

**I&E Statement No. 1-SR
Witness: Christopher Keller**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PEOPLES NATURAL GAS COMPANY LLC

Docket No. R-2018-3006818

Surrebuttal Testimony

of

Christopher Keller

Bureau of Investigation and Enforcement

Concerning:

**OPERATING AND MAINTENANCE EXPENSES
CASH WORKING CAPITAL
MAIN EXTENSION TARIFF CHANGE PROPOSAL**

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

2 A. My name is Christopher Keller. My business address is Pennsylvania Public
3 Utility Commission, Commonwealth Keystone Building, 400 North Street,
4 Harrisburg, PA 17120.

5

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

7 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
8 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
9 Analyst.

10

11 **Q. ARE YOU THE SAME CHRISTOPHER KELLER WHO SUBMITTED**
12 **THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 1**
13 **AND I&E EXHIBIT NO. 1?**

14 A. Yes.

15

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

17 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of
18 Peoples Natural Gas Company (Peoples or Company) witnesses Joseph A.
19 Gregorini (Peoples Statement No. 2-R), Andrew P. Wachter (Peoples Statement
20 No. 3-R), Matthew D. Wesolosky, (Peoples Statement No. 4-R), and Eric
21 Petrichevich (Peoples Statement No. 8-R).

1 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

2 A. Yes. I&E Exhibit No. 1-SR contains schedules that support my surrebuttal
3 testimony. In this surrebuttal testimony, I will also make references to my direct
4 testimony and its accompanying exhibit (I&E Statement No. 1 and I&E Exhibit
5 No. 1).

6
7 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS AS CONTAINED IN**
8 **THIS SURREBUTTAL TESTIMONY.**

9 A. The following table summarizes my recommended adjustments to the Company's
10 updated position as claimed in Peoples Statement No. 3-R, p. 4.

	Company Claim in Rebuttal	I&E Updated Adjustment	I&E Updated Recommended Allowance
O&M Expenses:			
Rate Case Expense	\$1,194,500	(\$511,929)	\$682,571
Pension Expense	\$2,363,000	(\$1,810,000)	\$553,000
Corporate Insurance	\$3,476,740	(\$375,086)	\$3,101,654
Employee Expenses	\$2,931,384	(\$1,284,284)	\$1,647,100
Advertising Expense	\$3,133,755	(\$2,675,640)	\$458,115
Payment Processing	\$2,303,208	(\$944,749)	\$1,358,459
Total O&M Expense Adjustments		(\$7,601,688)	
Rate Base Adjustments:			
Cash Working Capital	\$34,974,480	(\$708,531)	\$34,265,949
Total Rate Base Adjustments		(\$708,531)	

11

SUMMARY OF I&E OVERALL UPDATED POSITION

Q. WHAT IS I&E’S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT?

A. I&E’s updated total recommended revenue requirement for the Company is \$713,097,000. This recommended revenue requirement represents an increase of \$46,078,000 to the Company’s claimed present rate revenues of \$667,019,000. This total recommended increase incorporates adjustments made in this testimony and those made in the testimonies of all other I&E witnesses.

The following table summarizes the I&E surrebuttal position:

Peoples Natural Gas Company LLC		TABLE I			
R-2018-3006818		INCOME		SUMMARY	
In Thousands					
	10/31/20	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	667,019	0	667,019	46,078	713,097
Deductions:					
O&M Expenses	462,709	-11,233	451,476	1,075	452,551
Depreciation	86,626	0	86,626		86,626
Taxes, Other	10,431	-160	10,271	0	10,271
Income Taxes:					
Current State	0	770	770	2,696	3,466
Current Federal	0	2,386	2,386	8,351	10,737
Deferred Taxes	12,445	0	12,445		12,445
ITC	0	0	0		0
Total Deductions	572,211	-8,237	563,974	12,122	576,096
Income Available	94,808	8,237	103,045	33,956	137,001
Measure of Value	2,052,116	-10,370	2,041,746	0	2,041,746
Rate of Return	4.62%		5.05%		6.71%

1 **RATE CASE EXPENSE**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR RATE CASE EXPENSE.**

4 A. In direct testimony, I recommended rate case expense be normalized over a period
5 of 42 months resulting in an annual expense of \$682,571 [(\$2,389,000 ÷ 42
6 months) x 12 months], or a reduction of \$511,929 (\$1,194,500 - \$682,571) to the
7 Company's claim. I disagreed with the Peoples' claimed two-year normalization
8 period, which was not supported by the its historic filing frequency (I&E
9 Statement No. 1, pp. 5-12).

10 Using Peoples' and Equitable's last three base rate case filing dates and the
11 date of the current filing, an average interval is computed to be 42 months [(83
12 mo. + 16 mo. + 28 mo.) ÷ 3 intervals). Peoples' requested 24-month recovery
13 period is unsupported by its historic filing record. Thus, its proposed two-year
14 normalization period should be rejected as it would result in an unreasonable and
15 unsupported increase in rates.

16
17 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR**
18 **RATE CASE EXPENSE?**

19 A. Yes. Company witness Andrew P. Wachter disagreed with my recommendation
20 that rate case expense be normalized over a 42-month period. Mr. Wachter states
21 that I ignored the stay-out period due to the settlement of the Company's
22 acquisition of Equitable Gas Company (Equitable). Mr. Wachter also states that

1 while the Company could have filed a base rate case sooner, the efficiencies
2 gained from the Equitable acquisition allowed the Company to stay out longer
3 than anticipated and that the Company's two year normalization period is the
4 estimated time for filing its next base rate case proceeding due to the Company's
5 long-term infrastructure improvement plan (LTIP). Finally, Mr. Wachter
6 disagrees that the cases I provided to support my position are relevant due to
7 Peoples' unique circumstances and that the UGI Utilities, Inc. – Electric Division
8 decision supports the Company's position (Peoples Statement No. 3-R, pp. 41-45).

9
10 **Q. DO YOU AGREE WITH MR. WACHTER'S RESPONSE THAT YOU**
11 **IGNORED THE STAY-OUT PERIOD AS A RESULT OF THE**
12 **ACQUISITION OF EQUITABLE?**

13 A. No. As stated in my direct testimony, when Peoples' and Equitable's rate case
14 histories were evaluated independently, Peoples and Equitable's historic rate case
15 filing frequencies would have exceeded my 42-month recommendation.
16 Equitable's most recent rate case was filed in June 2008, or approximately 10.5
17 years ago and approximately 5.5 years before the 2013 acquisition stay out period.
18 Peoples filed rate cases in 2012 and 2010, but its last base rate case prior to 2010
19 was filed in 1995 which does not support a 24-month normalization period (I&E
20 Statement No. 1, p. 9, Ins. 12-22). Additionally, as stated above, the Company did
21 not demonstrate the need to file a base rate case and it did not file a base rate case
22 until more than a year after the end of the stay out period due to efficiencies

1 gained from the Equitable acquisition. This point actually supports my
2 recommendation for a longer normalization period.

3
4 **Q. DO YOU AGREE WITH MR. WACHTER’S RESPONSE THAT DUE TO**
5 **THE EFFICIENCIES GAINED FROM THE EQUITABLE ACQUISITION**
6 **THE COMPANY WAS ABLE TO STAY OUT LONGER THAN**
7 **ANTICIPATED?**

8 A. Yes. However, the efficiencies gained from the Equitable acquisition demonstrate
9 there may not be a need to file more frequent base rate cases; especially not in two
10 years as proposed by the Company given both Peoples’ and Equitable’s base rate
11 case histories prior to the acquisition. Additionally, as stated in my direct
12 testimony, if Peoples were to file base rate cases with greater frequency now that
13 its stay out has expired, its normalization period will be shortened in future rate
14 proceedings (I&E Statement No. 1, p. 9, lns. 6-10).

15
16 **Q. DO YOU AGREE WITH MR. WACHTER’S RESPONSE THAT THE**
17 **TWO-YEAR NORMALIZATION BASED ON THE COMPANY’S LTIP IS**
18 **SUFFICIENT?**

19 A. No. As stated in my direct testimony, the Commission has cited the importance of
20 considering the involved utility’s history regarding the frequency of rate case
21 filings as an essential element in determining the normalized level of rate case
22 expense for ratemaking purposes (I&E Statement No. 1, p. 5, lns. 12-19). While

1 the Commission allows utilities to normalize this expense, it is not appropriate to
2 do so over a time period that is based on mere speculation of future filings or a
3 simple statement that the Company plans to file another rate case within two years
4 based on forecasted LTIP capital expenditures.

5 Additionally, as stated in my direct testimony, the 2012 PPL base rate case¹
6 actually demonstrates that the use of historic filing frequency is more reliable as
7 PPL was granted a 24-month normalization period, but it did not file its next base
8 rate case until March 31, 2015² which was 36 months after the 2012 base rate case
9 proceeding. In contrast, I&E's recommendation of 32-months based on historic
10 filing frequency was more accurate (I&E Statement No. 1, p. 10, lns. 1-12).

11
12 **Q. DO YOU AGREE WITH MR. WACHTER'S RESPONSE THAT THE**
13 **CASES YOU PROVIDED AS SUPPORT ARE NOT RELEVANT?**

14 A. No. The Commission has had a long-standing history of relying on historic filing
15 frequency. It was not until the 2012 PPL decision that the Commission deviated
16 from that practice, and I have explained in direct testimony why that case should
17 not be relied upon.

¹ PA PUC v. PPL Electric Utilities Corporation, Docket No. R-2012-2290597, pp. 47-48 (Order Entered December 28, 2012).

² PA PUC v. PPL Electric Utilities Corporation, Docket No. R-2015-2469275, p. 3 (Order Entered November 19, 2015).

1 **Q. SUMMARIZE MR. WACHTER’S RESPONSE THAT THE RECENT UGI**
2 **ELECTRIC DECISION SUPPORTS PEOPLES’ CLAIM IN THIS**
3 **PROCEEDING.**

4 A. Mr. Wachter opines that the cases I referenced in my direct testimony do not take
5 into account the unknown circumstances and facts of those companies and
6 references the recent UGI Electric proceeding in particular as the Commission
7 took into consideration the specific circumstances of UGI Electric (Peoples
8 Statement No. 3-R, p. 45, lns. 9-14).

9
10 **Q. DO YOU AGREE THAT THE UGI ELECTRIC CASE DECISION**
11 **SUPPORTS PEOPLES’ CLAIMED NORMALIZATION PERIOD IN THIS**
12 **PROCEEDING?**

13 A. Yes. While the Commission’s decision in the recent UGI Electric case supports
14 the Company’s claim, I believe the Commission did not consider all of the facts in
15 that proceeding. For example, the Commission relied upon a prior PPL decision
16 where what transpired after the PPL decision matched up more closely to I&E’s
17 recommended filing frequency in that proceeding, and not the Company’s claimed
18 filing interval.

19
20 **Q. PLEASE CONTINUE.**

21 A. As stated in my direct testimony, the Commission has historically stated that it
22 considers prudently incurred rate case expense as an ongoing expense, occurring at

1 irregular intervals, related to the rendering of utility service. The Commission has
2 also cited the importance of considering the involved utility's history regarding the
3 frequency of rate case filings as an essential element to determine the normalized
4 level of rate case expense for ratemaking purposes.

5 In response to PNG to I&E-II-1, the Company requested the Commission
6 citations that I relied upon for my recommendation for rate case expense (I&E
7 Exhibit No. 1-SR, Schedule 1). The response included six base rate cases and a
8 direct quote from the Commission's ratemaking guide citing the importance of
9 historic filing frequency for determining rate case expense.

10
11 **Q. WHAT RECENT COMMISSION DECISIONS DID YOU RELY UPON TO**
12 **SUPPORT YOUR RECOMMENDATION FOR A RATE CASE FILING**
13 **INTERVAL BASED ON HISTORIC FILING FREQUENCY?**

14 A. In my response to PNG to I&E-II-1 (I&E Exhibit No. 1-SR, Schedule 1), I
15 referenced base rate cases filed by Metropolitan Edison Company (Met-Ed),³ the
16 City of Lancaster,⁴ Borough of Quakertown,⁵ Delaware Sewer Company,⁶ and two
17 base rate cases that I discussed in my direct testimony, Emporium Water

³ PA PUC v. Metropolitan Edison Company, Docket No. R-00061367, p. 96 (Order Entered January 11, 2007).

⁴ PA PUC v. City of Lancaster - Bureau of Water, Docket No. R-2010-2179103, p. 38 (Order Entered July 14, 2011).

⁵ PA PUC v. Borough of Quakertown, Docket No. R-2011-2251181, p. 37 (Order Entered September 13, 2012).

⁶ PA PUC v. Delaware Sewer Company, Docket No. R-2014, pp. 33-34 (Order Entered July 30, 2015).

1 Company⁷ (I&E Statement No. 1, p. 10) and the City of DuBois⁸ (I&E Statement
2 No. 1, p. 11), where the Commission adopted either I&E's or the Office of
3 Consumer Advocate's (OCA's) recommendation based on historic filing
4 frequency.

5
6 **Q. PLEASE SUMMARIZE THE METROPOLITAN EDISON COMPANY**
7 **CASE.**

8 A. In the Met-Ed case, the Commission found in favor of I&E's recommended five-
9 year normalization period based on an historic average filing frequency. Met-Ed
10 argued that due to rate caps as a result of the Competition Act that reliance on base
11 rate case filing frequency was improper and that since the rate caps had expired,
12 Met-Ed would likely file more frequent base rate cases. The Commission rejected
13 these arguments and adopted I&E's recommendation based on Met-Ed's historic
14 filing frequency. The Order notes that even before the Competition Act that
15 prevented filings, Met-Ed had long gaps in its base rate case filings.⁹ Similar to
16 the Met-Ed case, Peoples also had long gaps in between filing base rate cases prior
17 to the stay-out period as a result of the acquisition of Equitable (I&E Statement
18 No. 1, p. 7, lns. 15-20).

⁷ PA PUC v. Emporium Water Company, Docket No. R-2014-2402324, p. 50 (Order Entered January 28, 2015).

⁸ PA PUC v. City of DuBois – Bureau of Water, Docket No. R-2016-2554150, pp. 65-66 (Order Entered March 28, 2017); PA PUC v. City of DuBois – Bureau of Water, Docket No. R-2016-2554150, p. 13 (Order Entered May 18, 2017).

⁹ PA PUC v. Metropolitan Edison Company, Docket No. R-00061367, pp. 94-96 (Order Entered January 11, 2007).

1 **Q. PLEASE SUMMARIZE THE CITY OF LANCASTER – BUREAU OF**
2 **WATER CASE.**

3 A. In the City of Lancaster – Bureau of Water (City) case, the Commission found in
4 favor of an average of I&E’s and the OCA’s normalization periods, which were
5 based on actual historic filing frequency. In this case, the City argued that its two-
6 year normalization period was needed due to capital projects which would require
7 more frequent filings. The Commission in its Order agreed with the ALJ’s
8 recommendation stating that basing rate case expense on historic filing frequency
9 is reasonable rather than agreeing with the City’s projection of potential future
10 filings.¹⁰

11
12 **Q. PLEASE SUMMARIZE THE BOROUGH OF QUAKERTOWN CASE.**

13 A. In the Borough of Quakertown (Quakertown) case, the Commission found in favor
14 of OCA’s recommended seven-year normalization period, which matched the
15 actual historic filing frequency. Quakertown argued that the total cost of its
16 treatment plant would be completed in 2013. The Commission, in its Order
17 agreeing with the ALJ’s recommendation based on historic filing frequency, states
18 that if Quakertown were to file another base rate case in a short period of time due
19 to its treatment plant project, the Commission would consider a short

¹⁰ PA PUC v. City of Lancaster - Bureau of Water, Docket No. R-2010-2179103, pp. 31-38 (Order Entered July 14, 2011).

1 normalization period in the future.¹¹ Similar to the Quakertown’s case, Peoples
2 argued that a short normalization period is needed based on its commitment to its
3 infrastructure replacement through its LTIP (Peoples Statement No. 3, p. 29, Ins.
4 8-13). My direct testimony aligns with the above Commission Order that if
5 Peoples were to file base rate cases more frequently that the normalization period
6 will be reduced in future filings (I&E Statement No. 1, p. 9, Ins. 6-8).

7
8 **Q. PLEASE SUMMARIZE THE DELAWARE SEWER CASE.**

9 A. In the Delaware Sewer Company (Delaware) case, the Commission found in favor
10 of OCA’s recommended six-year normalization period, which matched the actual
11 historic filing frequency. Delaware argued that its three-year normalization period
12 was needed because it would need more frequent base rate cases to prevent filings
13 that request a large increase in rates. The Commission in its Order agreed with the
14 ALJ’s recommendation stating that using an average filing frequency is precedent
15 when developing a rate case expense claim.¹²

¹¹ PA PUC v. Borough of Quakertown, Docket No. R-2011-2251181, pp. 34-37 (Order Entered September 13, 2012).

¹² PA PUC v. Delaware Sewer Company, Docket No. R-2014, pp. 30-34 (Order Entered July 30, 2015).

1 **Q. WHAT COMMISSION PUBLICATION DID YOU RELY UPON TO**
2 **SUPPORT YOUR RECOMMENDATION FOR A RATE CASE FILING**
3 **INTERVAL BASED ON HISTORIC FILING FREQUENCY?**

4 A. In response to PNG to I&E-II-1 (I&E Exhibit No. 1-SR, Schedule 1), I referenced
5 the Commission’s “*Before the Pennsylvania Public Utility Commission: A Guide*
6 *to Utility Ratemaking, 2018 Edition,*” by James H. Cawley and Norman J.
7 Kennard on page 112, where the Commission clearly states the importance of
8 basing rate case expense claims on historic filing frequency,

9 The Commission’s practice is to recognize all prudently-incurred
10 rate case expense and set a normalization period *based upon historic*
11 *filing frequency* [emphasis added].¹³ So, if Typical Utility’s history
12 in the 2018 filed case shows previous base case filings in 2013,
13 2008, and 2003, then the normalized rate case expense for a case
14 costing Typical Utility a total of \$100,000 would be \$20,000 per
15 year (\$100,000/5 years).¹⁴
16

17 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
18 **RATE CASE EXPENSE?**

19 A. No. I continue to recommend that rate case expense be normalized over 42
20 months as the Company’s historic filing frequency does not support the two-year
21 normalization period claimed by the Company (I&E Statement No. 1, pp. 5-12).

¹³ *City of Lancaster v. Pa. PUC*, 793 A.2d 978 (2002).

¹⁴ http://www.puc.pa.gov/General/publications_reports/pdf/Ratemaking_Guide2018.pdf, accessed May 7, 2019.

1 PENSION EXPENSE

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR PENSION EXPENSE?**

4 A. In direct testimony, I recommended the Company's pension expense allowance be
5 based on an accrual method rather than on a cash basis since the Company based
6 its pension expense claim in its prior base rate case on an accrual basis. My
7 recommendation maintains consistency in Peoples' pension allowance between
8 case for ratemaking purposes. The Company should not be allowed to switch
9 methods in order to maximize its revenue requirement (I&E Statement No. 1, pp.
10 12-15). This recommendation produced an allowance of \$553,000 or a reduction
11 of \$1,810,000 (\$2,363,000 - \$553,000) to the Company's claim.

12
13 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR**
14 **PENSION EXPENSE?**

15 A. Yes. Company witness Andrew P. Wachter responded to my pension expense
16 recommendation. Mr. Wachter states that the 2012 base rate case was a black box
17 settlement where the Company was required to make cash contributions for its
18 pension. Mr. Wachter continues by stating that the cash contribution method is an
19 acceptable and reasonable method in determining the pension expense claim. Mr.
20 Wachter states that the Company's contributions into its pension have exceeded its
21 expense (Peoples Statement No. 3-R, pp. 46-47).

1 **Q. DO YOU AGREE WITH MR. WACHTER'S RESPONSE THAT THE**
2 **COMPANY WAS REQUIRED TO MAKE CERTAIN CASH**
3 **CONTRIBUTIONS TO ITS PENSION IN THE 2012 BASE RATE CASE?**

4 A. Yes. The settlement term is as follows,¹⁵

5 The Settlement Rates include recovery of pension expense of
6 \$616,470 based upon a projected total pension cost of \$739,527.
7 Peoples commits to make pension contributions to its pension trusts
8 at least equal to the pension cost of \$739,527 for each calendar year
9 commencing January 1, 2013, during which rates set in this
10 proceeding remain in effect, as long as the expense component of the
11 contribution is tax deductible.
12

13 However, a settlement comes about by the various parties making compromises to
14 positions and I am advised by counsel that settlements are not considered
15 precedential for future cases. Additionally, as I stated in my direct testimony, the
16 Company acknowledges the use of the accrual method in a petition in 2013 to
17 establish a regulatory asset or liability for pension and other postretirement benefit
18 plans, and the Commission clearly stated in its Order that the Company is using
19 the accrual method for pension expense for ratemaking purposes (I&E Statement
20 No. 1, p. 14).

¹⁵ Docket No. R-2012-2285985, Settlement Agreement, paragraph 28.

1 **Q. DO YOU AGREE WITH MR. WACHTER’S RESPONSE THAT THE**
2 **CASH CONTRIBUTION METHOD IS AN ACCEPTABLE AND**
3 **REASONABLE METHOD?**

4 A. No. A cash contribution method can be an acceptable and reasonable method for
5 companies that have consistently used this method; however, as stated in my direct
6 testimony, the Commission has addressed the importance of consistency in the
7 methodology used in determining pension expense (I&E Statement No. 1, p. 15).
8 In the Company’s case, it was using the accrual method for determining its
9 pension expense for ratemaking purpose as shown in the Commission’s Order
10 noted above and is now attempting to switch to the cash contribution method
11 although the Commission has stated the importance of consistency for determining
12 pension expense.

13
14 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
15 **PENSION EXPENSE?**

16 A. No. I continue to recommend the Company’s pension expense allowance be based
17 on an accrual method rather than on a cash contribution method since Peoples
18 based its pension expense claim in its prior base rate case on an accrual method.
19 My recommendation maintains consistency in Peoples’ pension allowance
20 between case for ratemaking purposes. The Company should not be allowed to
21 switch methods in order to maximize its revenue requirement.

1 **OUTSIDE SERVICES – A&G**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR OUTSIDE SERVICES – A&G?**

4 A. In direct testimony, I recommended an allowance of \$9,028,913 for outside
5 services – A&G, or a reduction of \$325,914 (\$9,354,827 - \$9,028,913) to the
6 Company’s claim. My recommendation was based on applying the capitalization
7 percentage from the historic test year (HTY), since the HTY better reflects the
8 recent actual capitalization percentage for outside services – A&G (I&E Statement
9 No. 1, pp. 16-17).

10
11 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR**
12 **OUTSIDE SERVICES – A&G?**

13 A. Yes. Company witness Andrew P. Wachter accepted my recommendation to use
14 the HTY capitalization percentage in determining outside services – A&G
15 (Company Statement 3-R, p. 48).

16
17 **CORPORATE INSURANCE**

18 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
19 **FOR CORPORATE INSURANCE?**

20 A. In direct testimony, I recommended an allowance of \$3,101,654 for corporate
21 insurance, or a reduction of \$375,086 (\$3,476,740 - \$3,101,654) to the Company’s
22 claim. My recommendation was based on a three-year average of corporate

1 insurance expense since the Company failed to provide supporting documentation
2 for the 7.1% increase for the future test year (FTY) and fully projected future test
3 year (FPFTY), and corporate insurance has fluctuated significantly for the twelve
4 months ended September 30, 2016, September 30, 2017, and the HTY ended
5 September 30, 2018 (I&E Statement No. 1, pp. 18-20).

6
7 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR**
8 **CORPORATE INSURANCE?**

9 A. Yes. Company witness Andrew P. Wachter responded to my corporate insurance
10 recommendation. Mr. Wachter states the 7.1% increase for the FTY and FPFTY
11 represents the increase in premiums from 2017 invoice to the 2018 invoice. Mr.
12 Wachter opines that the 7.1% increase is the best indicator of future costs based on
13 its work with a third-party insurance broker and that historic fluctuations are
14 irrelevant in predicting future costs (Peoples Statement No. 3-R, pp. 24-26).

15
16 **Q. DO YOU AGREE WITH MR. WACHTER THAT THE INVOICES FROM**
17 **2017 AND 2018 ARE BETTER INDICATORS THAN HISTORIC COSTS IN**
18 **DETERMINING FUTURE COSTS?**

19 A. No. As stated in my direct testimony, the use of a three-year average is
20 appropriate and provides a more accurate estimate of expenses to be incurred for
21 corporate insurance as it allows for smoothing of historic highs and lows of actual
22 payments considering the Company's corporate insurance amount has fluctuated

1 significantly over the past three years. Additionally, when asked for supporting
2 documentation for the 7.1% increase, the Company simply provided a chart
3 showing the amount of insurance premiums for the 2017-2018 and 2018-2019
4 years with no actual supporting documentation (I&E Statement No. 1, pp. 19-20
5 and I&E Exhibit No. 1, Schedule 6).

6 When asked for a copy of the 2017 and 2018 invoices to support the 7.1%
7 increase (I&E Exhibit No. 1-SR, Schedule 2), the Company pointed to its response
8 to OCA-I-27 (I&E Exhibit No. 1, Schedule 6) and Peoples Exhibit No. 19, RR-22,
9 which was the chart I referenced above containing a breakdown of premiums for
10 2017-2018 and *projected* premiums for 2018-2019. Neither of these responses
11 provided the requested invoices.

12
13 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
14 **CORPORATE INSURANCE?**

15 A. No. I continue to recommend an allowance of \$3,101,654 for corporate insurance,
16 or a reduction of \$375,086 (\$3,476,740 - \$3,101,654) to the Company's claim
17 based on a three-year average, because the Company failed to provide supporting
18 documentation for the 7.1% increase for the FTY and the FPFTY, and corporate
19 insurance has fluctuated significantly for the last three years (I&E Statement No.
20 1, pp. 18-20).

1 **EMPLOYEE EXPENSES**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR EMPLOYEE EXPENSES?**

4 A. In direct testimony, I recommended an allowance of \$1,647,100 for employee
5 expenses, or a reduction of \$1,284,284 (\$2,931,384 - \$1,647,100) to the
6 Company’s claim. My recommendation was based on the removal of
7 entertainment expense that is not an operational cost necessary to provide safe and
8 reliable service to ratepayers (I&E Statement No. 1, pp. 20-21).

9
10 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR**
11 **EMPLOYEE EXPENSES?**

12 A. Yes. Company witness Andrew P. Wachter responded to my employee expense
13 recommendation. Mr. Wachter opines that the costs I removed in my
14 recommendation are an important part of Peoples’ employee recognition and
15 engagement program. Mr. Wachter cites a study where companies high in
16 engagement result in improved safety, higher customer satisfaction, lower
17 absenteeism, and higher productivity. Finally, Mr. Wachter cites a UGI proceeding
18 that approved what he opines are similar costs (Peoples Statement No. 3-R, pp. 26-
19 30).

1 **Q. WHAT IS YOUR RESPONSE TO MR. WACHTER’S COMMENTS?**

2 A. In the recent UGI proceeding the Commission distinguished employee activity
3 costs that may be recovered in rates as follows,

4 Based on the record evidence, we concur with the finding of the
5 ALJs that UGI’s annual picnic is an employee recognition event
6 which the utility may properly claim as an expense for inclusion in
7 the rate base. In *York Water*, the Commission granted the utility’s
8 expense claim for a company banquet but did not grant the utility’s
9 expense claim for a company picnic. The distinction made in *York*
10 *Water* between the company picnic and the company banquet, was
11 based upon the conclusion that the company picnic did not stand on
12 the same footing as the company banquet, since it involved no
13 element of employee recognition. Similarly, in *Columbia Water*, the
14 ALJ disallowed employee recognition expenses because the utility
15 did not provide specific information about the year-end banquet to
16 demonstrate that it qualifies as an employee recognition dinner.¹⁶
17

18 The Commission made a distinction that for employee expenses to be
19 recovered through rates, the Company must demonstrate that such expenses
20 qualify as employee recognition. Mr. Wachter opines that the amount for
21 entertainment expense represents tickets received as a result of advertising
22 partnerships with several sports teams and are for employee recognition (Peoples
23 Statement No. 3-R, p. 28, Ins. 19-23). I will address the issue of advertising
24 partnerships with sports teams later in my testimony.

25 However, Mr. Wachter does not provide specific information on how these
26 tickets, which are received as a result of their advertising partnership, qualify as
27 employee recognition as required for recovery in rates. It should be noted that the

¹⁶ Docket No. R-2017-2640058, pp. 70-71 (Order Entered October 25, 2018).

1 Company made a clear distinction in its breakdown for employee expenses for
2 Employee Recognition Programs – service awards and Flame Program expansion
3 of \$102,058 (I&E Exhibit No. 1, Schedule 7, p. 4), which I included in my
4 recommended allowance for employee expenses.

5
6 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
7 **EMPLOYEE EXPENSES?**

8 A. No. I continue to recommend an allowance of \$1,647,100 for employee expenses,
9 or a reduction of \$1,284,284 (\$2,931,384 - \$1,647,100) to the Company’s claim.

10 My recommendation is based on the removal of entertainment expenses as they
11 are not an operational cost necessary to provide safe and reliable service to
12 ratepayers. Furthermore, the Company failed to adequately demonstrate how the
13 tickets for sporting events qualify as employee recognition as the tickets are
14 received as a result of an advertising partnership with several sports teams.

15
16 **ADVERTISING EXPENSE**

17 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
18 **FOR ADVERTISING EXPENSE?**

19 A. In direct testimony, I recommended an allowance of \$458,115 for advertising
20 expense, or a reduction of \$2,675,640 (\$3,133,755 - \$458,115) to the Company’s
21 claim. My recommendation was based on the removal of advertising related to
22 sports partnerships and other event partnerships as these are more representative of

1 goodwill advertising, or promotional advertising, that would provide little (if any)
2 benefit to ratepayers. Additionally, if Peoples is spending money in an attempt to
3 benefit the overall community in some way, this is inappropriate since it becomes
4 more of a charitable contribution over which ratepayers have no say as to who
5 receives the money but yet the Company asks that they pay for these activities.
6 Finally, not all customers who attend sporting events at these venues are Peoples
7 ratepayers, and many Peoples ratepayers may never attend sporting events. So,
8 even if the Company is holding out these payments as safety and e-billing
9 promotions, there would be more effective and potentially less costly ways to
10 reach the ratepaying community. Therefore, ratepayers should not be required to
11 finance Peoples' decision to pay for such advertising (I&E Statement No. 1, pp.
12 22-24).

13
14 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR**
15 **ADVERTISING EXPENSE?**

16 A. Yes. Company witness Andrew P. Wachter responded to my advertising expense
17 recommendation. Mr. Wachter disagrees with my recommendation for removal of
18 advertising related to sports partnerships and other event partnerships. Mr.
19 Wachter opines that the sports partnerships and other event partnerships meets at
20 least one of the criteria in Section 1316(a) of the Public Utility Code. Mr. Wachter
21 opines that these costs are an important part of the Company's outreach program
22 and directly benefits customers. Finally, Mr. Wachter opines that these

1 advertisements provide a direct benefit to the community and their customers
2 (Peoples Statement No. 3-R, pp. 31-38).

3
4 **Q. DO YOU AGREE WITH MR. WACHTER’S RESPONSE THAT THE**
5 **ADVERTISING COSTS ASSOCIATED WITH SPORTS AND EVENT**
6 **PARTNERSHIPS ARE AN IMPORTANT PART OF THE COMPANY’S**
7 **OUTREACH PROGRAM AND DIRECTLY BENEFITS CUSTOMERS?**

8 A. No. Mr. Wachter states that the Company’s partnerships with major sports teams
9 directly benefits customers since the Company is able to share customer service
10 and safety messages to a large group of customers and the public via various forms
11 of advertising on topics such as e-billing, other safety information, to promote
12 “Call 811”, etc. (Company Statement 3-R, pp. 33-36). The Company provided a
13 supplemental response to OCA-I-34 (I&E Exhibit No. 1-SR, Schedule 3)
14 providing examples of advertising used with sports teams.

15 While I agree with Mr. Wachter that the type of advertising shown in
16 Peoples Exhibit No. APW-R-1 would possibly benefit ratepayers in providing safe
17 and reliable service, as I stated in my direct testimony, not all attendees at sporting
18 events are Peoples ratepayers, and many Peoples ratepayers may never attend
19 sporting events. Therefore, this advertising is not directly targeted to Peoples
20 ratepayers. So, even if the Company is holding out these payments as safety and
21 e-billing promotions, there are more effective and likely less costly ways to more
22 directly reach the ratepaying community (I&E Statement No. 1, p. 24, lns. 2-6).

1 **Q. HOW DOES MR. WACHTER JUSTIFY ADVERTISING THAT IS NOT**
2 **DIRECTLY TARGETED TO PEOPLES' RATEPAYERS?**

3 A. Mr. Wachter opines that while not all those in attendance are from the Company's
4 service territory, he notes that non-customers from other Pennsylvania utilities will
5 see the messages (Peoples Statement 3-R, p. 38, Ins. 1-11).

6
7 **Q. DO YOU AGREE WITH THIS RATIONALE?**

8 A. No. It is unreasonable for the Company to use ratepayer funds to provide this
9 information to other Pennsylvania utility customers, but, rather, it is the
10 responsibility of the other Pennsylvania utilities to provide this information to its
11 customers. Additionally, it is mere speculation that those attending these sporting
12 events will remember or pay attention to the Peoples' advertisements on topics
13 such as e-billing, other safety information, and "Call 811" messages during a
14 professional sports event.

15 Additionally, the Company's advertising with major sports teams goes
16 beyond the scope of providing information for safety and e-billing promotions.
17 For example, at Heinz Field, the stadium of the Pittsburgh Steelers, there is a large
18 Peoples logo at one of the end zones.¹⁷ The Company also offers discount tickets
19 to its customers that attend a game at PNC Park, the stadium of the Pittsburgh
20 Pirates. And, on August 16, 2019, Peoples is sponsoring a promotion where the

¹⁷ <https://heinzfield.com/>, accessed on May 31, 2019.

1 first 20,000 fans (not specifically Peoples' customers) will receive a "Free Shirt
2 Friday Clemente Bridge T-Shirt" presented by the Company.¹⁸ Finally, at PPG
3 Paints Arena, the stadium for the Pittsburgh Penguins, one of the gate entrances is
4 named after the Company with the Peoples logo at the Fifth Avenue and
5 Washington Place entrance.¹⁹ None of the above advertisements and promotions
6 offer any benefits in providing safe and reliable service to ratepayers and are not
7 an important part of the Company's outreach program that directly benefits
8 customers.

9

10 **Q. DO YOU AGREE WITH MR. WACHTER'S RESPONSE THAT THE**
11 **ADVERTISING COSTS ASSOCIATED WITH SPORTS AND EVENT**
12 **PARTNERSHIPS PROVIDE A DIRECT BENEFIT TO THE COMMUNITY**
13 **AND THEIR CUSTOMERS?**

14 A. No. Mr. Wachter opines that the Company's sponsorship with major sports teams
15 spurs economic growth and a positive community for Western Pennsylvania and
16 cites a 2018 study on the revenue generated by major sports teams in the City of
17 Pittsburgh. However, as stated in my direct testimony, if the Company is spending
18 money in an attempt to benefit the overall community in some way, it is more
19 representative of a charitable contribution. Ratepayers who are not sports fans
20 may not want a portion of their gas payment to go towards team sponsorships that

¹⁸ <https://www.mlb.com/pirates/tickets/specials/peoples-consumers>, accessed on May 31, 2019.

¹⁹ <http://www.ppgpaintsarena.com/ppg-paints-arena/entrance-gates>, accessed on May 31, 2019.

1 presumably benefit the overall community, and they have no option to remove the
2 portion of their bill that is allocated towards the Company's sponsorship of
3 professional sports teams.
4

5 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
6 **ADVERTISING EXPENSE?**

7 A. No. I continue to recommend an allowance of \$458,115 for advertising expense,
8 or a reduction of \$2,675,640 (\$3,133,755 - \$458,115) to the Company's claim for
9 all of the reasons discussed above.
10

11 **PAYMENT PROCESSING**

12 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
13 **FOR THE COMPANY'S PAYMENT PROCESSING PROPOSAL.**

14 A. In direct testimony, I recommended an allowance of \$1,358,459 for the fee-free
15 bank card acceptance proposal, or a reduction of \$944,749 (\$2,303,208 -
16 \$1,358,459) to the Company's claim. My recommendation was based on the
17 current quantity of payments by type of payment. The Company did not provide
18 documentation to support the claim that 31% of ratepayers will begin using debit
19 or credit card payment methods upon the effective date of new rates. Currently
20 only 11% of customers make payments via debit and credit cards. The Company
21 made its determination solely based upon an AITE Group paper that gas customers
22 make 31% of payments by debit and credit cards. While there may eventually be

1 increased usage of debit and credit cards due to the elimination of the transaction
2 fee, the Company did not support the assertion that usage will jump to 31% upon
3 the effective date of rates or at any time during the FPFTY (I&E Statement No. 1,
4 pp. 24-27).

5
6 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

7 A. Yes. Company witness Andrew P. Wachter responded to my recommendation.
8 Mr. Wachter disagrees with my recommendation to use the HTY percentage of
9 11% of customers making payments by debit and credit cards. Mr. Wachter opines
10 that customers are used to having credit and debit card payment options available
11 to them and will quickly change to paying their bill via debit and credit cards, and,
12 therefore, the AITE Group paper is appropriate and it is not unreasonable that
13 customers would reach this amount by the end of the FPFTY. Mr. Wachter
14 acknowledges that the Company does not have the experience to develop a fee-
15 free processing model and that the Company is unable to produce data specific to
16 Peoples to support its claim, which is the reason to base its claim on the AITE
17 Group paper. Mr. Wachter opines that the AITE Group paper is sufficient and
18 further study is not needed as the Company's customer base is broad and diverse
19 and it's reasonable that Peoples' customers will make payments consistent with the
20 AITE Group paper result of 31%. Finally, Mr. Wachter states that Duquesne Light
21 Company (Duquesne) based its claim on the AITE Group paper (Peoples
22 Statement No. 3-R, pp. 48-50).

1 **Q. DO YOU AGREE WITH MR. WACHTER'S RESPONSE THAT**
2 **CUSTOMERS WILL QUICKLY SWITCH TO PAYING VIA DEBIT AND**
3 **CREDIT CARDS AND THAT IT'S NOT UNREASONABLE THAT 31%**
4 **OF CUSTOMERS WILL PAY THROUGH THESE METHODS BY THE**
5 **END OF THE FPFTY?**

6 A. No. While I agree that there will likely be an increase in payment through debit
7 and credit cards, it's difficult to estimate the percentage increase. I disagree with
8 Mr. Wachter's assertion that 31% of customers will pay their bills via debit or
9 credit card by the end of the FPFTY as a result of removing the transaction fee.
10 As stated in my direct testimony, it is difficult to determine how long it will take
11 for that movement to occur (I&E Statement No. 1, pp. 26-27). There is no basis to
12 support an estimate that the number of customers who pay by debit or credit card
13 will nearly triple by the end of the FPFTY.

14
15 **Q. DO YOU AGREE WITH MR. WACHTER'S RESPONSE THAT THE AITE**
16 **GROUP PAPER IS SUFFICIENT AND FURTHER STUDY IS NOT**
17 **NEEDED BASED ON PEOPLES' BROAD CUSTOMER BASE?**

18 A. No. The issue with basing its claim on the AITE Group paper for the fee-free
19 bank card acceptance proposal is the study does not take into account that gas
20 companies in the study may have had a program similar to the fee-free bank card
21 acceptance proposal in place for several years, which would contribute to a rate of
22 31% of customers paying their gas bill with a debit or credit card. The AITE

1 Group paper does not provide information of those surveyed and whether the gas
2 companies charge a transaction fee to pay by debit or credit card. Finally, Mr.
3 Wachter even acknowledges in his testimony that the Company has no experience
4 in adopting a fee-free payment processing model and is basing its claim on a third-
5 party study (Peoples Statement No. 3-R, p. 49, lns. 19-22).

6
7 **Q. DO YOU AGREE WITH MR. WACHTER’S RESPONSE THAT**
8 **DUQUESNE LIGHT COMPANY BASED ITS CLAIM ON THE AITE**
9 **GROUP PAPER?**

10 A. No. Duquesne based its claim on its discussions with its vendor, Western Union,
11 and assumed a 30% increase as a result of the elimination of the transaction fee.²⁰
12 In further supporting Duquesne’s claim, Duquesne referenced feedback from
13 Western Union, “experiences reported by other utilities,” and four utility cases
14 where fee-free bank card programs were created.²¹ Nowhere in Duquesne’s
15 testimony or responses to interrogatories did Duquesne reference the AITE Group
16 paper as claimed by Mr. Wachter.

²⁰ Docket R-2018-3000124. Duquesne Statement No. 7, p. 17.

²¹ Docket R-2018-3000124. I&E Exhibit No. 1, Schedule 23.

1 **Q. DID I&E AGREE WITH DUQUESNE’S PROPOSAL FOR A 30%**
2 **GROWTH IN BANK CARD USAGE IN THE FIRST YEAR OF**
3 **IMPLEMENTATION?**

4 A. No. As the witness in the Duquesne proceeding, I recommended disallowance of
5 the costs for the fee-free bank card processing related to Duquesne’s projected
6 30% growth (R-2018-3000124 I&E Statement No. 1, p. 45)

7
8 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
9 **THE COMPANY’S PAYMENT PROCESSING PROPOSAL?**

10 A. No. I continue to recommend an allowance of \$1,358,459 for the Company’s
11 payment processing proposal, or a reduction of \$944,749 (\$2,303,208 -
12 \$1,358,459) to the Company’s claim. I continue to recommend that the payment
13 processing proposal be based on the its current quantity of payments by type of
14 payment. Currently only 11% of customers make payments via debit and credit
15 cards.

16
17 **CASH WORKING CAPITAL**

18 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
19 **FOR CASH WORKING CAPITAL (CWC)?**

20 A. In direct testimony, I recommended a total allowance of \$34,260,278 or a decrease
21 of \$909,367 (\$35,169,645 - \$34,260,278) to the Company’s claim (I&E Exhibit
22 No. 1, Schedule 12, p. 1). My recommendation was based on Peoples’ revisions to

1 its claim, my adjustments to O&M expenses, and the removal of uncollectible
2 accounts expense from the CWC calculation as companies should remove all non-
3 cash items such as uncollectibles and depreciation (I&E Statement No. 1, pp. 28-
4 32).

5
6 **Q. DID THE COMPANY SUBMIT REBUTTAL TESTIMONY IN RESPONSE**
7 **TO YOUR RECOMMENDATION FOR CASH WORKING CAPITAL?**

8 A. Yes. Company witness Eric Petrichevich accepted my recommendation to remove
9 uncollectible accounts expense as this is a non-cash item and should not be
10 included in the calculation for CWC (Peoples Statement No. 8-R, p. 3).

11
12 **Q. DID THE COMPANY PROVIDE AN UPDATE TO CWC?**

13 A. Yes. The Company's updated claim for CWC is \$34,974,480 (Peoples Exhibit
14 No. EJP-R-1), which reflects the Company's acceptance of my recommendation to
15 remove uncollectible accounts expense from the CWC calculation.

16
17 **Q. DID THE COMPANY UPDATE CWC TO INCLUDE UPDATES TO THE**
18 **ITS CLAIM FOR ANY OTHER O&M ITEMS?**

19 A. No. Mr. Petrichevich's updated claim for CWC does not include Peoples' updated
20 adjustments for Annual Performance Incentive Program (APIP) and incentive
21 compensation of \$42,525 and outside services – A&G of (\$325,914) (Peoples
22 Statement No. 3-R, p. 4).

1 In the Company's initial filing, its claim for payroll, which includes
2 APIP/incentive compensation, was \$73,635,995 (Peoples Exhibit No. EJP-1, p. 1).
3 This amount matches the Company's updated claim in response to I&E-RE-111
4 (I&E Exhibit No. 1-SR, Schedule 4) and the Company's updated claim in rebuttal
5 testimony (Company Exhibit EJP-R-1), which demonstrates that the Company did
6 not include the update for APIP/incentive compensation for CWC purposes.

7 In the Company's initial filing, the Company's claim for other O&M
8 expense which includes outside services – A&G was \$95,485,788 (Peoples
9 Exhibit No. EJP-1, p. 1). This amount matches the Company's updated claim in
10 response to I&E-RE-111 (I&E Exhibit No. 1-SR, Schedule 4) and the Company's
11 updated claim in rebuttal testimony (Peoples Exhibit No. EJP-R-1) once the
12 uncollectible accounts expense of \$12,017,436 which was removed by Mr.
13 Petrichevich was added back in for an amount of \$95,485,788 (\$83,468,352 +
14 \$12,017,436). This demonstrates that the Company did not include the acceptance
15 of I&E's recommended downward adjustment of \$325,914 for CWC purposes.
16

17 **Q. DO YOU HAVE AN UPDATE FOR I&E RECOMMENDED**

18 **ADJUSTMENTS TO O&M EXPENSES?**

19 A. Yes. As stated in direct testimony, all O&M expense adjustments that are cash-
20 based expense claims are included when determining the Company's overall CWC
21 requirement. Therefore, I have included cash-based O&M recommendations when
22 computing the overall recommended CWC allowance.

1 **Q. SUMMARIZE WHERE EACH OF THE RECOMMENDED O&M**
2 **EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC**
3 **COMPUTATIONS.**

4 A. Payroll - Expense Lag Days:

5 I accepted the Company's increase to APIP/incentive compensation of \$42,525
6 (Peoples Statement No. 3-R, p. 4) for CWC purposes, which is reflected as an
7 addition of \$5,670 (\$9,957,798 - \$9,952,128) to the Payroll Expense Lag Days
8 calculation (I&E Exhibit No. 1-SR, Schedule 5, p. 1).

9
10 Pension and Benefits - Expense Lag Days:

11 I recommended a reduction to pension expense of \$1,810,000, which is reflected
12 as a reduction of \$65,065 (\$787,453 - \$722,388) to the Pension and Benefits CWC
13 calculation (I&E Exhibit No. 1-SR, Schedule 5, p. 1).

14
15 Taxes Other Than Income Taxes - Expense Lag Days:

16 I&E witness Brenton Grab recommended a reduction to PURTA of \$160,159,
17 which is reflected as a reduction of \$13,923 (\$906,782 - \$892,859) to the Taxes
18 Other Than Income Taxes CWC calculation (I&E Exhibit No. 1-SR, Schedule 5,
19 p. 1).

1 Other O&M Expenses – Expense Lag Days:

2 The following recommended adjustments (I&E Statement No. 1-SR, p. 2 and I&E
3 Statement No. 3-SR) are reflected in the Other O&M Expenses, Expense Lag
4 Days calculation: rate case expense adjustment of \$511,929; outside services –
5 A&G adjustment of \$325,914 for CWC purposes; corporate insurance adjustment
6 of \$375,086; employee expenses adjustment of \$1,284,284; advertising expense
7 adjustment of \$2,675,640; payment processing adjustment of \$944,749; charitable
8 and civic contributions adjustment of \$2,851,402; and amortization of regulatory
9 liability – prior years’ excess deferred income taxes adjustment of \$779,826 for a
10 total downward adjustment of \$9,748,830 to total Other O&M Expenses, which is
11 reflected as a reduction of \$635,215 (\$5,438,634 - \$4,803,419) to the Other O&M
12 Expense CWC calculation. My calculation to determine the adjustment for the
13 Other O&M Expenses can be located at I&E Exhibit No. 1-SR, Schedule 5, p. 2.

14
15 Summary of I&E-Updated Recommended CWC Allowance:

16 **Q. BASED ON THE ABOVE TESTIMONY, WHAT IS YOUR UPDATED**
17 **RECOMMENDED ALLOWANCE FOR CWC?**

18 A. Based on reflecting all of I&E’s recommended adjustments as discussed above,
19 my updated recommendation for CWC is an allowance of \$34,265,949 or a
20 decrease of \$708,531 (\$34,974,480 - \$34,265,949) to the Company’s revised
21 claim (I&E Exhibit No. 1-SR, Schedule 5, p. 1).

1 **Q. IS YOUR UPDATED RECOMMENDATION FOR CWC A FINAL**
2 **RECOMMENDED ALLOWANCE?**

3 A. No. Similar to what I stated in direct testimony, all adjustments to the Company's
4 claims must be continually brought together in the Administrative Law Judge's
5 Recommended Decision and again in the Commission's Final Order. This
6 process, known as iteration, effectively prevents the determination of a precise
7 calculation until all adjustments have been made to the Company's claims.

8

9 **MAIN EXTENSION TARIFF CHANGE PROPOSAL**

10 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
11 **FOR THE MAIN EXTENSION TARIFF PROPOSAL.**

12 A. In direct testimony, I recommended allowing up to 100 feet of main line per
13 residential customer without needing to perform an economic analysis. I also
14 recommended a penalty of \$2,000 for customers that sign up for a line extension
15 but fail to convert to natural gas or make the required payments under Rider MLX.
16 My recommended 100 feet is consistent and fair to all of Peoples' companies and
17 affiliates to allow the same amount of free footage for a main line extension.
18 Additionally, my recommendation for the \$2,000 penalty was to deter residential
19 customers from signing up for a line extension, in order to stack the main line
20 extension footage for other residential customers who want to receive a line
21 extension at a reduced or no cost, and then do not convert their home to natural

1 gas once the main line extension is complete or fail to make the payments under
2 Rider MLX (I&E Statement No. 1, pp. 33-35).

3
4 **Q. DID ANY WITNESSES RESPOND TO YOUR RECOMMENDATION FOR**
5 **THE MAIN EXTENSION TARIFF CHANGE PROPOSAL?**

6 A. Yes. Company witness Joseph A. Gregorini responded to my main extension tariff
7 change proposal recommendation. Mr. Gregorini states that it is more appropriate
8 to base the amount of free footage on gas companies in western Pennsylvania and
9 notes specifically, Columbia Gas of Pennsylvania, Inc. (Columbia Gas), and that
10 Peoples proposal does not create any subsidies (Peoples Statement No. 2-R, p. 5).

11 Mr. Gregorini continues by disagreeing with my proposal of a \$2,000
12 penalty for those that sign up for a line extension but fail to convert to natural gas
13 or make the required payments under Rider MLX. Mr. Gregorini notes that less
14 customers will sign up for the line extension if there is a possibility of penalty due
15 to unforeseen circumstances such as financial or health issues.

16 Finally, Mr. Gregorini states that such a penalty is not necessary as Rider
17 MLX is designed with the possibility that some customers may not complete the
18 conversion to gas in a timely fashion. Thus, he states that the Rider MLX delivery
19 table is structured to provide flexibility based on the cost and number of potential
20 customers where the customers that have already converted to gas will pay the
21 Rider MLX for a longer period of time until revenues adequately cover the project,
22 and as other customers convert, they will then be moved to a lower Rider MLX

1 delivery rate or residential delivery rate which eliminates the need for a penalty
2 (Peoples Statement No. 2-R, pp. 5-6).

3
4 **Q. DO YOU ACCEPT MR. GREGORINI'S ASSERTION THAT THE FREE**
5 **FOOTAGE SHOULD BE BASED ON GAS COMPANIES IN WESTERN**
6 **PENNSYLVANIA RATHER THAN THE COMPANY'S AFFILIATES?**

7 A. Yes. Upon further review, I accept Mr. Gregorini's argument that the 150 feet of
8 free footage should be consistent with other gas companies in western
9 Pennsylvania. Therefore, I am removing my recommendation to reduce the
10 amount of free main extension line footage from 150 feet to 100 feet.

11
12 **Q. DO YOU AGREE WITH MR. GREGORINI'S RESPONSE THAT**
13 **CUSTOMERS WILL BE LESS LIKELY TO SIGN UP FOR A LINE**
14 **EXTENSION IF THERE IS A POSSIBILITY OF A PENALTY DUE TO**
15 **UNFORESEEN CIRCUMSTANCES?**

16 A. No. Mr. Gregorini states that the Company will not allow customers to sign up for
17 a line extension if they do not have full intentions to complete the line extension
18 (Peoples Statement No. 2-R, p. 5, lns. 17-18). However, there is no definitive way
19 for the Company to determine if a customer has true intentions of converting to
20 natural gas or making payments under Rider MLX. As stated in my direct
21 testimony, my recommendation is to prevent customers from signing up for a line

1 extension with no intention of taking service in order to stack the main line
2 footage to benefit others (I&E Statement No. 1, p. 35).

3 I do agree there are situations where a customer may be unable to make the
4 required payment or convert to natural gas due to unforeseen circumstances such
5 as financial and health issues as pointed out by Mr. Gregorini (Peoples Statement
6 No. 2-R, p. 5). To address this issue, I recommend that the Company include
7 language in the line extension contract that the penalty can be waived if the
8 customer demonstrates they are unable to make the conversion to due to specific
9 unforeseen circumstances such as those pointed out by Mr. Gregorini.

10
11 **Q. DO YOU AGREE WITH MR. GREGORINI'S RESPONSE THAT THE**
12 **PENALTY IS NOT NECESSARY AS RIDER MLX IS DESIGNED WITH**
13 **THE POSSIBILITY THAT SOME CUSTOMERS MAY NOT CONVERT**
14 **TO GAS IN A TIMELY FASHION?**

15 A. No. My recommendation to have a penalty in place is to deter customers from
16 trying to "play the system" in order to help other residential customers receive a
17 line extension for little or no cost. There is no assurance that a particular
18 extension will even have an uneconomic share necessary with the stacked
19 extension footage, in which case there would be no Rider MLX payment to
20 extend, and existing ratepayers would be left to subsidize the new extension. As
21 stated above, I acknowledge that some customers may not be able to make the
22 conversion to natural gas due to unforeseen circumstances, but the Company

1 should make every effort possible to deter the opportunity for the free extension
2 offer to be manipulated for individual gain, and the penalty provision that I
3 recommend would assist them in doing so.
4

5 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
6 **THE MAIN EXTENSION TARIFF CHANGE PROPOSAL?**

7 A. Yes. I am withdrawing my recommendation to reduce the free extension footage
8 from 150 feet to 100 feet. However, I continue to recommend a penalty of \$2,000
9 for customers that sign up for a line extension but fail to convert to natural gas or
10 make the required payments under Rider MLX. I agree that it is reasonable to
11 permit waiver of the penalty in the event of specific unforeseen circumstances
12 preventing the customer's ability to convert, and the Company can include that
13 caveat in its contract language for main line extensions wherein the customer is
14 advised of the penalty to be assessed if the customer does not convert their home
15 to natural gas once the main line extension is complete or for failure to make the
16 payments under Rider MLX.
17

18 **INCOME TAXES**

19 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
20 **FOR INCOME TAXES.**

21 A. In direct testimony, I did not testify on the topic of income taxes. However, I did
22 prepare I&E's overall position table which includes I&E's recommended

1 adjustments for income taxes. My recommendation was based on my adjustments
2 made in my direct testimony to O&M expenses and cash working capital and
3 those recommended adjustments made in the testimonies of I&E witnesses
4 Christopher Henkel (I&E Statement No. 2), Brenton Grab (I&E Statement No. 3),
5 Ethan Cline (I&E Statement No. 4), and Holly Gilliland (I&E Statement No. 5)
6 (I&E Statement No. 1, pp. 3-4).

7
8 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

9 A. Yes. Company witness Matthew D. Wesolosky responded to I&E's overall
10 recommendation. In particular, Mr. Wesolosky addresses I&E's modification to
11 income taxes (Company Statement No. 4-R, pp. 5-9).

12
13 **Q. DO YOU HAVE ANY COMMENTS CONCERNING I&E'S INCOME TAX
14 ADJUSTMENTS?**

15 A. No. I&E witness Brenton Grab will be addressing Mr. Wesolosky's comments
16 concerning I&E's income tax adjustments in I&E Statement No. 3-SR.

17
18 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

19 A. Yes.