

----- Pennsylvania Public Utility Commission, v. The Peoples Natural Gas Company LLC In-Person Public Input Hearing -----	Docket Nos.: R-2023-3044549 C-2024-3045268 C-2024-3045385 C-2024-3045960 C-2024-3046069 C-2024-3046233
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Community College of
 Allegheny County
 Boyce Campus - Auditorium
 595 Beatty Road
 Monroeville, PA

Tuesday, March 5, 2024
 Commencing at 6:01 p.m.

INDEX TO EXHIBITS

Docket Nos. R-2023-3044549, C-2024-3045268,
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 Hearing Date: March 5, 2024

<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
Richard Culbertson Exhibit 1	125	152

Culbertson Testimony

Pennsylvania Public Utility Commission Public Hearing March 5, 2024

Peoples Natural Gas and Peoples Gas’

Docket No.: [R-2023-3044549](#)

Proposed Revenue Stream Increase of **\$156,000,000**

Introduction: Richard C. Culbertson, 1430 Bower Hill Road, Pittsburgh, PA 15243

Asset Management Expert – Standards setting leader - ISO 55000 and ASTM E53

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I am an interested this rate increase from several perspectives:

- For public service and my residence is served by Peoples Natural Gas.
- Owner of several rental properties serviced by Peoples Natural Gas, the quality of life of these renters will be reduced.
- The objective of these hearings to arrive at just and reasonable rates for customers, and Peoples Natural Gas and Peoples Gas.’ I want the same.

From the Commission’s Order of January 18, 2024. *“Peoples stated that the requested increase in its base rates is necessary due to an increase in rate base driven by approximately **\$1 billion of capital expenditures.** [UNAUDITED BY THE PUC] Peoples also stated that the tariff changes in the filing include the merger of the rate districts for PNGD and PGD.”*

Reaching just and reasonable rates per law – follow the path.

- *“66 Pa.C.S. § 1319. (2) ...[T]he commission shall allow the public utility to recover all prudent and reasonable costs ... **such prudent and reasonable costs shall be recovered only in accordance with appropriate accounting principles.**”* (July 1, 1978, P.L.598, No.116.)

- “66 Pa.C.S. § 1701. *Mandatory systems of accounts. ... Every public utility shall establish such systems of accounting, and shall keep such accounts in the manner and form required by the commission. The accounting system of any public utility [is] also subject to the jurisdiction of a Federal regulatory body [and] shall correspond, as far as practicable, to the system prescribed by such Federal regulatory body.” (July 1, 1978, P.L.598, No.116.) e.g., FERC, OMB, GAO, Accounting standards bodies*
- **So, what is Peoples System of Accounts? It should be public information. It is not proprietary. Standards are not proprietary.**
- *"Capitalized cost." Costs permitted to be capitalized pursuant to the Uniform System of Accounts [18 CFR 20] and Generally Accepted Accounting Principles.*
- Imprudent, unreasonable cost must be removed from the rate base prior to establishing rates. **Has that happened?**

*PA Constitution - ARTICLE VIII § 10. Audit. The financial affairs of ... all ... commissions, ... of the Commonwealth, shall be subject to audits made in accordance with generally accepted auditing standards. (1968) [GAO Yellow Book] **Did the PUC Comply? Think annual car inspections.***

See Appendix A.

Law vs. Personal Experience

- 66 Pa.C.S. § 1510. *Ownership and maintenance of natural and artificial gas service lines. -- When connecting the premises of the customer with the gas utility distribution mains, the public utility shall furnish, install and maintain the service line ... A public utility shall not be authorized or required to acquire or assume ownership of any customer's service line. ...Maintenance of service lines shall be the responsibility of the owner of the service line. (Mar. 7, 1984,) (40 years ago.)*

- SECURITIES AND EXCHANGE ACT OF 1934, 15 U.S. Code § 78m (b)(2) Every issuer ...shall—(A) make and keep books, records, and accounts, ... reflect the transactions and dispositions of the **assets of the issuer**; (B) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances...
(5) No person shall knowingly circumvent or knowingly fail to implement a system of internal accounting controls or knowingly falsify any book, record, or account described in paragraph (2).
- On June 22, 2022, a Peoples crew, replaced my customer's service line on my property at 2980 West Liberty Avenue, Dormont, PA without permission. Per PA law, my responsibility is to maintain my customer's service line. If the line goes bad, I have insurance.
- This one photo shows an unsafe condition and potential weaknesses in Peoples internal controls. This shows a new riser, valve and regulator.



PEOPLES
Construction Notification

Date	6-9-22	Time	
Address	3980 W. Liberty Ave		

Dear Customer,
 On or about 6:00 AM to 2:00 PM
 Peoples Natural Gas will be working on gas lines in your area.

We sincerely apologize for the inconvenience...

Your gas service will not be interrupted.

Your gas service will be temporarily interrupted. When the work is complete, Peoples Natural gas will relight your appliances. Any areas damaged by this work will be repaired by Peoples Natural Gas.

If you have any questions, please call us at: 412-395-3272

Thank you.

Form No. 100103 (July 2015)

- Did Peoples capitalized the cost of this customer’s service line as owned, or did they donate this customer’s service line to me? Donations are not recoverable in rates – plant in service assets are. If this cost to replace the customer’s service line was mischarged, was this error or fraud? And, how big is this type of error or fraud?

Maybe this big:

Table 8: Peoples' Projected Annual LTIP Expenditures (Millions of Dollars)

Combined Total	2021	2022	2023	2024	2025	Total
Pipeline Replacement (Miles)	\$128.7	\$166.1	\$238.2	\$230.9	\$231.0	\$994.9
Company-owned Services	\$39.4	\$40.9	\$52.3	\$57.7	\$57.8	\$248.1
Customer-owned Services	\$20.4	\$21.2	\$27.1	\$29.7	\$29.7	\$128.1
Government Relocations	\$10.5	\$10.4	\$10.4	\$10.4	\$10.4	\$52.1
Meter Replacement	\$9.0	\$9.0	\$9.0	\$9.0	\$9.0	\$45.0
M&R Station Upgrades	\$6.7	\$8.6	\$9.6	\$9.6	\$9.6	\$44.1
Grand Total	\$214.7	\$256.2	\$346.6	\$347.3	\$347.5	\$1,512.3

Pennsylvania Statutes Title 66 Pa. C.S.A. Public Utilities § 1510. Ownership and maintenance of natural and artificial gas service lines.

<https://www.legis.state.pa.us/WU01/LI/LI/CT/HTM/66/66.HTM>

Your Honor, who in the PUC is going to audit or investigate Peoples accounting?

PA PUC Audits from PUC Highlights 2023 Accomplishments

<https://www.puc.pa.gov/press-release/2023/puc-highlights-2023-accomplishments>

The PUC Audits team released ... three Management Audits, two Management Efficiency Investigations”.

No Financial audits! With no financial audits there is no assurance Peoples or other utilities have reliable customer rates, either past, present or proposed.

Interested parties of this rate case are not charged with the investigation of Peoples internal operations - right?

- Federal Regulation - 49 CFR § 192.385 Manual service line shut-off valve installation. (c) Accessibility Manual service line shut-off valves for any new or replaced service line must be installed in such a way as to allow accessibility during emergencies.
- “52 Pa. Code § 59.18. Meter, regulator and service line location. 8) Meters and service regulators may not be installed in the following locations: i) **Beneath or in front of windows”**

If something goes wrong in the basement, someone must shut the valve off immediately. It takes a large adjustable wrench, best to have a fifteen inch.

Time, unsafe access, strength weakness and ignorance are enemies.

What was the condition of the meter assembly at the home in the Plum explosion where six people died on August 12, 2023?

Merger of the rate districts for PNGD and PGD. AKA – “splitting the bill”.

- That means customers in each rate district will not be paying their fair share.
- This action is not in the public interest! This action is only to Peoples organizations and Essential Utilities Inc. (NYSE: WTRG) the parent holding company’s advantage.
- The PUC has not approved the merger of these organizations – why should the Commission now look at these organizations as one? In this rate case?
- These organizations should not be viewed as one and assume they will be merged as one.
- All mergers come with due diligence – this rate case will not provide due diligence. Due in this circumstance means – what is owed to the stakeholders in this this situation.
 - The preparatory work has not occurred, this needs to be broken into at least three cases – audits and investigations of each entity and corporate flow down. Then determine necessary action then not harm the two sets of customers. It may never happen.

The Commission uses the wrong rate setting process that harms customers, this parent and subsidiary organizations and the PUC.

- A hundred years ago it was starting to be recognized the **Cost-Plus-Percentage of Cost** contract arrangement is not suitable for public contracts – as there is no control on spending. Prudent people do not do this in their own affairs.
- The path to more profits is more spending.
- There is no money in money spent outside of the rate base.
- The PUC determines performance based upon facts – not complainants and

intervenor based upon limited access to facts, feelings and impressions.

66 Pa.C.S. § 523. Performance factor consideration. (a) Considerations. --***The commission shall consider, ... the efficiency, effectiveness and adequacy of service [internal controls] of each utility when determining just and reasonable rates under this title. ... Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.***

Is the Commission prepared to comply with law? Are Key Performance Indicators maintained by the PUC and will they be placed in the record?

Title 66 § 1330. Alternative ratemaking for utilities. "Performance-based rates." Rates that are set or adjusted based on a public utility's financial or operating performance.

The primary incentive for Peoples should not be spending to increase the rate base but performance.

Market analyst -- Ben Axler

[Why Essential Utilities \(WTRG\) Faces 35%-50% Downside Risk | Seeking Alpha](https://seekingalpha.com/article/4585712-essential-utilities-faces-35-to-50-percent-downside)
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ESSENTIAL UTILITIES, INC. SEC 10-K Ending 2022 -- Goodwill

<https://www.sec.gov/ixviewer/ix.html?doc=/Archives/edgar/data/78128/000156276223000064/wtrg-20221231x10k.htm>

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-Property, Plant and Equipment March 15, 2021)	\$2,476,551,000
-Goodwill	\$2,227,447,000
Total Assets Acquired	\$5,326,861,000

Goodwill is attributable to the assembled workforce of Peoples, planned growth in new markets, and planned growth in rate base through continued investment in utility infrastructure. ***

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We generally assumed **operating margins in future years would increase as we continue to integrate and implement our rate base growth strategy.**

Is the strategy of the PUC and customers compatible with Peoples' /Essential's strategy? **I believe not!**

Settlements

Pennsylvania Law does not focus on settlements to establish rates, although that maybe the practice of the PUC.

Immediately jumping into settlement talks without the preliminary work regarding evaluation of performance does not lead to just and reasonable rates for customers.

In my opinion, after observing and participating in rate cases since about 2017 the process by which the Commission does rate making is reckless.

I have never experienced or observed such a weak process in commercial or government procurements – GE did sell nuclear power plants, fuel or services this way. Lockheed Martin and other major Government contractors do not determine price this way on major procurements either as a buyer of as a seller.

2 Pa. Code § 69.401. General.

*In the Commission's judgment, the results achieved from a negotiated settlement or stipulation, or both, in which **the interested parties** have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding.*

Interest parties are more than all complainants and intervenors, regardless of past practices to exclude pro se complaints. I am an interest party – that is why I am providing sworn public testimony and want to be invited to any settlement talks per this PA PUC regulation.

Conclusion

I thank the Pennsylvania Public Utility Commission for the opportunity to speak.

This is a form of a performance appraisal. Performance appraisals require crucial conversations. In the end, they may bring good news or news we do not want to

hear. Regardless, they should speak truth for the benefit of those giving and receiving the appraisal.

We should all care to get this right for customers as they deserve.

Make no mistake, this rate case is not about increasing rates – this rate case is first about are costs in the rate base and are they actual legitimate cost and the recent ~\$1,000,000,000 of expenditures that went into the rate base.

That only happens with qualified experts doing field work and looking at Peoples' operations.

The first step of that is proper calibration of the PUC and People's operations – do both have effective internal controls to meet objectives?

The photos I took shows they do not.

There appears to weaknesses in internal controls—at this point I have no confidence that those participating in the rate case have a reasonable understanding of the requirements of internal controls -- effective and efficient operations—reliable financial and non - financial reporting and compliance with applicable laws and regulations and standards...

As in the beginning “66 Pa.C.S. § 1319. (2) ...[T]he commission shall allow the public utility to recover **all prudent and reasonable costs ... such prudent and reasonable costs shall be recovered only in accordance with appropriate accounting principles.**” That would be:

"Capitalized cost." Costs permitted to be capitalized pursuant to the Uniform System of Accounts [18 CFR 20] and Generally Accepted Accounting Principles.

If we do not know the condition of the rate base, then we pause until we do.

Proper customer treatment trumps the Commission's orders – particularly if those orders are not lawful or would lead to unlawful actions of others.

For what I know now, I recommend not approving increased rates nor merger of operations.

This concludes my sworn testimony.

Appendix A

“U.S. TITLE 31—MONEY AND FINANCE §503. Functions of Deputy Director for Management -- the Deputy Director for Management shall establish governmentwide financial management policies for executive agencies and shall perform the following financial management functions:

(2) Provide overall direction and leadership to the executive branch on financial management matters by establishing financial management policies and requirements, and by monitoring the establishment and operation of Federal Government financial management systems. ”

This is also referred to as the Chief Financial Officer’s Act of 1990. OMB provides Regulations, (2 CFR 200 [Title 2 of the CFR -- Grants and Agreements](#)) Circulars, and Bulletins such as OMB BULLETIN NO. 24-01 (October 19, 2023) Audit Requirements for Federal Financial Statements (Applies to Grants – PA receives Billions in Federal Grants), and 2 CFR 200 applies to grants and addresses allowable cost and reasonable cost.

2 CFR § 200.324 Contract cost and price.

*(d) The **cost plus a percentage of cost and percentage of construction cost methods of contracting must not be used.***

Inspector Generals are responsible to audit grants to States. See for example, DOT/FAA Report **QC2024017**, February 14, 2024, Quality Control Review on a Single Audit of the **Greater Orlando Aviation Authority**, Orlando FL by U. S. Department of Transportation Office of Inspector General.

An Inspector General, for an example, could look at the LIHEAP grant for Pennsylvania, and was the program managed in accordance with expected internal controls as required in 2 CFR 200 and are the rates of public utilities free of waste, fraud, abuse and mismanagement?

It is wise for all organizations to be audit ready.