

**I&E Statement No. 4
Witness: Ethan H. Cline**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PEOPLES NATURAL GAS COMPANY LLC

Docket No. R-2018-3006818

Direct Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

**Discount Rate Customers
Cost of Service Methodology
Proposed Rate Revenue
Scale Back of Rates**

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1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
2 **ADDRESS?**

3 A. My name is Ethan H. Cline. My business address is 400 North Street, Harrisburg,
4 Pennsylvania 17120.

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

7 A. I am employed as a Fixed Utility Valuation Engineer in the Pennsylvania Public
8 Utility Commission's ("Commission") Bureau of Investigation and Enforcement
9 ("I&E").

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND?**

13 A. My educational and professional background are set forth in Appendix A, which is
14 attached.

15

16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. The I&E analysis in the proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires the balancing of the
20 interests of ratepayers, the regulated utility, and the regulated community as a
21 whole.

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

2 A. My direct testimony relates to Peoples Natural Gas Company LLC's ("Peoples" or
3 "Company") requested combined base rate revenue increase of \$94.9 million
4 spread over the Peoples and Equitable divisions. My testimony specifically
5 addresses the following issues:

- 6 • Discount Rate Customers;
- 7 • Cost of Service methodology;
- 8 • Proposed Rate allocation; and
- 9 • Scale back of rates.

10

11 **DISCOUNT RATE CUSTOMERS**

12 **Q. DOES THE COMPANY'S TARIFF ALLOW IT TO NEGOTIATE RATES**
13 **FOR CUSTOMERS WITH AN ALTERNATIVE COMPETITIVE SUPPLY?**

14 A. Yes. The Company's tariff currently allows it to grant discount rates to certain
15 customers who can show that they have a competitive alternative to the Company's
16 gas supply.

17

18 **Q. DOES THE COMPANY CURRENTLY HAVE ANY CUSTOMERS**
19 **RECEIVING DISCOUNTED RATES?**

20 A. Yes. The Company's existing tariff includes rate schedule Competitive Energy Rate
21 ("CER"), which is a firm service available at the Company's sole discretion to
22 residential, commercial, and industrial ratepayers who would not request service

1 from the Company but for the availability of service under this rate and whose
2 competitive options are not solely limited to other natural gas distribution companies
3 (“NGDC”) (Peoples Supplement No. 100 to Gas – Pa PUC No. 45, Original Page
4 No. 60).

5
6 **Q. DID THE COMPANY PROVIDE A SCHEDULE SHOWING A**
7 **BREAKDOWN OF DISCOUNT RATE CUSTOMERS INCLUDING THE**
8 **DATE THE CUSTOMER’S ALTERNATIVE SUPPLY WAS VERIFIED?**

9 A. No. The Company’s HIGHLY CONFIDENTIAL responses to I&E-RS-9-D and
10 Office of Small Business Advocate (“OSBA”) interrogatory OSBA-I-7, included as
11 HIGHLY CONFIDENTIAL I&E Exhibit No. 4, Schedule 1 and Schedule 2,
12 respectively, show all discount rate customers, a comparison of the customer’s
13 discounted rates to the otherwise applicable tariff rate, the reason for the discount,
14 and the contract expiration date. However, regarding the date the customer’s
15 alternative supply was verified, the Company’s response to I&E-RS-9-D states that
16 “the Company verifies the alternative at the time the contract is initiated or
17 renewed.” Peoples did not provide in either response the date each contract was
18 initiated nor any renewal dates. Therefore, it is not possible to identify whether there
19 are any customers who have not had their alternative supply verified in several years.

1 **Q. WHAT DO YOU RECOMMEND CONCERNING THE DISCOUNT RATE**
2 **CUSTOMERS?**

3 A. For any discount rate customers that have not had their competitive alternatives
4 verified for longer than five years at the time of the Company's next base rate case, I
5 recommend that the Company provide a competitive alternative analysis for each of
6 those customers and justify the customers' discount rates as part of its filing in the
7 next base rate case. Further, I recommend that the Commission order the Company
8 to provide a competitive alternative analysis for each discount rate customer that has
9 not been verified within five years of each of Peoples' prospective base rate cases in
10 perpetuity.

11
12 **Q. WHY DO YOU MAKE THIS RECOMMENDATION?**

13 A. In order to ensure that these customers continue to be eligible for discount rates, each
14 alternative supply claim should be periodically analyzed. It has been an
15 indeterminate amount of time since an alternative supply analysis has been
16 completed for Peoples' customers, and the Company's costs to supply service and
17 operational conditions may have changed since the initial alternative supply studies
18 were completed at the initiation or renewal of each of the contracts. Further, the
19 customer's alternative source of supply and access to that alternative supply could
20 also have changed.

1 **Q. WHAT ARE SOME POTENTIAL CHANGES IN THE COMPANY'S**
2 **ABILITY AND COST TO SUPPLY SERVICE?**

3 A. Potential changes include situations in which the Company can no longer supply the
4 customer utilizing the current source of gas, situations in which the Company can no
5 longer utilize the existing capacity, or situations in which the cost to supply
6 customers has increased or will increase. As an example, a situation could arise
7 where a larger pipeline project must be completed solely to serve both the flex-rate
8 and tariff customers. In that case, termination of the flex-rate contract could result in
9 the scale-back or cancellation of the larger pipeline project. This would result in
10 avoidance of capital and operating expenses related to this project, which would
11 result in savings for the Company and its customers.

12
13 **Q. WHAT ARE SOME CHANGES IN THE CUSTOMER'S ALTERNATIVE**
14 **SUPPLY THAT COULD AFFECT DISCOUNT RATE CUSTOMERS?**

15 A. Possible changes in the customer's alternative supply that could affect discount rate
16 customers are situations where the customers may no longer have a viable alternative
17 supply, or the customer no longer has a viable alternative source of gas or gas
18 capacity, or the cost of the alternate supply to customers has increased or will
19 increase. There have been many changes in the natural gas industry in the last ten
20 years. For example, a customer may have had access to an interstate pipeline that is
21 now no longer available. Also, the cost and difficulty a customer would face to
22 construct interconnections to pipelines has increased due to inflation, public

1 concerns, restoration costs, and environmental impacts, which could make access to
2 the purported alternative supply no longer viable.

3
4 **Q. WHY IS IT IMPORTANT TO PERIODICALLY ANALYZE COMPETITIVE**
5 **ALTERNATIVES?**

6 A. It is important to periodically analyze competitive alternatives to ensure that the rates
7 charged to these discount rate customers result in the maximum possible contribution
8 to fixed costs. Also, this analysis should be completed so that the rates are not
9 discounted lower than would be necessary to prevent the customer from choosing the
10 alternative supply. Providing excessive discounts to customers would be harmful to
11 both the Company and its customers as the Company's other customers make up the
12 lost revenue that results when discount rate customers pay less than tariff rates.

13
14 **Q. HOW DOES THE COMPANY ACCOUNT FOR DISCOUNT RATE**
15 **CUSTOMERS IN ITS COST OF SERVICE STUDY?**

16 A. The Company stated in its response to OSBA-I-8 that "[t]he revenue from
17 customers that receive flexed rates was directly assigned to the rate classes in the
18 Company's COSSs based on the customer class in which each flexed rate
19 customer resides."

1 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE**
2 **COMPANY’S METHOD OF REFLECTING THE REVENUE RECEIVED**
3 **AND EXPENSES INCURRED TO SERVE DISCOUNT RATE**
4 **CUSTOMERS IN ITS COST OF SERVICE STUDIES IN THIS**
5 **PROCEEDING?**

6 A. No. However, in the Company’s next base rate case, I recommend that the
7 discount rate customers be separated into their own, separate customer class with
8 an appropriate allocation and/or assignment of the costs to serve the discount
9 customers. This will also show whether the revenue received from classes that
10 formerly included discount rate customers is sufficient to recover the cost of
11 providing service to the various classes.

12
13 **COST OF SERVICE**

14 **Q. WHAT IS A COST OF SERVICE (“COS”) STUDY?**

15 A. A utility provides service to a defined set of customer classes that are different in
16 terms of demand and usage patterns. A COS study allocates or assigns a utility’s
17 revenue requirement based on those service differences. In other words, a COS
18 study is a formalized analysis of costs that attempts to assign to each customer or
19 rate class its proportionate share of the Company’s total cost of service (i.e., the
20 Company’s total revenue requirement). The results of such a study can be utilized
21 to determine the relative cost of service for each class and help determine the
22 individual class revenue requirements and, to the extent a particular class is above

1 or below the system average rate of return, show the additional revenues each
2 class receives or conversely the additional revenues that each class contributes to
3 the Company's overall revenues. In addition to the relative provision of revenues,
4 a relative rate of return is also provided, which shows how the rate of return for
5 each class compares to the system average rate of return.

6
7 **Q. PLEASE DEFINE THE TERMS RATE OF RETURN AND RELATIVE**
8 **RATE OF RETURN?**

9 A. The rate of return is the Commission authorized return on rate base that is
10 determined in a base rate proceeding. A relative rate of return indicates how the
11 rate of return of each customer class compares to the system average rate of return.
12 In general, a relative rate of return that provides revenue equal to its cost to serve
13 would have a value of 1.0.

14
15 **Q. DID THE COMPANY PROVIDE A COS STUDY IN THIS PROCEEDING?**

16 A. Yes. The Company performed and provided a series of COS studies in its filing
17 sponsored by Peoples witness Russell A. Feingold on page 7 of Peoples Statement
18 No. 11. Witness Feingold prepared COS studies under present and proposed rates
19 on a combined divisional basis as well as individually for the Peoples and
20 Equitable divisions at present rates (Peoples St. No. 11, p. 10). The individual
21 COS studies are described by witness Feingold on page 11 of Peoples Statement

1 No. 11 as follows:

- 2 • Design day demand allocation with a customer component of
3 distribution mains (Peoples Volume 4, Exhibit No. IV, Section 53.53
4 (IV-B-1 (A)));
- 5 • Peak and average demand allocation method at present rates without
6 a customer component of distribution mains (Peoples Volume 4,
7 Exhibit No. IV, Section 53.53 (IV-B-1 (B)));
- 8 • Summary page of Peoples' COS study at proposed rates based on a
9 design day demand allocation method with a customer component of
10 distribution mains (Peoples Volume 4, Exhibit No. IV, Section 53.53
11 (IV-B-1 (C)));
- 12 • Summary page of Peoples' COS study at proposed rates based on a
13 peak and average demand allocation method without a customer
14 component of distribution mains (Peoples Volume 4, Exhibit No. IV,
15 Section 53.53 (IV-B-1 (D)));
- 16 • Summary of results for Peoples' four COS studies described above
17 (Peoples Volume 4, Exhibit No. IV, Section 53.53 (IV-B-1 (E)));
- 18 • Summary pages of the COS study for the individual Peoples
19 Division at present rates based on a design day demand allocation
20 method with a customer component of distribution mains Peoples
21 Volume 4, Exhibit No. IV, Section 53.53 (IV-B-1 (F)));

- 1 • Summary pages of the COS study for the Peoples Division at present
2 rates based on a peak and average demand allocation method
3 without a customer component of distribution mains (Peoples
4 Volume 4, Exhibit No. IV, Section 53.53 (IV-B-1 (G)));
- 5 • Summary pages of the COS study for the Equitable Division at
6 present rates based on a design day demand allocation method with a
7 customer component of distribution mains (Peoples Volume 4,
8 Exhibit No. IV, Section 53.53 (IV-B-1 (H)));
- 9 • Summary pages of the COS study for the Equitable Division at
10 present rates based on a peak and average demand allocation method
11 without a customer component of distribution mains (Peoples
12 Volume 4, Exhibit No. IV, Section 53.53 (IV-B-1 (I))).

13

14 **Q. WHAT IS THE MAIN DIFFERENCE BETWEEN THE COS STUDIES**
15 **PROVIDED BY THE COMPANY?**

16 A. The difference between the COS studies provided by the Company is that the
17 allocation of the cost of mains includes a customer component in the design day
18 demand allocation and does not in the peak and average COS study as described
19 above. Consequently, each of the COS studies yields different relative rates of
20 return for each rate class. Specifically, the peak and average allocation method
21 that does not include a customer component of the mains allocation is more
22 favorable to the residential class and the design day demand allocation method that

1 does include a customer component of the mains allocation would have more cost
2 allocated to the residential class and away from the other classes.

3 The design day demand methodology classifies distribution mains as
4 partially customer related and partially demand related. The customer portion of
5 mains is then allocated to the various customer classes based on the total number
6 of customers, while the demand portion of mains is allocated to classes based on
7 the design peak day contributions or demand. This methodology has been rejected
8 by the Commission in other natural gas base rate cases.

9 The peak and average COS, however, allocates distribution mains to classes
10 based partially on contributions to design peak day demand and partially on annual
11 consumption (average demand). This methodology has been accepted by the
12 Commission in previous cases.

13
14 **Q. WHAT IS THE IMPACT ON THE RELATIVE RATE OF RETURN**
15 **UNDER THE DESIGN DAY DEMAND METHODOLOGY AND THE**
16 **PEAK AND AVERAGE METHODOLOGY?**

17 A. The following table shows a summary of the relative rates of return for the
18 residential, small general, medium general, and large general service rate classes

1 under present rates as shown on Peoples Volume 4, Exhibit No. IV, Section 53.53
2 (IV-B-1(E)):

Relative Rate of Return under Present Rates		
	Peak Demand w/ Customer Component	Peak & Average
Residential Service	0.74	1.08
Small General Service	1.00	0.85
Medium General Service	1.91	1.05
Large General Service	2.24	0.68

3
4 This difference can be explained by the fact that the design day demand
5 study places more cost obligation on the customer component of the distribution
6 system, which must be designed to reach all customers. This design aspect of the
7 design day demand study implies a greater impact on the largest class of
8 customers in terms of number of customers, which is the residential service class.
9 The demand component of the distribution system is the sizing of the system to
10 meet peak demand, which would have a greater impact on the largest class of
11 customers in terms of volume.

1 **Q. WHICH OF THE COS STUDIES SPONSORED BY MR. FEINGOLD DID**
2 **THE COMPANY ULTIMATELY UTILIZE TO ALLOCATE THE**
3 **PROPOSED REVENUE INCREASES?**

4 A. The Company did not specifically utilize any one of the COS studies sponsored by
5 Mr. Feingold. Instead, Mr. Feingold used the design day demand study and the
6 average of the peak & average and design day demand studies as points of
7 reference in his evaluation of proposed rate revenue levels for each rate class
8 (Peoples St. No. 11, p. 41). Mr. Feingold then designed the Company's proposed
9 rate revenue allocation on a point in between the two points of reference described
10 above. The results of Mr. Feingold's analysis were included within Peoples
11 Statement No. 11 as Peoples Exhibit RAF-4, p. 3, Table 4, which shows a
12 proposed relative ROR of 0.93 for the residential service class, 1.00 for the small
13 general service class, 1.26 for the medium general service class, and 1.29 for the
14 large general service class. This exhibit compares the Company's proposed rate
15 revenue allocation with the present rate revenue allocation based on the design day
16 demand allocation method. Also, the result of Mr. Feingold's proposed allocation
17 would see the residential class receive 84.2% of the total increase.

18
19 **Q. WHY DID MR. FEINGOLD NOT LEND MORE WEIGHT TO THE PEAK**
20 **AND AVERAGE ALLOCATION METHOD?**

21 A. Mr. Feingold stated that, "[i]f a gas utility's system was sized and installed to
22 accommodate average gas demands, it would be unable to accommodate system

1 peak demands.” He further opined that cost causation with respect to demand
2 related costs is unrelated to average demand characteristics and that it is
3 inappropriate to allocate demand related costs by relying upon only a commodity-
4 based allocation factor, as derived from annual gas throughput volume (Peoples
5 St. No. 11, pp. 22-23).

6
7 **Q. DO YOU AGREE THAT COST CAUSATION WITH RESPECT TO**
8 **DEMAND RELATED COSTS IS UNRELATED TO AVERAGE DEMAND**
9 **CHARACTERISTICS?**

10 A. No. The average demand represents the fact that customers are not only served
11 during their peak times and that gas must be available at all times. An example of
12 demand being a cause of cost would be a single street with a main sized to deliver
13 10 Dth. The size of the main would remain the same if it served ten residential
14 customers using one Dth each, four residential customers and one small business
15 using two Dth each, or one larger business using 10 Dth. The number of
16 customers has no bearing on the size or cost of the main in this example.
17 Furthermore, as I discuss below, the Commission has repeatedly accepted the peak
18 and average methodology for allocating costs and revenues in previous base rate
19 cases.

1 **Q. WHAT OTHER ALLOCATION ANALYSES WERE PROVIDED ON**
2 **PEOPLES EXHIBIT RAF-4, P. 3?**

3 A. Table 1 shows the design day demand cost allocation method that allocates mains
4 using a customer component. Table 2 shows an allocation based on a mid-point of
5 the results of the design day demand and peak and average allocation methods.
6 Table 3 shows an allocation based on the non-gas cost revenue level of each rate
7 class being increased by 23.9%, which is the system average increase.

8
9 **Q. WHICH COS STUDY DO YOU RECOMMEND THE COMMISSION USE**
10 **TO ALLOCATE THE REVENUE INCREASES AMONG THE**
11 **DIFFERENT CUSTOMER CLASSES IN THIS PROCEEDING?**

12 A. I recommend the Commission base its recommended allocation on the peak and
13 average COS study that does not allocate the cost of mains on a customer basis as
14 provided by the Company on Peoples Volume 4, Exhibit No. IV, Section 53.53
15 (IV-B-1(B)) and 53.53 (IV-B-1(D)) to allocate the final revenue increases among
16 the different customer classes.

17
18 **Q. HAS THE COMMISSION PREVIOUSLY APPROVED THE USE OF THE**
19 **PEAK AND AVERAGE COS STUDY IN A RATE PROCEEDING?**

20 A. Yes. The Commission has previously recognized that distribution mains are built
21 on the basis of year-round demands as well as peak demands. In the National Fuel

1 Gas Distribution Company 1994 base rate proceeding, the Commission accepted
2 the Peak & Average methodology, stating:

3 “[t]he Peak and Average method that allocates mains equally
4 is a sound and reasonable method of cost allocation and should
5 remain intact.” (*Pa. P.U.C. v. National Fuel Gas Distribution*
6 *Co.*, 83 Pa. PUC 262 (1994)).
7

8 **Q. HAS THE COMMISSION PREVIOUSLY REJECTED INCLUDING THE**
9 **COST OF DISTRIBUTION MAINS AS A CUSTOMER COST?**

10 A. Yes. The Commission has previously rejected including the cost of distribution
11 mains as a customer cost in the Philadelphia Gas Works (PGW) 2007 base rate
12 proceeding at Docket No. R-00061931. Specifically, the Commission stated in its
13 Order entered September 28, 2007 that “PGW’s proposal to allocate a percentage
14 of the cost of the distribution mains as a customer cost not to be acceptable” and
15 that “[r]eviewing the record, we find that the allocation of distribution mains
16 investment costs should be done using both annual and peak demands.”
17

18 **Q. HOW DID THE COMPANY CLASSIFY AND ALLOCATE MAINS AND**
19 **MAINS-RELATED ACCOUNTS IN THE PEAK AND AVERAGE COS**
20 **STUDY?**

21 A. In the peak and average study, Peoples allocated low pressure mains and regulated
22 pressure mains separately, though each were allocated 50% to demand and 50% to
23 commodity.

1 **Q. DO YOU AGREE WITH THIS MANNER OF CLASSIFYING AND**
2 **ALLOCATING THE FIXED COST OF MAINS AND MAINS-RELATED**
3 **ACCOUNTS?**

4 A. Yes. The Commission previously determined in a 1994 Opinion and Order in the
5 Pennsylvania American Water Company case at Docket No. R-00932670, Order
6 entered July 26, 1994, at pages 111- 115, that direct customer costs include “the
7 depreciation, return and income taxes associated with meter and service
8 investment; the O&M costs for meters and services; and the expense associated
9 with meter reading and billing.” Mains are not included in any of these categories,
10 and therefore should not be considered or classified as a customer cost. The basis
11 for this determination is that the quantity and investment in mains does not change
12 significantly if one customer joins or leaves the system. Mains are built to deliver
13 gas, and the cost of mains cannot be assigned to one specific customer. Therefore,
14 no portion of the fixed costs or depreciation expense associated with mains should
15 be allocated to the customer cost function.

16 The Commission also reaffirmed in the 2006 PPL Gas Utilities base rate
17 case that the cost of mains should be allocated on a combination of throughput and
18 demand, and therefore not allocated to the customer function. In that case,
19 Administrative Law Judge Jones noted that “the Commission has rejected
20 minimum and zero-intercept system methods as inconsistent with causation.”
21 (PPL Gas Utilities, Docket No. R-00061398, Order entered February 8, 2007).

1 **Q. DID MR. FEINGOLD INDICATE THAT HE BASED HIS ANALYSIS ON**
2 **ANY COMMISSION ORDERS?**

3 A. Yes. The Company's response to OSBA-I-6 indicated that "Mr. Feingold relied
4 upon Commission decisions in Docket Nos. R-832393, R-850270, R-860535, and
5 R-00061398 in concluding that the Commission has given consideration to a
6 demand/commodity allocation of distribution mains when evaluating class cost-of-
7 service studies for gas utilities." The Company attached excerpts from each Order
8 to its response to OSBA-I-6, which I have included as I&E Exhibit No. 4,
9 Schedule 3.

10

11 **Q. IS MR. FEINGOLD CORRECT THAT THE COMMISSION GAVE**
12 **CONSIDERATION TO A DEMAND/COMMODITY ALLOCATION IN**
13 **THE FOUR COMMISSION ORDERS LISTED ABOVE?**

14 A. Yes. Mr. Feingold is correct that the Commission gave consideration to a
15 demand/commodity allocation in the four Commission orders listed above.

16 In its Order at Docket No. R-832393, the Commission indicated in its
17 opinion that "cost of service studies are more accurately characterized as
18 engineering art;" however, the Commission nevertheless indicated that it would
19 consider the demand/commodity methodology rather than the demand/customer
20 methodology in the allocation of the increase in revenues (I&E Ex. No. 4, Sch. 3,
21 pp. 2-3).

1 Additionally, in the Commission Order at Docket No. R-850270, the
2 Commission stated that it agrees with the position that the minimum size approach
3 allocates too much cost responsibility on a customer basis and that distribution
4 related costs should be allocated on a fifty percent commodity, fifty percent
5 demand related basis (I&E Ex. No. 4, Sch. 3, pp. 4-5, emphasis added by Peoples).

6 In the Commission Order at Docket No. R-860535, the Commission found
7 that the allocation using the Average and Excess method, which is similar to the
8 Peak and Average method as Mr. Feingold indicated on page 21 of Peoples
9 Statement No. 11, resulted in an allocation that was fair and equitable (I&E Ex.
10 No. 4, Sch. 3, pp. 6-8).

11 The final Commission Order referenced by Mr. Feingold is the same 2006
12 PPL Gas Utilities Order at Docket No. R-00061398 that, as I stated above, the
13 ALJ noted that “the Commission has rejected minimum and zero-intercept system
14 methods as inconsistent with causation.” (I&E Ex. No. 4, Sch. 3, pp. 9-10).

15
16 **Q. DID MR. FEINGOLD INDICATE THE REASON HE DID NOT USE THE**
17 **PEAK AND AVERAGE ALLOCATION METHOD ON ITS OWN AS A**
18 **REFERENCE POINT IN HIS ANALYSIS?**

19 **A.** Yes. The response to I&E-RS-19, attached as I&E Exhibit No. 4, indicates that
20 Mr. Feingold did not use the Peak and Average Study as a reference point because
21 he “believes this cost allocation method alone does not properly reflect the cost

1 causation of Peoples' gas system and should not be used on a standalone basis as a
2 guide for determining Peoples' class revenues and rates.”

3
4 **Q. DOES MR. FEINGOLD'S OPINION COINCIDE WITH ESTABLISHED**
5 **COMMISSION PRECEDENT?**

6 A. No. As discussed above, the Commission has established in several Orders that
7 the Peak and Average cost allocation method is a valid method to allocate costs
8 and revenue for natural gas distribution companies.

9
10 **Q. WHAT OTHER CHANGE DO YOU RECOMMEND TO THE**
11 **COMPANY'S PREPARED COST OF SERVICE STUDIES?**

12 A. As discussed previously, I recommend that the discount rate customers be
13 separated into their own customer class in the Company's Cost of Service Studies
14 in the next base rate case.

15
16 **Q. WHY DO YOU RECOMMEND THAT THE DISCOUNT RATE**
17 **CUSTOMERS BE SEPARATED INTO THEIR OWN SEPARATE**
18 **CUSTOMER CLASS?**

19 A. This would allow for the accurate determination of the revenue shortfall caused by
20 Peoples providing discounted rates to these customers. A clear picture of the
21 overall revenue shortfall would allow the Commission to appropriately evaluate
22 the allocation of that shortfall and determine the proper allocation of that shortfall,

1 whether to spread it across all revenue classes or to continue the Company's
2 policy of other customers in the same rate class recovering the revenue shortfall.

3 4 CUSTOMER COST ANALYSIS

5 **Q. WHAT IS A CUSTOMER COST ANALYSIS AND HOW IS IT USED?**

6 A. A customer cost analysis is a part of a COS study that is used to determine the
7 appropriate fixed customer charges for the various classes and meter sizes. It
8 includes customer costs only.

9 10 **Q. WHY IS IT NECESSARY TO PERFORM A CUSTOMER COST 11 ANALYSIS?**

12 A. A fixed customer charge represents the revenue that the Company is guaranteed to
13 receive each month, regardless of the level of usage. As acknowledged in the
14 seventh edition of the American Water Works Association M1 Manual, there is a
15 tradeoff between revenue stability from a high customer charge, and affordability
16 and conservation from a low customer charge and higher usage rates.¹

¹ AWWA Manual of Water Supply Practices M1 Principles of Water Rates, Fees, Charges. Seventh Edition. pp. 154-155.

1 **Q. DID PEOPLES PREPARE A CUSTOMER COST ANALYSIS TO**
 2 **SUPPORT THE PROPOSED CUSTOMER CHARGE INCREASES IN**
 3 **THIS PROCEEDING?**

4 A. Yes. The Company prepared three customer cost analyses presented in Peoples
 5 Statement No. 11 as Exhibit RAF-2 and in Peoples Exhibit 11, Schedule 4, pages
 6 2-11 and 12-21. The first of the Company’s customer cost analyses, shown on
 7 Peoples Exhibit 11, Schedule 4, pages 2-11, is a fully allocated customer cost
 8 analysis based on the design day allocation method. The second, shown on
 9 Peoples Exhibit 11, Schedule 4, pages 12-21, is a fully allocated customer cost
 10 analysis based on the peak and average allocation method. The final customer
 11 cost analysis, presented in Peoples Statement No. 11 as Exhibit RAF-2, is a
 12 minimum cost analysis that was guided by the Commission’s decision in the Aqua
 13 Pennsylvania Rate Case in Docket R-00038805 (Peoples St. No. 11, p. 36). The
 14 results of each customer cost analysis are presented in the following table:

Customer Class	Design Day (Peoples Ex. No. 11, Sch. 4, p. 11)	Peak and Average (Peoples Ex. No. 11, Sch. 4, p. 21)	Minimum Cost (Peoples Ex. RAF-2, p. 10)
Residential Service	\$34.41	\$24.21	\$24.41
Small General Service	\$34.00	\$23.75	\$24.28
Medium General Service	\$72.72	\$63.39	\$61.86
Large General Service	\$880.19	\$882.52	\$858.66

15

1 **Q. WHICH CUSTOMER COST ANALYSIS DID THE COMPANY USE TO**
 2 **DETERMINE ITS PROPOSED RATE CUSTOMER CHARGES?**

3 A. Peoples used the minimum cost analysis presented in Peoples Statement No. 11 as
 4 Exhibit RAF-2 as a guide to determine its proposed customer charges for each rate
 5 class.

6
 7 **CUSTOMER CHARGE**

8 **Q. WHAT CUSTOMER CHARGES IS THE COMPANY PROPOSING FOR**
 9 **EACH RATE CLASS?**

10 A. The present and proposed customer charges for each rate class in the Peoples and
 11 Peoples-Equitable divisions, as presented on Peoples Exhibit No. 11, Schedule 8,
 12 are summarized in the table below.

Rate Schedule	Present Rate	Change	Proposed Rate	Percent Increase
Residential Service				
Peoples Division	\$13.95	\$6.05	\$20.00	43.4%
Peoples-Equitable Division	\$13.25	\$6.75	\$20.00	50.9%
Small General Retail Service				
Peoples Division	\$14.88	\$10.12	\$25.00	68.0%
Peoples-Equitable Division	\$17.00	\$8.00	\$25.00	47.1%
Peoples Transitional Ind.	\$20.00	\$5.00	\$25.00	25.0%
Medium General Retail Service				
Peoples Division	\$77.00	\$123.00	\$200.00	159.7%
Peoples-Equitable Division	\$300.00	\$(100.00)	\$200.00	(50.0)%
Peoples Transitional Ind.	\$77.00	\$123.00	\$200.00	159.7%

Large General Retail Service (25,000 – 49,999 Mcf)				
Peoples Division	\$443.00	\$257.00	\$700.00	58.0%
Peoples-Equitable Division	\$1,600.00	\$(900.00)	\$700.00	(128.6)%
Peoples Transitional Ind.	\$443.00	\$257.00	\$700.00	58.0%
Large General Retail Service (50,000 – 99,999 Mcf)				
Peoples Division	\$545.00	\$755.00	\$1,300.00	138.5%
Peoples-Equitable Division	\$1,600.00	\$(300.00)	\$1,300.00	(18.8)%
Peoples Transitional Ind.	\$545.00	\$755.00	\$1,300.00	138.5%
Large General Retail Service (100,000 – 199,999 Mcf)				
Peoples Division	\$793.00	\$607.00	\$1,400.00	76.5%
Peoples-Equitable Division	\$1,600.00	\$(200.00)	\$1,400.00	(12.5)%
Peoples Transitional Ind.	\$1,144.00	\$256.00	\$1,400.00	22.4%
Large General Retail Service (>200,000 Mcf)				
Peoples Division	\$1,215.00	\$385.00	\$1,600.00	31.7%
Peoples-Equitable Division	\$1,600.00	\$0.00	\$1,600.00	0.0%
Peoples Transitional Ind.	\$2,009.00	\$(409.00)	\$1,600.00	(20.4)%

1

2 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE**
3 **COMPANY’S PROPOSED CUSTOMER CHARGES?**

4 A. No. However, as discussed below, I recommend that the customer charges be
5 included in any scale back in the event that the Commission grants less than the
6 full increase.

7

8 **Q. HAS THE COMMISSION ADJUSTED A COMPANY’S PROPOSED**
9 **CUSTOMER CHARGE DESPITE APPROVING THE CUSTOMER COST**
10 **ANALYSIS SUBMITTED BY THE COMPANY?**

11 A. Yes. In the recent disposition of UGI Utilities, Inc. – Electric Division’s base rate
12 case the Commission agreed with the Company’s proposed customer cost analysis,

1 yet still included the customer cost in its scale back of rates (Docket No. R-2017-
 2 2640058, pp. 173-174 (Order entered October 25, 2018)).

3
 4 **PROPOSED REVENUE ALLOCATION**

5 **Q. HOW IS THE COMPANY PROPOSING TO DISTRIBUTE ITS**
 6 **REQUESTED ANNUAL REVENUE INCREASES AMONG THE**
 7 **DIFFERENT CUSTOMER CLASSES IN THIS PROCEEDING?**

8 A. As described above, Peoples is recommending allocating its requested annual
 9 revenue increases among the different customer classes based on a point between
 10 the design day demand allocation method and an average of the design day
 11 demand allocation method and the peak and average allocation method. The
 12 Company proposed allocation of non-gas revenue on a total company basis is
 13 presented as Table 4 in Peoples Statement No. 11 as Exhibit RAF-4, p. 3 and in
 14 the table below.

Rate Class	Revenue at Current Rates	ROR	Relative ROR	Increase	Percent Change	ROR	Relative ROR	Percent of Total Increase
Residential	\$273,991,108	3.40%	0.74	\$79,862,244	29.1%	7.45%	0.93	84.2%
Small General	\$33,951,754	4.60%	1.00	\$8,742,577	25.8%	8.00%	1.00	9.2%
Medium General	\$45,000,023	8.80%	1.91	\$4,950,003	11.0%	10.12%	1.26	5.2%
Large General	\$43,112,951	10.33%	2.24	\$1,293,389	3.0%	10.28%	1.29	1.4%
Total:	\$396,055,837	4.61%	1.00	\$94,848,212	23.9%	8.00%	1.00	100.0%

15

1 **Q. WHAT ASPECTS OF RATE STRUCTURE SHOULD THE COMMISSION**
 2 **CONSIDER WHEN ESTABLISHING PROPOSED RATES?**

3 A. Generally, the primary goal in establishing proposed rates is the resulting rate of
 4 return by customer class and the corresponding relative rate of return, which
 5 indicates how the rate of return of each customer class compares to the system
 6 average rate of return. Additionally, the principle of cost causation dictates that
 7 proposed rates be established so that the revenue received from a particular class is
 8 equal to the corresponding costs of providing service to that class. Generally, a
 9 relative rate of return above 1.00 for a class indicates that revenue received from that
 10 class is more than the cost of providing service to that class. Conversely, a relative
 11 rate of return below 1.00 for a class indicates that the revenue received from that
 12 class is less than the cost of providing service to that class. The Company provided
 13 the following allocation of proposed non-gas revenue based solely on the Peak and
 14 Average method in its response to I&E-RS-20, included as I&E Exhibit No. 4,
 15 Schedule 6:

Rate Class	Revenue at Current Rates	ROR	Relative ROR	Increase	Percent Change	ROR	Relative ROR	Percent of Total Increase
Residential	\$274,108,500	4.96%	1.08	\$56,275,845	20.5%	8.00%	1.00	59.3%
Small General	\$33,914,486	3.91%	0.85	\$10,818,121	31.9%	8.00%	1.00	11.4%
Medium General	\$44,955,444	4.83%	1.05	\$11,733,634	26.1%	8.00%	1.00	12.4%
Large General	\$43,077,407	3.14%	0.68	\$16,020,612	37.2%	8.00%	1.00	16.9%
Total:	\$396,055,837	4.61%	1.00	\$94,848,212	23.9%	8.00%	1.00	100.0%

1 **Q. WHAT COS STUDY ARE YOU RECOMMENDING BE USED TO**
2 **ALLOCATE PROPOSED REVENUE IN THIS PROCEEDING?**

3 A. For the reasons described above, I am recommending the proposed revenue in this
4 proceeding be allocated using the Company's provided Peak and Average COS
5 study.

6
7 **Q. ARE YOU RECOMMENDING THE COMMISSION ADOPT THE**
8 **ALLOCATIONS PRESENTED BY THE COMPANY IN ITS RESPONSE TO**
9 **I&E-RS-20 AND SHOWN ABOVE?**

10 A. No. While my analysis is based on the Company's Peak and Average allocation
11 methodology, it is not the only factor considered in my revenue allocation
12 recommendation. Specifically, the peak and average allocation methodology results
13 in a 37.2% increase for the Large General Service class, which is not reasonable.

14
15 **Q. WHY IS A 37.2% INCREASE FOR THE LARGE GENERAL SERVICE**
16 **CLASS NOT REASONABLE?**

17 A. A 37.2% increase is not reasonable because it is more than the generally accepted
18 rule of class increases being within 1.5 times the system average increase. The
19 system average increase is 23.9% and 1.5 times that is 35.85%. When including gas
20 costs, the system average increase is 14.2% and 1.5 times that is 21.3%.

1 **Q. WHAT ADJUSTMENT TO THE COMPANY’S PROPOSED REVENUE**
 2 **ALLOCATION ARE YOU RECOMMENDING?**

3 A. As shown on I&E Exhibit No. 4, Schedule 7, I reallocated the Company’s proposed
 4 class revenue increase among the rate classes in order to better align with the results
 5 of the peak and average COS study. Specifically, I reduced the increase to the
 6 residential class by \$19,100,000 and added \$2,100,000 to the increase to the Small
 7 General Service class, \$6,800,000 to the Medium General Service class, and
 8 \$10,200,000 to the Large General Service class. The results of my recommended
 9 revenue reallocation are shown below and included as I&E Exhibit No. 4, Schedule
 10 8:

Rate Class	Revenue at Current Rates	ROR	Relative ROR	Increase	Percent Increase	ROR	Relative ROR	Percent of Total Increase
Residential	\$537,903,758	4.96%	1.08	\$60,762,244	12.7%	8.29%	1.07	64.1%
Small General	\$75,701,505	3.91%	0.85	\$10,842,577	16.7%	7.99%	1.00	11.4%
Medium General	\$81,115,577	4.83%	1.05	\$11,750,003	16.9%	7.99%	1.00	12.4%
Large General	\$63,146,763	3.14%	0.68	\$11,493,389	20.7%	6.56%	0.66	12.1%
Total:	\$761,867,603	4.61%	1.00	\$94,848,212	14.2%	8.00%	1.00	100.0%

11

12 **Q. HOW SHOULD THE COMPANY’S RATES BE DETERMINED?**

13 A. The Company’s rates should be set based on the cost of service study the
 14 Commission determines is the most reasonable method of allocation in the present
 15 base rate proceeding.

1 **SCALE BACK OF RATES**

2 **Q. WHAT SCALE BACK METHODOLOGY DO YOU RECOMMEND IF**
3 **THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

4 A. If the Commission grants less than the Company’s requested increase, I
5 recommend that the Commission scale-back rates based upon the cost of service
6 study that it approves in a proportional manner.

7
8 **Q. ARE YOU RECOMMENDING ANY RESTRICTIONS TO SPECIFIC**
9 **RATE SCALE BACKS?**

10 A. No. All customer charges and usage rates for each rate class that received a
11 proposed increase should be scaled back.

12
13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes.

ETHAN H. CLINE

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE:

03/2009 - Present

Bureau of Investigation and Enforcement, Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania

Fixed Utility Valuation Engineer – Assists in the performance of studies and analyses of the engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design.

06/2008 – 09/2008

Akens Engineering, Inc. - Shiremanstown, Pennsylvania

Civil Engineer – Responsible, primarily, for assisting engineers and surveyors in the planning and design of residential development projects

10/2007 – 05/2008

J. Michael Brill and Associates - Mechanicsburg, Pennsylvania

Design Technician – Responsible, primarily, for assisting engineers in the permit application process for commercial development projects.

01/2006 – 10/2007

CABE Associates, Inc. - Dover, Delaware

Civil Engineer – Responsible, primarily, for assisting engineers in performing technical reviews of the sewer and sanitary sewer systems of Sussex County, Delaware residential development projects.

EDUCATION:

Pennsylvania State University, State College, Pennsylvania
Bachelor of Science; Major in Civil Engineering, 2005

- Attended NARUC Rate School, Clearwater, FL

TESTIMONY SUBMITTED:

I have testified and/or submitted testimony in the following proceedings:


1. Clean Treatment Sewage Company, Docket No. R-2009-2121928
2. Pennsylvania Utility Company – Water Division, Docket No. R-2009-2103937
3. Pennsylvania Utility Company – Sewer Division, Docket No. R-2009-2103980
4. UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
5. PAWC Clarion Wastewater Operations, Docket No. R-2010-2166208
6. PAWC Claysville Wastewater Operations, Docket No. R-2010-2166210
7. Citizens’ Electric Company of Lewisburg, Pa, Docket No. R-2010-2172665
8. City of Lancaster – Bureau of Water, Docket No. R-2010-2179103
9. Peoples Natural Gas Company LLC, Docket No. R-2010-2201702
10. UGI Central Penn Gas, Inc., Docket No. R-2010-2214415
11. Pennsylvania-American Water Company, Docket No. R-2011-2232243
12. Pentex Pipeline Company, Docket No. A-2011-2230314
13. Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201
14. Philadelphia Gas Works 1307(f), Docket No. R-2012-2286447
15. Peoples Natural Gas Company LLC, Docket No. R-2012-2285985
16. Equitable Gas Company, Docket Nos. R-2012-2312577, G-2012-2312597
17. City of Lancaster – Sewer Fund, Docket No. R-2012-2310366
18. Peoples TWP, LLC 1307(f), Docket No. R-2013-2341604
19. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2013-2361763
20. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2013-2361764
21. Joint Application, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651
22. City of Dubois – Bureau of Water, Docket No. R-2013-2350509
23. The Peoples Water Company, Docket No. R-2013-2360798
24. Pennsylvania American Water Company, Docket No. R-2013-2355276
25. Generic Investigation Regarding Gas-on-Gas Competition, Docket Nos. P-2011-227868, I-2012-2320323
26. Philadelphia Gas Works 1307(f), Docket No. R-2014-2404355
27. Pike County Light and Power Company (Gas), Docket No. R-2013-2397353
28. Pike County Light and Power Company (Electric), Docket No. R-2013-2397237
29. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2014-2403939
30. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2014-2420273
31. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2014-2420276
32. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2014-2420279
33. Emporium Water Company, Docket No. R-2014-2402324
34. Borough of Hanover – Hanover Municipal Water, Docket No. R-2014-2428304
35. Philadelphia Gas Works 1307(f), Docket No. R-2015-2465656
36. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2015-2465172
37. Peoples Natural Gas Company – Equitable Division 1307(f), Docket No. R-2015-2465181
38. PPL Electric Utilities Corporation, Docket No. R-2015-2469275
39. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2015-2480934
40. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2015-2480937

41. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2015-2480950
42. UGI Utilities, Inc. – Gas Division, Docket No. R-2015-2518438
43. Joint Application of Pennsylvania American Water, et al., Docket No. A-2016-2537209
44. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2016-2543309
45. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2016-2543311
46. City of Dubois – Company, Docket No. R-2016-2554150
47. UGI Penn Natural Gas, Inc., Docket No. R-2016-2580030
48. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2017-2602627
49. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2017-2602633
50. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2017-2602638
51. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the City of McKeesport, Docket No. A-2017-2606103
52. Pennsylvania American Water Company, Docket No. R-2017-2595853
53. Pennsylvania American Water Company Lead Line Petition, Docket No. P-2017-2606100
54. UGI Utilities, Inc. – Electric Division, Docket No. R-2017-2640058
55. Peoples Natural Gas Company, LLC – Peoples and Equitable Division 1307(f), Docket Nos. R-2018-2645278 & R-2018-3000236
56. Peoples Gas Company, LLC 1307(f), Docket No. R-2018-2645296
57. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577
58. Duquesne Light Company, Docket No. R-2018-3000124
59. Suez Water Pennsylvania, Inc., Docket No. R-2018-3000834
60. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the Township of Sadsbury, Docket No. A-2018-3002437
61. The York Water Company, Docket No. R-2018-3000006
62. Application of SUEZ Water Pennsylvania, Inc. Acquisition of the Water and Wastewater Assets of Mahoning Township, Docket Nos. A-2018-3003517 and A-2018-3003519
63. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645 and R-2018-3002647
64. Joint Application of Aqua America, Inc. et al., Acquisition of Peoples Natural Gas Company LLC, et al., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063
65. Implementation of Chapter 32 of the Public Utility Code Regarding Pittsburgh Water and Sewer Authority, Docket Nos. M-2018-2640802 and M-2018-2640803
66. Philadelphia Gas Works 1307(f), Docket No. R-2019-3007636

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

VERIFICATION

I, Ethan H. Cline, hereby state that the facts set forth in the foregoing document are true and correct to the best of my knowledge, information and belief, and that I expect to be able to prove the same at any hearing. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities)



Ethan H. Cline

4/24/19

Date