

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
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 v. : Docket No. R-2018-3006818
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 Peoples Natural Gas Company, LLC :
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Surrebuttal Testimony of C. James Davis on Behalf of
Duquesne Light Company

Subjects: Discounted Rates; Load Growth Programs; Other O&M

PUBLIC VERSION

1 **SURREBUTTAL TESTIMONY OF C. JAMES DAVIS**

2 **Q. Please state your full name and business address.**

3 A. My name is C. James Davis. My business address is 411 Seventh Avenue, Pittsburgh,
4 PA 15219.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Duquesne Light Company (“Duquesne Light”) as the Director – Rates,
8 Energy Procurement, and Federal/RTO Affairs.

9
10 **Q. Did you previously submit testimony in this proceeding?**

11 A. Yes, I submitted Direct Testimony that is marked as DLC Statement No. 1, and Rebuttal
12 Testimony that is marked as DLC Statement No. 1-R. My background and qualifications
13 are set forth in DLC Statement No. 1.

14
15 **Q. Please describe the purpose of this Surrebuttal testimony.**

16 A. The purpose of this Surrebuttal Testimony is to respond to Rebuttal testimony put forth
17 by Peoples Natural Gas Company LLC (“Peoples” or the “Company”) witnesses Andrew
18 Wachter, Peoples Statement No. 3-R, and Carol A. Scanlon, Peoples Statement No. 5-R,
19 as well as comments of Glenn A. Watkins in his Supplemental Direct Testimony, OCA
20 Statement No. 3-Supp, submitted May 29, 2019.

21 As a preliminary matter with respect to Mr. Watkins’s Supplemental Direct
22 Testimony: Mr. Watkins identifies Peoples’ delays in providing discovery responses as
23 contributing to his need to file supplemental testimony after the due date for direct

1 testimony (April 29, 2019). OCA St. No. 3-Supp p. 1, lines 7-18. I would note that
2 Peoples similarly did not allow me access to discovery responses marked Confidential or
3 Highly Confidential until May 14, 2019. My Surrebuttal Testimony refers to, and
4 incorporates portions of, Mr. Watkins's Supplemental Direct Testimony as part of my
5 response to Ms. Scanlon's Rebuttal Testimony.

6
7 **Q. Are you sponsoring any exhibits as part of this Surrebuttal Testimony?**

8 A. Yes. Exhibit CJD-1-SR contains the non-confidential discovery responses I rely upon in
9 this testimony. **HIGHLY CONFIDENTIAL** Exhibit CJD-2-SR contains the discovery
10 responses marked **CONFIDENTIAL** or **HIGHLY CONFIDENTIAL** that I rely upon
11 in this testimony.

12
13 **DISCOUNTED RATES**

14 **Q. In Peoples Statement No. 5-R, Rebuttal Testimony of Carol Scanlon, Ms. Scanlon**
15 **discusses Peoples' practices for assessing and verifying customers' alternatives to**
16 **Peoples service, for the purposes of determining rate discounts. Please comment.**

17 A. Ms. Scanlon proposes to perform Peoples' "normal assessment" of customers' purported
18 competitive alternatives to gas when negotiating or renewing flex rate contracts, if the
19 prior competitive alternative verification was performed more than five years prior.
20 Peoples St. No. 5-R, p. 3, line 22 to p. 4, line 7. This proposal does not adequately protect
21 captive customers. Based on information provided in discovery, it appears that Peoples'
22 "normal assessment" lacks safeguards to ensure that the discounts Peoples gives to select
23 customers are reasonable in number, magnitude, or duration. Peoples has not supported

1 its existing flex rate discounts to select customers, and Peoples' other customers should
2 not be asked to pay for those discounts in a new rate plan.

3
4 **Q. Why do you say that Peoples' "normal assessment" lacks necessary safeguards?**

5 A. In response to discovery requests from several parties, Peoples has failed to identify any
6 systematic, data-based approach for how it determines a customer's flex rate eligibility,
7 or the appropriate amount of the customer's discount. Peoples' **HIGHLY**
8 **CONFIDENTIAL** responses to OCA-IV-5 and OCA-IV-6 (Exh. CJD-2-SR)
9 demonstrate **[BEGIN HIGHLY CONFIDENTIAL]**

10
11 **[END HIGHLY CONFIDENTIAL]** I would agree with
12 the assessment of Glenn Watkins, at OCA Statement No. 3-Supp, p. 42, lines 6-10:

13 The issue of discounted rates has been controversial for Peoples and
14 Equitable for many years. While discounted rates may be justified in some
15 circumstances, the burden of proof regarding the need for, and level of,
16 discounts to these customers should fall squarely on the Company. It is
17 apparent that the Company's recordkeeping and bases for offering
18 discounted rates is severely lacking.
19

20 **Q. Does Peoples' "normal assessment" proposal include appropriate verification of**
21 **competitive alternatives?**

22 A. **[BEGIN HIGHLY CONFIDENTIAL]**
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[END HIGHLY

CONFIDENTIAL]

Q. Does Peoples' proposed "normal assessment" adequately inform the terms of a flex rate agreement?

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[END HIGHLY CONFIDENTIAL]

Q. Does Peoples' proposed flex rate negotiation process (Peoples St. No. 5-R, p. 3, line 22 – p. 4, line 13) provide for an appropriate amount of discretion on the part of Peoples?

A. [BEGIN HIGHLY CONFIDENTIAL]

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[END HIGHLY CONFIDENTIAL]

Q. Does Peoples follow its own tariff in awarding flex rates?

A. [BEGIN HIGHLY CONFIDENTIAL]

[END HIGHLY CONFIDENTIAL] Additionally, Peoples' current and proposed tariff rate CER provides that residential customers may be eligible for flexed rates. **[BEGIN HIGHLY CONFIDENTIAL]**

[END HIGHLY CONFIDENTIAL] These examples further evidence Peoples' incoherent position regarding flexed rates.

Q. Mr. Watkins provides a summary itemization of each discounted rate customer, along with Mr. Watkins's recommendation to allow or disallow such discount for ratemaking purposes. Given Ms. Scanlon's proposal presented in her Rebuttal

1 **Testimony concerning Peoples’ flex rate procedures, do you agree with Mr.**
2 **Watkins’s recommendations?**

3 A. Generally, yes. I agree with Mr. Watkins that Peoples should bear the burden of
4 demonstrating that each flexed rate discount is reasonable as a precondition of asking
5 captive customers to pay for such discount. I further agree with Mr. Watkins that Peoples
6 did not follow a rigorous process to evaluate customers’ flexed rate eligibility or amount
7 on several occasions, and did not maintain a robust system of records necessary to
8 properly substantiate its existing flexed rate agreements. As such, I agree that those
9 discounts Mr. Watkins identifies for disallowance – as well as any other discounts that
10 Peoples is unable to substantiate – should be disallowed.

11 Peoples should also be required to file its new or renewed flexed rate contracts
12 with the Commission for its review and approval, to help ensure that the contract’s terms
13 are reasonable and adequately supported.

14
15 **Q. Ms. Scanlon disagrees with your recommendation that electricity delivered by an**
16 **EDC should not be considered a competitive alternative, and avers that Peoples**
17 **“evaluates each customer on a case-by-case basis and is prudent in the evaluation of**
18 **deeming a customer as competitively situated.” Peoples St. No. 5-R, p. 9, lines 20-22.**
19 **Do you agree with her assessment?**

20 A. No. Ms. Scanlon presents three reasons in support of her argument that electricity
21 delivered by an EDC should be considered a “competitive alternative” to gas. I address
22 each in order.

1 First, Ms. Scanlon observes that electricity “can be used to displace natural gas
2 for heating, cooking, clothes drying, and other uses.” As I discussed in my direct
3 testimony, the mere fact that a particular technology could be used instead of gas should
4 not render that technology a “competitive alternative.” Sunshine can also displace uses of
5 natural gas, but a view of the sky should not make a customer eligible for a flex gas rate.
6 Ms. Scanlon’s rebuttal testimony does not address my observation that it is
7 fundamentally illogical to treat something ubiquitous – such as electricity – as a
8 “competitive alternative.”

9 Second, Ms. Scanlon argues that Peoples should be allowed to consider electricity
10 as a competitive alternative because Peoples “is prudent in the evaluation of deeming a
11 customer as competitively situated.” This averment immediately rings hollow. **[BEGIN**

12 **HIGHLY CONFIDENTIAL]**

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15 **[END HIGHLY**

16 **CONFIDENTIAL]**

17 Finally, Ms. Scanlon argues that her position on this issue is supported by public
18 policy. She is incorrect. I do not here take a position on whether public policy favors the
19 increased consumption of natural gas; it seems to me that reasonable minds may differ on
20 that issue. But it is clear that public policy disfavors the type of inter-utility competition
21 for which Ms. Scanlon advocates. The Commission has already determined in the Gas-
22 on-Gas Competition proceedings that it is detrimental for one rate-regulated utility to
23 compete with another rate-regulated utility. Such competition invariably harms the

1 utilities' captive customers (who may be the very same customers where the utilities have
2 overlapping service territories).

3 Ms. Scanlon's Rebuttal Testimony either misses or concedes this point. For
4 example, she does not dispute my observation in direct testimony that discounting gas
5 rates on the basis of electricity yields upward pressure on electric rates, at expense of the
6 EDC's and NGDC's shared captive customers. In other words, to build on a concept from
7 Mr. Watkins, such gas rate discounting would exacerbate the "spiraling effect of the
8 discount offered to some customers." OCA St. No. 3-Supp, p. 2, lines 19-20. The
9 Commission should reject it accordingly.

10
11 **CUSTOMER-FUNDED LOAD GROWTH PROGRAMS**

12 **Q. Ms. Scanlon purports to disagree with your Direct Testimony regarding Peoples'**
13 **pending Energy Efficiency and Conservation ("EE&C") Plan proposal. Please**
14 **respond.**

15 A. Ms. Scanlon argues that Peoples' proposed EE&C Plan can be ignored in this case
16 because it may be denied by the Commission and may not yield immediate load growth. I
17 agree with Ms. Scanlon that the Commission may yet reject Peoples' EE&C Plan
18 proposal. But this misses the point. Ms. Scanlon does not take issue with my central
19 observation that Peoples' gas sales forecasts in this case do not reflect the incremental
20 additional sales it may realize if its proposed CHP Program is implemented. She also
21 does not rebut – or even address – my recommendation that, if a customer-funded load
22 growth program is implemented prior to Peoples' next base rate case, Peoples should
23 record the resulting incremental revenues as a regulatory liability.

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SPORTS SPONSORSHIPS

Q. Peoples witness Andrew Wachter claims in his Rebuttal Testimony, Peoples St. No. 3-R, that Peoples’ ongoing sports partnerships are integral components to the Company’s outreach program and benefit customers. Peoples St. No. 3-R, pp. 33-37. Please respond.

A. Mr. Wachter argues that its sports sponsorships are related to allowable utility purposes, but he has not demonstrated that they are a cost-effective means of achieving those purposes. **[BEGIN HIGHLY CONFIDENTIAL]**

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2 **[END HIGHLY CONFIDENTIAL]**

3 Mr. Wachter argues that the costs of these perks “are an integral part of [Peoples’]
4 employee recognition and engagement program.” Peoples St. No. 3-R, p. 29, lines 1-2. I
5 agree with Mr. Wachter that an appropriate amount of employee entertainment may boost
6 employee engagement and, in turn, benefit customers; but these costs appear excessive.
7 Sports sponsorship costs constitute over 87% of Peoples’ claimed employee
8 entertainment costs, dwarfing all other employee entertainment expenses. See OCA-VI-
9 11, Attachment A (Exh. CJD-1-SR). Mr. Wachter has not demonstrated that the high
10 costs of these perks are reasonable in relation to the benefit that ultimately trickles down
11 to customers.

12
13 **CHARITABLE CONTRIBUTIONS**

14 **Q. Mr. Wachter disagrees with OCA and I&E’s recommendation to disallow a portion**
15 **of claimed charitable contributions. Peoples St. No. 3-R, pp. 40-41. Please respond.**

16 A. I disagree with Mr. Wachter. These costs should not be recoverable. In addition to the
17 reasons OCA and I&E witnesses discuss in their respective direct testimonies, these
18 expenses are not an appropriate use of customer dollars because Peoples has not shown
19 them to be a cost-effective source of customer benefits. As with his arguments regarding
20 sports sponsorships, Mr. Wachter avers that Peoples’ charitable contributions are related
21 to customer benefits, but he provides only qualitative speculation as support. He argues
22 that most of these costs are “intended to” or “create a genuine opportunity for” customer
23 benefits (see Peoples St. No. 3-R, p. 41, lines 1, 8, 11), but he does not provide any

1 evidence that such benefits have actually materialized, or that they are reasonable in
2 relation to Peoples' costs.

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4 **Q. Does this conclude your Surrebuttal Testimony?**

5 A. Yes, it does.

EXHIBIT CJD-1-SR

Peoples Response to

OCA-VI-11

Docket No. R-2018-3006818
Peoples Natural Gas Company LLC
Data Requests

Respondent: Andrew Wachter

OCA-VI-11 Refer to the response to OCA-I-31 (Employee Expenses). Please provide a further breakdown of the following:

- Employee Relations
- Misc. Employee Related Expenses
- Travel Expenses
- Entertainment Expenses
- Service Awards and Flame Awards totaling \$100,166

Response:

Refer to Attachment A for Employee Relations, Misc. Employee Related Expenses, Travel Expenses and Entertainment Expenses details.

The \$91,060 represents a projected average Service Award of approximately \$140 per awardee and the \$9,106 represents a projected average Flame Award of approximately \$50 per awardee along with administration costs for both programs.

Employee Relations

Department	HTY Sep, 2018
Billing, Metering, Credit	\$ 588
Community Relations	\$ 482
Compression	\$ 60
Corporate	\$ 257,275 (a)
Corrosion	\$ 375
Customer Contact	\$ 418
Customer Relations	\$ 797
Damage Prevention	\$ 91
Demarcation	\$ 80
Executive	\$ 541
Facilities	\$ 100
Field Customer Service	\$ 1,376
Gas Ops	\$ 160
GIS, Planning & Assessment	\$ 119
Human Resources	\$ 32,926 (b)
Land	\$ 90
Legal	\$ 392
Ops Center	\$ 93
Pipeline Maintenance	\$ 409
Pressure	\$ 24
Rates	\$ 497
Safety & Compliance	\$ 1,900
Sales	\$ 630
Warehouse	\$ 180
Total	\$ 299,604

(a) Company sponsored employee events at Kennywood, Pittsburgh Pirates Game, etc

(b) Union Service awards & other

Misc Employee Related Expenses

Department	HTY Sep, 2018
Accounting	\$ 29,410
Auditing	\$ 5
Billing,Metering,Credit	\$ 2,606
Community Relations	\$ 34,771
Compression	\$ 1,236
Corporate	\$ 1,130
Corrosion	\$ 2,564
Customer Contact	\$ 17,802
Customer Relations	\$ 2,377
Damage Prevention	\$ 589
Demarcation	\$ 586
Executive	\$ 6,218
Facilities	\$ 136,231 (a)
Field Customer Service	\$ 1,350
Fleet	\$ 377
Gas Control	\$ 130
Gas Ops	\$ 2,391
Gas Supply	\$ 58
GIS, Planning & Assessment	\$ 1,908
Human Resources	\$ 47,788
IT & Cyber Security	\$ 946
Leak Survey	\$ 6,911
Legal	\$ 206
Ops Center	\$ 2,283
Pipeline Maintenance	\$ 4,274
Pressure	\$ 1,271
Rates	\$ 189
Safety & Compliance	\$ 4,011
Sales	\$ 5,177
Telecom	\$ 2,252
Treasury	\$ 14,780
Warehouse	\$ 390
Total	\$ 332,217

(a) Company leased parking at Corporate Headquarters & other

Travel Expense

Department	HTY Sep, 2018
Accounting	\$ 5,017
Accounts Payable	\$ 192
Applications	\$ 7,621
Auditing	\$ 328
Billing,Metering,Credit	\$ 2,311
Business Development	\$ 1,795
Construction and Engineering	\$ 10,973
Community Relations	\$ 32,574
Compression	\$ 24,835
Corrosion	\$ 9,717
Customer Contact	\$ 4,487
Customer Relations	\$ 10,317
Damage Prevention	\$ 4,567
Demarcation	\$ 2,265
Executive	\$ 57,341
Facilities	\$ 3,784
Field Customer Service	\$ 1,465
Financial Planning & Analysis	\$ 1,641
Fleet	\$ 647
Gas Control	\$ 130
Gas Ops	\$ 7,470
Gas Supply	\$ 5,780
GIS, Planning & Assessment	\$ 5,468
Govt Affairs	\$ 8,897
Human Resources	\$ 5,398
IT & Cyber Security	\$ 4,551
Land	\$ 7,205
Leak Survey	\$ 441
Legal	\$ 8,045
Meter Management	\$ 2,355
Ops Center	\$ 3,662
Pipeline Maintenance	\$ 29,875
Pressure	\$ 1,612
Rates	\$ 2,183
Safety & Compliance	\$ 105,489
Sales	\$ 27,988
Supply Chain	\$ 4,758
Tax	\$ 51
Telecom	\$ 15,124
Transportation & Forecasting	\$ 1,271
Treasury	\$ 1,472
Warehouse	\$ 573
Total	\$ 431,674

Note: Most of these items represent transportation, mileage and other employee reimbursable travel expenses

Entertainment Expense

Department	HTY Sep, 2018
Accounting	\$ 78
Applications	\$ 3,384
Billing, Metering, Credit	\$ 3,206
Construction and Engineering	\$ 1,374
Community Relations	\$ 16,161
Compression	\$ 1,970
Corporate	\$ 992,804 (a)
Corrosion	\$ 583
Customer Contact	\$ 4,418
Customer Relations	\$ 2,332
Damage Prevention	\$ 1,530
Demarcation	\$ 867
Executive	\$ 59,048
Facilities	\$ 1,914
Field Customer Service	\$ 986
Fleet	\$ 2,192
Gas Ops	\$ 5,788
Gas Supply	\$ 1,706
GIS, Planning & Assessment	\$ 1,838
Govt Affairs	\$ 967
Human Resources	\$ 3,517
IT & Cyber Security	\$ 2,107
Leak Survey	\$ 241
Legal	\$ 840
Meter Management	\$ 31
Ops Center	\$ 334
Pipeline Maintenance	\$ 9,185
Pressure	\$ 1,628
Rates	\$ 368
Safety & Compliance	\$ 4,760
Sales	\$ 3,903
Supply Chain	\$ 3,612
Telecom	\$ 1,586
Transportation & Forecasting	\$ 82
Treasury	\$ 172
Total	\$ 1,135,511

(a) These costs represent costs related to corporate functions at sporting venues and other company events. These costs include the value of the tickets received in conjunction with the advertising partnerships the Company has with the various sports teams (see the response to OCA-VI-14). These tickets are used for employee recognition and other such business purposes.