

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

June 24, 2014

Honorable Mark A. Hoyer
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
Suite 220, Piatt Place
301 Fifth Avenue
Pittsburgh, PA 15222


RE: Supplement No. 210 to Tariff Gas Pa.
P.U.C. No. 9 of Columbia Gas of
Pennsylvania, Inc.
Docket No. R-2014-2407345

Dear Judge Hoyer:

Enclosed please find the Office of Consumer Advocate's Rebuttal Testimony of Glenn A. Watkins 1-R, in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,


Amy E. Hiras
Assistant Consumer Advocate
PA Attorney I.D. # 310094

Enclosures

cc: Rosemary Chiavetta, Secretary (Certificate of Service)
Certificate of Service

*184560

CERTIFICATE OF SERVICE

Re: Supplement No. 210 to Tariff Gas Pa. P.U.C. No. 9 of Columbia Gas of Pennsylvania, Inc.
Docket No. R-2014-2407345

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Rebuttal Testimony of Glenn A. Watkins 1-R, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 24th day of June 2014.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Regina L. Matz, Esq.
Allison C. Kaster, Esq.
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Charis Mincavage, Esq.
Elizabeth P. Trinkle, Esq.
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Theodore J. Gallagher, Esq.
Columbia Gas of Pennsylvania
121 Champion Way, Suite 100
Canonsburg, PA 15317

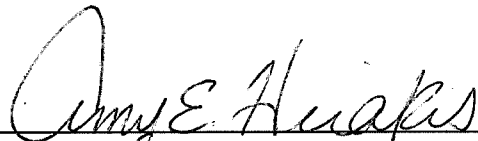
Daniel G. Asmus, Esq.
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Michael W. Hassell, Esq.
Devin T. Ryan, Esq.
Post & Schell, PC.
17 North Second Street, 12th Fl.
Harrisburg, PA 17101-1601

Andrew S. Tubbs, Esq.
NiSource
800 N. Third St., Suite 402
Harrisburg, PA 17102

Mr. Robert D. Knecht
Industrial Economics Inc.
2067 Massachusetts Ave.
Cambridge, MA 02140

Joseph Vullo, Esq.
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704



Candis A. Tunilo
Assistant Consumer Advocate
PA Attorney I.D. # 89891
E-Mail: CTunilo@paoca.org

Amy E. Hirakis
Assistant Consumer Advocate
PA Attorney I.D. # 310094
E-Mail: AHirakis@paoca.org

Counsel for
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
*180544

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
v.	:	Docket No. R-2014-2407345
Columbia Gas of Pennsylvania, Inc.	:	

REBUTTAL TESTIMONY

OF

GLENN A. WATKINS

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

JUNE 24, 2014

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

2 A. My name is Glenn A. Watkins. My business address is 9030 Stony Point
3 Parkway, Suite 580, Richmond, VA 23235.

4
5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes. I pre-filed direct testimony on June 10, 2014, which is identified as OCA
8 Statement No. 1.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of this testimony is to respond to the direct testimony of OSBA
12 witness Robert Knecht, which was filed on June 10, 2014, and which raised technical
13 concerns with the Rider NAS pilot program. On June 11, 2014, the OCA propounded
14 discovery on OSBA regarding Mr. Knecht's technical concerns. Mr. Knecht's responses
15 to the OCA's discovery were received approximately 24 hours before this rebuttal
16 testimony was due, and as a result I was not able to incorporate Mr. Knecht's responses
17 into my rebuttal testimony. As such, I reserve the right to address Mr. Knecht's
18 responses in my surrebuttal testimony, as they relate to the concerns raised in his direct
19 testimony, if necessary.

20
21 **Q. IS THERE AN OVERARCHING ISSUE IN WHICH YOU DISAGREE WITH MR.**
22 **KNECHT?**

23 A. Yes. On page 3 of his direct testimony, Mr. Knecht states that his "focus in this
24 proceeding is to ensure that small business customers are not absorbing costs or risks
25 associated with the [NAS] program, as they will not benefit from it." It is well known
26 that a locality's economic vitality and potential for economic growth is largely tied to,
27 and driven by, the availability and existence of public infrastructure including roads,
28 public utility and communication facilities. As was discussed in my direct testimony,
29 there is a significant portion of Columbia's service area that does not have natural gas
30 infrastructure available to energy users. As such, I disagree with the narrow focus that
31 Mr. Knecht has considered.

1 **Q. UNDER YOUR RECOMMENDED MODIFICATIONS TO COLUMBIA'S NAS**
2 **RIDER THAT WILL PROMOTE THE REASONABLE EXPANSION OF**
3 **NATURAL GAS MAINS TO UNSERVED AREAS, WILL THERE BE BENEFITS**
4 **REALIZED BY SMALL BUSINESSES?**

5 A. Absolutely. First, with my recommendations, more mains expansions will be
6 made possible and some of these expansions will directly benefit small businesses in that
7 some of these expansions will enable existing and future small businesses an opportunity
8 to utilize natural gas. In other words, although the Rider NAS pilot program is aimed at
9 residential mains extensions, there are existing and potential small businesses along these
10 routes that will be able to connect to these new mains once these mains are in the ground.
11 Second, and more important from an overall public interest perspective, is the fact that on
12 average, each residential customer will realize energy savings of about \$1,000 per year
13 by utilizing natural gas. These after-tax savings will have the same impact as an increase
14 in household disposable income and will in large part be spent in the community, much
15 of which will accrue to the benefit of local small businesses.

16
17 **Q. MR. WATKINS, IS THERE ANY POSSIBILITY THAT YOUR**
18 **RECOMMENDATIONS IN THIS CASE WILL HAVE ANY MATERIAL**
19 **IMPACT ON COLUMBIA'S SMALL BUSINESS DISTRIBUTION RATES?**

20 A. No. First, any concerns that Mr. Knecht has regarding the potential impact on
21 small business rates can and should be addressed within the context of a rate case.
22 Second, under my proposed modifications to the Company's NAS Rider, the potential
23 impact on existing residential rates is so small as to be negligible. Indeed, as discussed in
24 my direct testimony, even if every single new customer that connects as a result of the
25 NAS program contributes zero dollars in distribution revenue (i.e., connects but does not
26 use or pay for any distribution service), the impact on existing residential customers
27 would be less than \$0.50 per customer per year. Clearly, this potential impact is grossly
28 overstated since these new customers will contribute a considerable amount of
29 distribution revenue each year.¹ Because of the way that costs are allocated within a rate

¹ At current rates, the average heating customer contributes about \$150 to \$200 per year in distribution rate revenue per Confidential response to OCA-I-1.

1 case and revenue is assigned to the various rate classes, it is unlikely that there will be
2 any potential impact on non-residential customers.

3
4 **Q. ALTHOUGH YOU HAVE JUST RECIEVED DISCOVERY RESPONSES FROM**
5 **OSBA, DO YOU HAVE ANY COMMENTS REGARDING MR. KNECHT'S**
6 **TECHNICAL RECOMMENDATIONS?**

7 A. Yes. Mr. Knecht's second recommendation is that "the calculation for deriving
8 the Rider NAS charges should be modified to reflect income tax costs associated with the
9 share of financing being provided by CPA equity." Within the Company's DCF model,
10 the Company explicitly includes an income tax expense that is the responsibility of the
11 potential customer. As is industry practice, the present value of revenues is compared to
12 the present value of capital investment and income tax expenses to determine whether
13 any contribution is required. As such, the Company's model clearly assigns an
14 appropriate level of income taxes to potential new customers. To the extent there is a
15 revenue minus cost shortfall (in present value terms) the customer must fund this upfront
16 or finance this shortfall under the NAS provision.

17 Mr. Knecht also recommends that installment payments made under the NAS
18 program should be recorded on the Company's books whether or not NAS payments are
19 actually made. While there may be an extremely small percentage of customers that do
20 not make timely NAS payments, this percentage should be so small that it will not have
21 any measurable impact on Columbia's rates or revenue requirement. However, should
22 the Commission agree with Mr. Knecht in this regard, any uncollectible associated with
23 NAS monthly payments will simply increase the Company's uncollectible expense
24 reflected in base rates.

25
26 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. KNECHT'S**
27 **CONCERNS?**

28 A. Yes. Mr. Knecht's concerns are so narrowly focused that they will have virtually
29 no impact on any customers' rates, let alone small business rates. Although Mr. Knecht
30 sets forth three concerns that could have a de minimis impact on Columbia's total
31 Company revenue requirement under a worst case scenario, he does not mention the fact

1 that many new customers contribute more than the incremental cost to serve them (i.e.,
2 the present value of net cash flows within the Company's DCF model is greater than
3 zero), nor does he mention the fact that under the Company's model, revenue
4 contributions are assumed to remain at a constant level over the course of 40 years. As
5 we have seen over the last few years, Columbia's base rates have increased dramatically.²
6 Columbia's model assumes no increases in rates and hence, no additional revenue
7 contributions over the course of the 40-year model life. Clearly, the benefits of additional
8 revenue contributions should be considered along with those new customers that
9 contribute more than the incremental cost of extending mains when considering the
10 concerns raised by Mr. Knecht.

11
12 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

13 A. Yes.

14
15 185361

² Including Columbia's pending rate case, there have been four since 2008.