

OSBA STATEMENT NO. 1

11/19/08

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

HBC, PA

RJS

Pennsylvania Public Utility Commission :

v.

Docket Nos. R-2008-2029325,
C-2008-2059017

Equitable Gas Company :

Direct Testimony and Exhibits of

BRIAN KALCIC

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On Behalf of the

Pennsylvania Office of Small Business Advocate

Date Served: October 8, 2008

Date Submitted for the Record: _____

Direct Testimony of Brian Kalcic

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Q. Please state your name and business address.

A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

Q. What is your occupation?

A. I am an economist and consultant in the field of public utility regulation, and principal of Excel Consulting. My qualifications are described in the Appendix to this testimony.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Office of Small Business Advocate (“OSBA”), which is representing the small business customers served by Equitable Gas Company (“Equitable” or “Company”).

Q. What is the subject of your testimony?

A. I have been asked by the OSBA to evaluate the propriety of the Company’s class cost-of-service studies and proposed class revenue allocation, and to sponsor changes to both, where appropriate. In addition, I will address the proposed levels of forfeited discounts and miscellaneous service revenues that are included in the Company’s filing.

Q. Do you have any preliminary comments?

Yes. I wish to note at the outset that certain of my recommendations and/or schedules reflect the Company’s full rate request in this proceeding. Any such reference is intended for comparison purposes only and should not be construed as a recommendation by the OSBA that the Commission grant Equitable’s request in whole or in part.

Q. Please summarize your recommendations.

A. Based on my analysis of the Company’s filing and discovery responses, I recommend that the Commission:

- 1
- 2 • reject Equitable’s proposed cost-of-service methodologies;
- 3
- 4 • adopt the OSBA’s recommended cost-of-service study;
- 5
- 6 • adopt the OSBA’s recommended revenue allocation, which
- 7 reflects first-dollar rate relief to Equitable’s non-residential
- 8 classes;
- 9
- 10 • adopt the OSBA’s recommended adjustments to the Company’s
- 11 proposed levels of miscellaneous service revenue and forfeited
- 12 discounts.
- 13

14 The specific details associated with the above recommendations are
15 discussed below.

16

17 **Q. How is the remainder of your testimony organized?**

18 A. Section I of my testimony critiques Equitable’s cost-of-service
19 analysis. Section II examines the Company’s proposed revenue
20 allocation. In Section III, I address the Company’s proposed level of
21 miscellaneous service revenue. Finally, Section IV discusses
22 Equitable’s proposed level of forfeited discount / late payment fees.

23

24 **I. Cost of Service Studies**

25

26 **Q. Mr. Kalcic, please provide a general description of the cost-of-**
27 **service analysis submitted by the Company in this proceeding?**

28 A. The Company performed a fully allocated cost-of-service study
29 (“COSS”), excluding purchased gas costs, for the purpose of assigning
30 the Company’s claimed base-rate revenue requirement to rate classes.
31 More accurately, the Company completed two (2) COSSs utilizing
32 different cost methodologies.

33 While the Company’s studies utilize different cost-of-service
34 methodologies, each COSS reflects the traditional three-step process of

1 functionalization, classification and allocation. *Functionalization*
2 refers to the process whereby utility plant and related expenses are
3 assigned to functions, such as production and gathering, transmission,
4 storage or distribution. *Classification* refers to the process whereby the
5 functionalized costs are broken down into cost categories, such as
6 capacity-, commodity-, or customer-related costs. Finally, *allocation*
7 refers to the process whereby the utility's classified costs are assigned
8 to rate classes, based upon a factor that reflects a causal relationship
9 between a given class and the utility's cost incurrence.

10
11 **Q. Please describe the different cost-of-service methodologies that are**
12 **reflected in the Company's COSSs.**

13 A. The methodologies employed in the Company's COSSs are identical
14 except with regard to: a) the classification of distribution mains; and b)
15 the type of allocation factor used to assign capacity-related costs to rate
16 classes. In particular, the Company's first (*i.e.*, Design Day) COSS
17 includes a customer component of distribution mains, and allocates
18 capacity-related costs using an allocation factor based on design-day
19 coincident-peak demand. The second (*i.e.*, Peak & Average) COSS
20 includes *no* customer component of distribution mains, and allocates
21 capacity-related costs on the basis of a peak and average demand
22 allocation factor.

23

1 **Q. What customer classes are included in the Company's COSSs?**

2 A. In each study, costs are allocated to the following four (4) customer
3 classes: a) Residential Service ("RS"); b) General Service Small
4 ("GSS"); c) General Service Large ("GSL"); and d) Appalachian
5 Gathering Service ("AGS").¹

6
7 **Q. Do the above RS, GSS and GSL customer classes include both sales
8 and transportation customers?**

9 A. Yes. As a result, the Company's COSSs do not distinguish between
10 sales and transportation service for cost allocation purposes.

11
12 **Q. What do the Company's COSSs indicate with respect to the
13 relative contribution toward allocated cost of the Company's
14 existing customer classes?**

15 A. The class rates of return produced by the Company's Design Day and
16 Peak & Average COSSs are summarized in Schedules BK-1 and BK-2,
17 respectively. Under the Design Day cost methodology (i.e., Schedule
18 BK-1), the GSS and GSL classes exhibit rates of return in excess of the
19 system average at both present and proposed rates, while the RS class
20 is below cost of service at present and proposed revenue levels. The
21 AGS class is below cost of service at present rates, but would move to
22 a cost-based revenue level under the Company's proposed revenue
23 allocation.

24 Under the Peak & Average cost methodology (i.e., Schedule BK-
25 2), the GSS rate of return remains above the system average at both
26 present and proposed rates, but the GSL rate of return falls below the
27 system average at proposed rates. The RS class is shown to be below

¹ The RS class includes residential sales and transportation customers taking service under Equitable's Rate RS – Residential Service, Rate FDS – Firm Delivery Service, Rate GL – Gas Lights and Rate FPS – Firm Pooling Service rate schedules. The GSS class includes non-residential sales and transportation customers using no more than 1,000 Mcf of gas per year, that take service under Equitable's Rate GSS – General Service Small, Rate FDS, Rate GDS – General Delivery Service, Rate FPS and Rate GPS – General Pooling Service rate schedules. The GSL class includes non-residential sales and transportation customers using more than 1,000 Mcf of gas per year, that take service under Equitable's Rate GSL – General Service Large, Rate FDS, Rate GDS, Rate FPS, Rate GPS and Rate DDS – Daily Delivery Service-Industrial rate schedules. The AGS class includes natural gas producers and third party marketers that utilize Equitable's gathering system for the assembly and/or transportation of natural gas produced in Pennsylvania.

1 cost of service at present rates but above cost of service at proposed
2 rates. Finally, the AGS rates of return are the same under each of the
3 two COSSs.²
4

5 **Q. Why has the Company submitted two (2) COSSs in this**
6 **proceeding?**

7 A. Company witness Russell A. Feingold states that the Design Day
8 COSS incorporates his preferred cost-of-service methods. However,
9 Mr. Feingold testifies that he “decided to use two common demand
10 cost allocation methods (the peak method and the peak and average
11 method), with and without a customer component of distribution mains,
12 to determine a range of rate of return values for purposes of evaluating
13 class cost responsibility.”³
14

15 **Q. Does either the Design Day or Average & Peak COSS, as**
16 **implemented by the Company, properly assign cost responsibility**
17 **among Equitable’s customer classes?**

18 A. No. While a proper COSS would assign all of Equitable’s claimed
19 universal service costs to the RS class, neither the Design Day nor the
20 Average & Peak COSS does so.
21

22 **Q. Please explain.**

23 A. In OSBA-I-4, the OSBA asked Equitable to describe how universal
24 service costs were allocated to customer classes in the Company’s
25 COSSs. In its response, Equitable indicated that approximately \$1.011
26 million of CAP-related Uncollectible Accounts Expense and

² The AGS outcome follows from the fact that the Company *directly assigns* its claimed gathering system revenue requirement to the AGS class. As such, the AGS class is unaffected by any underlying change in allocation factors between the Design Day and Peak & Average COSSs.

³ See Equitable Statement No. 6 at page 25.

1 Administration Costs were inadvertently allocated to Equitable's GSS
2 and GSL classes in both COSSs. As Equitable readily admits, "no
3 portion of [such CAP-related costs] should have been allocated to the
4 Non-Residential classes."⁴

5
6 **Q. How would correcting this oversight impact the class rates of
7 return shown in Schedules BK-1 and BK-2?**

8 A. All else equal, the reported GSS and GSL rates of return at both present
9 and proposed rates would increase under both COSSs. At the same
10 time, the reported RS rates of return would decrease under both
11 COSSs. The results for the AGS class would be unaffected.

12
13 **Q. Mr. Kalcic, do you have any other concerns regarding the
14 methodology employed in the Company's COSSs?**

15 A. Yes. In addition to the issue of CAP cost allocation, both COSSs are
16 deficient with respect to the manner in which competitive service
17 discounts (i.e., the delivery rate discounts that are granted to customers
18 with competitive service options) are assigned to rate classes.

19
20 **Q. How are such discounts treated in Equitable's COSSs?**

21 A. Both COSSs implicitly assign the cost of a given discount to the class
22 in which the competitive service customer resides.

23
24 **Q. In which class does the majority of the Company's competitive
25 service customers take service?**

26 A. As shown in the Company's response to OSBA-II-3, virtually all of the
27 Company's negotiated (i.e., competitive service) delivery revenues are
28 contained in the GSL class.⁵

29

⁴ See the Company's response to OSBA-I-4.

⁵ Equitable reports total negotiated delivery revenues of \$14.133 million, of which \$13.929 million or 98.6% are GSL-related. The remaining \$0.204 million of negotiated delivery revenues are associated with the GSS class.

1 **Q. Is the Company's COSS treatment of competitive service discounts**
2 **appropriate?**

3 A. No.

4

5 **Q. Why not?**

6 A. The Company's approach requires the GSL class and, to a lesser extent,
7 the GSS class to pay for the competitive service discounts granted to
8 select customers in those classes. However, in theory, *all* ratepayers
9 are better off if a utility is able to keep competitive service customers
10 from leaving its system, not just the class/classes in which competitive
11 service customers reside. If competitive service customers are retained,
12 they will continue to provide some contribution towards the utility's
13 fixed revenue requirement. On the other hand, if competitive service
14 customers leave the system, *all* of the utility's remaining ratepayers
15 will become responsible for the revenue shortfall associated with the
16 lost competitive service margins.

17 Taken as a whole, these considerations suggest that all rate
18 classes should share the cost of competitive service discounts in a
19 COSS.

20

21 **Q. Does the Commission agree?**

22 A. Yes. Counsel informs me that the Commission approved the sharing
23 by all rate classes of the cost of competitive service discounts in a PPL
24 Gas Utilities Corporation rate case at Docket No. R-00061398.

25

26 **Q. Mr. Kalcic, you previously indicated that Equitable included a**
27 **customer component of distribution mains in its Design Day COSS,**
28 **but not in its Peak & Average COSS. Has the Commission recently**
29 **ruled on the issue of whether or not a customer component of**
30 **distribution mains should be included in a gas COSS?**

31 A. Yes. Counsel further advises me that the Commission ruled against
32 classifying a portion of distribution mains as customer-related in a
33 Philadelphia Gas Works rate proceeding at Docket No. R-00061931.

1 As such, the Company's Design Day COSS is also deficient on this
2 count.

3
4 **Q. Do you have a recommended COSS methodology that can be used
5 to evaluate class revenue responsibility in this proceeding?**

6 A. Yes. I recommend that the Commission evaluate class revenue
7 responsibility based upon a rerun of Equitable's Design Day COSS,
8 with the following corrections and/or modifications: 1) a direct
9 assignment of all of the Company's CAP-related costs to the RS class;
10 2) no customer component of distribution mains; and 3) an allocation
11 of the costs associated with competitive service discounts to all rate
12 classes.

13
14 **Q. Did the Company rerun its Design Day COSS model for the OSBA,
15 incorporating the above changes?**

16 A. Yes, in response to OSBA-II-4 and OSBA-II-5.

17
18 **Q. What specific instructions did the OSBA give the Company with
19 regard to competitive service discounts?**

20 A. To place the issue in perspective, one should first consider how
21 Equitable implicitly allocates competitive service discounts. In the
22 Company's COSSs, both the volumes (i.e., costs) and revenues
23 associated with negotiated delivery rates are included in the respective
24 classes where competitive service customers take service (i.e., mainly
25 GSL). As a result, both of Equitable's COSSs end up assigning the
26 GSL class a pro-rata (i.e., fully allocated) portion of total system costs,
27 even though many GSL customers receive negotiated delivery rates
28 that are *not* subject to increase in this proceeding. This approach
29 saddles non-competitive service customers in the GSL class with the
30 implicit cost of the discounts necessary to retain competitive service
31 customers.

32 In other words, under the Company's COSSs, the non-
33 competitive GSL customers (i.e., those that do not receive discounts)
34 must pay not only their own share of the costs of Equitable's

1 distribution system, but also the costs of Equitable's distribution
2 system that the competitive GSL customers (i.e., those that do receive
3 discounts) are relieved from having to pay.

4 To correct this problem, the OSBA instructed the Company to
5 make the following COSS-related changes: **a)** remove the Company's
6 negotiated delivery service revenues from the applicable customer
7 classes' delivery revenues that are shown on Sheet 8, line 178 of the
8 Design Day study; **b)** allocate the Company's total negotiated delivery
9 service revenues back to all rate classes based upon total cost of
10 service; and **c)** remove all associated negotiated delivery service
11 *volumes* from the applicable customer classes' external allocation
12 factors, and adjust the affected customer classes' external peak demand
13 allocation factor to reflect the reduced volumes (i.e., class size).
14

15 **Q. What is the impact of the above with respect to the allocation of**
16 **competitive service discounts in the OSBA's recommended COSS?**

17 A. The OSBA's approach defines all customer classes on a uniform basis,
18 i.e., to include only non-competitive service customers, and treats the
19 Company's total negotiated delivery revenues as an additional offset or
20 credit to base rates (just as miscellaneous service revenues and
21 forfeited discounts reduce the required level of base rates). In other
22 words, the OSBA's approach assigns all of the costs of Equitable's
23 distribution system to the Company's non-competitive customers (i.e.,
24 those that do not receive discounts) and then credits the delivery (i.e.,
25 distribution) revenue provided by competitive customers (i.e., those
26 that do receive discounts) to the classes on the basis of each class'
27 share of the total distribution system costs. As a result, all classes
28 share responsibility for the costs associated with the Company's
29 competitive service discounts.
30

31 **Q. Have you summarized the results of the OSBA's recommended**
32 **COSS?**

33 A. Yes, in Schedule BK-3.
34

1 **Q. What do the results in Schedule BK-3 indicate?**

2 A. The overall results are similar to those produced by the Company's
3 Design Day COSS (i.e., Schedule BK-1). In particular, the GSS and
4 GSL classes exhibit rates of return in excess of the system average at
5 both present and proposed rates, while the RS class remains below cost
6 of service at present and proposed revenue levels.

7

8 **Q. Why do the AGS rates of return in Schedule BK-3 differ from**
9 **those reported in Schedule BK-1?**

10 A. The AGS rates of return on Schedule BK-3 should be the same as the
11 AGS rates of return on Schedule BK-1. However, the OSBA's
12 instructions to *Equitable* regarding the treatment of competitive service
13 discounts included the allocation of the Company's total negotiated
14 delivery service revenues to *all* rate classes (as a credit) based upon
15 total cost of service. Those instructions should have instead directed
16 *Equitable* to allocate the Company's total negotiated delivery service
17 revenues to *only the RS, GSS and GSL* rate classes.⁶ As a result of the
18 OSBA's faulty instructions, the AGS rates of return reported in
19 Schedule BK-3 are inappropriately inflated, at the expense of the RS,
20 GSS and GSL rates of return depicted in Schedule BK-3. In other
21 words, the rates of return for RS, GSS, and GSL should be higher at
22 both present and proposed rates than shown in Schedule BK-3.

23

24 **Q. Would correcting for this mistake cause the RS class' rate of return**
25 **to move above the system average?**

26 A. As I discuss later in my testimony, it would not.

27

⁶ As was previously noted, the Company directly assigned its claimed gathering system revenue requirement to the AGS class. While the AGS revenue requirement reflects the total cost of the Company's gathering system, it does not include any portion of *Equitable's* claimed distribution system revenue requirement. As such, the AGS class does not share in the cost associated with competitive service discounts under the OSBA's COSS, and likewise should not be assigned any portion of the negotiated delivery revenue credit contained in the OSBA's COSS.

1 **Q. Have you utilized the results of the OSBA's recommended**
2 **Company's COSS when preparing your recommended class**
3 **revenue allocation in this proceeding?**

4 A. Yes, I have. My recommended revenue allocation is discussed in the
5 next section of my testimony.

6
7 **II. Class Revenue Allocation**
8

9 **Q. Mr. Kalcic, how does Equitable propose to recover its requested**
10 **revenue increase in this case?**

11 A. Schedule BK-4 provides a summary of the Company's proposed class
12 revenue allocation. Per line 5 of Schedule BK-1, the Company's
13 requested system average increase in base revenue (i.e., excluding gas
14 costs) is 33.5%. The proposed increases to individual customer classes
15 range from a low of 9.9% (GSS) to a high of 141.2% (AGS).
16

17 **Q. What specific guidelines did Equitable employ to arrive at the**
18 **proposed revenue allocation shown in Schedule BK-4?**

19 A. On pages 11-16 of his direct testimony, Mr. Quinn discusses a number
20 of factors that were considered when developing the Company's
21 proposed revenue allocation. Such factors include: 1) a direct
22 assignment of that portion of Equitable's claimed overall revenue
23 deficiency that is attributable to the Company's universal service
24 programs (i.e., \$16.9 million) to the residential class; 2) consideration
25 of the results of the Company's COSSs; 3) gradualism; and 4) the
26 competitive service options available to certain customers.
27

28 **Q. With respect to the above cited cost-of-service consideration, does**
29 **Mr. Quinn indicate upon which of the Company's COSSs he relied**
30 **when deriving his proposed class revenue allocation?**

31 A. Not specifically. However, given that the Company's proposed GSL
32 increase is less than the system average, it would appear that Mr. Quinn
33 has given greater weight to the Company's Design Day COSS results.
34

1 **Q. Have you calculated the actual revenue subsidies associated with**
2 **the Company's proposed class revenue levels under the OSBA's**
3 **recommended COSS?**

4 A. Yes, in Schedule BK-5.
5

6 **Q. Please explain Schedule BK-5.**

7 A. Column 1 of Schedule BK-5 shows total class cost of service, per the
8 OSBA recommended COSS. Column 2 allocates the Company's total
9 negotiated delivery revenues of \$14.133 million to the RS, GSS and
10 GSL classes (as a credit), in proportion to each class' total cost of
11 service shown in column 1.⁷ Column 3 shows the allocation of other
12 revenue credits totaling \$2.827 million to customer classes, per the
13 OSBA COSS. Column 4 shows the net cost of service of each rate
14 class, i.e., the level of base rate revenues necessary for each class to
15 provide Equitable's overall requested rate of return of 8.89%.

16 Column 5 of Schedule BK-5 shows the Company's proposed
17 level of base rate revenues for each class, excluding negotiated delivery
18 service revenues. Finally, column 6 subtracts net cost of service
19 (column 4) from proposed revenues (column 5) to arrive at each class'
20 proposed revenue subsidy (i.e., each class' subsidy at proposed rates).
21

22 **Q What do the class subsidy results shown on Schedule BK-5 indicate**
23 **with regard to Equitable's proposed revenue allocation?**

24 A. Column 6 of Schedule BK-5 shows that the GSS and GSL classes
25 would continue to provide an aggregate subsidy in the amount of
26 \$4.207 million to the RS class at the conclusion of this proceeding.
27

28 **Q. Mr. Kalcic, do you have a specific recommendation for modifying**
29 **the Company's revenue allocation proposal?**

⁷ Because of the OSBA's instructions in OSBA-II-4 and OSBA-II-5, the Company assigned a portion of the \$14.133 million credit to the AGS class. Column 2 of Schedule BK-5 corrects this problem. Therefore, although Schedule BK-3 understates the RS, GSS, and GSL rates of return at present and proposed rates, Schedule BK-5 accurately portrays the costs, credits, revenues, and subsidies of each class under the OSBA COSS.

1 A. Yes. My recommended revenue allocation combines first-dollar relief
2 for select rate classes with a residual scaleback to the increases of all
3 rate classes, so as to recover the Company's approved revenue
4 requirement at the conclusion of this case.
5

6 **Q. Please explain.**

7 A. In order to move those classes with proposed rates of return in excess
8 of the system average closer to cost of service at the conclusion of this
9 proceeding, I recommend that the GSS and GSL classes receive first-
10 dollar relief up to the level of their proposed subsidies (shown in
11 Schedule BK-5, column 6), subject to the condition that no class
12 receive an overall rate decrease in this proceeding. This approach
13 would result in an aggregate level of first-dollar relief of no more than
14 \$2.374 million.
15

16 **Q. How did you determine that the aggregate level of first-dollar relief**
17 **should be no more than \$2.374 million?**

18 A. In order to insure that no class receives an overall rate decrease, it is
19 necessary that the maximum amount of first-dollar relief applicable to
20 each class be limited to *the smaller of*: a) the Company's proposed
21 increase shown in Schedule BK-4; or b) the proposed subsidy level
22 shown in Schedule BK-5. This approach produces maximum first-
23 dollar relief of \$1.432 million for GSS and \$0.942 million for GSL,
24 which totals \$2.374 million.⁸
25

26 **Q. Have you prepared a schedule that illustrates your first-dollar**
27 **relief proposal at the (maximum) \$2.374 million level?**

28 A. Yes. Schedule BK-6 shows my recommended class revenue allocation
29 in the case where Equitable receives a hypothetical revenue award of

⁸ Note that GSS would receive first-dollar relief in an amount of \$1.432 million, which is smaller than the level of its proposed subsidy of \$3.266 million shown on Schedule BK-5. In other words, even if GSS were to receive no rate increase in this proceeding, the class would still be overpaying its cost of service.

1 \$49.576 million.⁹ Aggregate first-dollar relief in the amount of \$2.374
2 million is reflected in the illustrative GSS and GSL increases shown on
3 lines 2-3 of Schedule BK-6. The rate increases assigned to all other
4 rate classes are unchanged from Equitable's proposed levels.¹⁰ In other
5 words, my first-dollar relief proposal would move the two overpaying
6 classes (i.e., GSS and GSL) closer to cost of service without raising the
7 rates for RS by more than the Company has proposed in its filing.
8

9 **Q. How would you determine your recommended class revenue**
10 **allocation in the event that the Commission awards Equitable some**
11 **amount other than the \$49.576 million shown in Schedule BK-6?**

12 A. If the Commission were to award Equitable less than \$49.576 million, I
13 would recommend that the illustrative class increases shown in column
14 2 of Schedule BK-6 be reduced proportionately.
15

16 **Q. Would your first-dollar relief proposal result in a disproportionate**
17 **increase being assigned to the Company's RS class?**

18 A. No, it would not. As shown in column 3 of Schedule BK-6, my
19 recommended RS increase would remain at the Company-proposed
20 level of 37.9%. This would equate to an increase of less than 1.20
21 times the resulting system average rate revenue increase of 32.0%
22 shown on line 5 of Schedule BK-6. Such an outcome would certainly
23 not be judged disproportionate using traditional ratemaking guidelines.
24

25 **III. Miscellaneous Service Revenue**

26
27 **Q. Mr. Kalcic, what is the pro forma level of miscellaneous service**
28 **revenue contained in the Company's filing?**

⁹ An assumed award level of \$49.576 million provides for a hypothetical disallowance of \$2.374 million (i.e., \$51.950 million minus \$49.576 million), which is just sufficient to fund the OSBA's maximum level of first-dollar relief.

¹⁰ Compare column 2 of Schedules BK-4 and BK-6.

1 A. As shown in column 1 on line 7 of Schedule BK-4, the Company has
2 included a total of \$1.209 million of miscellaneous service revenue (at
3 present rates) in its filed case.
4

5 **Q. Does the Company propose to increase any of its miscellaneous
6 service charges in this proceeding?**

7 A. Yes. The Company provided a schedule that shows all of its proposed
8 miscellaneous service charge increases in its response to OTS-RS-15-
9 D.
10

11 **Q. Has the Company reflected any increase in its miscellaneous
12 service revenues in this case?**

13 A. No, it has not.¹¹
14

15 **Q. Did Equitable provide the OSBA with an estimate of the increased
16 revenue that it would receive from its proposed increases in
17 miscellaneous service charges?**

18 A. Yes. In response to OSBA-II-1, the Company provides a derivation of
19 its claimed level of pro forma miscellaneous service revenue (at present
20 rates) of \$1.209 million. In response to OSBA-II-2, the Company
21 provides a similar derivation using its *proposed* rates, which would
22 produce \$2.417 million of miscellaneous service revenue. Combined,
23 these discovery responses indicate that the Company's proposed
24 increases in miscellaneous service charges would generate (\$2.417
25 million minus \$1.209 million or) \$1.208 million of additional revenue.
26

27 **Q. Should the above \$1.208 million of additional miscellaneous service
28 revenue be reflected in the Company's filing?**

29 A. Yes. Otherwise, the Company's test year revenues at proposed rates
30 would be understated by \$1.208 million and the rate increases imposed
31 on the various classes would be overstated by \$1.208 million.
32

¹¹ See line 7, column 2 of Schedule BK-4.

1 **Q. What is your recommendation in this area?**

2 A. In the event that the Commission adopts the Company's proposed
3 miscellaneous service charges, I recommend that the Commission
4 impute an increase of \$1.208 million to Equitable's pro forma level of
5 miscellaneous service revenues of \$1.209 million shown on line 7,
6 column 1 of Schedule BK-4. Doing so would provide an appropriate,
7 dollar-for-dollar offset to the Company's requested rate revenue
8 increase in this proceeding. In other words, including the increase of
9 \$1.208 million on line 7, column 2 of Schedule BK-4 would reduce the
10 magnitude of the base rate increase needed from the RS, GSS, GSL,
11 and AGS classes to meet Equitable's full revenue requirement.
12

13 **IV. Forfeited Discounts / Late Payment Fees**

14
15 **Q. Mr. Kalcic, do you have any comment on Equitable's proposed**
16 **level of forfeited discounts?**

17 A. Yes, I do. As shown on line 6, column 2 of Schedule BK-4, the
18 Company has reflected no increase to its current level of forfeited
19 discount / late payment revenues. This is inappropriate. Equitable
20 applies a Late Payment Charge of 1.5% per month on the unpaid
21 balance of a customer's bill. Therefore, late payment fee revenues
22 would be expected to increase as delivery revenues increase, since the
23 1.5% charge would be applied to a higher balance on a customer's bill.
24

25 **Q. What do you recommend?**

26 A. I recommend that Equitable's forfeited discount revenues at final rates
27 be increased over the current pro forma level of \$1.558 million shown
28 in Schedule BK-4, in proportion to the allowed increase (if any) in the
29 Company's base rate revenues. For example, if the Company were to
30 be awarded its requested 33.50% increase in base rate revenues (as
31 shown on line 5 of Schedule BK-4), a total of 33.5% times \$1.558
32 million (or approximately \$520,000) of that increase should be deemed
33 to come from an increase in forfeited discount revenue. At the same
34 time, the Company's base rates should be designed to collect \$520,000

1 less than otherwise required (i.e., \$520,000 less than shown on lines 1-
2 5, column 2 of Schedule BK-4).

3
4 **Q. What would be the total amount of the OSBA's recommended**
5 **adjustments to the Company's miscellaneous service revenue and**
6 **forfeited discounts, at Equitable's requested revenue requirement**
7 **level?**

8 A. The total revenue adjustments would amount to (\$1.208 million plus
9 \$0.520 million or) \$1.728 million, which represents approximately
10 73% of the total needed to provide the OSBA's recommended level of
11 first-dollar relief in this proceeding.

12
13 **Q. Does this conclude your direct testimony?**

14 A. Yes.

EXHIBITS

Schedule BK-1
Schedule BK-2
Schedule BK-3
Schedule BK-4
Schedule BK-5
Schedule BK-6

EQUITABLE GAS COMPANY

Class Cost-of-Service Results
 Per Company Study
Basis: Design Day Methodology

<u>Line</u>	<u>Classification</u>	<u>Present Rate of Return</u>	<u>Proposed Rate of Return</u>
		1	2
1	RS	1.54%	7.86%
2	GSS	18.15%	15.83%
3	GSL	12.26%	10.76%
4	AGS	-6.69%	8.89%
5	Total Company	3.80%	8.89%

Source: EGC Exhibit IV, Items IV-B-1(A) & IV-B-1(C).

EQUITABLE GAS COMPANY

Class Cost-of-Service Results
Per Company Study
Basis: Peak & Average Methodology

<u>Line</u>	<u>Classification</u>	<u>Present Rate of Return</u>	<u>Proposed Rate of Return</u>
		1	2
1	RS	2.90%	9.43%
2	GSS	17.02%	14.92%
3	GSL	5.83%	5.78%
4	AGS	-6.69%	8.89%
5	Total Company	3.80%	8.89%

Source: EGC Exhibit IV, Items IV-B-1(B) & IV-B-1(D).

EQUITABLE GAS COMPANYClass Cost-of-Service Results
Per OSBA Recommended COSS

<u>Line</u>	<u>Classification</u>	Present	Proposed
		Rate of Return	Rate of Return
		1	2
1	RS	2.63%	8.14%
2	GSS	16.62%	14.35%
3	GSL	9.18%	9.81%
4	AGS	-4.50%	10.41%
5	Total Company	3.80%	8.89%

Source: OSBA-II-4 & OSBA-II-5.

EQUITABLE GAS COMPANY

Company Proposed Allocation of its
 Requested Increase in Base Revenue
 Basis: Non-Gas Revenues Only
 (Dollars in Thousands)

<u>Line</u>	<u>Description</u>	Present Base Revenue	Proposed Increase	
			Amount	Percent
		1	2	3
1	RS	\$105,632	\$40,050	37.9%
2	GSS	\$14,510	\$1,432	9.9%
3	GSL	\$29,396	\$2,950	10.0%
4	AGS	<u>\$5,326</u>	<u>\$7,518</u>	141.2%
5	Subt Rate Revenue	\$154,864	\$51,950	33.5%
6	Forfeited Discounts	\$1,558	\$0	0.0%
7	Miscellaneous Service	\$1,209	\$0	0.0%
8	Other	<u>\$61</u>	<u>\$0</u>	0.0%
9	Total Company	\$157,692	\$51,950	32.9%

Source: EGC Exhibit IV, Items IV-B-1(A) & IV-B-1(C).

EQUITABLE GAS COMPANY

Derivation of Class Revenue Subsidies at Company Proposed Rates

Basis: OSBA Recommended COSS

(Dollars in Thousands)

Line	Classification	Proposed	Negotiated	Other	Net	Proposed	Proposed
		Cost-of- Service	Delivery Revenue Credit	Revenue Credits	Cost-of- Service	Base Revenue 1/	Revenue Subsidy 2/
		(1)	(2)	(3)	(4)=(1)-(2)-(3)	(5)	(6) = (5)-(4)
1	RS	\$164,366	\$11,804	\$2,673	\$149,889	\$145,682	-\$4,207
2	GSS	\$13,536	\$972	\$92	\$12,472	\$15,738	\$3,266
3	GSL	\$18,895	\$1,357	\$62	\$17,476	\$18,418	\$942
4	AGS	<u>\$12,844</u>	<u>\$0</u>	<u>\$0</u>	<u>\$12,844</u>	<u>\$12,844</u>	<u>\$0</u>
5	Total Company	\$209,641	\$14,133	\$2,827	\$192,681	\$192,682	\$1

Source: OSBA-II-4, Total Allocated OSBA-II-4, Sch. BK-1
Sheet 1, to non-AGS Sheet 8, & OSBA-II-3
Line 14 classes, Lines 181, 182
& 184 per Col. 1

Notes:

1/ Excludes negotiated delivery service revenues.

2/ A positive figure indicates that a class is providing a subsidy;
a negative figure indicates that it is receiving a subsidy.

EQUITABLE GAS COMPANY

OSBA Recommended Allocation of a
Hypothetical \$49.576 m. Increase in Base Revenue
Basis: Non-Gas Revenues Only
(Dollars in Thousands)

Line	Description	Present Base Revenue	Illustrative Increase	
			Amount	Percent
		1	2	3
1	RS	\$105,632	\$40,050	37.9%
2	GSS 1/	\$14,510	\$0	0.0%
3	GSL 2/	\$29,396	\$2,008	6.8%
4	AGS	<u>\$5,326</u>	<u>\$7,518</u>	141.2%
5	Subt Rate Revenue	\$154,864	\$49,576	32.0%
6	Forfeited Discounts	\$1,558	\$0	0.0%
7	Miscellaneous Service	\$1,209	\$0	0.0%
8	Other	<u>\$61</u>	<u>\$0</u>	0.0%
9	Total Company	\$157,692	\$49,576	31.4%

Notes:

1/ Reflects first-dollar relief in the amount of \$1.432 million.

2/ Reflects first-dollar relief in the amount of \$0.942 million.

REFERENCED INTERROGATORY RESPONSES

OSBA I-4
OSBA II-1
OSBA II-2
OSBA II-3
OSBA II-4
OSBA II-5
OTS – RS – 15-D

Docket No. R-2008-2029325
Item: OSBA-I-4
Respondent: Russell A. Feingold
Position: Vice President – Black & Veatch Corporation

EQUITABLE GAS COMPANY
Response to Interrogatories of the
Office of Small Business Advocate

Item: OSBA-I-4

Please provide a detailed explanation of how the Company's proposed Universal Service Program costs are treated in: a) the Company's Design Day cost-of-service study (COSS); and b) the Company's Peak and Average COSS. Include a schedule that identifies each line item in the above COSSs that includes CAP-related costs, and the amount of CAP costs included in each.

Response:

Universal Service costs include CAP costs and LIURP costs. The treatment of Universal Service Costs was the same in both the Company's Design Day COSS and its Peak and Average COSS.

CAP Shortfall costs of \$16,167,000 are included in Uncollectible Accounts Expense, Account 904, and represent approximately 65% of the Account 904 total. Account 904 was allocated between Residential and Non-Residential (GSS and GSL) classes in the same proportion as actual Net Write-Offs for 2007 and 2006. The Non-Residential portion was allocated between the GSS and GSL classes based on revenues. The portion of the CAP shortfall (\$16,167,000) allocated between the GSS class (approximately \$350,000) and the GSL class (approximately \$640,000) should have been directly assigned to the Residential class. No portion of the CAP Shortfall should have been allocated to the Non-Residential classes.

CAP Administration costs of \$299,000 are included in Customer Assistance- Other, Account 908, and represent approximately 59% of the Account 908 total. Account 908 was allocated among the rate classes based on the average number of customers. CAP Administration costs should have been directly assigned to the Residential class. No portion of CAP Administration costs should have been allocated to the Non-Residential classes. The amount allocated to Non-Residential classes was approximately \$21,000.

LIURP costs of \$698,000 represent 100% of Other Customer Assistance and Informational Expense, Account 910. Account 910 was directly assigned to Residential.

Line Number from COSS	Account Description	Account Code	Total Dollars (\$000s)	CAP Dollars (\$000s)	%
117	Uncollectible Accounts	904	25,050	16,167	65%
121	Customer Assist- Other	908	509	229	45%
122	Other Customer Service & Informational Expense	910	698	698	100%

Interrogatories of the
Office of Small Business Advocate to
Equitable Gas Company

Docket No. R-2008-2029325

Set II

1. The Company's response to OSBA-I-10 references OCA-IV-12, which is not responsive to OSBA-I-10. Please provide a detailed breakdown of the Miscellaneous Service Revenue total of \$1,208,555 shown in Exhibit III, Item: III-E-20, Section II: 1, *including a workpaper that shows the derivation (i.e., rate times billing determinants) of the revenue associated with each miscellaneous service provided by the Company.*

Equitable Gas Company
Docket No. R-2008-2025560
OSBA-II-1

Residential	<u>Occurrences</u>	<u>Rate</u>	<u>Total Charged</u>
Connect	32,878	\$ 25.00	\$ 821,950
Reconnect	6,565	\$ 50.00	\$ 328,250
High Bill Investigation	305	\$ 25.00	\$ 7,625
Meter Change Charge	38	\$ 10.00	\$ 380
Temporary Service Line	22	\$ 200.00	\$ 4,400
 Commercial and Industrial			
Connect	1,771	\$ 25.00	\$ 44,275
Reconnect	9	\$ 50.00	\$ 450
High Bill Investigation	45	\$ 25.00	\$ 1,125
Meter Change Charge	10	\$ 10.00	\$ 100
Total Charges			\$ 1,208,555

Docket No. R-2008-2029325
Item: OSBA-II-2
Respondent: Robert M. Narkevic
Position: Manager, Rates

EQUITABLE GAS COMPANY
Response to Interrogatories of the
Office of Small Business Advocate

Item: OSBA-II-2

Reference the Company's response to OTS-RS-15-D. Please provide a detailed derivation (i.e., rate times billing units) of the miscellaneous service revenue that would be produced by the Company's proposed fees, by type of miscellaneous service. In computing the requested proposed revenues, please use the same billing units as those used to derive the Company's current miscellaneous service revenue levels in OSBA-II-1.

Response:

Please see the attached.

Equitable Gas Company
Docket No. R-2008-2025560
OSBA-II-2

Residential	<u>Occurrences</u>	<u>Rate</u>	<u>Total Charged</u>
Connect	32,878	\$ 50.00	\$ 1,643,900
Reconnect	6,565	\$ 50.00	\$ 328,250
High Bill Investigation	305	\$ 50.00	\$ 15,250
Meter Change Charge	38	\$ 10.00	\$ 380
Temporary Service Line	22	\$ 200.00	\$ 4,400
Commercial and Industrial			
Connect	1,771	\$ 230.00	\$ 407,330
Reconnect	9	\$ 210.00	\$ 1,890
High Bill Investigation	45	\$ 340.00	\$ 15,300
Meter Change Charge	10	\$ 10.00	\$ 100
Total Charges			\$ 2,416,800

Docket No. R-2008-2029325
Item: OSBA-II-3
Respondent: John M. Quinn
Position: Vice President, LDC Rates and Gas Supply

EQUITABLE GAS COMPANY
Response to Interrogatories of the
Office of Small Business Advocate

Item: OSBA-II-3

Reference page 14, lines 9-11 of Equitable Statement No. 1 and Attachment JMQ-3. Please provide a schedule that shows the following information, by *cost-of-service* rate class (i.e., RS, GSS, GSL and AGS): a) the level of revenue contributed from negotiated delivery service agreements; and b) the total volumes (i.e., Mcf) subject to negotiated delivery service agreements.

Response:

	<u>Revenue</u>	<u>Volume</u>
GSS	\$204,071	120,455
GSL	\$13,928,539	15,414,045

Docket No. R-2008-2029325

Item: OSBA-II-4

Respondent: Russell A. Feingold

Position: Vice President – Black & Veatch Corporation

EQUITABLE GAS COMPANY
Response to Interrogatories of the
Office of Small Business Advocate

Item: OSBA-II-4

Reference Item 53.53 IV-B-1 (A), Sheets 1-85. Please rerun the referenced cost study with the following changes to the Company's methodology. Include a complete printout of the associated Sheets 1-85.

- a. Eliminate the customer component of distribution mains (as in OSBA-I-5);
- b. Directly assign *all* of the Company's CAP costs to the Residential class (per the Company's response to OSBA-I-4);
- c. Remove the negotiated delivery service revenues identified in OSBA-II-3 from the applicable customer classes' delivery revenues that are shown on Sheet 8, line 178 of the referenced cost study, and allocate the Company's total negotiated delivery service revenues back to all rate classes based upon total cost of service; and
- d. Remove the associated negotiated delivery service volumes identified in OSBA-II-3 from the applicable customer classes' external allocation factors shown in Item 53.53 IV-B-3(A), and adjust the affected customer classes' external peak demand allocation factor to reflect the reduced volumes (i.e., class size).

Response:

Please see attached response.

EQUITABLE GAS COMPANY
DOCKET NO. R-2008-2029325
COST OF SERVICE STUDY- FUTURE TEST YEAR ENDED 12/31/2008

EXHIBIT IV
Response to OSBA II 4-5
PRESENT RATES - MAINS- NO CUSTOMER, DEMAND DESIGN DAY
SHEET 1 OF 85

	<u>Total</u>	<u>Residential Service (RS)</u>	<u>General Service - Small (GSS)</u>	<u>General Service - Large (GSL)</u>	<u>Appalachian Gathering Service (AGS)</u>
<u>Revenues at Current Rates</u>					
1 Operating Revenue	157,631	119,338	15,305	16,796	6,192
2 Other revenue / Adjustments	<u>61</u>	<u>48</u>	<u>6</u>	<u>7</u>	<u>0</u>
3 Net revenues	157,693	119,386	15,312	16,803	6,192
<u>Operating Expenses</u>					
4 Operations, Customer, A&G	105,498	84,587	6,772	7,910	6,230
5 Depreciation expense	23,471	18,184	1,342	2,430	1,515
6 Taxes other than income	<u>2,186</u>	<u>1,704</u>	<u>199</u>	<u>265</u>	<u>18</u>
7 Operating expenses	131,155	104,475	8,312	10,605	7,763
8 Income tax expense	<u>4,348</u>	<u>3,277</u>	<u>453</u>	<u>465</u>	<u>153</u>
9 Total Operating Expenses	135,503	107,752	8,766	11,070	7,917
10					
11 Income at Present Rates	<u>22,190</u>	<u>11,635</u>	<u>6,546</u>	<u>5,733</u>	<u>(1,724)</u>
12 Rate Base	<u>583,253</u>	<u>443,096</u>	<u>39,376</u>	<u>62,483</u>	<u>38,297</u>
13 Return on Rate Base at Present Rates	<u>3.80%</u>	<u>2.63%</u>	<u>16.62%</u>	<u>9.18%</u>	<u>(4.50%)</u>
14 Revenue Requirement at Full Cost of Service	209,642	164,366	13,536	18,895	12,844
15 Operating expenses	131,155	104,475	8,312	10,605	7,763
16 Income tax expense	25,531	19,396	1,724	2,735	1,676
17 Additional expenses	<u>1,103</u>	<u>1,103</u>	<u>0</u>	<u>0</u>	<u>0</u>
18	157,790	124,974	10,036	13,340	9,440
19 Income at Full Cost of Service	<u>51,852</u>	<u>39,391</u>	<u>3,500</u>	<u>5,555</u>	<u>3,405</u>
20 Return on Rate Base at Full Cost of Service	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>	<u>8.89%</u>
21 Revenue INCREASE (DECREASE) to Achieve Full Cost of Service	<u>51,949</u>	<u>44,979</u>	<u>(1,775)</u>	<u>2,092</u>	<u>6,652</u>

Docket No. R-2008-2029325

Item: OSBA-II-5

Respondent: Russell A. Feingold

Position: Vice President – Black & Veatch Corporation

EQUITABLE GAS COMPANY
Response to Interrogatories of the
Office of Small Business Advocate

Item: OSBA-II-5

Reference Item 53.53 IV-B-1 (C), Sheets 1 of 1. Please rerun the cost-of-service study requested in OSBA-II-4 at proposed rates.

Response:

Please see attached response.

EQUITABLE GAS COMPANY

DOCKET NO. R-2008-2029325

COST OF SERVICE STUDY- FUTURE TEST YEAR ENDED 12/31/2008

PROPOSED RATES- MAINS- NO CUSTOMER, DEMAND DESIGN DAY

	<u>Total</u>	<u>Residential Service (RS)</u>	<u>General Service Small (GSS)</u>	<u>General Service Large (GSL)</u>	<u>Appalachian Gathering Service (AGS)</u>
1 Revenue Incr. (Decr.) Full Cost of Service	51,948	44,979	(1,775)	2,092	6,652
2 Proposed Revenue Allocation	51,950	40,050	1,432	2,950	7,518
<hr/>					
Revenue at Proposed Revenue Allocation					
3 Present rate Operating revenue	157,631	119,338	15,305	16,796	6,192
4 Proposed Increase / Decrease	51,950	40,050	1,432	2,950	7,518
5 Proposed Revenue before Other / Adj	209,581	159,388	16,737	19,746	13,710
6 Other revenue / Adjustments	61	48	6	7	0
7 Revenue at Proposed Revenue Allocation	209,643	159,436	16,744	19,753	13,710
8 Operating expenses	131,155	104,475	8,312	10,605	7,763
9 Pre-tax income	78,488	54,961	8,431	9,148	5,947
10 Income tax expense	25,531	17,769	2,782	3,018	1,962
11 Additional expenses	1,103	1,103	0	0	0
12 Net income at Proposed Revenue Allocation	51,853	36,089	5,650	6,130	3,985
13 Rate Base	583,253	443,096	39,376	62,483	38,297
14 Return at Proposed Revenue Allocation	8.89%	8.14%	14.35%	9.81%	10.41%
15 Relative Return at Present Rates	1.00	0.69	4.37	2.41	(1.18)
16 Relative Return at Proposed Revenue	1.00	0.92	1.61	1.10	1.17

Docket No. R-2008-2029325
Item: OTS-RS-15-D
Respondent: Robert M. Narkevic
Position: Manager, Rates

EQUITABLE GAS COMPANY
Response to Interrogatories of the
Office of Trial Staff

Item: OTS-RS-15-D

Provide a schedule showing which service fees are being increased on tariff pages 14, 17 and 18. Include the derivation of those service fees. Show both the old fee and the new fee and where the increased revenue from these fees is included in the Company's test year revenues.

Response:

Please see attached schedule showing which service fees are being increased. The new service fees were determined by first conducting a market survey to determine the hourly rate for plumbers in the region. The survey results were averaged to generate an hourly market rate for a one man and a two men crew. The average time it took an Equitable crew to complete each service was determined from 2007 historical service orders. The average hourly market rate was then multiplied by the average time for an Equitable crew to complete each service and rounded up or down to the nearest \$5 increment to determine the new service fees. No increase in revenue was reflected in the Company's test year revenues for the fee changes.

EQUITABLE GAS COMPANY
Docket No. R-2008-2029325
OTS RS-15

<u>Service Fee</u>	<u>Current fee</u>	<u>Proposed fee</u>
Commercial and Industrial reconnection charge	minimum charge for each month of intervening period	\$ 210
Residential connection fee	\$ 25	\$ 50
Commercial and Industrial transfer fee	\$ 25	\$ 115
connection fee	\$ 25	\$ 230
Customer Service Charges		
Residential:		
on-site visit	\$ 25	\$ 70
same-day service	new service	\$ 70
high bill investigation	\$ 25	\$ 50
add meter set with no additional load	new service	\$ 225 for 1 meter \$ 275 for 2 meters \$ 105 each > 2
Commercial and Industrial:		
on-site visit	\$ 25	\$ 105
same-day service	new service	\$ 105
high bill investigation	\$ 25	\$ 340

APPENDIX

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December, 1974. In May, 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University. The courses that he taught included Microeconomic and Macroeconomic Theory, Labor Economics, and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis, and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc. During that time, he participated in the analysis of electric, gas, and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice that offers business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kansas, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.

OSBA STATEMENT NO. 2

11/19/08

HBG, PA

RJS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

v.

Docket Nos. R-2008-2029325,
C-2008-2059017

Equitable Gas Company :

Rebuttal Testimony and Exhibits of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

SECRETARY'S BUREAU

2008 DEC 11 PM 1:32

RECEIVED

Date Served: October 31, 2008

Date Submitted for the Record: _____

1 Rebuttal Testimony of Brian Kalcic

2
3
4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted direct testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your rebuttal testimony?**

11 A. My rebuttal testimony responds to certain positions sponsored in the
12 direct testimony of the following witnesses: a) Glenn A. Watkins on
13 behalf of OCA; b) Michael J. Gruber on behalf of OTS; c) Jeremy B.
14 Hubert on behalf of OTS; and d) Diane Meyer Burgraff on behalf of
15 The Independent Oil and Gas Association of Pennsylvania ("IOGA").

16 In addition, I will comment briefly on the various return-on-
17 equity ("ROE") positions sponsored by Equitable, OCA and OTS in
18 this proceeding.

19
20 OCA Witness Watkins

21
22 **Q. What aspects of Mr. Watkins' direct testimony will you address in**
23 **your rebuttal?**

24 A. I will comment on Mr. Watkins' cost-of-service study ("COSS"), class
25 revenue allocation and negotiated rate discount proposals.

26
27 COSS Issues

28
29 **Q. In his direct testimony, Mr. Watkins sponsors a cost-of-service**
30 **study ("COSS") using the Peak and Average ("P&A")**
31 **methodology. How does the P&A COSS sponsored by Mr.**
32 **Watkins differ from the P&A COSS presented by Company**
33 **witness Russell A. Feingold?**

1 A. In general, the OCA's P&A COSS incorporates two (2) changes to the
2 Company's P&A COSS methodology. These changes impact the
3 allocation of income taxes and universal service costs to rate classes.
4 In addition, Mr. Watkins proposes to adjust (i.e., increase) the level of
5 residential revenue at present rates that is included in the Company's
6 P&A COSS. The OCA's COSS results are summarized in Mr.
7 Watkins' Schedule GAW-3.
8

9 **Q. Please describe how income taxes are allocated to rate classes in the**
10 **OCA's COSS.**

11 A. Beginning on page 13 of his direct testimony, Mr. Watkins discusses an
12 error in the Company's method of allocating income taxes to rate
13 classes. More specifically, Mr. Watkins claims that the Company's
14 COSSs fail to deduct Operation and Maintenance ("O&M") expenses
15 from class revenues when determining taxable income (and subsequent
16 income tax responsibility). In addition, Mr. Watkins claims that Mr.
17 Feingold failed to reflect interest expense when determining class
18 income tax responsibility. Mr. Watkins corrects for both of these
19 omissions in the OCA's COSS.
20

21 **Q. Do you agree with Mr. Watkins that the Company failed to deduct**
22 **O&M expenses from class revenues when determining class income**
23 **tax responsibility?**

24 A. Yes. I would note, however, that the Company's omission only affects
25 the calculation of class income taxes at present rates. In other words,
26 the Company did (correctly) subtract O&M expense from total class
27 revenues in order to calculate income taxes at *proposed* rates in each of
28 its COSSs.
29

30 **Q. Does correcting the Company's income tax calculation have an**
31 **impact on class rates of return?**

32 A. Yes, but only on rates of return at present rates.
33

1 **Q. Have you corrected the class rates of return at present rates shown**
2 **in the OSBA's recommended COSS?**

3 A. Yes, in Schedule BK-1R.
4

5 **Q. How do the present rates of return shown on page 1 of Schedule**
6 **BK-1R compare to the uncorrected results shown in Schedule BK-**
7 **3?**

8 A. The corrected rates of return for the RS and AGS classes are slightly
9 higher than those reported in Schedule BK-3, but they remain below
10 the system average rate of return of 3.80%. The corrected rates of
11 return for the GSS and GSL classes are slightly lower than previously
12 reported, but they remain above the system average rate of return.
13

14 **Q. Does the income tax error identified by Mr. Watkins affect the**
15 **class revenue requirement levels that are necessary to provide**
16 ***equalized* rates of return, in either the Company or OSBA COSSs?**

17 A. No, it does not. In other words, the revenue requirement needed to
18 move each class to the system average rate of return at proposed rates
19 is unchanged from the level shown for each class in column 1 of
20 Schedule BK-5.
21

22 **Q. Is the OSBA's class subsidy analysis shown in Schedule BK-5**
23 **affected by the Company's income tax error?**

24 A. No. The class revenue subsidies shown in column 6 of Schedule BK-5
25 are based upon the class revenue requirements at equalized rates of
26 return shown in column 1. Therefore, the subsidies shown in column 6
27 are unchanged, and my recommended levels of first-dollar relief for
28 Rates GSS and GSL (which utilize column 6) are unaffected.
29

30 **Q. Do you agree with Mr. Watkins' second criticism with respect to**
31 **the Company's income tax calculation, i.e., that Equitable's**
32 **approach is improper since it fails to allocate interest expense to**
33 **rate classes?**

34 A. No, I do not.

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28

Q. Why not?

A. Mr. Watkins allocates interest expense to rate classes as a final step in determining taxable income.¹ He suggests that his approach is more rigorous than that of the Company, which ignores interest expense “for simplicity.” In reality, Mr. Watkins’ approach falls far short of replicating all of the calculations necessary to compute the Company’s actual income tax liability at present rates.²

If one were to perform *all* such calculations (on a rate class basis), rather than just the interest expense allocation performed by Mr. Watkins, the RS class’ income tax responsibility would likely increase from the level shown in the OCA’s COSS.

Q. What do you conclude with respect to the OCA’s proposal to allocate interest expense to rate classes for purposes of calculating income tax responsibility?

A. The OCA’s approach does not replicate the Company’s actual income tax calculations, and does not produce more accurate results than the Company’s (corrected) methodology. The Commission should reject it.

Q. Mr. Kalcic, turning to the issue of universal service costs, please describe how such costs are allocated to rate classes in the OCA’s COSS.

A. As shown on page 4 of Schedule GAW-3, Mr. Watkins directly assigns Equitable’s CAP-related uncollectible accounts and customer assistance expense to the residential class.

Q. Do you agree?

¹ Interest expense is deductible for income tax purposes.

² Per Exhibit III, Item 53.53 III. A. 17, Sheet 2 of 11, Equitable’s current income taxes of \$4.348 million are comprised of the following components: a) current taxes of minus \$4.192 million; b) Deferred Federal Income Tax of \$8.546 million; and c) an Investment Tax Credit Amortization of minus \$0.006 million. Each of these components would have to be allocated separately to rate classes in a COSS in order to replicate the Company’s actual income tax computations.

1 A. Yes. This same approach is utilized in the OSBA's COSS.

2

3 **Q. Do you have any comment on Mr. Watkins' proposal to impute**
4 **additional revenue to the residential class in the OCA's COSS?**

5 A. Yes. Mr. Watkins imputes \$16.865 million of additional revenue at
6 present rates to the residential class, an amount that is equal to the
7 Company's CAP-related revenue shortfall to be collected through the
8 Rider D surcharge. If the purpose of the adjustment is to ascertain the
9 implicit rate of return provided by *non-CAP rate* residential customers,
10 I agree that the adjustment is reasonable.

11 However, if the OCA is going to impute additional revenues to
12 the RS class in order to offset a CAP-related revenue shortfall, the
13 OCA should also impute additional revenues to the GSS and GSL
14 classes in order to offset the revenue losses associated with Equitable's
15 negotiated delivery rates.

16

17 **Q. Please explain.**

18 A. Unlike the OSBA's COSS, Mr. Watkins' COSS assigns the costs (i.e.,
19 discounts) associated with Equitable's negotiated delivery rates to the
20 classes in which the Company's negotiated delivery service customers
21 take service. As I explained in my direct testimony, such treatment is
22 inappropriate and inconsistent with Commission precedent.³

23 At the same time, Mr. Watkins proposes to disallow \$22.7
24 million of negotiated rate discounts for ratemaking purposes in this
25 proceeding. *If such revenue were imputed to the GSS and GSL classes*
26 *(in the same manner that Mr. Watkins imputed additional CAP-related*
27 *revenue to the RS class), neither the GSS nor GSL class would require*
28 *a rate increase in this case under the OCA's proposed COSS.*

29

30 **Q. How do you reach that conclusion?**

31 A. Per Schedule GAW-3, page 1 of 9, the total required system increase
32 (excluding Universal Service costs) is \$35.085 million. According to

³ See OSBA Statement No. 1 at pages 6-7.

1 the OCA's COSS, the GSL class is responsible for \$9.312 million of
2 that amount, while the GSS class is shown to be *overpaying* by \$1.809
3 million. If the OCA's revenue disallowance (related to discounts) were
4 to be adopted, the Company's required increase would be \$35.085
5 minus \$22.7 million or \$12.385 million. However, the GSS and GSL
6 classes would simultaneously be credited with \$22.7 million in
7 revenue, which would be more than sufficient to meet the (\$9.312
8 million minus \$1.809 million) \$7.503 million increase required of the
9 combined GSS and GSL classes under the OCA's COSS.

10
11 **Q. Are you implying that you agree with Mr. Watkins' proposal to**
12 **disallow \$22.7 million of negotiated rate discounts?**

13 A. No. I discuss Mr. Watkins' revenue adjustment later in my testimony.
14 The relevant point is that Mr. Watkins' COSS methodology is
15 inconsistent with respect to his treatment (i.e., imputation) of CAP
16 revenues versus negotiated discounts, and inconsistent with respect to
17 his revenue disallowance proposal.

18
19 **Q. On page 14 of his direct testimony, Mr. Watkins specifically refers**
20 **to the P&A methodology as the Commission's "preferred" method**
21 **of cost allocation. Are you aware of any rate proceeding where the**
22 **Commission approved the P&A methodology?**

23 A. No. In fact, counsel informs me that the Commission approved the
24 Average and Excess ("A&E") cost methodology (and not the OCA's
25 P&A methodology) in two (2) recent base rate proceedings involving
26 PPL Gas Utilities Corporation ("PPL Gas") at Docket No. R-00061398
27 and Philadelphia Gas Works ("PGW") at Docket No. R-00061931. As
28 explained below, the Commission's A&E methodology is
29 fundamentally different from the P&A methodology proposed by the
30 OCA in this proceeding.

31
32 **Q. Please explain how distribution mains are allocated to rate classes**
33 **using the A&E cost methodology.**

1 A. Under the A&E methodology, distribution mains are classified as being
2 demand- and commodity related.⁴ The commodity-related portion of
3 distribution mains is allocated to rate classes on the basis of average
4 demand or usage. However, the A&E methodology allocates the
5 demand-related portion of distribution mains on the basis of *that*
6 *portion of a class' peak demand that is in excess of the class' average*
7 *demand level (i.e., excess demands).*

8 Upon comparing the P&A and A&E methodologies, we find that a
9 fundamental difference exists in the measure of demand used to
10 allocate demand-related costs.

11
12 **Q. What is that difference?**

13 A. The A&E methodology utilizes excess demands to allocate demand-
14 related costs, while the P&A methodology sponsored by the OCA uses
15 peak demands to allocate such costs. This difference often leads to
16 radically different cost-of-service results for individual rate classes.

17
18 **Q. Mr. Kalcic, you indicate that the P&A methodology is sponsored**
19 **by the OCA. Didn't Mr. Feingold also submit a P&A COSS in this**
20 **proceeding?**

21 A. Yes. However, while Mr. Feingold submitted a P&A COSS in this
22 proceeding, he clearly prefers his Design Day COSS (shown in Exhibit
23 IV, Item 53.53 IV-B-1 (A)) to the P&A approach favored by Mr.
24 Watkins.⁵

25
26 **Q. Do you agree that the P&A methodology employed by Mr. Watkins**
27 **is appropriate?**

28 A. No, I do not.

29
30 **Q. Why not?**

⁴ Normally, the classification split is based upon the utility's system load factor.

⁵ See Equitable Statement No. 6 at page 24.

1 A. The problem with the P&A methodology is that it counts the average
2 demand portion of a class' peak demand twice, when allocating
3 demand-related costs to rate classes. The average demand portion is
4 counted once, when allocating the commodity-related portion of
5 distribution mains. In addition, since average demand is included in
6 (i.e., is a part of) a class' peak demand, the P&A methodology
7 implicitly counts average demand a *second* time, when allocating the
8 demand-related portion of distribution mains.

9 By double counting the average demand component, the P&A
10 methodology will effectively assign a greater than proportional amount
11 of costs to those rate classes with load factors in excess of the system
12 average, and a lower than proportional amount of costs to those rate
13 classes with load factors below the system average.⁶ In other words,
14 the P&A methodology produces a biased outcome in favor of rate
15 classes with below average load factors (such as the residential class).

16

17 **Q. Does the A&E methodology suffer from the same double-counting**
18 **defect as the P&A methodology?**

19 A. No, it does not. As previously noted, the A&E methodology allocates
20 the demand-related portion of distribution mains on the basis of that
21 portion of a class' peak demand that is in excess of the class' average
22 demand level. Thus, the average demand component is counted only
23 once, as is appropriate.

24

25 **Q. Mr. Kalcic, how does the Commission's preferred A&E**
26 **methodology compare to the Design Day methodology used in one**
27 **of the Company's COSSs and in the OSBA's COSS?**

28

⁶ This follows from the definition of load factor, which is equal to: i) average demand, divided by ii) peak demand. Therefore, the greater a class' load factor, the greater the average demand component of its peak demand, and the greater the impact to the class from double counting the average demand component.

1 A. They are virtually equivalent because there are no off-peak rate classes
2 in either COSS.⁷

3

4 **Q. Is it your opinion, therefore, that the Design Day methodology used**
5 **in this proceeding is consistent with Commission precedent with**
6 **regard to the allocation of demand-related costs?**

7 A. Yes, it is.

8

9 **Q. Mr. Kalcic, what is your recommendation with respect to the**
10 **OCA's COSS?**

11 A. Due to the deficiencies inherent in the P&A cost allocation
12 methodology and its lack of consistency with Commission precedent, I
13 recommend that the Commission reject it.

14

15 **Revenue Allocation**

16

17 **Q. Mr. Kalcic, how does the OCA propose to allocate Equitable's**
18 **requested revenue increase to rate classes in this proceeding?**

19 A. The OCA's revenue allocation proposal is shown on page 20 of OCA
20 Statement No. 3. In general, Mr. Watkins proposes to shift
21 approximately \$2.9 million of additional revenue responsibility to the
22 GSL class, compared to the Company's proposal. At the same time,
23 approximately \$2.8 million of rate relief would be assigned to the RS
24 class and \$0.1 million would go to the GSS class.

25

26 **Q. What rationale does Mr. Watkins offer in support of his proposed**
27 **revenue allocation?**

28 A. Mr. Watkins testifies that his proposed revenue allocation considers the
29 results of the OCA's COSS, and the principles of gradualism, fairness
30 and equity.

⁷ The A&E and Design Day methodologies will produce different results only in the case where one (or more) rate classes in a COSS takes service only in off-peak periods. In that instance, the A&E methodology would assign costs to the off-peak class via the average demand component of the demand allocation factor. The Design Day methodology would not assign any costs to the off-peak class, since such a class would exhibit zero demand during the Design Day or peak period.

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Q. How would Mr. Watkins propose to adjust his proposed revenue allocation in the event that the Company is awarded less than its requested increase?

A. Mr. Watkins proposes that any adjustment to CAP-related costs be reflected in the Universal Service portion of his recommended RS increase. Also, any non-CAP related rate relief should be assigned proportionally to the RS, GSS and GSL classes.

Q. Do you agree with Mr. Watkins that any non-CAP related rate relief should be spread proportionally to the RS, GSS and GSL classes?

A. Absolutely not. According to his own COSS, the GSS class should receive a \$1.809 million *decrease* in this proceeding. Yet, Mr. Watkins proposes to assign the GSS class a \$1.320 million increase, so that the class would provide an overall \$3.129 million subsidy at the Company's full revenue request. At the same time, the OCA's COSS shows that the GSS class would provide a proposed rate of return of 13.93%, which is 1.57 times the system average rate of return of 8.89%. In comparison, the RS class would provide a proposed rate of return of 8.94%, or just slightly above the system average, under the OCA's COSS.

Given the above disparity in proposed class rates of return under the OCA's COSS, there is no valid reason to deny the GSS class first dollar relief in this proceeding.

Q. What is your recommendation in this area?

A. In the event that the Commission adopts the OCA's proposed revenue allocation, I recommend that the GSS class receive first dollar relief in the amount of \$1.432 million (i.e., the same amount that was included in my direct testimony). Even if this level of first dollar relief were to be granted in full, the GSS class would continue to provide a subsidy to other classes under the OCA's COSS at the conclusion of this proceeding.

1
2 *Negotiated Rate Discounts*
3

4 **Q. What is Mr. Watkins' position with respect to Equitable's**
5 **negotiated rate discounts?**

6 A. Mr. Watkins concludes that most (if not all) of Equitable's rate
7 discounts are the result of gas on gas competition among local
8 distribution companies ("LDCs"). In Mr. Watkins' view, gas on gas
9 competition is not in the public interest, since it is equivalent to a "zero
10 sum game with captive ratepayers being the losers." Mr. Watkins
11 recommends that the Commission disallow \$22.7 million of negotiated
12 discounts unless Equitable can provide evidence that such discounts
13 are justified (i.e., not based solely on gas on gas competition).
14

15 **Q. Do you agree that gas on gas competition represents a zero sum**
16 **game among LDCs?**

17 A. In a collective sense, yes.
18

19 **Q. Do you agree that the Commission should disallow any discounts in**
20 **this proceeding that are based on gas on gas competition?**

21 A. No, I do not. The difficulty in attempting to address gas on gas
22 competition in a piecemeal fashion is that any significant revenue
23 disallowance in this proceeding is likely to cause Equitable to
24 immediately file for another rate increase to make up for the lost
25 revenue. Moreover, when other LDCs affected by gas on gas
26 competition file their own base rate cases, they are likely to face a
27 similar loss of revenue and to file follow-up base rate cases.
28

29 **Q. What do you recommend?**

30 A. If the Commission wishes to address the effects of gas on gas
31 competition, it should do so within the context of a generic proceeding
32 that involves the participation of all affected LDCs. Otherwise, one
33 may expect a proliferation of base rate proceedings as individual
34 utilities seek to adjust to the associated revenue disallowances.

1
2 **OTS Witness Gruber**

3
4 **Q. Does Mr. Gruber sponsor an alternative class revenue allocation in**
5 **this proceeding?**

6 A. Yes. Mr. Gruber's proposed revenue allocation is shown on page 6 of
7 OTS Statement No. 4.

8
9 **Q. How does the OTS' revenue allocation differ from the Company's**
10 **proposal?**

11 A. At the Company's requested level of rate relief, Mr. Gruber would
12 reassign the Company's proposed \$1.432 million GSS increase to the
13 GSL class, while leaving the Company's proposed RS and AGS
14 increases unchanged. In addition, Mr. Gruber proposes to assign first-
15 dollar relief in the amount of \$3.011 million to the RS class. Any
16 additional rate relief would be used to reduce the remaining increases
17 to all rate classes proportionally.

18
19 **Q. Did Mr. Gruber rely on a specific COSS to develop his proposed**
20 **class revenue allocation?**

21 A. Yes. Mr. Gruber relies upon the Company's P&A COSS.

22
23 **Q. Why does Mr. Gruber rely on the Company's P&A COSS?**

24 A. On page 8 of his direct testimony, Mr. Gruber states that the
25 Company's P&A methodology "recognizes that while a distribution
26 system has to be able to deliver the peak quantity needed it also uses
27 the distribution system to deliver quantity on a daily basis as well."
28 Furthermore, Mr. Gruber testifies that the Company's Design Day
29 COSS incorporates a customer component for distribution mains,
30 whereas the Company's P&A COSS does not.

31
32 **Q. Does the fact that the Company's Design Day COSS includes a**
33 **customer component of distribution mains constitute a valid reason**
34 **for rejecting the Design Day methodology?**

1 A. No. While the Company's Design Day COSS does not comport with
2 the Commission ruling in Docket No. R-00061931 that distribution
3 mains should be classified (solely) as demand related, that particular
4 deficiency is unrelated to the question of whether or not the Design
5 Day *methodology* is appropriate. Indeed, the OSBA's COSS
6 incorporates a 0% customer component of distribution mains, while at
7 the same time retaining the Company's Design Day method of
8 allocating demand-related costs to rate classes. Therefore, the OSBA's
9 COSS is consistent with Commission precedent and corrects the
10 customer component flaw identified by Mr. Gruber.

11
12 **Q. Do you agree with Mr. Gruber that the P&A methodology provides**
13 **a better measure of how Equitable's distribution system is used**
14 **and is, therefore, to be preferred to the Design Day methodology?**

15 A. No. As I previously explained, the P&A methodology results in a
16 double-counting of the average demand component of peak demand,
17 and produces a biased allocation outcome in favor of those rate classes
18 with load factors that are below the system average. The Commission
19 should reject all COSSs in this proceeding that utilize the P&A
20 methodology, along with the class revenue allocation proposals that are
21 based upon such COSSs.

22
23 **OTS Witness Hubert**

24
25 **Q. Beginning on page 4 of his direct testimony, Mr. Hubert discusses**
26 **the Company's claimed level of forfeited discount revenues. Mr.**
27 **Hubert recommends that Equitable's forfeited discount revenues**
28 **be set at \$1,932,397, which represents an increase of \$374,546 over**
29 **the Company's claimed level of \$1,557,851. Do you have any**
30 **comment?**

31 A. Yes. In my direct testimony, I recommend that Equitable's forfeited
32 discount revenues be increased in proportion to the allowed increase in
33 the Company's base rate revenues, or approximately \$520,000 (in the

1 case where Equitable's requested increase were to be granted in full).⁸
2 In other words, my recommended adjustment is approximately
3 \$145,500 greater than that of Mr. Hubert.
4

5 **Q. Why is your recommended adjustment greater than Mr. Hubert's**
6 **proposal?**

7 A. My recommended adjustment assumes that Equitable's claimed level of
8 forfeited discounts (i.e., \$1,557,851) represents the unbundled portion
9 of the Company's total forfeited discounts that are related to the
10 Company's current *delivery* revenues (i.e., that the \$1,557,851 excludes
11 the late payment fees applicable to the GCR portion of ratepayers' total
12 bills). As such, forfeited discounts are directly related to total delivery
13 revenues under my methodology.

14 In contrast, Mr. Hubert's analysis is premised on the assumption
15 that Equitable's claim is based on the level of the Company's *total*
16 revenue (i.e., delivery plus GCR revenue). Therefore, forfeited
17 discounts are directly related to Equitable's total revenues under the
18 OTS' methodology.

19 By definition, for any given base rate increase, the percentage
20 increase in Equitable's delivery revenues must be greater than the
21 percentage increase in the Company's total revenues (since GCR
22 revenues are fixed). As a result, my recommended adjustment to
23 Equitable's forfeited discount revenues will always be greater than the
24 OTS' adjustment.
25

26 **Q. Is Mr. Hubert's methodology for adjusting Equitable's forfeited**
27 **discount revenues reasonable?**

28 A. Yes, it is. Per the information shown in Schedule 1 of OTS Exhibit No.
29 5, it is apparent that Equitable's claimed level of forfeited discounts is,
30 in fact, based on the Company's *total* revenues. As such, I will accept
31 Mr. Hubert's methodology and associated adjustment.
32

⁸ See OSBA Statement No. 1 at page 16.

1 **IOGA Witness Burgraff**
2

3 **Q. On page 15 of her direct testimony, Ms. Burgraff testifies that *all* of**
4 **the costs allocated to Rate AGS in the Company’s COSS should be**
5 **recovered solely from delivery service customers because the “costs**
6 **were incurred for the benefit of end use system supply and**
7 **transportation customers.” Is Ms. Burgraff’s position reasonable?**

8 A. No. In essence, Ms. Burgraff’s view is grounded on the premise that
9 Equitable’s gathering system is just an extension of the Company’s
10 distribution system, i.e., that the gathering system serves no function
11 other than to permit delivery of natural gas to end-use customers. That
12 is incorrect. Even Ms. Burgraff admits that gas producers and
13 marketers receive a benefit from Equitable’s gathering system.⁹
14 Indeed, if Equitable’s gathering system were not available, certain
15 producers would find it difficult (if not impossible) to bring their gas to
16 market.

17 As long as Equitable’s gathering system provides more than just
18 a distribution function, producers and marketers should pay for a
19 portion of the associated costs.
20

21 **Q. On page 29 of her direct testimony, Ms. Burgraff proposes**
22 **alternative rate increases to Rates RS, GSS and GSL, based upon**
23 **rerunning the Company’s COSSs with 100% of Equitable’s**
24 **claimed gathering system costs allocated to the non-Rate AGS**
25 **classes. Do you have any comment?**

26 A. Yes. First, the IOGA-sponsored COSS runs are fatally flawed since
27 they allocate *zero* costs to Rate AGS. In as much as Ms. Burgraff’s
28 proposed class revenue allocation is based upon a flawed COSS
29 methodology, IOGA’s proposed increases to Rates RS, GSS and GSL
30 are also unfounded and should be rejected by the Commission.

31 Second, I would point out that Ms. Burgraff’s proposed increase
32 to “general service customers” of \$10.391 million is based upon the

⁹ See IOGA Statement No. 1 at page 21.

1 combined results of Rates GSS and GSL in IOGA's COSSs. However,
2 even if the Commission were to adopt IOGA's COSS results (which I
3 am not recommending), the GSS class would, in fact, be entitled to a
4 rate *decrease* ranging from \$0.720 million to \$1.050 million.¹⁰ As
5 such, my recommendation that Rate GSS receive first-dollar relief in
6 the amount of \$1.432 million remains appropriate even under IOGA's
7 proposed cost-of-service methodology.
8

9 **Q. In the event that the Commission determines that gas producers**
10 **and marketers should share in the cost of Equitable's gathering**
11 **system, Ms. Burgraff recommends that "the most that should be**
12 **charged under Rate AGS . . . is 27 cents, based on proposed**
13 **rates."¹¹ Do you have any comments?**

14 A. Yes. Ms. Burgraff derives her alternative recommendation by taking
15 30% of the cost-based rate of 89¢ for Rate AGS (as computed by
16 Equitable in IOGA-I-8), where "30% represents the relationship of
17 gathering throughput to total deliveries." However, the total deliveries
18 referenced by Ms. Burgraff include *all* system deliveries, i.e., total
19 consumption by all of Equitable's distribution customers, not just those
20 gas volumes that are consumed by the alleged 3,620 customers that are
21 served directly from Equitable's gathering lines.

22 If the Commission decides to utilize IOGA's approach of
23 apportioning gathering system costs to AGS and non-AGS customers
24 based on the ratio of throughput to consumption, Rate AGS' share of
25 such costs should be determined by dividing gathering throughput by
26 the sum of: a) gathering throughput; and b) total volumes consumed by
27 customers that are served directly from Equitable's gathering lines.
28
29
30
31

¹⁰ See page 1 of the Company's response to IOGA-VI-5A and IOGA-VI-5B, which are attached to IOGA Statement No. 1.

¹¹ See page 28 of IOGA Statement No. 1.

1
2 **ROE Positions**
3

4 **Q. Mr. Kalcic, did the OSBA sponsor rate of return or cost of capital**
5 **testimony in this proceeding?**

6 A. No.
7

8 **Q. What parties filed such testimony?**

9 A. Rate of return testimony was filed by: 1) Frank J. Hanley on behalf of
10 Equitable; 2) David C. Parcell on behalf of OCA; and 3) Robert
11 Plonski on behalf of OTS.
12

13 **Q. What do each of the above witnesses recommend with respect to**
14 **Equitable's allowed ROE?**

15 A. Mr. Hanley recommends an ROE of 11.95%. Mr. Parcell recommends
16 an ROE of 9.30%. Mr. Plonski recommends 10.05%.
17

18 **Q. In forming their various opinions regarding the Company's**
19 **required ROE, do any of these witnesses examine capital market**
20 **information that is reflective of the current financial crisis that**
21 **intensified on and after approximately October 1, 2008?**

22 A. No. This should come as no surprise since Mr. Hanley's testimony was
23 filed on June 30, 2008, and the OCA and OTS witnesses filed
24 testimony on October 8, 2008. Still, from my review of Mr. Hanley's
25 exhibits, it appears that the latest information utilized in his analysis is
26 from April 2008. In the case of Messrs. Parcell and Plonski, the latest
27 information is from August 2008. Obviously, capital market conditions
28 have changed significantly since cost of capital testimony was filed in
29 this proceeding.
30

31 **Q. Do you have an opinion as to what impact the current financial**
32 **crisis would have on Equitable's required rate of return?**

33 A. Yes, I do. Both interest rates and stock prices have declined since cost
34 of capital testimony was filed in this proceeding, particularly after

1 October 1, 2008. All else equal, I would expect such events to reduce
2 both Equitable's test period cost of debt and its required ROE, and
3 therefore reduce the Company's overall required rate of return.
4

5 **Q. Mr. Kalcic, would it be reasonable for the Commission to ignore**
6 **the impact of the current financial crisis when setting Equitable's**
7 **overall rate of return and, in particular, the Company's allowed**
8 **ROE, at the conclusion of this case?**

9 A. No, it would not. Counsel informs me that the Commission has
10 considerable latitude in its determination of a utility's allowed rate of
11 return.¹² If none of the parties chooses to update its respective rate of
12 return position before the record closes in this proceeding, I would
13 recommend that the Commission give ratepayers every benefit of the
14 doubt by setting Equitable's allowed return on equity at the low end of
15 the range of positions sponsored in this case.
16

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

18 A. Yes.

¹² For example, the Commission is permitted to adjust a utility's rate of return upward to recognize superior management or cost control, and to make a downward adjustment in the case of poor quality of service.

EXHIBIT BK-1R

**CORRECTED CLASS COST-OF-SERVICE RESULTS
PER OSBA RECOMMENDED COSS**

EQUITABLE GAS COMPANY

Corrected Class Cost-of-Service Results Per OSBA Recommended COSS

<u>Line</u>	<u>Classification</u>	<u>Corrected Present Rate of Return</u>	<u>Proposed Rate of Return</u>
		1	2
1	RS	2.81%	8.14%
2	GSS	14.86%	14.35%
3	GSL	8.29%	9.81%
4	AGS	-3.43%	10.41%
5	Total Company	3.80%	8.89%

Source: Sch. BK-1R, page 2 of 2. Sch. BK-3, col. 2.

EQUITABLE GAS COMPANY

Derivation of Class Rates of Return at Present Rates
Basis: OSBA Recommended COSS
(Dollars in Thousands)

<u>Line</u>	<u>Description</u>	<u>Total Company</u> (1)	<u>RS</u> (2)	<u>GSS</u> (3)	<u>GSL</u> (4)	<u>AGS</u> (5)
1	Current Operating Revenues	\$157,693	\$119,386	\$15,312	\$16,803	\$6,192
2	Total Operating Expenses	\$105,498	\$84,587	\$6,772	\$7,910	\$6,230
3	Total Depreciation Expenses	\$23,471	\$18,184	\$1,342	\$2,430	\$1,515
4	Total Taxes Other Than Income	<u>\$2,186</u>	<u>\$1,704</u>	<u>\$199</u>	<u>\$265</u>	<u>\$18</u>
5	Subtotal Expenses	\$131,155	\$104,475	\$8,313	\$10,605	\$7,763
6	Operating Income Before Taxes	\$26,537	\$14,911	\$6,999	\$6,198	-\$1,571
7	Income Taxes	\$4,348	\$2,442	\$1,147	\$1,016	-\$257
8	Current Operating Income	\$22,190	\$12,469	\$5,852	\$5,182	-\$1,314
9	Rate Base	\$583,252	\$443,096	\$39,376	\$62,483	\$38,297
10	Current Rate of Return	3.80%	2.81%	14.86%	8.29%	-3.43%

Source: OSBA-II-4, with line 7 allocated per (corrected) line 6.

11/19/08

HBC, DA

RJS

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :

v. :

Equitable Gas Company :

Docket Nos. R-2008-2029325,
C-2008-2059017

Surrebuttal Testimony and Exhibits of

BRIAN KALCIC

On Behalf of the

Pennsylvania Office of Small Business Advocate

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SECRETARY'S BUREAU

Date Served: November 14, 2008

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1 **Surrebuttal Testimony of Brian Kalcic**

2
3
4 **Q. Please state your name and business address.**

5 A. Brian Kalcic, 225 S. Meramec Avenue, St. Louis, Missouri 63105.

6
7 **Q. Have you previously submitted testimony in this proceeding?**

8 A. Yes, I have.

9
10 **Q. What is the subject of your surrebuttal testimony?**

11 A. My surrebuttal testimony responds to the rebuttal testimony of the
12 following witnesses: a) Glenn A. Watkins on behalf of OCA; b)
13 Russell A. Feingold on behalf of Equitable; c) John M. Quinn on behalf
14 of Equitable; d) Robert M. Narkevic on behalf of Equitable; e) Frank J.
15 Hanley on behalf of Equitable; and f) Diane Meyer Burgraff on behalf
16 of IOGA.

17
18 **OCA Witness Watkins**

19
20 **Q. On page 4 of his rebuttal testimony, Mr. Watkins claims that the**
21 **COSS run relied upon by the OSBA contains the same income tax**
22 **error that he previously identified in the Company's COSSs. Do**
23 **you agree?**

24 A. Yes. However, I corrected that error in the OSBA's COSS in Schedule
25 BK-1R attached to my rebuttal testimony.

26
27 **Q. Does there remain any issue with respect to the calculation of**
28 **income taxes at present rates in the OSBA's COSS?**

29 A. No, there does not.

30
31 **Q. On page 5 of his rebuttal testimony, Mr. Watkins states that**
32 **OSBA-II-4 required Equitable to remove the delivery volumes and**
33 **design day demands of all negotiated rate customers in the**
34 **requested COSS run. He argues that "there is absolutely no way of**

1 **knowing if the assumptions and procedures used by Equitable to**
2 **comply with OSBA's request were correct, accurate, or even**
3 **reasonable." Do you have any comment?**

4 A. Yes. First, I did compare the adjustment performed by the Company to
5 remove delivery service volumes in the OSBA's COSS to the
6 information provided in OSBA-II-3. No discrepancies were evident.

7 Second, Mr. Watkins' main criticism appears to be leveled at the
8 requirement that the Company remove the design day demands for over
9 800 competitive service customers in the OSBA's COSS. I will admit
10 that the OSBA does not have direct knowledge of how the Company
11 quantified the design day demands of competitive service customers.
12 However, I believe that the Company relied on the information
13 contained in its latest Design Day demand study to prepare the Design
14 Day COSS that it submitted in this proceeding. One may reasonably
15 assume that the Company used the same Design Day demand study to
16 determine the aggregate design day demand of competitive service
17 customers, when running the OSBA's COSS.

18 In any event, I would note that Equitable did not qualify its
19 response to OSBA-II-4 in any way. Therefore, at this point in time,
20 Mr. Watkins' concerns are all speculative in nature.

21
22 **Q. On pages 6-7 of his rebuttal testimony, Mr. Watkins argues that**
23 **the OSBA is being inconsistent when it allocates competitive**
24 **service discounts to all rate classes in its COSS, but assigns CAP-**
25 **related costs solely to the RS class. Do you agree?**

26 A. No. First, I would note that the OSBA's COSS treatment of
27 competitive service discounts is consistent with Commission
28 precedent,¹ as is the OSBA's treatment of CAP-related costs.

29 Second, the underlying premise for granting competitive service
30 discounts is that certain customers have competitive service options
31 *and would leave the system if such discounts were not forthcoming.*
32 The OSBA's COSS treatment of competitive service discounts

¹ See OSBA Statement No. 1 at page 7.

1 accurately reflects that premise by: a) assigning 100% of Equitable's
2 claimed revenue requirement to rate classes that are defined to include
3 only "captive customers;" and b) crediting such classes with the
4 \$14.132 million of revenue that Equitable is currently able to collect
5 from competitive service customers.

6 The OSBA's treatment of competitive service discounts has
7 nothing to do with which class (or classes) qualifies for such discounts,
8 nor should it. If Mr. Watkins' proposal to eliminate competitive
9 service discounts were to be adopted, Equitable would presumably lose
10 all competitive service customers and their current revenue
11 contribution. At that point, Equitable would seek to recover its claimed
12 revenue requirement from those customers that remain on its system, in
13 exactly the same manner in which I have allocated Equitable's revenue
14 requirement to rate classes in the OSBA COSS. Of course, Equitable
15 would no longer have the \$14.132 million contribution from
16 competitive service customers with which to credit its remaining (i.e.,
17 captive) customers. In summary, the OSBA's COSS treatment of
18 competitive service discounts accurately reflects the reason for granting
19 discounts to competitive service customers, and the consequences to
20 rate classes of losing those customers.

21 Third, Mr. Watkins' argument overlooks a critical difference
22 between Equitable's CAP program and competitive service discounts.
23 Specifically, *all* residential customers are eligible for Equitable's CAP
24 program if their income levels satisfy the program's income
25 requirements. Such is not the case for non-residential customers
26 seeking competitive discounts. Unless a non-residential customer is
27 physically located at a point on Equitable's system where other service
28 options exist, no competitive service discount will be available to that
29 customer (and rightly so). Therefore, it is *not* inconsistent to allocate
30 CAP-related costs solely to the RS class, while allocating the costs of
31 competitive service discounts to all classes.

32

1 **Q. Mr. Kalcic, have you nevertheless quantified the impact of**
2 **assigning the cost of competitive service discounts solely to the GSS**
3 **and GSL classes in the OSBA's COSS?**

4 A. Yes, I have. Line 7 of Schedule BK-1S shows the class revenue
5 increases needed to achieve full cost of service under the OSBA's
6 COSS methodology, modified to reflect *no* reallocation of competitive
7 service discounts.²

8
9 **Q. Would the Commission's adoption of the modified COSS results**
10 **shown in Schedule BK-1S have any impact on your recommended**
11 **class revenue allocation?**

12 A. Yes, to a limited extent.

13
14 **Q. How would your recommended revenue allocation change?**

15 A. Even if the Commission were to reject the OSBA's proposal to share
16 the cost of competitive service discounts among all rate classes, the
17 modified COSS result shown in line 7, column 3 of Schedule BK-1S
18 indicates that the GSS class remains entitled to a rate decrease in this
19 proceeding. As such, I would continue to recommend first dollar
20 relief ("FDR") in the amount of \$1.432 million for the GSS class.

21 However, line 7, column 4 of Schedule BK-1S shows that the
22 GSL class would require an increase of \$3.201 million in order to move
23 to full cost of service. Since Equitable is proposing an increase slightly
24 less than that amount (i.e., \$2.950 million), I would no longer
25 recommend FDR for the GSL class under the cost-of-service
26 methodology depicted in Schedule BK-1S.

27 Overall, the OSBA's aggregate level of FDR would be limited to
28 \$1.432 million rather than the \$2.374 million illustrated in Schedule
29 BK-6, and the RS, GSL and AGS rate classes would share

² Schedule BK-1S modifies the results of the COSS run provided in OSBA-I-5, which reflects only the Design Day methodology with no customer component of mains. Specifically, Schedule BK-5 adjusts OSBA-I-5 to reflect the direct assignment of CAP-related costs to the RS class. The treatment of competitive service discounts in OSBA-I-5 is unchanged from Equitable's approach.

1 proportionately in any rate relief granted by the Commission in excess
2 of \$1.432 million.

3
4 **Q. On page 9 of his rebuttal testimony, Mr. Watkins states that your**
5 **recommended class revenue allocation is materially different from**
6 **that proposed by Equitable, implying that your recommended**
7 **allocation would lead to unacceptable results if adopted by the**
8 **Commission. Do you agree?**

9 A. No. As I indicated on page 14 of my direct testimony, the OSBA's
10 FDR proposal, if granted in full, would result in the RS class receiving
11 an increase of less than 1.20 times the system average. Furthermore,
12 the RS class would receive no increase above the dollar amount
13 proposed by the Company. Therefore, Mr. Watkins' concerns are
14 unfounded.

15
16 **Q. On pages 9-10 of his rebuttal testimony, Mr. Watkins argues that**
17 **your recommended FDR levels for the GSS and GSL classes are**
18 **entirely dependent upon the OSBA's COSS results. He also alleges**
19 **that the OSBA's "absolute mechanical reliance on a single CCOSS**
20 **results do (sic) not comport with reasoned and accepted**
21 **ratemaking." Do you have any comments?**

22 A. Yes. First, as I discuss later in my testimony, the OSBA's FDR
23 proposal for the GSS class is not supported solely by the OSBA's
24 COSS, but rather by *all* COSSs that have been submitted in this
25 proceeding, *including Mr. Watkins' COSS*. Therefore, Mr. Watkins'
26 conclusions with respect to FDR for the GSS class are simply wrong.

27 Second, the OSBA's class revenue allocation does not reflect an
28 "absolute mechanical reliance" on its COSS results. If that were the
29 case, the OSBA's revenue allocation would move all rate classes to full
30 cost of service, including a reduction in the rates for GSS below current
31 levels. However, rather than receiving a rate decrease or moving to full
32 cost of service, both the GSS and GSL classes would continue to
33 subsidize the RS class at the conclusion of this case under the OSBA's
34 revenue allocation.

1 Third, while I am “guilty” of utilizing the OSBA’s COSS results
2 as a guide in the development of my recommended FDR amounts, my
3 actions are no different from those of Mr. Watkins, who bases his
4 revenue allocation on the results of the OCA’s COSS.

5
6 **Company Witness Feingold**

7
8 **Q. On page 16 of his rebuttal testimony, Mr. Feingold indicates that**
9 **he does not agree that the cost of competitive service discounts**
10 **should be allocated among all rate classes. What is the basis for**
11 **Mr. Feingold’s stated position?**

12 A. Mr. Feingold does not provide much discussion on this issue, but states
13 that “every customer in every rate class contributes to fixed costs and
14 provides benefits to all other customers by remaining on the system,”
15 not just those receiving competitive service discounts. He goes on to
16 state that, despite this fact, certain costs are routinely assigned to
17 specific rate classes, implying that the cost associated with competitive
18 service discounts should also be directly assigned to the class(es)
19 where such discounting occurs.

20
21 **Q. Do you have any comment on Mr. Feingold’s argument?**

22 A. Yes. Without repeating all of the points that I discussed in connection
23 with Mr. Watkins’ position, I would just reiterate that my COSS
24 methodology is premised upon the assumptions that: a) the sole
25 purpose of competitive service discounts is to retain customers on the
26 system; and b) without such discounts, all competitive service
27 customers would leave the system.

28 If Equitable were to be ordered to stop offering competitive
29 service discounts, I am absolutely confident that Mr. Feingold would
30 perform a COSS in Equitable’s next case *exactly as I have done in this*
31 *proceeding* as it pertains to such discounts. In other words, he would
32 allocate Equitable’s claimed revenue requirement to those customers
33 that remain on the system (i.e., the Company’s non-competitive service
34 customers), and not to customers (or classes) that are no longer on the

1 system. Again, the only difference in our approaches would be that
2 Equitable would no longer have a \$14.132 million contribution from
3 competitive service customers with which to credit its “captive”
4 customers.

5
6 **Company Witness Quinn**

7
8 **Q. On page 59 of his rebuttal testimony, Mr. Quinn states that it is**
9 **unreasonable “to exempt the GSS class from any revenue increase”**
10 **in this proceeding. How do you respond?**

11 A. Mr. Quinn’s opinion is contradicted by the results of *every* COSS
12 submitted in this proceeding. Schedule BK-2S presents a summary of
13 the class revenue increases needed to achieve full cost of service (at the
14 Company’s requested revenue requirement level) under the alternative
15 COSSs sponsored by the various parties to this proceeding.³ As shown
16 on line 2 of Schedule BK-2S, the GSS class is entitled to a rate
17 *decrease* under every COSS methodology/scenario.

18
19 **Q. Are you recommending that the GSS class receive a rate decrease**
20 **in this case?**

21 A. No. The OSBA is recommending FDR for GSS only up to the level of
22 Equitable’s proposed increase of \$1.432 million. As a result, the GSS
23 class could receive no increase in this case, but could not receive a rate
24 decrease under the OSBA’s revenue allocation.

25
26 **Q. Would the GSS class continue to subsidize Equitable’s other**
27 **customer classes, even if it received no increase in this case?**

28 A. Yes, since the class would need a rate decrease ranging from \$0.720
29 million to \$2.476 million in order to move to full cost of service.

30
31 **Q. What are your conclusions with respect to the GSS class?**

³ Note that the Company’s COSS results, shown in columns 1 and 2, are taken from Mr. Feingold’s corrected COSS runs, i.e., Exhibit No. 6-R.

1 A. The GSS class has been providing a subsidy to other classes since the
2 Company's last rate proceeding, and would continue to provide a
3 subsidy even if it were granted no increase in this proceeding. Given
4 these facts, it is appropriate that FDR (of up to \$1.432 million) be
5 awarded to the GSS class at the conclusion of this case.

6
7 **Company Witness Narkevic**
8

9 **Q. Beginning on page 7 of his rebuttal testimony, Mr. Narkevic**
10 **discusses the Company's claimed level of forfeited discount**
11 **revenues. Mr. Narkevic rejects the adjustments to forfeited**
12 **discount revenues sponsored by the OTS and OSBA, and concludes**
13 **"that it would be unreasonable to assume a level of revenue from**
14 **forfeited discounts in excess of the historic level." Do you have any**
15 **comment?**

16 A. Yes. As I explained in my rebuttal testimony, I have accepted OTS
17 witness Hubert's recommended adjustment of \$374,546.⁴ Mr.
18 Narkevic dismisses Mr. Hubert's adjustment on the basis of the fact
19 that the Company's forfeited discounts, as a percentage of total sales
20 revenue, have been declining over the past five (5) years. Since Mr.
21 Hubert's analysis utilizes a three-year average forfeited discount rate
22 (to calculate forfeited discount revenues), Mr. Narkevic argues that the
23 OTS' proposed adjustment is overstated, and that Equitable's claimed
24 test period level of forfeited discount revenue is more reasonable. I
25 disagree.

26
27 **Q. Why?**

28 A. Compared to Equitable's proposal to leave forfeited discount revenues
29 unchanged at the Company's historic test period level, Mr. Hubert's
30 approach is eminently defensible. As shown in OTS Exhibit No. 5,
31 Schedule 1, Mr. Hubert employs an average forfeited discount rate of
32 0.419% to calculate his proposed revenue adjustment. This may be

⁴ See OSBA Statement No. 2 at page 14.

1 compared to a test year forfeited discount rate of 0.407%. In contrast,
2 Equitable's proposal to leave forfeited discount revenues unchanged is
3 equivalent to *assuming that the Company's test period forfeited*
4 *discount rate will fall to 0.337%.*⁵ Equitable provides no support for
5 using an effective forfeited discount rate of 0.337%. The Commission
6 should reject the Company's position.

7
8 **Q. On pages 10-11 of his rebuttal testimony, Mr. Narkevic discusses**
9 **your recommended adjustment to Miscellaneous Service revenues.**
10 **Mr. Narkevic argues that the OSBA's adjustment "unreasonably**
11 **assumes the same level of miscellaneous services at the increased**
12 **rate levels proposed in the filing." He concludes that "there is no**
13 **basis to determine the actual level of services that will be provided**
14 **going forward and that the level of historic revenue is a reasonable**
15 **basis to determine the future test year revenue." How do you**
16 **respond?**

17 A. Mr. Narkevic is correct that my recommended adjustment assumes the
18 Company will provide the same *quantity* of miscellaneous services at
19 proposed rate levels. However, Mr. Narkevic fails to mention that the
20 Company's proposal assumes that the quantity of miscellaneous
21 services will *decrease by 50% at proposed rate levels.*⁶

22 As shown in Equitable's response to OSBA-II-1 (attached to
23 OSBA Statement No. 1), over 71% of the Company's existing
24 miscellaneous service revenues come from connection fees. Moreover,
25 the percentage tops out at 98.9% if reconnection fees are included. It is
26 reasonable to assume that customers in need of connection (or
27 reconnection) service are unlikely to respond to higher connection fees
28 by declining to take the service (which is what Equitable assumes). As
29 such, I conclude that the premise underlying the OSBA's miscellaneous

⁵ See line 9 of OTS Exhibit No. 5, Schedule 1.

⁶ Since the Company is proposing to increase Miscellaneous Service charges by approximately 100% (i.e., double the price), the quantity of such services would have to decline by 50% (i.e., by one-half) in order to leave historic revenue levels unchanged.

1 service revenue adjustment is reasonable, and that the OSBA's
2 adjustment should be adopted.

3
4 **Company Witness Hanley**

5
6 **Q. Mr. Kalcic, do you have any general comment on Mr. Hanley's**
7 **rebuttal testimony contained in Equitable Statement No. 5-R?**

8 A. Yes, I do. Mr. Hanley offers rebuttal to the cost of capital positions
9 taken by Mr. Plonski on behalf of OTS, and Mr. Parcell on behalf of
10 OCA. However, Mr. Hanley does not update his own analysis for the
11 recent changes that have occurred in capital markets.⁷ In other words,
12 Mr. Hanley continues to recommend an 11.95% return on equity
13 ("ROE") for the Company in this proceeding.

14
15 **Q. How does Mr. Hanley's recommended ROE of 11.95% compare to**
16 **the most recent ROE approved by the Commission for a natural**
17 **gas distribution company ("NGDC")?**

18 A. Counsel informs me that the Commission approved an ROE of 10.4%
19 for PPL Gas in 2007 at Docket No. R-00061398. Therefore, despite
20 the current capital market conditions, Mr. Hanley's recommended ROE
21 exceeds that approved for PPL Gas by 155 basis points.

22
23 **IOGA Witness Burgraff**

24
25 **Q. On page 2 of her rebuttal testimony, Ms. Burgraff claims that the**
26 **OSBA did not conduct any specific analysis of the reasons why**
27 **Equitable incurs gathering system costs. Is that correct?**

28 A. Yes. However, I would note that Mr. Rafferty presents a detailed
29 history of Equitable's actions with respect to its gathering system, and
30 explains why the Company continues to invest in gathering system
31 projects. Mr. Rafferty's testimony makes it clear that Equitable did not
32 acquire, and does not invest in gathering system facilities in order to

⁷ See OSBA Statement No. 2 at pages 17-18.

1 provide distribution service. As such, it is reasonable to conclude that
2 gas producers and marketers benefit from Equitable's investment in the
3 gathering system, and should help pay for it.
4

5 **Q. Would IOGA's proposal with respect to Rate AGS result in gas**
6 **producers and/or marketers contributing toward the cost of**
7 **gathering system facilities?**

8 A. No. IOGA proposes to eliminate Rate AGS, which would result in a
9 \$5.326 million rate decrease for AGS customers.⁸ This, in turn, would
10 necessitate that the Company's RS, GSS and GSL classes absorb a total
11 rate increase of \$51.950 million plus \$5.326 million or \$57.276
12 million, if Equitable's revenue request is granted in full.
13

14 **Q. On page 2, line 18 of her rebuttal testimony, Ms. Burgraff claims**
15 **that the OSBA supported the inclusion of gathering system costs in**
16 **base rates in the National Fuel Gas ("NFG") 2004 base rate case at**
17 **Docket No. R-00049656. Is that correct?**

18 A. No. I did not participate in the 2004 NFG base rate case. However,
19 Counsel informs me that the OSBA did not address the topic of
20 gathering system cost recovery in Docket No. R-00049656.
21

22 **Q. Were you the witness for the OSBA in the Company's 2004 PGC**
23 **case at Docket No. R-00049154 that Ms. Burgraff references on**
24 **page 2 of her rebuttal testimony?**

25 A. Yes, I was.
26

27 **Q. What was your position with respect to the recovery of gathering**
28 **system costs in that 2004 proceeding?**

29 A. My position was that such costs should be recovered in a base rate,
30 rather than PGC, proceeding so that gathering system costs would not
31 be recovered solely from PGC customers (which was Equitable's
32 position in that case).

⁸ Rate AGS provides \$5.326 million of current revenue, which would be eliminated if Rate AGS is terminated. See line 4, column 1 of Schedule BK-4.

1

2 **Q. Was your position in Equitable's 2004 PGC proceeding the same as**
3 **advanced by IOGA in this case?**

4 A. No. *I never testified that sales and transportation customers should be*
5 *responsible for 100% of Equitable's gathering system costs,*
6 *particularly when gas producers and marketers are major beneficiaries*
7 *of Equitable's gathering system investment.*

8 **Q. Does this conclude your surrebuttal testimony?**

9 A. Yes.

EXHIBITS

Schedule BK-1S
Schedule BK-2S

EQUITABLE GAS COMPANY

Derivation of Class Revenue Increases Needed to Achieve Full Cost of Service
Basis: OSBA COSS Methodology w/o Reallocation of Competitive Service Discounts
(Dollars in Thousands)

Line	Description	Total Company (1)	RS (2)	GSS (3)	GSL (4)	AGS (5)
1	Current Operating Revenues	\$157,693	\$108,301	\$14,590	\$29,475	\$5,326
2	Revenue Requirement @ Full COS 1/	\$209,642	\$150,872	\$12,605	\$33,320	\$12,844
	<u>Reassign CAP Costs 2/</u>					
3	Uncollectible Accts - 904	\$0	\$991	-\$349	-\$642	\$0
4	Customer Asst. - 908	\$0	\$21	-\$19	-\$2	\$0
5	Subtotal CAP Adjustments	\$0	\$1,012	-\$368	-\$644	\$0
6	Adj. Rev. Requirement @ Full COS 3/	\$209,642	\$151,884	\$12,237	\$32,676	\$12,844
7	Revenue Increase Needed to Achieve Full Cost of Service 4/	\$51,950	\$43,583	-\$2,353	\$3,201	\$7,518

Notes:

1/ Per OSBA-I-5, Sheet 1 of 85, line 14 (i.e., Design Day COSS with no customer component of mains).

2/ Per difference in Accts. 904 & 908 values in EGC Exh. No. 6R, Sch. 2, Sheet 7 of 85 versus OSBA-I-5, Sheet 7 of 85.

3/ Equal to Line 2 plus Line 5.

4/ Equal to Line 6 minus Line 1.

EQUITABLE GAS COMPANY

Class Revenue Increases Needed to Achieve Full Cost of Service
per Alternative COSSs

(Dollars in Thousands)

At EGC's Requested Increase of \$51.950 million								
<u>Line</u>	<u>Classification</u>	<u>Per EGC Design Day</u>	<u>Per EGC P&A</u>	<u>Per OCA</u>	<u>Per OSBA</u>	<u>Per Adj. OSBA 1/</u>	<u>Per IOGA Design Day</u>	<u>Per IOGA P&A</u>
		1	2	3	4	5	6	7
1	RS	\$47,369	\$38,055	\$36,925	\$44,257	\$43,583	\$52,441	\$43,160
2	GSS	(\$2,476)	(\$2,142)	(\$1,809)	(\$1,834)	(\$2,353)	(\$1,050)	(\$720)
3	GSL	(\$464)	\$8,516	\$9,312	\$2,008	\$3,201	\$6,000	\$14,950
4	AGS	<u>\$7,520</u>	<u>\$7,520</u>	<u>\$7,522</u>	<u>\$7,518</u>	<u>\$7,518</u>	<u>(\$5,326)</u>	<u>(\$5,326)</u>
5	Total Company	\$51,949	\$51,949	\$51,950	\$51,949	\$51,949	\$52,065	\$52,064

Source:	Exh. No. 6-R Sch. 2, Sheet 1 of 85.	Exh. No. 6-R Sch. 3, Sheet 1 of 85.	Sch. GAW-3, Page 1 of 9.	Sch. BK-5, col. 4 less Present Base Revenue	Sch. BK-1S	Response to IOGA-VI-5A Sheet 1 of 85.	Response to IOGA-VI-5B Sheet 1 of 85.
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Notes:

1/ OSBA Recommended COSS without a reallocation of the cost of competitive service discounts.