

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PEOPLES NATURAL GAS COMPANY LLC

Docket No. R-2018-3006818

Surrebuttal 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. ARE YOU THIS SAME ETHAN H. CLINE THAT SUBMITTED DIRECT**
7 **TESTIMONY IN THIS CASE ON APRIL 29, 2019?**

8 A. Yes. I submitted Bureau of Investigation and Enforcement (“I&E”) Statement No.
9 4 and I&E Exhibit No. 4 on April 29, 2019.

10
11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
13 submitted on behalf of Peoples Natural Gas Company LLC (“Peoples” or
14 “Company”) by Russell A. Feingold (Peoples St. No. 11-R) and Carol A. Scanlon
15 (Peoples St. No. 5-R). I will also address the rebuttal testimony submitted on
16 behalf of the Pennsylvania Office of Small Business Advocate (“OSBA”) by
17 witness Robert D. Knecht (OSBA Statement No. 1-R) and the rebuttal testimony
18 submitted on behalf of the Peoples Industrial Intervenors (“PII”) by James L.
19 Crist, P. E. (PII St. No. 1-R). My surrebuttal testimony specifically addresses the
20 issues of discount rate customers, cost of service study, proposed revenue, and
21 scale back of rates.

1 **DISCOUNT RATE CUSTOMERS**

2 **Q. WHAT DID YOU RECOMMEND CONCERNING THE DISCOUNT RATE**
3 **CUSTOMERS?**

4 A. I recommended that, for any discount rate customers that have not had their
5 competitive alternatives verified for longer than five years at the time of the
6 Company's next base rate case, the Company provide a competitive alternative
7 analysis for each of those customers and justify the customers' discount rates as part
8 of its filing in the next base rate case. Further, I recommend that the Commission
9 order the Company to provide a competitive alternative analysis for each discount
10 rate customer that has not been verified within five years of each of Peoples'
11 prospective base rate cases in perpetuity. (I&E St. No. 4, p. 4).

12
13 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

14 A. Yes. First, the Company indicated that it provided each of its negotiated contracts in
15 its HIGHLY CONFIDENTIAL responses to Office of Consumer Advocate ("OCA")
16 OCA-IV-5, OCA-IV-6, and OSBA-II-3. Witness Scanlon also agreed to provide the
17 alternative fuel verifications under certain circumstances. (Peoples St. No. 5-R, pp.
18 3-4).

1 **Q. IS THE INFORMATION PROVIDED IN THE HIGHLY CONFIDENTIAL**
2 **DATA REQUESTS RESPONSIVE TO YOUR DIRECT TESTIMONY?**

3 A. Yes. The responses provided by the Company included the dates the contracts were
4 enacted. As I stated on page 3 of I&E Statement No. 4, the Company indicated that
5 it verifies the alternative supply of the discount customer at the time a contract is
6 initiated or renewed.

7

8 **Q. DOES THE FACT THAT THE COMPANY HAD PROVIDED THIS**
9 **INFORMATION CHANGE YOUR RECOMMENDATION?**

10 A. No. I have updated the schedule provided by the Company in its HIGHLY
11 CONFIDENTIAL response to I&E-RS-9-D, which was attached as an exhibit to my
12 direct testimony as HIGHLY CONFIDENTIAL Exhibit No. 4, Schedule 1, p. 2 of 2,
13 with the contract information discussed by the Company on page 3 of Peoples
14 Statement No. 5-R. This updated schedule, included as HIGHLY CONFIDENTIAL
15 I&E Exhibit No. 4-SR, Schedule 1, shows that several of the Company's discounted
16 rate customers have not had their fuel alternatives verified in over five years, which
17 would require verification prior to the Company's next base rate case, based on my
18 recommendation.

19

20 **Q. DID THE COMPANY ACCEPT YOUR RECOMMENDATION?**

21 A. Peoples witness Scanlon stated that the Company accepted my recommendation in
22 principle but added some clarification (Peoples St. No. 5-R, p. 3). Specifically, the

1 Company interpreted my recommendation, in its clarification, to mean that
2 competitive discount analyses should occur on a five-year schedule regardless of
3 when the contracts are signed or renewed. For contracts with a two-year renewal
4 cycle, the Company is proposing to use one competitive alternative analysis for the
5 same customer for the subsequent five years. The Company is also proposing that
6 for contracts with negotiated time period of longer than six years, a new competitive
7 alternative verification would not be performed unless the contract is newly written
8 or renewed after the fifth year. (Peoples St. No. 5-R, pp. 3-4).

9
10 **Q. DO YOU AGREE WITH THE COMPANY'S CLARIFICATION?**

11 A. No. It was not the intent of my recommendation to allow the Company to sign or
12 renew discounted rate contracts without performing a competitive alternative
13 analysis at the time the new or renewed contract went into effect; it appears the
14 Company has misinterpreted this. The intent of my analysis was for the Company to
15 perform a new competitive alternative verification for its longer-term contracts that
16 may not have had a verification performed in the five years prior to a base rate case.
17 The Company should continue its policy of performing a competitive alternative
18 analysis at the time any contract is signed or renewed, regardless of when an analysis
19 was performed previously.

1 **Q. WHAT WAS THE INTENT OF YOUR RECOMMENDATION?**

2 A. The intent of my recommendation was to ensure that the Company, in all of its
3 prospective base rate cases, provide a competitive alternative analysis for any
4 customer receiving service under discounted rates that had not had its alternative
5 verified within the five years prior to that base rate case.

6
7 **Q. WHY IS IT IMPORTANT FOR THE COMPANY TO PROVIDE UPDATES**
8 **TO ITS COMPETITIVE ALTERNATIVE VERIFICATIONS?**

9 A. As I discussed on page 6 of I&E Statement No. 4, “[i]t is important to periodically
10 analyze competitive alternatives to ensure that the rates charged to these discount
11 rate customers result in the maximum possible contribution to fixed costs. Also, this
12 analysis should be completed so that the rates are not discounted lower than would
13 be necessary to prevent the customer from choosing the alternative supply.
14 Providing excessive discounts to customers would be harmful to both the Company
15 and its customers as the Company’s other customers make up the lost revenue that
16 results when discount rate customers pay less than tariff rates.”

17 The current methodology allows for any loss in revenue generated by
18 discounted customers paying less than tariff rates to be recovered from other
19 customers. The risk of a customer receiving improperly discounted rates is reduced
20 if its alternative is verified on a regular basis. Thus, it is less likely that other
21 customers would be responsible for the revenue shortfall generated by improperly
22 discounted rates. If it is identified that the Company provides excessively discounted

1 rates through this process, it would be reasonable for the Company to assume some
2 risk for the revenue shortfall generated by discount rate customers. This is
3 particularly true for longer-term contracts that may no longer have a viable
4 competitive alternative five or more years after the contract was enacted. My
5 recommendation would allow the parties to present an informed discussion to the
6 Commission for its consideration in future base rate cases.

7
8 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.**

9 A. I recommend that the Commission reject the Company's clarified, five-year
10 verification cycle and continue to recommend that, for any discount rate customers
11 that have not had their competitive alternatives verified for longer than five years at
12 the time of the Company's next base rate case, the Company provide a competitive
13 alternative analysis for each of those customers and justify the customers' discount
14 rates as part of its filing in the next base rate case.

15
16 **COST OF SERVICE**

17 **Q. WHAT COST OF SERVICE ALLOCATION METHODOLOGY DID YOU**
18 **RECOMMEND THE COMMISSION USE TO ALLOCATE THE**
19 **REVENUE INCREASES AMONG THE DIFFERENT CUSTOMER**
20 **CLASSES IN THIS PROCEEDING?**

21 A. I recommended the Commission base its recommended allocation on the peak and
22 average cost of service ("COS") study that does not allocate the cost of mains on a

1 customer basis as provided by the Company in Peoples Volume 4, Exhibit No. IV,
2 Section 53.53 (IV-B-1(B)) and 53.53 (IV-B-1(D)) to allocate the final revenue
3 increases among the different customer classes (I&E St. No. 4, p. 15).

4
5 **Q. HOW DID THE PARTIES RESPOND TO YOUR RECOMMENDATION?**

6 A. PNG witness Feingold, PII witness Crist, and OSBA witness Kalcic each
7 disagreed with my recommendation.

8
9 **Q. PLEASE ADDRESS MR. FEINGOLD'S OPINION ON PAGES 10-12 OF**
10 **PEOPLES STATEMENT NO. 11-R THAT A BIAS TOWARDS A**
11 **CERTAIN COST OF SERVICE STUDY METHODOLOGY CAN EXIST**
12 **FOR WITNESSES WHO ADVOCATE FOR CERTAIN RATE CLASSES.**

13 A. I do not disagree with witness Feingold's opinion on this matter regarding
14 witnesses who advocate for specific rate classes. However, I vehemently disagree
15 that my recommendation is due to any kind of bias. As I stated on page 1 of I&E
16 Statement No. 4, "I&E is responsible for protecting the public interest in
17 proceedings before the Commission. The I&E analysis in the proceeding is based
18 on its responsibility to represent the public interest. This responsibility requires
19 the balancing of the interests of ratepayers, the regulated utility, and the regulated
20 community as a whole." Therefore, my testimony is not advocating for any
21 specific rate class or for customers of the Company. As I discussed in my direct
22 testimony and below, I recommended the Peak and Average cost of service

1 methodology because it is reasonable, supported by Commission precedent, and is
2 fair, and not due to any perceived bias.

3
4 **Q. WHY DID MR. FEINGOLD DISAGREE WITH YOUR**
5 **RECOMMENDATION?**

6 A. As Mr. Feingold described broadly on page 30 of Peoples Statement No. 11-R, he
7 believes that the use of a peak and average demand allocation method without a
8 customer cost component of distribution mains as the sole basis for cost allocation
9 fails to reflect the cost causative characteristics that are representative of the
10 design and operations of a gas utility's distribution system. Or, more simply, Mr.
11 Feingold prefers to allocate costs and revenues using the design day allocation
12 methodology, which he states is based on how the Company designs and
13 constructs its gas system (Peoples St. No. 11-R, p. 20), versus the Peak and
14 Average allocation methodology, which is based on how the system is used by
15 customers, as I recommend.

16
17 **Q. PLEASE DESCRIBE THE DIFFERENCE BETWEEN DESIGN DAY AND**
18 **PEAK PERIODS.**

19 A. The Company's design day is the calculation of the amount of gas that could be
20 used by the system on a worst-case scenario cold day. It should be noted that it is
21 common for a natural gas distribution company ("NGDC") to go through entire
22 winter periods without its usage reaching the design day usage level. The peak, on

1 the other hand, is the period of maximum usage experienced by a rate class during
2 a certain time period. The peak periods can occur at different times during a day
3 for each rate class. As an example, the peak periods for a residential customer on
4 a normal day would generally occur in the mornings and evenings when the
5 residents are at home, however the peak period for a business would be during the
6 day when the businesses are open. Therefore, even if the Company experiences a
7 record cold day in which businesses are closed and residents are at home, all of its
8 rate classes would likely not be using their maximum usage levels at the same
9 time, and, as such, it is reasonable to determine the allocations of costs and
10 revenues based on a peak and average methodology.

11
12 **Q. WHAT EXAMPLE DID YOU USE IN YOUR DIRECT TESTIMONY TO**
13 **SUPPORT YOUR RECOMMENDATION OF THE PEAK AND AVERAGE**
14 **METHODOLOGY OVER THE DESIGN DAY METHODOLOGY?**

15 A. On page 14 of I&E Statement No. 4, I stated that the average demand portion of
16 the peak and average methodology refers to the fact that customers are not only
17 served during their peak time and that gas must be available at all times. I used
18 the example of a single street with a main sized to deliver 10 Dth. The size of the
19 main would remain the same if it served ten residential customers using one Dth
20 each, four residential customers and one small business using two Dth each, or one
21 larger business using 10 Dth. I used this example to illustrate the fact that number
22 of customers has no bearing on the size or cost of the main in this example.

1 **Q. HOW DID THE PARTIES RESPOND TO YOUR EXAMPLE?**

2 A. PII witness Crist stated that the premise of my example was flawed because it did
3 not introduce the time period that the 10 Dth will be delivered (PII St. No. 1-R, p.
4 14). Mr. Feingold disagreed with my example and stated that “the customer
5 component of distribution mains is premised upon the concept of a ‘minimum
6 system.’” (Peoples St. No. 11-R, p. 22).

7

8 **Q. IS MR. CRIST’S CRITICISM OF YOUR EXAMPLE VALID?**

9 A. No. Mr. Crist’s criticism is not valid because, while not explicitly stated, the
10 assumption in my example is that all of the customers would be using gas at the
11 same time period and thus, the time period would cancel out. For example, if ten
12 residential customers were using 10 Dth per day and one industrial customer were
13 using 10 Dth per day, the sizing of the main would be the same: 10 Dth per day.

14

15 **Q. DO YOU AGREE THAT THE CONCEPT OF A MINIMUM SYSTEM**
16 **SHOULD BE USED TO ALLOCATE THE COST OF MAINS?**

17 A. No. As I stated on page 17 of I&E Statement No. 4 that “[t]he Commission also
18 reaffirmed in the 2006 PPL Gas Utilities base rate case that the cost of mains
19 should be allocated on a combination of throughput and demand, and therefore not
20 allocated to the customer function. In that case, Administrative Law Judge Jones
21 noted that “the Commission has rejected minimum and zero-intercept system
22 methods as inconsistent with causation.” (PPL Gas Utilities, Docket No. R-

1 00061398, Order entered February 8, 2007).” It is not reasonable to allocate
2 mains using a methodology that the Commission has already rejected.

3
4 **Q. DID YOU CITE TO OTHER COMMISSION ORDERS TO SUPPORT**
5 **YOUR RECOMMENDATION OF THE PEAK AND AVERAGE**
6 **ALLOCATION METHODOLOGY?**

7 A. Pages 15-19 of I&E Statement No. 4 includes the discussion of the seven
8 Commission Orders that support my recommended use of the Peak and Average
9 allocation methodology, as follows;

- 10 • Pa. P.U.C. v. National Fuel Gas Distribution Co., 83 Pa. PUC 262 (1994);
- 11 • Philadelphia Gas Works (PGW) 2007 base rate proceeding at Docket No.
12 R-00061931, Order entered September 28, 2007;
- 13 • 1994 Opinion and Order in the Pennsylvania American Water Company
14 case at Docket No. R-00932670, Order entered July 26, 1994;
- 15 • PPL Gas Utilities, Docket No. R-00061398, Order entered February 8,
16 2007;
- 17 • 1984 Columbia Gas of Pennsylvania, Docket No. R-832393 (attached as
18 part of I&E Ex. No. 4, Sch. 3);
- 19 • 1986 Peoples, Docket No. R-850270 (attached as part of I&E Ex. No. 4,
20 Sch. 3); and

- 1 • 1987 North Penn, Docket No. R-860535 (attached as part of I&E Ex. No. 4,
2 Sch. 3).

3
4 **Q. HOW DID MR. FEINGOLD RESPOND TO THE COMMISSION**
5 **PRECEDENT YOU PROVIDED IN YOUR DIRECT TESTIMONY?**

6 A. On pages 30-34 of Peoples Statement No. 11-R, Mr. Feingold provides
7 Commission orders that support the design day cost allocation methodology for
8 electric distribution companies (“EDC”). He then attempts to explain why
9 NGDCs and EDCs are functionally the same. Mr. Feingold also questioned the
10 validity of the Commission orders that I presented based on their age (Peoples St.
11 No. 11-R, p. 30).

12
13 **Q. DO YOU AGREE THAT NGDCs AND EDCs ARE FUNCTIONALLY THE**
14 **SAME AS MR. FEINGOLD SUGGESTS?**

15 A. There are distinct differences between electric distribution companies and natural
16 gas distribution companies. These differences include the fact that electric
17 distribution cost of service studies use customer and demand allocators, while gas
18 and water companies also use volumes as an allocator; additionally, there are
19 differences as it relates to geographical and customer density characteristics. PPL,
20 for example, is largely rural in nature and is required to run distribution lines along
21 every public road and also provide service to virtually every residence and
22 business within its service territory. The same is not true for natural gas

1 distribution companies that do not have this same service requirement. NGDCs
2 have the option of not performing main extensions to certain customers if it
3 determines that serving that customer is not economically viable. Therefore, it is
4 not reasonable to reverse Commission precedent from NGDCs in favor of cases
5 from EDCs.

6
7 **Q. PLEASE ADDRESS MR. FEINGOLD'S CONCERNS REGARDING THE**
8 **AGE OF THE COMMISSION ORDERS YOU REFERENCED.**

9 A. As I stated on page 18 of I&E Statement No. 4 that the "Company's response to
10 OSBA-I-6 indicated that "Mr. Feingold relied upon Commission decisions in
11 Docket Nos. R-832393, R-850270, R-860535, and R-00061398 in concluding that
12 the Commission has given consideration to a demand/commodity allocation of
13 distribution mains when evaluating class cost-of-service studies for gas utilities."
14 The Company attached excerpts from each Order to its response to OSBA-I-6,
15 which I included as I&E Exhibit No. 4, Schedule 3. Mr. Feingold himself relied
16 upon the oldest of the Commission orders that I referenced in my direct testimony,
17 as listed above. Therefore, Mr. Feingold's objections based on the age of the
18 Commission orders are without merit.

1 **Q. DOES PII WITNESS CRIST ADDRESS THE COMMISSION PRECEDENT**
2 **IN HIS REBUTTAL TESTIMONY?**

3 A. Yes. Mr. Crist stated on page 17 of PII Statement No. 1-R that there is no statute
4 that prohibits the Commission from considering new methods different from the
5 Peak and Average method and that the Commission is free to improve on its past
6 decisions based on new information and considerations.

7
8 **Q. DO YOU AGREE WITH MR. CRIST?**

9 A. Yes. However, I believe that sound ratemaking and precedent should guide the
10 Commission as it determines appropriate cost and revenue allocations. In this
11 case, I have examined the Company's recommended alternative methods for cost
12 allocation, and, for the reasons stated in my direct testimony and above, I continue
13 to recommend the Commission use the Peak and Average as a base to determine
14 the proper allocation of costs in the current proceeding.

15
16 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
17 **REGARDING THE PEAK AND AVERAGE ALLOCATION**
18 **METHODOLOGY?**

19 A. No. I continue to recommend that the Commission use the Peak and Average
20 allocation methodology as the basis for its cost and revenue allocations.

1 **DISCOUNTED CUSTOMER ALLOCATION**

2 **Q. WHAT DID YOU RECOMMEND REGARDING DISCOUNTED**
3 **CUSTOMERS IN REFERENCE TO COST OF SERVICE STUDIES?**

4 A. I recommended on pages 20-21 of I&E Statement No. 4 that the discount rate
5 customers be separated into their own customer class in the Company's Cost of
6 Service Studies in the next base rate case. This would allow for the accurate
7 determination of the revenue shortfall caused by Peoples providing discounted
8 rates to these customers. A clear picture of the overall revenue shortfall would
9 allow the Commission to appropriately evaluate the allocation of that shortfall and
10 determine the proper allocation of that shortfall, whether to spread it across all
11 revenue classes or to continue the Company's policy of other customers in the
12 same rate class recovering the revenue shortfall.

13
14 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION TO**
15 **SEPARATE THE DISCOUNT RATE CUSTOMERS INTO THEIR OWN**
16 **COST OF SERVICE COLUMN IN THE COMPANY'S NEXT BASE RATE**
17 **CASE?**

18 A. Yes. Mr. Feingold did not agree with my recommendation regarding the
19 discounted customers and stated that the revenue shortfall generated by the
20 discounted customers can be calculated from the rate and billing determinant data
21 provided in the Company's revenue schedules (Peoples St. No. 11-R, p. 35).

1 **Q. DOES THE ABILITY TO EXTRAPOLATE REVENUE DATA RESOLVE**
2 **YOUR RECOMMENDATION?**

3 A. No. While it is possible to extrapolate the revenue shortfall data as Mr. Feingold
4 suggests, it is not possible to extrapolate the cost to serve the discounted
5 customers.

6
7 **Q. WHAT WOULD BE THE IMMEDIATE BENEFIT OF THE COMPANY**
8 **PROVIDING SEPARATE RATE CLASSES FOR ITS DISCOUNTED**
9 **CUSTOMERS?**

10 A. Assigning these customers to their own rate class would not only show their own
11 cost to serve but allow for the more accurate representation of the cost to serve the
12 non-discounted customers and determine the appropriate allocation of the revenue
13 shortfall as I indicated in my direct testimony.

14
15 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?**

16 A. No. I continue to recommend the discount rate customers be separated into their
17 own customer class in the Company's Cost of Service Studies in the next base rate
18 case.

1 **CUSTOMER COST ANALYSIS**

2 **Q. DID YOU MAKE ANY SPECIFIC RECOMMENDATIONS REGARDING**
3 **THE COMPANY’S CUSTOMER COST ANALYSIS?**

4 A. No. However, I indicated on page 17 of I&E Statement No. 4 that mains should
5 not be considered or classified as a customer cost because the quantity and
6 investment in mains does not change significantly if one customer joins or leaves
7 the system. I also stated on page 16 of I&E Statement No. 4 that “[t]he
8 Commission has previously rejected including the cost of distribution mains as a
9 customer cost in the Philadelphia Gas Works (PGW) 2007 base rate proceeding at
10 Docket No. R-00061931. Specifically, the Commission stated in its Order entered
11 September 28, 2007 that ‘PGW’s proposal to allocate a percentage of the cost of
12 the distribution mains as a customer cost not to be acceptable” and that
13 “[r]eviewing the record, we find that the allocation of distribution mains
14 investment costs should be done using both annual and peak demands.””

15
16 **Q. DOES MR. FEINGOLD AGREE WITH YOUR POSITION REGARDING**
17 **THE EXCLUSION OF MAINS AS A CUSTOMER COST?**

18 A. No. Mr. Feingold, on page 21 of Peoples Statement No. 11-R, indicated that the
19 Company’s cost of distribution mains allocated to its classes of service is based
20 upon the combined application of two allocation factors – a design day demand
21 allocation factor and a customer allocation factor which do not attempt to assign
22 the cost of each main extension to the Company’s classes of service. Instead, he

1 indicated that these two factors treat Peoples' low pressure and regulated pressure
2 distribution mains each as an integrated gas system, including main extensions that
3 are added throughout the evolution of the gas system.

4
5 **Q. DO YOU AGREE?**

6 A. No. As indicated above, Mr. Feingold's position is related to the minimum system
7 approach as he described on page 22 of Peoples Statement No. 11-R. As
8 discussed above, the Commission has determined that the minimum system
9 approach is not a reasonable method for allocation of costs.

10
11 **Q. DID THE COMPANY INCLUDE THE COST OF MAINS IN ITS
12 MINIMUM CUSTOMER COST ANALYSIS?**

13 A. No. As shown on page 2 of 10 of Peoples Exhibit RAF-2, Mr. Feingold
14 appropriately did not include the cost of distribution mains in the minimum
15 customer cost analysis he used to determine the Company's proposed customer
16 charge. He therefore recognizes the Commission's historic position that mains are
17 not appropriately included as a customer cost.

1 **CUSTOMER CHARGE**

2 **Q. DID YOU RECOMMEND A SPECIFIC CUSTOMER CHARGE IN YOUR**
3 **DIRECT TESTIMONY?**

4 A. No. I recommended that the customer charges be included in any scale back in the
5 event that the Commission grants less than the full increase (I&E St. No. 4, p. 24).

6
7 **Q. DID MR. FEINGOLD RESPOND TO YOUR RECOMMENDATION?**

8 A. Yes. Mr. Feingold agreed with my recommendation to accept that Company's rate
9 design proposal for its residential customers but disagreed with my overall scale
10 back recommendation without specifically mentioning including the customer
11 charges in the scale back, as I discuss below (Peoples St. No. 11-R, p. 47).

12
13 **PROPOSED REVENUE ALLOCATION**

14 **Q. WHAT REVENUE ALLOCATIONS DID YOU RECOMMEND IN YOUR**
15 **DIRECT TESTIMONY?**

16 A. On page 28 of I&E Statement No. 4, I reallocated the Company's proposed class
17 revenue increase among the rate classes in order to better align with the results of the
18 peak and average COS study. Specifically, I reduced the increase to the residential
19 class by \$19,100,000 and added \$2,100,000 to the increase to the Small General
20 Service class, \$6,800,000 to the Medium General Service class, and \$10,200,000 to

1 the Large General Service class. The results of my recommended revenue
 2 reallocation are shown below and included as I&E Exhibit No. 4, Schedule 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%

3

4 **Q. HOW DID THE PARTIES RESPOND TO YOUR ALLOCATION**
 5 **RECOMMENDATION?**

6 A. As discussed above, Mr. Feingold did not agree with my recommendation to use
 7 the Peak and Average allocation methodology. However, he did state that it was
 8 appropriate to rely upon non-cost considerations in the setting of a utility's class
 9 revenues and rates, though the selection of a cost of service study should not be
 10 driven by such factors (Peoples St. No. 11-R, pp. 11-12). Mr. Kalcic
 11 recommended that my allocation be rejected due to the inclusion of gas costs and
 12 because the base rate increases assigned to competitive service customers should
 13 be adjusted to reflect no increase (OSBA St. No. 1-R, pp. 2-3). Mr. Crist indicated
 14 that the non-competitive customers would receive an excessive increase under my
 15 recommendation (PII St. No. 1-R, p. 17).

1 **Q. DO YOU AGREE WITH MR. FEINGOLD THAT NON-COST**
2 **CONSIDERATIONS SHOULD BE A FACTOR IN THE SETTING OF A**
3 **UTILITY'S CLASS REVENUES AND RATES?**

4 A. Yes. My recommended revenue allocation included the consideration of fairness
5 and gradualism when I limited the increase to any class to 1.5 times the system
6 average increase, as I described on page 27 of I&E Statement No. 4.

7

8 **Q. DO YOU AGREE WITH MR. KALCIC THAT GAS COSTS AND**
9 **COMPETITIVE REVENUE SHOULD NOT BE INCLUDED IN THE**
10 **ASSESSMENT OF REVENUE ALLOCATION?**

11 A. Yes. Therefore, based on Mr. Kalcic's rebuttal testimony, I would like to adjust
12 my recommended revenue allocations.

13

14 **Q. DID MR. KALCIC ADJUST YOUR RECOMMENDED CLASS**
15 **INCREASES IN HIS REBUTTAL EXHIBITS OSBA BK-2R AND BK-3R?**

16 A. Yes. Mr. Kalcic adjusted my proposed class increase levels to account for the
17 Company's proposed reduction in Other Revenues as described on page 2 of
18 OSBA Statement No. 1-R. The present rate revenue levels as shown on OSBA
19 BK-1R, OSBA BK-2R, and OSBA BK-3R are different than what was shown on
20 Peoples Exhibit IV 53.53 IV-B-1(B), page 11 of 146, because Mr. Kalcic's
21 revenues are the non-gas revenues provided by the Company in response to
22 OSBA-I-3, attached as I&E Exhibit No. 4-SR, Schedule 2.

1 **Q. DID YOU MAKE ANY ADJUSTMENTS TO WHAT IS SHOWN IN MR.**
 2 **KALCIC'S EXHIBITS?**

3 A. Yes. On OSBA Exhibit BK-3R, Mr. Kalcic included \$864 of Industrial Transport
 4 SGS DSIC revenue in his calculation of competitive revenue for the SGS class. I
 5 have removed this in my analysis as shown on I&E Exhibit No. 4, Schedule 2.

6
 7 **Q. WHAT ADJUSTED REVENUE ALLOCATIONS DO YOU**
 8 **RECOMMEND?**

9 A. Based on the present rate revenue data included in OSBA Exhibit BK-3R, I
 10 reallocated the revenue increases so that the increase to each rate class is below
 11 1.5 times the system average increase to non-gas cost revenue of 26.1% or 39.2%
 12 (I&E Ex. No. 4-SR, Sch. 3, line 19). My adjusted recommended class increases
 13 for non-gas cost revenues, excluding negotiated revenues, and including Mr.
 14 Kalcic's adjustment for the Company's changes in Other Revenues, are as follows:

Rate Class	Revenue at Current Rates	I&E adjusted Increase	Percent Increase	Percent of Total Increase
Residential	\$265,682,854	\$67,407,150	25.4%	68.4%
Small General	\$32,004,197	\$10,193,000	31.8%	10.4%
Medium General	\$42,297,423	\$12,708,000	30.0%	12.9%
Large General	\$25,352,083	\$8,170,419	32.2%	8.3%
Total:	\$377,213,659	\$98,478,569	26.1%	100.0%

15

1 **Q. DOES YOUR REALLOCATION HELP TO RESOLVE THE CONCERNS**
2 **OF MR. CRIST?**

3 A. Yes. Under my reallocation, the LGS non-competitive customers would receive
4 an increase of \$8,170,419, or 32.2%. While this increase is not insignificant, it is
5 not unreasonable as it does not surpass 1.5 times the system average increase.

6

7 **SCALE BACK OF RATES**

8 **Q. WHAT SCALE BACK METHODOLOGY DID YOU RECOMMEND IF**
9 **THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

10 A. If the Commission grants less than the Company's requested increase, I
11 recommended that the Commission scale-back rates based upon the cost of service
12 study that it approves in a proportional manner including customer charges. (I&E
13 St. No. 4, p. 29).

14

15 **Q. HOW DID THE PARTIES RESPOND TO YOUR RECOMMENDATION?**

16 A. Mr. Feingold disagreed with my recommendation and stated that my
17 recommendation would not be able to reflect the non-cost considerations
18 recognized by the Company and intervenors in their original class revenue
19 apportionments proposals (Peoples St. No. 11-R, pp. 45-56). Mr. Kalcic
20 recommended that the Commission adopt the OSBA's proposed MGS customer
21 charge levels shown in Table 4 in OSBA Statement No. 1 (OSBA St. No. 1-R, p.
22 5).

1 **Q. DO YOU AGREE WITH MR. KALCIC'S RECOMMENDED MGS**
2 **CUSTOMER CHARGE LEVELS?**

3 A. I&E neither supports nor opposes with Mr. Kalcic's recommended customer
4 charge levels.

5
6 **Q. DO YOU AGREE WITH MR. FEINGOLD THAT NON-COST**
7 **CONSIDERATIONS SHOULD BE REFLECTED IN A SCALE BACK?**

8 A. Yes. It was not the intention of my scale back recommendation to reflect only the
9 results of a cost of service study. Therefore, I would like to change my
10 recommendation to include any non-cost considerations that are ultimately
11 approved by the Commission.

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

14 A. Yes.