

1 **Introduction**

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

3 **A.** My name is Robert C. Waruszewski and my business address is 121 Champion Way,
4 Suite 100, Canonsburg, Pennsylvania.

5 **Q. Are you the same Robert C. Waruszewski who filed testimony in this**
6 **proceeding?**

7 **A.** Yes.

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

9 **A.** The purpose of this rebuttal testimony is to respond to portions of the direct
10 testimony of witness Jerome D Mierzwa of the Pennsylvania Office of Consumer
11 Advocate (“OCA”) and witness Robert D Knecht of the Pennsylvania Office of the
12 Small Business Advocate (“OSBA”). My focus is related to their responses to the
13 proposals set forth in my direct testimony that are designed to expand availability of
14 gas service.

15 **Q. What concerns do you have with Mr. Mierzwa’s direct testimony?**

16 **A.** I have two concerns with his testimony: first, his recommended modification to
17 Columbia’s Net Present Value (“NPV”) calculation; and second, his recommended
18 reporting requirements for Columbia’s three service expansion proposals.

19 **Q. What is your specific concern with his recommended modification to**
20 **Columbia’s NPV calculation?**

1 **A.** In OCA Statement 3, page 41, lines 5-10, Witness Mierzwa suggests that Columbia's
2 economic model is flawed because its NPV calculation includes customer revenue
3 contribution based on current rates and does not take into account that these base
4 rates will increase over the 40 year time frame evaluated in the model. He believes
5 future base rate increases should be added into the model as incremental revenue
6 and suggests that "CPA's NPV calculations be modified to include a 5 percent
7 annual revenue escalation factor." However, this is a faulty argument. Future rate
8 increases (from future base rate cases) cover Columbia's future increases in costs,
9 which consist primarily of pipeline replacement. These future cost increases are not
10 included in the model, and associated revenue increases also should not be
11 included. The Company's NPV model evaluates how incremental revenues will
12 cover the incremental costs of plant investment to connect new customers to
13 Columbia's system. Future rate increases do not fit the category of incremental
14 revenue because these increases cover the Company's costs to maintain service.
15 Columbia would incur these increases even if the potential customers do not
16 connect to Columbia's system. Therefore, future base rate increases should not be
17 included in Columbia's NPV model since they are not incremental revenue the
18 Company would receive from the new customers.

19 **Q.** **In OCA Statement 3, page 41, lines 21-26 and page 42, lines 1-8, Mr.**
20 **Mierzwa recommends a number of reporting requirements for**

1 **Columbia’s three service expansion proposals. Do you agree with these**
2 **recommendations?**

3 **A.** Columbia agrees with most of the recommendations. However, a few of them are
4 problematic. Parts (b) and (c) request two NPV model results for each customer, the
5 first result would be inclusive of mains and service allowances and the second result
6 would be exclusive of mains and service allowances. Columbia opposes this
7 recommendation because it would result in duplicative work for the Company. To
8 comply with this request, Columbia would have to maintain and run two separate
9 models for each potential project, even though only the model inclusive of the
10 allowances would be used in evaluating the project. The economic model is part of
11 Columbia’s new business tracking system which is linked to the billing system. In
12 order to comply with this request, Columbia would have to duplicate both systems
13 and keep all customer records current in each. This creates unnecessary costs and
14 work and could cause confusion for New Business team members working on the
15 project to track and maintain both models for each project.

16 The other suggestion Columbia disagrees with is part (j), which requests a report on
17 “The Number of new service requests evaluated but declined by the Company”.
18 Columbia does not track informal calls in which a customer asks for an estimate of a
19 main extension and decides not to pursue the project before the economic model is
20 run. However, Columbia is willing to provide this information for projects in which
21 the economic model is run, but do not move forward into construction.

1 **Q. What concern do you have with Mr. Knecht's direct testimony?**

2 **A.** On page 31 of his testimony, Mr. Knecht implies that the O&M expense related to
3 the customer's in-house plumbing is not recoverable in rates. He notes that
4 Columbia has not included any O&M costs in the Company's revenue requirement
5 for this case and that the inclusion of this program would have a negative impact on
6 ratepayers. Although Columbia has neither included O&M costs or projected
7 revenues for this program in the revenue requirement for this case, the Company
8 reserves the right to include these costs and projected revenues in future cases after
9 the Company has historical data on which to base the cost of this program.
10 Furthermore, the program's design ensures that it will not have a negative impact
11 on ratepayers. As stated on page 12 line 21 and page 13 line 1 of my direct testimony
12 "existing customers will not be subsidizing the costs of new customers' piping." The
13 reason for this is that a customer is only eligible for the \$1,000 house line
14 reimbursement if the economic analysis of the project yields a positive value of at
15 least \$1,000 per customer. In other words, the projected revenues of the project
16 must exceed projected costs by at least \$1,000 per customer for the Company to
17 offer this program to a potential customer. Any project in which the economic
18 analysis yields a result which is less than \$1,000 per customer would not be eligible
19 for this program.

20 **Q. Does this conclude your rebuttal testimony?**

21 **A.** Yes, it does.