 1,671,553 | |
| 6 | FTY Benefits | $ 16,262,642 | $ - | $ 16,262,642 | |
| | 50% of proposed vacancies | | $ (136,763) | $ (136,763) | (4) |
| 7 | 401K Adjustment | | $ (31,529) | $ (31,529) | OCA-I-21 (3) |
| 8 | FPFTY Benefit Adjustments | $ 960,065 | $ (505,956) | $ 454,109 | (2) |
| | | | | | OCA-VI-4 |
| 9 | FPFTY Benefits | $ 17,222,707 | $ (674,248) | $ 16,548,459 | |

(1) Company Exhibit 4 Schedule 1 p 12
(2) Adjusted to remove 6% trend increase
(3) Adjusted 401K to recommended Labor
Used ratio of Company Labor to OCA
(4) Labor Schedule DM-6 Line 37

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-11
# OutServ

## OUTSIDE SERVICES CONTRACTED

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books Balance | $ 24,416,858 | $ - | $ 24,416,858 | |
| 2 | HTY Adjustments | $ - | $ - | $ - | |
| 3 | HTY Adjusted | $ 24,416,858 | $ - | $ 24,416,858 | |
| 4 | FTY Inflation Adjustment 2.33% | $ 569,039 | $ (569,039) | $ - | |
| 5 | FTY Adjustment | $ 135,000 | $ - | $ 135,000 | OCA-I-23 |
| 6 | FTY Adjusted | $ 25,120,897 | $ (569,039) | $ 24,551,858 | |
| 7 | FPFTY Inflation Adjustment 1.89% | $ 475,657 | $ (475,657) | $ - | |
| 8 | FPFTY Adjustment | $ - | $ - | $ - | |
| 9 | FPFTY Adjusted | $ 25,596,554 | $ (1,044,696) | $ 24,551,858 | |

(1) Company Exhibit 4 Schedule 1 p 13

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-12
# OutServA&G

## OUTSIDE SERVICES - A&G

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 7,279,186 | $ - | $ 7,279,186 | |
| 2 | FTY Inflation Adjustment 2.33% | $ 169,643 | $ (169,643) | $ - | |
| 3 | FTY Adjustment | $ 1,652,752 | $ - | $ 1,652,752 | OCA-I-25 |
| 4 | FTY Adjusted | $ 9,101,581 | $ (169,643) | $ 8,931,938 | |
| 5 | FPFTY Inflation Adjustment 1.89% | $ 172,336 | $ (172,336) | $ - | |
| 6 | FPFTY Adjustment | $ 80,911 | $ - | $ 80,911 | OCA-I-25<br>OCA-VI-7 |
| 7 | FPFTY Adjusted | $ 9,354,827 | $ (341,978) | $ 9,012,849 | |

(1) Company Exhibit 4 Schedule 1 p 14

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-13
# Bldg Lease

## BUILDING LEASES

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 2,278,895 | $ - | $ 2,278,895 | OCA-I-26 |
| 2 | HTY Adjustments | $ (80,181) | $ - | $ (80,181) | OCA-VI-8 |
| 3 | HTY Adjusted | $ 2,198,714 | $ - | $ 2,198,714 | |
| 4 | FTY Adjustments | $ - | $ - | $ - | |
| 5 | FPFTY Adjustments | $ - | $ - | $ - | |
| 6 | FPFTY Adjusted | $ 2,198,714 | $ - | $ 2,198,714 | |

(1) Company Exhibit 4 Schedule 1 p 15

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-14
# Corplns

## CORPORATE INSURANCE

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books - Property Insurance | $ 159,638 | $ - | $ 159,638 | |
| 2 | Premiums 2018/2019 Adjustments | $ (9,561) | $ - | $ (9,561) | |
| 3 | HTY Adjusted - Property Insurance | $ 150,077 | $ - | $ 150,077 | |
| 4 | HTY Per Books - Other Misc Insurance | $ 2,688,751 | $ (7,199) | $ 2,681,552 | I&E RE-26 |
| 5 | Premiums 2018/2019 Adjustments | $ (118,632) | $ - | $ (118,632) | OCA-I-29 |
| 6 | HTY Adjusted - Other Misc Insurance | $ 2,570,119 | $ - | $ 2,562,920 | |
| 6 | HTY Per Books - Workers Comp | $ 314,432 | $ - | $ 314,432 | |
| 7 | Premiums 2018/2019 Adjustments | $ (1,734) | $ - | $ (1,734) | |
| 8 | HTY Adjusted - Workers Comp | $ 312,698 | $ - | $ 312,698 | |
| 9 | Total Corporate Insurance | $ 3,032,894 | | $ 3,025,695 | OCA-I-27 |
| 10 | FTY Premium Increase 7.10% | $ 214,349 | $ (214,349) | $ (0) | OCA-I-27 |
| 11 | FPFTY Premium Increase 7.10% | $ 229,498 | $ (229,498) | $ (0) | OCA-I-27 |
| 12 | FPFTY Adjusted | $ 3,476,741 | $ (451,046) | $ 3,025,695 | OCA-VI-9 |

(1) Company Exhibit 4 Schedule 1 p 16

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-15
# I&D

INJURIES AND DAMAGES

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | TME 9/2018 (HTY Per Books) | $ 1,762,638 | $ - | $ 1,762,638 | |
| 2 | TME 9/2017 | $ 1,754,971 | $ - | $ 1,754,971 | |
| 3 | TME 9/2016 | $ 1,118,248 | $ - | $ 1,118,248 | |
| 4 | Three-Year Average | $ 1,545,286 | $ - | $ 1,545,286 | OCA-I-30 |
| | | | | | OCA-VI-10 |
| 5 | Difference | (217,352) | - | (217,352) | |
| 6 | FTY Inflation Adjustment 2.33% | $ 36,013 | $ (36,013) | $ - | |
| 7 | FPFTY Inflation Adjustment 1.89% | $ 29,941 | $ (29,941) | $ - | |
| 8 | FPFTY Adjusted | $ 1,611,240 | $ (65,955) | $ 1,545,286 | |

(1) Company Exhibit 4 Schedule 1 p 17

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-16
# EmployExp

## EMPLOYEE EXPENSES

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 2,549,536 | $ (1,283,005) | $ 1,266,531 | OCA-VI-11 |
| 2 | HTY Adjustments | $ 68,252 | $ - | $ 68,252 | OCA-I-31 |
| 3 | HTY Adjusted | $ 2,617,788 | $ (1,283,005) | $ 1,334,783 | |
| 4 | FTY Inflation Adjustment 2.33% | $ 61,008 | $ (61,008) | $ - | |
| 5 | FTY Adjustments | $ 168,780 | $ (91,060) | $ 77,720 | OCA-I-31 |
| 6 | FTY Adjusted | $ 2,847,576 | $ (1,435,073) | $ 1,412,503 | |
| 7 | FPFTY Inflation Adjustment 1.89% | $ 53,918 | $ (53,918) | $ - | |
| 8 | FPFTY Adjustments | $ 29,890 | $ - | $ 29,890 | OCA-I-31 |
| 9 | FPFTY Adjusted | $ 2,931,384 | $ (1,488,991) | $ 1,442,393 | |

(1) Company Exhibit 4 Schedule 1 p 18

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-17
# CoMember

## COMPANY MEMBERSHIPS

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 953,992 | $ (352,442) | $ 601,550 | OCA-I-32 |
| 2 | HTY Adjustments | $ - | $ - | $ - | |
| 3 | HTY Adjusted | $ 953,992 | $ (352,442) | $ 601,550 | |
| 4 | FTY Inflation Adjustment 2.33% | $ 22,233 | $ (22,233) | $ - | |
| 5 | FTY Adjusted | $ 976,225 | $ (374,675) | $ 601,550 | |
| 6 | FPFTY Inflation Adjustment 1.89% | $ 18,485 | $ (18,485) | $ - | |
| 7 | FPFTY Adjusted | $ 994,709 | $ (393,159) | $ 601,550 | OCA-VI-12 |

(1) Company Exhibit 4 Schedule 1 p 19

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-18
# UtiliFuels

## UTILITIES AND FUEL

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 2,227,941 | $ - | $ 2,227,941 | OCA-I-33 |
| 2 | HTY Adjustments | $ (83,529) | $ - | $ (83,529) | |
| 3 | HTY Adjusted | $ 2,144,412 | $ - | $ 2,144,412 | |
| 4 | FTY Inflation Adjustment 2.33% | $ 49,976 | $ (49,976) | $ - | |
| 5 | FTY Adjustment | $ 166,980 | $ - | $ 166,980 | |
| 6 | FTY Adjusted | $ 2,361,368 | $ (49,976) | $ 2,311,392 | |
| 7 | FPFTY Inflation Adjustment 1.89% | $ 44,712 | $ (44,712) | $ - | |
| 8 | FTY Adjustment | $ - | | | |
| 9 | FPFTY Adjusted | $ 2,406,080 | $ (94,688) | $ 2,311,392 | OCA-VI-13 |

(1) Company Exhibit 4 Schedule 1 p 20

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-19
# Advertise

## ADVERTISING

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 3,118,055 | $ - | $ 3,118,055 | OCA-I-34 |
| 2 | HTY Adjustments | $ (112,578) | $ - | $ (112,578) | |
| 3 | HTY Adjusted | $ 3,005,477 | $ (1,283,108) | $ 1,722,370 | OCA-I-34 |
| 4 | FTY Inflation Adjustment 2.33% | $ 70,043 | $ (70,043) | $ - | |
| 5 | FTY Adjusted | $ 3,075,520 | $ (1,353,151) | $ 1,722,370 | |
| 6 | FPFTY Inflation Adjustment 1.89% | $ 58,234 | $ (58,234) | $ - | |
| 7 | FPFTY Adjusted | $ 3,133,754 | $ (1,411,385) | $ 1,722,370 | OCA-I-34 |

(1) Company Exhibit 4 Schedule 1 p 21
(2) Allow 50% of Sponsorships

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-20
# FleetFuel

FLEET MAINTENANCE & FUEL

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 3,613,850 | $ (3,174) | $ 3,610,676 | OCA-I-35<br>OCA-VI-15 |
| 2 | FTY Inflation Adjustment 2.33% | $ 84,221 | $ (84,221) | $ - | |
| 3 | FPFTY Inflation Adjustment 1.89% | $ 70,022 | $ (70,022) | $ - | |
| 4 | FPFTY Adjusted | $ 3,768,093 | $ (157,417) | $ 3,610,676 | |

(1) Company Exhibit 4 Schedule 1 p 22

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-21
# M&S

## MATERIALS AND SUPPLIES

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 8,562,732 | $ (98,381) | $ 8,464,351 | OCA-I-35<br>OCA-VI-15 |
| 2 | FTY Inflation Adjustment 2.33% | $ 199,556 | $ (199,556) | $ - | |
| 3 | FPFTY Inflation Adjustment 1.89% | $ 165,911 | $ (165,911) | $ - | |
| 4 | FPFTY Adjusted | $ 8,928,199 | $ (463,848) | $ 8,464,351 | |

(1) Company Exhibit 4 Schedule 1 p 23

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-22
# Other O&M

## OTHER O & M

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books | $ 5,415,928 | $ - | $ 5,415,928 | OCA-I-36 |
| 2 | HTY Adjustments | $ 156,010 | $ - | $ 156,010 | |
| 3 | HTY Charitable - Civic Contributions | $ 2,608,086 | $ (2,464,387) | $ 143,699 | OCA-I-36 |
| 4 | HTY Adjusted | $ 8,180,024 | $ (2,464,387) | $ 5,715,637 | |
| 5 | FTY Inflation Adjustment 2.33% | $ 190,637 | $ (190,637) | $ - | |
| 6 | FTY Adjusted | $ 8,370,661 | | $ 5,715,637 | |
| 7 | FPFTY Inflation Adjustment 1.89% | $ 158,496 | $ (158,496) | $ - | |
| 8 | FPFTY Adjustments | $ 132,000 | $ - | $ 132,000 | |
| 9 | FPFTY Adjusted | $ 8,661,157 | $ (2,813,520) | $ 5,847,637 | |

(1) Company Exhibit 4 Schedule 1 p 24
(2) Company Exhibit 4 Schedule 1 p 30

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-23
# Debt Cost

## DEBT ISSUANCE COSTS

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Revolver Debt Issuance Costs | $ 1,253,383 | $ - | $ 1,253,383 | OCA-I-37 |
| 2 | Proportion Recoverable in O&M | 100% | | 100.00% | |
| 3 | Total Revolver Debt Issuance Costs | $ 1,253,383 | $ - | $ 1,253,383 | |
| 4 | Unamortized Balance of Prior Revolver | $ 797,111 | $ - | $ 797,111 | |
| 5 | Total Amortizable Debt Issuance Costs | $ 2,050,494 | $ - | $ 2,050,494 | |
| 6 | Annual Amortization (5 Years) | $ 410,099 | $ - | $ 410,099 | |
| 7 | Annual Letters of Credit Fees | $ 42,707 | $ - | $ 42,707 | |
| 8 | Annual Agency Fee | $ 19,052 | $ - | $ 19,052 | |
| 9 | Commitment Fee on Unused Credit | $ 620,663 | $ - | $ 620,663 | |
| 10 | **Total** | $ 1,092,521 | $ - | $ 1,092,521 | |

(1) Company Exhibit 4 Schedule 1 p 25

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-24
# Pay Fee

## PAYMENT PROCESSING FEE

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Current Payment Processing | $ - | $ - | $ - | |
| | Movement from Other Channels | | | | |
| 2 | Lockbox Mail Payments | $ (110,895) | $ - | $ (110,895) | |
| 3 | ACH Debit Transactions | $ (7,998) | $ - | $ (7,998) | |
| 4 | Subtotal (2) | $ (118,893) | $ - | $ (118,893) | |
| 5 | Incremental O&M | | | | |
| 6 | Third-Party Payments | $ 2,281,477 | $ - | $ 2,281,477 | |
| 7 | Walk-In Payments | $ 137,998 | $ - | $ 137,998 | |
| 8 | Subtotal | $ 2,419,475 | $ - | $ 2,419,475 | |
| 9 | Total | $ 2,300,581 | $ - | $ 2,300,581 | OCA-I-38 |

| | | |
|---|---|---|
| (1) | Company Exhibit 4 Schedule 1 p 26 | |
| (2) | Company proposed Lockbox costs | $ (110,267) |
| | Company proposed ACH Transactions | $ (5,998) |
| | | $ (116,265) |
| | Difference | $ 2,628 |

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-25
# Rate Case

RATE CASE EXPENSES

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Consulting Services | $ 1,021,000 | | | |
| 2 | Legal Fees | $ 1,251,000 | | | |
| 3 | Advertising - Rate Case | $ 87,000 | | | |
| 4 | Miscellaneous, Supplies, Courier, etc. | $ 25,000 | | | |
| 5 | Travel | $ 5,000 | | | |
| 6 | Total | $ 2,389,000 | | | |
| 7 | Amortization Period - 2 years | 2 | | | |
| 8 | Rate Case Expenses | $ 1,194,500 | $ (263,825) | $ 930,675 | OCA-I-39 (2) |

(1) Company Exhibit 4 Schedule 1 p 27
(2) Normalize based on last three rate case filings

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-26
# UnCollect

## UNCOLLECTIBLE EXPENSE

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Per Books Normalized | $ 12,203,759 | | $ 12,203,759 | (1) |
| 2 | FTY Adjustments | $ (100,748) | | $ (100,748) | |
| 3 | FTY Period Adjusted | $ 12,103,010 | | $ 12,103,011 | |
| 4 | Residential | $ 11,705,487 | $ 44,813 | $ 11,750,300 | |
| 5 | Commercial | $ 309,528 | $ (1,998) | $ 307,530 | |
| 6 | Industrial | $ 2,421 | $ (28) | $ 2,393 | |
| 7 | FPFTY Adjustments | $ (85,574) | $ 128,362 | $ 42,788 | |
| 8 | FPFTY Adjusted - Present Rates | $ 12,017,436 | $ 128,363 | $ 12,145,799 | |
| 9 | Composite Uncollectible Rate | 1.8540% | | | |

(1) Company Exhibit 4 Schedule 1 p 28

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-27
# CustDep

CUSTOMER DEPOSITS

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | HTY Actual Interest | $ 142,683 | $ - | $ 142,683 | |
| 2 | FPFTY Adjusted | $ 116,686 | $ - | $ 116,686 | |
| 3 | Adjustment | $ (25,997) | $ - | $ (25,997) | |

(1) Company Exhibit 4 Schedule 1 p 31

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-28
# DepAmort

DEPRECIATION / AMORTIZATION
NET SALVAGE ACCRUAL

| | | (1) Original Cost October 31 2020 | (2) Depreciation Rate | Depreciation Expense | Adjustments | OCA | References |
|---|---|---|---|---|---|---|---|
| | Depreciation / Amortization | | | | | | |
| 1 | Intangible Plant | $ 138,206,264 | 12.2896% | $ 16,985,004 | $ (1,620,609) | $ 15,364,394 | |
| 2 | Production Plant | $ 124,060,303 | 2.1536% | $ 2,671,763 | $ (137,566) | $ 2,534,197 | |
| 3 | Underground Storage Plant | $ 13,459,176 | 2.0842% | $ 280,516 | $ 3,451 | $ 283,967 | |
| 4 | Transmission Plant | $ 202,137,643 | 1.5513% | $ 3,135,761 | $ (58,486) | $ 3,077,275 | |
| 5 | Distribution Plant | $ 2,621,720,633 | 1.7446% | $ 45,738,538 | $ (2,704,811) | $ 43,033,727 | |
| 6 | General Plant | $ 143,087,158 | 7.3943% | $ 10,580,294 | $ (229,125) | $ 10,351,168 | |
| 7 | Total Depreciable Plant | $ 3,242,671,177 | | $ 79,388,675 | $ (4,743,946) | $ 74,644,729 | Spanos Exh 5B |
| | | | | | | | Spanos Exh 5C |
| 8 | Non-Depreciable Plant | $ 1,810,136 | | $ - | $ - | $ - | |
| 9 | Total Gas Plant in Service | $ 3,244,481,313 | | $ 79,388,675 | $ (4,743,946) | $ 74,644,729 | |
| | | (3) | | | | | |
| | Net Salvage Accrual - COR minus Gross Salvage | | | | | | |
| 10 | 2015 | $ 5,512,779 | | | | $ 5,512,779 | |
| 11 | 2016 | $ 5,981,569 | | | | $ 5,981,569 | |
| 12 | 2017 | $ 7,983,819 | | | | $ 7,983,819 | |
| 13 | 2018 | $ 8,443,944 | | | | $ 8,443,944 | |
| 14 | 2019 | $ 8,265,252 | | | | $ 8,265,252 | |
| 15 | Total | $ 36,187,363 | | | | $ 36,187,363 | Spanos Exh 5C |
| 16 | 5 Year Amortization | $ 7,237,473 | | | | $ 7,237,473 | |

(1) Spanos Exhibit 5C - I-5
(2) Use of Company Composite Rates
(3) Spanos Exhibit 5C - I-10

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-29
# TaxesOther

## TAXES OTHER THAN INCOME

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | FICA | $ 5,260,196 | $ (252,138) | $ 5,008,058 | OCA-I-42 |
| 2 | Unemployment (FUTA / SUTA) | $ 379,076 | $ (18,170) | $ 360,906 | |
| 3 | Property Tax | $ 1,039,000 | $ (47,022) | $ 991,978 | OCA-I-44 |
| | PUC Assessment | | | | |
| 4 | PUC Assessment | $ - | $ - | $ 1,520,782 | |
| 5 | OCA Assessment | $ - | $ - | $ 1,138,089 | |
| 6 | Total Assessment | $ 2,659,000 | $ (129) | $ 2,658,871 | OCA-I-43 |
| 7 | Sales and Use Tax | $ 1,076,000 | $ - | $ 1,076,000 | OCA-I-45 |
| 8 | Other | $ 18,000 | $ - | $ 18,000 | OCA-I-46 |
| 9 | **Total** | $ 10,431,213 | $ (317,400) | $ 10,113,813 | |

(1) Company Exhibit 4 Schedule 2
Attachment 1 - Combined p 2
Differences due to rounding

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-30
# FIT

## FEDERAL INCOME TAX

| | | (1) Company Proposed | Adjustments | OCA | References |
|---|---|---|---|---|---|
| 1 | Operating Income Before Taxes/Interest | $ 199,606,084 | $ (74,651,820) | $ 124,954,264 | |
| 2 | Less Interest Expense | $ (40,252,328) | $ (685,619) | $ (40,937,947) | |
| 3 | Pre-Tax Operating Income (Loss) | $ 159,353,756 | $ (75,337,439) | $ 84,016,317 | |
| | Schedule M Items | | | | |
| 4 | Permanent - Meals and Entertainment | $ 1,022,113 | $ - | $ 1,022,113 | |
| | Deferred Adjustments | | | | |
| 5 | Depreciation | $ (76,007,920) | $ - | $ (76,007,920) | |
| 6 | Sec 165 Loss on Asset Retirement | $ (2,756,000) | $ - | $ (2,756,000) | |
| 7 | Contributions in Aid | $ 364,000 | $ - | $ 364,000 | |
| 8 | Cost of Removal | $ (5,268,000) | $ - | $ (5,268,000) | |
| 9 | Other | $ - | $ - | $ - | |
| 10 | Total Permanent and Deferred Adjustments | $ (82,645,807) | $ - | $ (82,645,807) | |
| 11 | PA Depreciation Adjustment | $ (1,453,677) | $ - | $ (1,453,677) | OCA-I-47 |
| 12 | Income Subject to SIT | $ 75,254,272 | $ (75,337,439) | $ (83,167) | |
| 13 | Prior Year PA NOL Utilization (40%) | $ (30,101,709) | $ 30,134,976 | $ 33,267 | |
| 14 | PA Taxable Income | $ 45,152,563 | $ (45,202,464) | $ (49,900) | |
| 15 | PA Income Tax (9.99%) | $ 4,510,741 | $ (4,515,726) | $ (4,985) | |
| 16 | Federal Taxable Income | $ 72,197,208 | $ (70,821,713) | $ 1,375,495 | |
| 17 | Federal Income Tax Expense (21%) Current | $ 15,161,414 | $ (14,872,560) | $ 288,854 | |
| 18 | Federal Income Tax Expense (21%) Deferred | $ 17,570,263 | $ - | $ 17,570,263 | |
| 19 | Amortization of EDIT | $ (1,780,376) | $ - | $ (1,780,376) | |
| 20 | Federal Deferred Income Tax Expense | $ 15,789,887 | $ - | $ 15,789,887 | |
| 21 | Total Current and Deferred FIT | $ 30,951,301 | $ (14,872,560) | $ 16,078,741 | |
| 22 | Total Income Tax Expense | $ 35,462,042 | $ (19,388,286) | $ 16,073,756 | |

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-31
# Rate Base

## RATE BASE - MEASURES OF VALUE

| | | (1) Company FTY Period | (1) Company FPFTY Period | Adjustments | OCA | References |
|---|---|---|---|---|---|---|
| 1 | Gas Plant In Service | $ 2,951,760,778 | $ 3,244,481,320 | $ (144,548,832) | $ 3,099,932,489 | DM-32 |
| 2 | Gas Plant CWIP | $ 14,293,100 | $ - | $ - | $ - | |
| 3 | **Total Gas Plant** | $ 2,966,053,878 | $ 3,244,481,320 | $ (144,548,832) | $ 3,099,932,489 | |
| 4 | Accumulated Depreciation Reserve | $ 995,841,794 | $ 1,057,114,519 | $ (30,636,363) | $ 1,026,478,157 | DM-33 |
| 5 | Net Gas Plant In Service | $ 1,970,212,084 | $ 2,187,366,801 | $ (113,912,469) | $ 2,073,454,332 | |
| 6 | Gas Stored Underground - Non-Current | $ - | $ - | $ - | $ - | |
| 7 | **Total Net Gas Plant In Service** | $ 1,970,212,084 | $ 2,187,366,801 | $ (113,912,469) | $ 2,073,454,332 | |
| | Working Capital | | | | | |
| 8 | Gas Stored Underground - Current | $ 22,424,111 | $ 31,115,826 | $ (4,345,858) | $ 26,769,969 | (2) |
| 9 | Materials and Supplies | $ 3,202,304 | $ 3,202,304 | $ - | $ 3,202,304 | |
| 10 | Prepayments | $ 6,409,880 | $ 6,409,880 | $ - | $ 6,409,880 | |
| 11 | Cash Working Capital | $ 33,469,200 | $ 35,194,786 | $ (1,814,690) | $ 33,384,752 | EP-1 |
| 12 | **Total Working Capital** | $ 65,505,495 | $ 75,922,796 | $ (6,155,892) | $ 69,766,904 | DM-34 |
| | Deductions | | | | | |
| 13 | Deferred Income Taxes | $ 197,962,830 | $ 207,849,485 | $ (4,943,328) | $ 202,906,158 | DM-35 |
| 14 | Customer Advances | $ 211,890 | $ 211,890 | $ - | $ 211,890 | |
| 16 | Customer Deposits | $ 2,917,148 | $ 2,917,148 | $ - | $ 2,917,148 | |
| 16 | **Total Deductions** | $ 201,091,868 | $ 210,978,523 | $ (4,943,328) | $ 206,035,196 | |
| 17 | **Act 40 - Reliability and Infrastructure** | | | $ (1,332,000) | $ (1,332,000) | Exh 7 Sch 3 p 2 |
| 18 | **Act 40 - General Corporate Purpose** | | | $ (1,332,000) | $ (1,332,000) | Exh 7 Sch 3 p 2 |
| 19 | **Total Rate Base - Measures of Value** | $ 1,937,408,813 | $ 2,052,311,074 | $ (117,793,690) | $ 1,934,517,384 | |

(1) Company Exhibit 8 Schedule 2 p 3

(2) Includes the effect of the Company's proposal from the change in inventory valuation (LIFO to WACOG)

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-32
# GPIS

GAS PLANT IN SERVICE

| | | (1) Company FTY Period | (1) Company FPFTYP | Adjustments | OCA | References |
|---|---|---|---|---|---|---|
| | Intangible Plant | | | | | |
| 1 | Organization | $ 49,770 | $ 49,770 | $ - | $ 49,770 | |
| 2 | Miscellaneous Intangible Plant | $ 110,845,828 | $ 138,206,263 | $ (13,680,218) | $ 124,526,046 | |
| 3 | Gas Production and Gathering Plant | $ 117,975,232 | $ 124,060,303 | $ (3,042,536) | $ 121,017,768 | |
| 4 | Non-Depreciable Plant | $ 103,235 | $ 100,656 | $ 1,290 | $ 101,946 | |
| 5 | Underground Storage Plant | $ 13,484,115 | $ 13,459,186 | $ 12,465 | $ 13,471,651 | |
| 6 | Non-Depreciable Plant | $ 3,740 | $ 3,740 | $ - | $ 3,740 | |
| 7 | Transmission Plant | $ 192,359,218 | $ 202,137,643 | $ (4,889,213) | $ 197,248,431 | |
| 8 | Non-Depreciable Plant | $ 261,390 | $ 261,390 | $ - | $ 261,390 | |
| 9 | Distribution Plant | $ 2,379,948,279 | $ 2,621,720,633 | $ (120,886,177) | $ 2,500,834,456 | |
| 10 | Non-Depreciable Plant | $ 1,208,542 | $ 1,208,510 | $ 16 | $ 1,208,526 | |
| 11 | General Plant | $ 135,335,361 | $ 143,087,158 | $ (3,875,899) | $ 139,211,260 | |
| 12 | Non-Depreciable Plant | $ 186,068 | $ 186,068 | $ - | $ 186,068 | |
| 13 | Total Depreciable Plant | $ 2,949,948,033 | $ 3,242,671,186 | $ (144,550,137) | $ 3,098,121,049 | |
| 14 | Total Non-Depreciable Plant | $ 1,812,745 | $ 1,810,134 | $ 1,306 | $ 1,811,440 | |
| 15 | **Total Gas Plant In Service** | $ 2,951,760,778 | $ 3,244,481,320 | $ (144,548,832) | $ 3,099,932,489 | |

(1) Company Exhibit 8 Schedule 3 p 4

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-33
# AD

ACCUMULATED DEPRECIATION

| | | (1) Company FTY Period | (1) Company FPFTY Period | Adjustments | OCA | References |
|---|---|---|---|---|---|---|
| 1 | Miscellaneous Intangible Plant | $ 50,898,887 | $ 65,311,840 | $ (7,206,477) | $ 58,105,364 | |
| 2 | Production Plant | $ 51,649,091 | $ 53,328,881 | $ (839,895) | $ 52,488,986 | |
| 3 | Underground Storage Plant | $ 6,148,976 | $ 6,429,466 | $ (140,245) | $ 6,289,221 | |
| 4 | Transmission Plant | $ 71,004,658 | $ 73,881,343 | $ (1,438,343) | $ 72,443,001 | |
| 5 | Distribution Plant | $ 765,617,439 | $ 804,389,366 | $ (19,385,964) | $ 785,003,403 | |
| 6 | General Plant | $ 50,529,285 | $ 53,782,756 | $ (1,626,736) | $ 52,156,021 | |
| 7 | **Total Depreciable Plant** | $ 995,848,336 | $ 1,057,123,652 | $ (30,637,658) | $ 1,026,485,994 | |
| 8 | Non-Depreciable Gas Plant | $ (6,542) | $ (9,133) | $ 1,296 | $ (7,838) | |
| 9 | **Total Depreciable Gas Plant** | $ 995,841,794 | $ 1,057,114,519 | $ (30,636,363) | $ 1,026,478,157 | |

(1) Spanos Exhibit 5B 5C

**OCA Statement No. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-34
# WCA

CASH WORKING CAPITAL

| | | | (1) Company FTY Period | (1) Company FPFTY Period | Adjustments | OCA | References |
|---|---|---|---|---|---|---|---|
| | Gas Purchased Costs | | | | | | |
| 1 | FTY Expenses | $ 272,881,849 | | | | | |
| 2 | CWC Factor | 0.0711843 | $ 19,424,900 | | | | |
| 3 | FPFTY Expenses | $ 270,963,553 | | | | | |
| 4 | CWC Factor | 0.0711843 | | $ 19,288,351 | $ 68,276 | $ 19,356,627 | |
| | Payroll | | | | | | |
| 5 | FTY Expenses | $ 71,695,157 | | | | | |
| 6 | CWC Factor | 0.1333422 | $ 9,559,990 | | | | |
| 7 | FPFTY Expenses | $ 74,635,993 | | | | | |
| 8 | CWC Factor | 0.1333422 | | $ 9,952,128 | $ (477,604) | $ 9,474,524 | |
| | Pension and Benefits | | | | | | |
| 9 | FTY Expenses | $ 20,979,786 | | | | | |
| 10 | CWC Factor | 0.0359472 | $ 754,164 | | | | |
| 11 | FPFTY Expenses | $ 21,905,847 | | | | | |
| 12 | CWC Factor | 0.0359472 | | $ 787,453 | $ (24,899) | $ 762,555 | |
| | Taxes Other Than Income | | | | | | |
| 13 | FTY Expenses | $ 10,209,015 | | | | | |
| 14 | CWC Factor | 0.0869670 | $ 887,847 | | | | |
| 15 | FPFTY Expenses | $ 10,431,213 | | | | | |
| 16 | CWC Factor | 0.0869670 | | $ 907,171 | $ (27,603) | $ 879,568 | |
| | Other O&M Expenses | | | | | | |
| 17 | FTY Expenses | $ 91,588,846 | | | | | |
| 18 | CWC Factor | 0.0651580 | $ 5,967,750 | | | | |
| 19 | FPFTY Expenses | $ 95,485,788 | | | | | |
| | CWC Factor | 0.0651580 | | $ 6,221,667 | $ (577,615) | $ 5,644,052 | |
| | Income Taxes | | | | | | |
| 20 | FTY State Income Taxes | $ 838,957 | | | | | |
| 21 | FTY Federal Income Taxes | $ 2,896,431 | | | | | |
| 22 | CWC Factor State Income Taxes | 0.0737010 | $ 61,832 | | | | |
| 23 | CWC Factor Federal Income Taxes | 0.0246600 | $ 71,426 | | | | |
| 24 | FPFTY State Income Taxes | $ 4,510,741 | | | | | |
| 25 | FPFTY Federal Income Taxes | $ 15,161,414 | | | | | |
| 26 | CWC Factor State Income Taxes | 0.0737012 | | $ 332,447 | | | |
| 27 | CWC Factor Federal Income Taxes | 0.0246600 | | $ 373,881 | $ (367,125) | $ 6,756 | |
| | Interest Expense | | | | | | |
| 28 | FTY Long Term Debt | $ 35,506,989 | | | | | |
| 29 | FTY Short Term Debt | $ 969,062 | | | | | |
| 30 | CWC Factor Long Term Debt | (0.0725574) | $ (2,576,294) | | | | |
| 31 | CWC Factor Short Term Debt | 0.1204257 | $ 116,700 | | | | |
| 32 | FPFTY Long Term Debt | $ 39,075,251 | | | | | |
| 33 | FPFTY Short Term Debt | $ 1,177,078 | | | | | |
| 34 | CWC Factor Long Term Debt | (0.0725574) | | $ (2,835,198) | | $ (2,883,492) | |
| 35 | CWC Factor Short Term Debt | 0.1204257 | | $ 141,750 | | $ 144,163 | |
| 36 | Total | | $ 34,268,315 | $ 35,169,650 | $ (1,784,898) | $ 33,384,752 | |

(1) Exhibit EP-1 page 1 of 24

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

# Schedule DM-35
# DIT

DEFERRED INCOME TAXES

| | | (1) Company FTY Period | (1) Company FPFTY Period | Adjustments | OCA | References |
|---|---|---|---|---|---|---|
| 1 | Net Deferred Tax Liability- Federal | $ 131,353,425 | $ 150,387,877 | $ (9,517,226) | $ 140,870,651 | |
| 2 | Net Deferred Tax Liability - State | $ - | $ - | $ - | $ - | |
| 3 | Excess Deferred Income Taxes | $ 66,609,405 | $ 64,680,664 | $ 964,371 | $ 65,645,035 | |
| 4 | Historical Test Year Normalization Adj. | $ - | $ 7,219,056 | $ (3,609,528) | $ 3,609,528 | |
| 5 | **Total** | $ 197,962,830 | $ 207,849,485 | $ (4,943,328) | $ 202,906,158 | |

(1) Company Exhibit 7 Schedule 8
Attachment 2