

1 **Introduction**

2 **Q. Please state your name and business address.**

3 **A.** Nicole Paloney, 121 Champion Way, Suite 100, Canonsburg, PA 15317.

4 **Q. By whom are you employed and in what capacity?**

5 **A.** I am employed by Columbia Gas of Pennsylvania, Inc. (“Columbia” or the
6 “Company”) as Director of Rates and Regulatory Affairs.

7 **Q. Are you the same Nicole Paloney that filed direct testimony in this**
8 **proceeding?**

9 **A.** Yes.

10 **Q. What is the purpose of your rebuttal testimony?**

11 **A.** The purpose of my testimony is to respond to portions of the direct testimony of
12 witness Lafayette K. Morgan, filed on behalf of the Office of Consumer Advocate
13 (“OCA”), and Jeremy Hubert, Christopher Keller and Rachel Maurer filed on behalf
14 of the Bureau of Investigation and Enforcement (“I&E”).

15 **Q. What matters will you address in your rebuttal testimony?**

16 **A.** I will address the following matters:

- 17 • Use of the Fully Forecasted Rate Year (“FFRY”)
18 • Corrections to Rate Base
19 • Capitalized Labor
20 • Use of the Distribution System Improvement Charge (DSIC)
21

1 **USE OF THE FULLY FORECASTED RATE YEAR (FFRY)**

2 **Q. What is the purpose of your rebuttal testimony on the use of the fully**
3 **forecasted rate year (“FFRY”)?**

4 **A.** Specifically, I disagree with OCA Witness Morgan’s opinion that year-end rate base
5 within the context of a FFRY is inappropriate. He alleges that average balances, not
6 year-end balances, should be used for the major components of rate base for a
7 FFRY. In fact, nothing in Act 11 of 2012 that authorized the use of the FFRY points
8 to Mr. Morgan’s conclusion.

9 **Q. Please summarize Witness Morgan’s calculation of average rate base.**

10 **A.** As stated on page 8, lines 9-12 of his revised testimony, Mr. Morgan calculated the
11 average balances of gas plant in service, accumulated depreciation and
12 Accumulated Deferred Income Taxes (“ADIT”) based on the 13 month average
13 balance of each item for the period from December 31, 2015 through December 31,
14 2016. In calculating his 13 month average, he updated the company’s gas plant
15 additions and retirements included in the filing for actuals from December 2014 up
16 to April 2015 as provided by the company in response to OCA-5-3. OCA 5-3 has
17 been included as exhibit NMP-1R.

18 **Q. What is the impact that the use of actual plant balances from December**
19 **2014 – April 2015 have on Witness Morgan’s average rate base**
20 **calculation?**

21 **A.** Mr. Morgan’s use of actual plant balances for this time frame as opposed to
22 projected plant balances reduces the average rate base. As stated in NMP-1R,

1 Columbia's actual plant balances were less than projected plant balances as a result
2 of the unseasonably cold weather for January through March 2015. The response
3 also indicates that the company expects to meet or exceed projections as the
4 weather improves. Use of actual balances in calculating an average, particularly
5 balances that are not reflective of activity during peak construction periods,
6 provides no opportunity for Columbia

7 **Q. In the past two cases, where a FFRY was utilized, had the company**
8 **fallen behind early in the test year and been able to catchup?**

9 **A.** Yes. In the company's last two rate cases, R-2012-2321748 and R-2014-2406274,
10 where a fully forecasted test year was used, projections exceeded actual plant
11 balances early in the test period as a result of unseasonably cold weather. In both
12 cases, as the weather improved, not only did Columbia meet projections, rather the
13 company exceeded the projections in both cases. As noted on page 16 of I & E
14 Witness Hubert's testimony, total plant in service as of June 30, 2014, the end of
15 the fully forecasted test year in case in R-2012-2321748, exceeded projections by
16 approximately \$33.4 million after falling behind early in the test period. Again, as
17 noted in page 17 of I & E Witness Hubert's testimony, Columbia exceeded
18 projections for the 12 months ended December 31, 2014 by \$12.96 million in case
19 R-2014-2406274.

20 **Q. Why is it inappropriate to make adjustments for actual additions and**
21 **retirements during the FFRY?**

22 **A.** Columbia is committed to spend and place in service its capital expenditures as

1 projected and reflected in this case; that Columbia has exceeded projections in the
2 previous two cases where a fully forecasted rate year was utilized is undisputable
3 evidence of our commitment. Weather and other factors can change the timing of
4 the expenditures, particularly early in the test period, however, Columbia has a
5 sound history of making up and even exceeding such projections to ensure a safe
6 and reliable system. To arbitrarily ignore this history is wholly inappropriate.

7 **Q. Does the use of Witness Morgan's methodology regarding plant**
8 **additions and retirements impact the other components?**

9 **A.** Yes. The accumulated reserve for depreciation and accumulated deferred income
10 taxes ("ADIT") are impacted as a result of this inappropriate methodology. The
11 impact of this methodology on the depreciation reserve will be addressed by
12 company witness Spanos, while the impact on ADIT will be addressed by company
13 witness Fischer.

14 **Q. Has the Company's presentation of its revenue requirement for the**
15 **FFRY varied from its presentation in prior future test year cases?**

16 **A.** No. The Company has used the same techniques of determining revenues,
17 expenses and rate base on an annualized, year-end basis that have been used in
18 prior cases both before and after adoption of Act 11. As in the 2012 and 2014 base
19 rate case, the Company has not included any claim for construction work in
20 progress in rate base.

21 **Q. Has I&E witness Hubert recommended any adjustment to rate base in**
22 **conjunction with the use of a FFRY?**

1 **A.** No, he has not. He references that the Commission, in the August 2, 2012 Final
2 Implementation Order at Docket M-2012-2293611 addressing Act 11, initiated a
3 separate proceeding at Docket No. L-2012-2317273, for the purposes of adopting
4 rules and regulations regarding the use of the FFRY.

5 **Q.** **Has any activity yet taken place at that docket?**

6 **A.** No.

7 **Q.** **Does Mr. Hubert or the August 2, 2012 Order give any indication that**
8 **the proceeding at Docket No. L-2012-2317273 will address specific**
9 **adjustments to the calculation of rate base or return associated with the**
10 **use of the FFRY?**

11 **A.** No.

12 **Q.** **Does I&E witness Maurer present a recommendation regarding**
13 **adjustments related to the use of a FFRY?**

14 **A.** Ms. Maurer observes that while I&E witnesses Hubert and Wilson note the benefits
15 of the use of the FFRY, I&E asserts that the appropriate place to consider those
16 benefits is in the recommended return on equity ("ROE"). Nevertheless, she
17 acknowledges that there is no way to determine the value that an investor might
18 place on the FFRY and therefore does not quantify any adjustment for that value in
19 her recommended ROE of 9.24%.

20 **Q.** **Ms. Maurer references a Regulatory Research Associates ("RRA")**
21 **report published by SNL Energy indicating an expectation that the**
22 **Commission may impose an adjustment to account for perceived**

1 A. Yes. As explained in more detail by company witness Spanos in his rebuttal
2 testimony, the company's reserve for depreciation and amortization was too high by
3 \$126,310 for the fully forecasted test year. The reserve as presented in Exhibit No.
4 108, Column 5, Line 5 for the fully forecasted test year should be \$386,611,458 as
5 opposed to \$386,737,768 as included in the exhibit. This correction increases the
6 company's rate base by \$126,310 and totals \$1,325,257,238.

7

8

CAPITALIZED LABOR

9 **Q. I&E witness Keller recommends a reduction to capitalized labor on the**
10 **basis of, among other things, an assumption that vacancies are not**
11 **considered in the FFRY. Is that an appropriate basis for adjustment to**
12 **capitalized labor?**

13 A. No, it is not. The capital work plan is not impacted by vacancies.

14 **Q. Please explain why the capital work plan is not impacted by vacancies.**

15 A. Reduction of labor through vacancies implies that vacancies impact the Columbia's
16 work plan; this is not an accurate implication. Labor expense for vacancies not filled
17 does not imply that these labor dollars would not be incurred through overtime or
18 outside contractors.

19 **Q. Has the company historically met capital spend projections from**
20 **previous cases?**

21 A. Yes.

1 **Q. How does the calculation of the labor expense adjustment proposed by**
2 **I & E Witness Keller impact his proposed adjustment to capitalized**
3 **labor?**

4 **A.** Mr. Keller's adjustment to labor has both a capital and expense component to it.
5 The total labor adjustment is based on an average vacancy level multiplied by an
6 average salary level, as noted on page 9, line 22 of his testimony. He further
7 allocates the adjustment between capital and expense by calculating the percentage
8 of total labor claimed by the Company, allocated between capital and expense. As
9 the capitalized portion of the adjustment is based on Witness Keller's incorrect
10 assumption that labor expense will not be incurred as a result of vacancies, his
11 proposal to reduce capital labor is inappropriate. Columbia witness Hanson further
12 explains why both I&E's and OCA's labor adjustments are improper.

13 **Q. What is your recommendation on Ms. Wilson's adjustment to**
14 **capitalized labor?**

15 **A.** I recommend that the adjustment be rejected.
16

17 **USE OF THE DSIC**

18 **Q. Would the use of the FFRY as recommended by Mr. Morgan have an**
19 **impact on the use of the distribution system improvement charge**
20 **("DSIC")?**

21 **A.** Yes. Eligible property subject to DSIC recovery is limited to property not already
22 recovered in base rates. The use of any valuation of rate base other than year-end

1 will mean that a potentially significant portion of the cost of the total investment
2 during the FFRY will not be recovered via base rates in this case and will therefore
3 be eligible for DSIC recovery prior to the end of the FFRY. Any other approach will
4 result in a gap period in which eligible property is neither in a DSIC nor in rate base
5 and will not be recovered until a subsequent rate filing. If the DSIC is to function as
6 it was designed and if OCA's proposed average rate base was adopted, then the
7 Company should be granted specific authorization to implement a quarterly DSIC
8 during the term of the fully forecasted future test year in this case to recover
9 property placed in service that is not reflected in base rates, consistent with 66 Pa.
10 Code C.S. § 1358(b)(2).

11 **Q. The DSIC currently has in place a cap equal to 5% of base rate revenues.**
12 **What level of plant investment would be supported by the DSIC at 5% of**
13 **revenues if the total requested increase in this case is granted by the**
14 **Commission?**

15 **A.** Attachment NMP-2R provides a hypothetical quarterly DSIC calculation, using the
16 currently published DSIC return, Columbia's claimed capital structure in this case,
17 and current distribution revenues excluding flex customers. This calculation shows
18 that the DSIC 5% cap would be reached with approximately \$107,300,000 in plant
19 investment. Eligible DSIC plant includes certain categories like the Age and
20 Condition category, Mandatory and Betterment categories. See the table included
21 later in this section of my testimony regarding the DSIC eligible categories within
22 the age and condition budget.

1 **Q. On page 6, line 14 of his testimony, PSU Witness Crist states that DSIC**
2 **recovery based on as filed revenues of \$354,542,334 in Exh 103, Sch 8,**
3 **pg would be \$17.7 million. Is this accurate?**

4 **A.** No, it is not. The as filed distribution revenues of \$354,542,334 include \$5,162,702
5 of flex revenues, and flex revenues are subject to the DSIC. As filed revenues that
6 would be subject to the DSIC are \$349,379,632. Using Mr. Crist's overly simplistic
7 method of calculating DSIC recovery, recovery utilizing distribution revenues
8 excluding flex revenues approximates \$17.4 million.

9 **Q. How does the plant investment of \$107,300,000 that results in the 5%**
10 **distribution revenue cap compare to Columbia's 2016 projected capital**
11 **budget?**

12 **A.** The following table is a summarization of the capital budget for 2016 as provided in
13 standard data request GAS-RR-14 Attachment A, categorized by DSIC eligible plant
14 and non DSIC eligible plant. DSIC eligible plant included in the 2016 capital budget
15 totals \$181,000,000. The difference between the budgeted DSIC eligible plant and
16 the plant to be recovered before reaching the 5% distribution revenue cap totals
17 \$73,700,000, or 40.7% of the 2016 DSIC eligible budget. Columbia also invests in
18 non-DSIC eligible plant, which would require recovery through rate base. Had a
19 base rate case not been filed, \$98,460,000 or 47.9% of the Company's 2016 capital
20 budget would go unrecovered, through reliance on capital recovery through the
21 DSIC.

22

CPA Budgeted Capital Expenditures by Activity (\$000)				
Gen	Description	2016 Projected	DSIC Eligible	Non DSIC Eligible
Total New Business		18,600	0	18,600
Replacement - Age & Condition				
354	Compressor Stations	250	0	250
376	Mains - Leakage Elimination	113,750	113,750	0
380	Service Lines - Replace	30,500	30,500	0
381	Meters - Replace	700	700	0
382	Meter Installation - Replace	550	550	0
383	Regulators - House - Replace	150	0	150
378	Regulators - Plant - Replace	750	0	750
375	Regulator Structures - Replace	150	0	150
385	Large Vol/XS Press Meas Station - Replace	100	0	100
376	Corrosion Mitigation Installation	100	0	100
Total Replacement - Age & Condition		147,000	145,500	1,500
Replacement - Mandatory				
376	Mains - Street Improvement	3,700	3,700	0
Total Replacement - Mandatory		3,700	3,700	0
Betterment				
381	Automatic Meter Reading - New	410		410
376	Mains - Service Improvement	31,800	31,800	0
Total Betterment		32,210	31,800	410
Total Support Services and Other		4,250	0	4,250
Total		205,760	181,000	24,760
DSIC Plant Investment Eligible for Recovery Before Cap 1/			107,300	
Plant Investment Not Eligible for DISC Recovery		98,460	73,700	24,760
Percentage of 2016 Budget Not Recoverable thorough DSIC		47.9%	40.7%	
1/ Plant investment cap calculated at Attachment NMP - 1.				

18 **Q. Why is timely recovery of the costs associated with these investments**
19 **imperative?**

20 **A.** As an operator, Columbia is committed to providing safe, reliable service to
21 customers. Timely recovery of costs of these investments is a critical component to
22 raising capital to support our infrastructure replacement program.

1 **Q. Is there a further reason why a rate case was filed rather than using the**
2 **DSIC?**

3 **A.** Yes. Columbia projects net increases in expenses, and these increases are not
4 included in the DSIC mechanism.

5 **Q. Does this complete your rebuttal testimony?**

6 **A.** Yes, it does.

Question No. OCA 5-003
Respondent: N. Paloney
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COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

OCA – Set 5

Question No. OCA 5-003:

Please update Exhibit No. 108, Schedule No, 1 to reflect actual data for 2015 through the most recent month available.

Response:

Please see Attachment A to this response for an updated Exhibit No. 108, Schedule No. 1 for actuals from December 2014 through March 2015. Please note that the Company is behind in its initial projections due to the unusually cold weather for January through March and the delays in completion of projects. Notwithstanding, by the of the FTY ended November 2015, Columbia expects to be on track or ahead of its projections, just as was the situation in Columbia's 2014 base rate proceeding at R-2014-2406274, when it was behind its projections at this juncture.

	Description	
1	Eligible Investment	\$ 107,300,000
2	Less: Accumulated Depreciation	873,154
3	Net Rate Base Included in DSIC (Ln 1 - Ln 2)	106,426,846
4	Annual Revenue Requirement Rate	12.18%
5	Quarterly Revenue Requirement Rate (Ln 4 / 4)	3.05%
6	Quarterly Capital Cost Recovery (Ln 5 * Ln 3)	3,241,413
7	Quarterly Depreciation Expense	582,103
8	Quarterly DSIC Costs to be Recovered (Ln 6 + Ln 7)	3,823,516
9	Quarterly Base Distribution Revenues	76,397,800
10	Distribution System Improvement Charge (Ln 8) / Ln 9	5.00%

Capital Structure as filed for in R-2015-2468056

Type	Capital Structure	Cost Rate	Weighted Average Cost Rate	Revenue Requirement
Debt - Long term	42.65%	5.31%	2.26%	2.26%
Debt - Short term	5.14%	2.86%	0.15%	0.15%
Equity	52.21%	10.95%	5.72%	9.77%
	Total Capital		8.13%	12.18%

Depreciation Rate

Estimated depreciation based on projected allocation of 2016 capital program and mains/services depreciation rates contained in current rate case 2.17%

Anticipated Base Revenues

Base Revenue	310,753,903
Less: Flex and negotiated base rate revenue	5,162,702
DSIC-applicable Base Revenue	305,591,201
Quarterly DSIC-applicable Base Revenue	\$76,397,800

For purposes of computing Accumulated Depreciation, model assumes that capital is deployed evenly over four quarters. Many factors, most significantly weather and coordination with municipal schedules and projects, will dictate actual construction and in service dates.