

**I&E Statement No. 5  
Witness: Holly Gilliland**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**PEOPLES NATURAL GAS COMPANY LLC**

**Docket No. R-2018-3006818**

**Direct Testimony**

**of**

**Holly Gilliland**

**Bureau of Investigation and Enforcement**

**Concerning:**

**Test Year  
Rate Base  
Prepayments  
Gas Storage Underground  
Rate Base Summary  
Reporting Requirements**

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

3 A. My name is Holly Gilliland. 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 education 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”) request of a base rate revenue increase of \$94,900,000 spread over  
4 the Peoples and Equitable divisions. My testimony specifically addresses the  
5 following issues:

- 6 • Test Year
- 7 • Fully Projected Future Test Year (“FPFTY”);
- 8 • Rate Base Components
- 9 • Reporting Requirements

10

11 **TEST YEAR**

12 **Q. WHAT IS A TEST YEAR AND HOW IS IT USED BY A COMPANY IN A**  
13 **RATE PROCEEDING?**

14 A. A test year is the twelve-month period over which a utility’s costs and revenues  
15 are measured as the basis for setting prospective base rates. Previously in rate  
16 case proceedings, in order to meet its burden of proof, a utility could only use a  
17 historic test year (“HTY”) or a future test year (“FTY”). An HTY is a twelve-  
18 month period selected by a company that represents a recent full year of actual  
19 data. An FTY begins the day after the HTY ends and is used to allow for the time  
20 it takes to adjudicate a rate proceeding by permitting a company to select a future  
21 time period upon which to base its financial information. This is necessary so that  
22 the rates set by the Commission reflect current and synchronized financial

1 information to prevent regulatory lag in the very first year that rates are in effect.  
2 By using an FTY, a utility makes a projected annualized and normalized estimate  
3 of future revenues and expenses and a corresponding measure of value at the end  
4 of the period.

5  
6 **Q. HAVE THERE BEEN ANY STATUTORY AMENDMENTS THAT HAVE**  
7 **MODIFIED A UTILITY'S TEST YEAR OPTIONS?**

8 A. Yes. Act 11, which was signed on February 14, 2012, permits utilities to use a  
9 FPFTY in order to meet their burden of proof in rate cases. The FPFTY is defined  
10 as the twelve-month period that begins with the first month that the new rates will  
11 be placed into effect, after the application of the full suspension period permitted  
12 under Section 1308(d). The FPFTY is a shift from the fundamental ratemaking  
13 principle that a public utility should only be permitted to include projects in rate  
14 base and earn a reasonable return on its investments after they become "used and  
15 useful" for the utility's public service. Prior to the passage of Act 11 by the  
16 Pennsylvania Legislature, utilities could use either an HTY or an FTY.

17  
18 **Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS**  
19 **PROCEEDING?**

20 A. The Company used the twelve-month period ending September 30, 2018 as the  
21 HTY, the twelve-month period ending September 30, 2019 as the FTY, and the  
22 thirteen-month period ending October 31, 2020 as the FPFTY.

1           **RATE BASE**

2   **Q.   WHAT IS RATE BASE?**

3   A.   Rate base is the depreciated original cost of a utility's investment in plant a utility  
4       has in place to serve customers plus other additions and deductions that the  
5       Commission determines to be necessary in order to keep the utility operating and  
6       providing safe and reliable service to its customers.

7  
8   **Q.   HOW IS RATE BASE USED WITHIN THE RATEMAKING FORMULA?**

9   A.   Rate base is one part of the financial equation used by the Commission to  
10       determine the appropriate revenue that a utility is granted in a rate proceeding.  
11       The revenue determination allows the utility to meet its expense obligations and  
12       gives it the opportunity to earn the rate of return established by the Commission in  
13       a rate proceeding. The equation used to determine the proper revenue requirement  
14       level is:

15               Revenue Requirement = (Rate Base x Rate of Return) + Operating  
16               Expenses + Depreciation Expenses + Taxes.

17  
18   **Q.   HOW IS THE DEPRECIATED ORIGINAL COST OF PLANT-IN-**  
19       **SERVICE AT THE END OF THE TEST YEAR DETERMINED?**

20   A.   The depreciated original cost is equal to the original cost of the plant-in-service  
21       that is used and useful in the provision of utility service to the customers less the  
22       depreciation reserve as adjusted by other items such as salvage value and removal

1 costs. Before the passage of Act 11, the end of the FTY was the focal point used  
2 to calculate the depreciated original cost. With the addition of the FPFTY in Act  
3 11, the depreciated original cost of the plant in service is computed by taking a  
4 “snapshot” look at the depreciated original cost value of used and useful utility  
5 plant estimated to be in service at the end of the FPFTY.

6  
7 **Q. WHAT OTHER ADDITIONS AND DEDUCTIONS TO THE**  
8 **DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE**  
9 **ALLOWED?**

10 A. Some of the additions to the depreciated original cost of a company’s investment  
11 in utility include materials and supplies, gas in storage, prepayments, and cash  
12 working capital. Some of the deductions include deferred income taxes and  
13 customer deposits. Some additions are applicable to a specific utility or utility  
14 type. The FPFTY depreciated original cost claimed by the Company in this  
15 proceeding for the Peoples division is \$1,177,725,724 (Peoples Ex. No. 8, Sch.  
16 No. 2, p. 1, ln. 5), for the Equitable division \$1,006,641,787 (Peoples Ex. No. 8,  
17 Sch. No. 2, p. 2, ln. 5), and for the combined divisions \$2,187,366,795 (Peoples  
18 Ex. No. 8, Sch. No. 2, p. 3, ln. 5).

1 The claimed additions to the Company's depreciated original cost are as follows:

- 2 1. Materials and Supplies;
- 3 2. Prepayments;
- 4 3. Gas Stored Underground;

5 The deductions to the depreciated original cost are:

- 6 1. Deferred Income Taxes
- 7 2. Customer Advances;
- 8 3. Customer Deposits.

9

10 **Q. IS I&E RECOMMENDING ANY ADJUSTMENTS TO THE ADDITIONS**  
11 **AND DEDUCTIONS LISTED ABOVE?**

12 A. Yes, as described below changes have been made to the additions of Prepayments  
13 and Gas Stored Underground, however no changes were made to Materials and  
14 Supplies or either of the deductions.

15

16 **PREPAYMENTS**

17 **Q. WHAT IS THE COMPANY'S CLAIM FOR PREPAYMENTS?**

18 A. The Company's claims for prepayments are as follows; \$4,639,670 for the Peoples  
19 division FTY and FPFTY (Peoples Ex. No. 8, Sch. No. 2, p. 1, ln. 10), \$1,770,211  
20 for the Equitable division FTY and FPFTY (Peoples Ex. No. 8, Sch. No. 2, p. 2,  
21 ln. 10), and a combined divisions FTY and FPFTY amount of \$6,409,880 (Peoples  
22 Ex. No. 8, Sch. No. 2, p. 3, ln. 10).



1 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE COMPANY'S**  
2 **PREPAYMENTS CLAIM?**

3 A. Yes. Based on the calculation of the 13-month average of the most recent,  
4 existing data provided by the Company, I recommend an amount for the combined  
5 divisions prepayments of \$4,308,774 for both the FTY (I&E Ex. No. 5, Sch. 1,  
6 line 13) and FPFTY (I&E Ex. No. 5, Sch. 2, ln. 13). This represents a decrease of  
7 \$2,101,107 to the Company's total additions for the combined divisions FTY and  
8 FPFTY (\$6,409,880 - \$4,308,774) (I&E Ex. No. 5, Sch. 1 & 2, col. E, ln. 13).

9  
10 **Q. HOW DID YOU DETERMINE YOUR RECOMMENDED ADJUSTMENT**  
11 **TO THE COMPANY'S CLAIM FOR PREPAYMENTS?**

12 A. Based on the responses to I&E-RB-10 (I&E Ex. No. 5, Sch. 3, pp. 1-4) and using  
13 data from the Company's Exhibit Number 19, RR-17, p. 2, a 13-month average  
14 value for Prepayments was calculated (I&E Ex. No. 5, Sch. 4, col. F, ln. 14).

1           **GAS STORED UNDERGROUND**

2   **Q.    WHAT IS THE COMPANY’S CLAIM FOR GAS STORED**  
3           **UNDERGROUND?**

4   **A.    The Company’s claim for gas stored underground is outlined in the table below:**

<b>Division</b>	<b>Test Year</b>	<b>Company Gas Stored Underground</b>
Peoples	FTY	\$3,682,101
Peoples	FPFTY	\$13,272,445
Equitable	FTY	\$18,742,010
Equitable	FPFTY	\$17,843,381
Combined	FTY	\$22,424,111
Combined	FPFTY	\$31,115,826

5  
6           The values were taken from the following as submitted by the Company:

7           FTY for the Peoples division (Peoples Ex. No. 8, Sch. No. 2, p. 1, ln. 8),

8           FPFTY for the Peoples division (Peoples Ex. No. 8, Sch. No. 2, p. 1, ln. 8),

9           FTY for the Equitable division (Peoples Ex. No. 8, Sch. No. 2, p. 2, ln. 8),

10          FPFTY for the Equitable division (Peoples Ex. No. 8, Sch. No. 2, p. 2, ln. 8),

11          FTY for the combined divisions (Peoples Ex. No. 8, Sch. No. 2, p. 3, ln. 8), and

12          FPFTY for the combined divisions (Peoples Ex. No. 8, Sch. No. 2, p. 3, ln. 8).

1 **Q. ARE YOU RECOMMENDING A DIFFERENT LEVEL OF GAS STORED**  
2 **UNDERGROUND IN THE RATE BASE?**

3 A. Yes, I recommend the use of the most recent 13-month average for the Gas Stored  
4 Underground, as shown in the table below:

<b>Division</b>	<b>Test Year</b>	<b>I&amp;E Adjusted Gas Stored Underground</b>
Peoples	FTY, FPFTY	\$3,398,041
Equitable	FTY, FPFTY	\$17,111,119
Combined	FTY, FPFTY	\$20,739,930

5  
6 **Q. HOW WAS THE ADJUSTED AMOUNT LISTED IN THE TABLE ABOVE**  
7 **CALCUATED?**

8 A. In response to I&E-RB-8, the Company provided the most recent, existing data for  
9 Gas Stored Underground (I&E Ex. No. 5, Sch. 5). This data was used to calculate  
10 the 13-month average value (I&E Ex. No. 5, Sch. 6, ln. 14). The resulting decrease  
11 in the Gas Stored Underground between the Company's proposed values and the  
12 I&E adjusted values (I&E Ex. No. 5, Sch. 1 & 2 col. E, ln. 9, Sch. 7 & 8, col. E,

1           ln. 10 and Sch. 9 & 10 col. E, ln. 10) are outlined below:

<b>Division</b>	<b>Test Year</b>	<b>Company</b>	<b>I&amp;E</b>	<b>Adjustment</b>
Peoples	FTY	\$3,682,101	\$3,398,041	(\$284,060)
Peoples	FPFTY	\$13,272,445	\$3,398,041	(\$9,874,404)
Equitable	FTY	\$18,742,010	\$17,111,119	(\$1,630,891)
Equitable	FPFTY	\$17,843,381	\$17,111,119	(\$732,262)
Combined	FTY	\$22,424,111	\$20,739,930	(1,684,181)
Combined	FPFTY	\$31,115,826	\$20,739,930	(\$10,375,896)

2

3           **RATE BASE SUMMARY**

4           **Q.   WHAT AMOUNT OF ADDITIONAL RATE BASE WILL BE**  
5           **ASSOCIATED WITH THE INCLUSION OF THE FPFTY ENDING**  
6           **OCTOBER 31, 2020 FOR PEOPLES?**

7           A.   The Company's proposed rate base for the FPFTY ending October 31, 2020 is  
8           \$1,074,396,848 for the Peoples division (Peoples Ex. No. 8, Sch. No. 2, p. 1, ln.  
9           17), \$975,919,654 for the Equitable division (Peoples Ex. No. 8, Sch. No. 2, p. 2,  
10          ln. 17), and \$2,052,311,067 for the combined divisions (Peoples Ex. No. 8, Sch.  
11          No. 2, p. 3, ln. 17). The Company's rate base for the FTY ending September 30,  
12          2019 is \$958,550,340 for the Peoples division (Peoples Ex. No. 8, Sch. No. 2, p. 1,  
13          ln. 17), \$875,328,268 for the Equitable division (Peoples Ex. No. 8, Sch. No. 2, p.  
14          2, ln. 17), and \$1,834,625,711 for the combined divisions (Peoples Ex. No. 8, Sch.  
15          No. 2, p. 3, ln. 17).

1 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE COMPANY'S**  
2 **RATE BASE CLAIMS FOR THE FTY?**

3 A. Yes. The adjusted rate base amount for the FTY is shown in the table below (I&E  
4 Ex. No. 5, Sch. 1, 7 & 9, ln. 21). The adjusted values are based on the adjustments  
5 to the Prepayment amount and the Gas Stored Underground Claim previously  
6 discussed in my testimony.

<b>Division</b>	<b>Test Year</b>	<b>Company Claim</b>	<b>I&amp;E Adjusted</b>
Peoples	FTY	\$958,550,339	\$958,266,279
Equitable	FTY	\$875,328,269	\$873,697,378
Combined	FTY	\$1,834,625,711	\$1,830,841,133

7

8 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE COMPANY'S**  
9 **RATE BASE CLAIMS FOR THE FPFTY?**

10 A. Yes. The adjusted rate base amount for the FPFTY is shown in the table below  
11 (I&E Ex. No. 5, Sch. 2, 8 & 10, ln. 21). The adjusted values are based on the  
12 adjustments previously discussed in my testimony.

<b>Division</b>	<b>Test Year</b>	<b>Company Claim</b>	<b>I&amp;E Adjusted</b>
Peoples	FPFTY	\$1,074,396,847	\$1,064,522,443
Equitable	FPFTY	\$975,919,654	\$975,187,392
Combined	FPFTY	\$2,052,311,069	\$2,039,834,066

13

1            **REPORTING REQUIREMENTS**

2    **Q.    WHAT AMOUNT OF ADDITIONAL PLANT IN SERVICE WILL BE**  
3            **ASSOCIATED WITH THE INCLUSION OF FTY ENDING SEPTEMBER**  
4            **30, 2019 AND FPFTY ENDING OCTOBER 31, 2020 FOR THE**  
5            **COMPANY?**

6    **A.    The additional amount of plant in service for the proposed FTY is shown below:**

<b>Division</b>	<b>Company HTY</b>	<b>Company FTY</b>	<b>Change in Plant in Service</b>
<b>People's</b>	\$1,485,289,997	\$1,624,127,819	\$138,837,822
<b>Equitable</b>	\$1,225,725,751	\$1,341,926,059	\$116,200,308
<b>Combined</b>	\$2,711,015,748	\$2,966,053,878	\$255,038,130

7  
8            The additional amount of plant in service between the FTY and FPFTY is shown  
9            below:

<b>Division</b>	<b>Company FTY</b>	<b>Company FPFTY</b>	<b>Change in Plant in Service</b>
<b>People's</b>	\$1,624,127,819	\$1,772,914,418	\$148,786,599
<b>Equitable</b>	\$1,341,926,059	\$1,471,566,896	\$129,640,837
<b>Combined</b>	\$2,966,053,878	\$3,244,481,314	\$278,427,436

10  
11            The values in the table for the HTY, FTY and FPFTY were taken from the  
12            Company's submittal (Peoples Ex. No. 8, Sch. 2, pp. 1-3, ln. 3).

1 **Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT**  
2 **ADDITIONS THAT THE COMPANY PROJECTS TO BE IN SERVICE**  
3 **DURING THE FTY ENDING SEPTEMBER 30, 2019 AND THE FPFTY**  
4 **ENDING OCTOBER 31, 2020?**

5 A. Yes. I recommend that the Company provide the Commission's Bureaus of  
6 Technical Utility Services and Investigation and Enforcement with an update to  
7 Peoples Natural Gas Exhibit No. AC-1 (Peoples Statement No. 7, pp. 1-4) for both  
8 the Peoples and Equitable divisions no later than January 2, 2020, under this  
9 docket number, which should include actual capital expenditures, plant additions,  
10 and retirements by month for the twelve months ending October 31, 2019. An  
11 additional update should be provided for actuals through October 31, 2020, no  
12 later than February 1, 2021.

13  
14 **Q. WHY DO YOU RECOMMEND THAT PEOPLES PROVIDE THESE**  
15 **UPDATES?**

16 A. I&E believes that there is value in determining how closely Peoples projected  
17 investments in future facility comport with the actual investments that are made by  
18 the end of the FTY and FPFTY. Determining the correlation between Peoples  
19 projected and actual results will help inform the Commission and the parties in  
20 Peoples future rate cases.

21 The updates are important because, as previously explained, through the  
22 use of the FPFTY, Peoples is requiring ratepayers to pay a return on its projected

1 investment in future facilities that are not in place and providing service at the  
2 time the new rates take effect, but also are not subject to any guarantee of being  
3 completed and placed into service. While the FPFTY provides for such  
4 projections, there should be verification of the projections. Therefore, requiring  
5 the Company to provide updates demonstrating that actual investments comport  
6 with projections used in setting rates in the FPFTY provides the Commission with  
7 actual data to gauge the accuracy of Peoples projected investments in future  
8 proceedings.

9  
10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 **A. Yes.**



**HOLLY GILLILAND**

**PROFESSIONAL EXPERIENCE AND EDUCATION**

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**EXPERIENCE:**

01/2019 - 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.

06/2018 – 01/2019

**Regional Permit Coordination Office, Pennsylvania Department of Environmental Protection, Harrisburg Pennsylvania**

Civil Engineer Hydraulic – Review and approval of Pennsylvania Code Chapter 105 (Water Obstruction and Encroachment) and Chapter 102 (Post Construction Storm Water Management) permit applications for large, multi-county projects across the State.

09/2014 – 06/2018

**RAV Associates, Inc. Landisville, Pennsylvania**

Civil Engineer – Municipal engineering including stormwater compliance (MS4 program) and state permitting requirements.

01/2011 – 06/2014

**Bureau of Technical Utility Services, Rail Safety Division, Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania**

Civil Engineer General – review of applications to alter public highway/railroad crossings throughout the state.

06/2006 – 01/2011

**South-Central Regional Office, Pennsylvania Department of Environmental Protection Harrisburg, Pennsylvania**

Civil Engineer Hydraulic – Review and approval of Pennsylvania Code Chapter 105 (Water Obstruction and Encroachment) and Chapter 102 (Post Construction Storm Water

Management) permit applications for projects located within regional boundaries. Inspections of high-hazard Dams, and complaint investigations of stream and/or wetland encroachments.

06/2005 – 01/2006

**Rettew Associates, Inc. Lancaster, Pennsylvania**

Civil Engineer – Water/Wastewater system and conveyance design, Municipal plan reviews of sewer and water systems.

**EDUCATION:**

Wilkes University, Wilkes Barre, Pennsylvania  
Bachelor of Science; Major in Environmental Engineering, 2005

- Engineer in Training (EIT), License: ET007845, June 2005.

**TESTIMONY:**

I have assisted in the preparation of the following proceedings:

1. R-2019-3007612 - Peoples Division/R-2019-3007617-Equitable Division, 1307(f)
2. R-2019-3007613 - Philadelphia Gas Company, LLC
3. R-2018-3006814 - UGI Electric Utilities, Inc.

Pennsylvania Public Utility Commission

v.

Peoples Natural Gas Company LLC

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Docket No. R-2018-3006818

**VERIFICATION**

I, Holly Gilliland, 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)

  
\_\_\_\_\_  
Holly Gilliland

4/24/19  
\_\_\_\_\_  
Date