

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Philadelphia Gas Works for :
Approval of a Distribution System : Docket No. P-2015-2501500
Improvement Charge :

DIRECT TESTIMONY

OF

ASHLEY E. EVERETTE

ON BEHALF OF

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

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1 Introduction

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

3 A. My name is Ashley E. Everette. My business address is 555 Walnut Street, Forum Place,
4 5th Floor, Harrisburg, Pennsylvania 17101. I am currently employed as a Regulatory
5 Analyst by the Pennsylvania Office of Consumer Advocate (OCA).

6

7 **Q. Please describe your educational background and qualifications to provide**
8 **testimony in this case.**

9 A. I have a Master's degree in Business Administration and a Bachelor's degree in
10 Economics from the University of Illinois. My educational background and qualifications
11 are described in Appendix A.

12

13 **Q. Please summarize the nature of this case before the Commission.**

14 A. On September 1, 2015, Philadelphia Gas Works (PGW or Company) filed a Petition for
15 Waiver of Provisions of Act 11 to Increase the Distribution System Improvement Charge
16 Cap and to Permit Levelization of the DSIC (Petition). The Petition was docketed at P-
17 2015-2501500. The OCA filed an Answer on September 17, 2015.

18

19 PGW is a unique gas distribution utility. It is the only Pennsylvania utility with rates
20 determined under a cash flow methodology. It provides service "in an urban environment
21 with high population density and a vast amount of paved ground cover" (Petition, page
22 12). By statute, PGW has the ability to request waiver of many provisions of the Public
23 Utility Code (66 Pa. C.S. § 2212(c)). All of PGW's requested waivers of the Public

1 Utility Code must be carefully considered to determine whether they are necessary, and
2 needed to the degree proposed. Sections 1350-1360 of the Public Utility Code, which
3 establish the Distribution System Improvement Charge mechanism, contain customer
4 protections that apply when a utility avails itself of the benefits of the DSIC.

5
6 **Q. What was your assignment in this case?**

7 A. My assignment in this case was to review the Petition and provide an analysis of the
8 Company's proposals to increase the DSIC cap, add an additional amount to the cap for
9 reconciliation, eliminate the requirement to pay interest on DSIC overcollections, and
10 annualize and levelize the DSIC rate. In my testimony, I explain why the guidelines and
11 protections from Act 11 should not be waived and the existing cap of 5% of billed
12 revenues should be retained at this time.

13
14 **Q. What modifications to its DSIC is PGW proposing?**

15 A. As I will discuss below, PGW is requesting an increase to the 5% cap which is a
16 provision of Section 1358 of the Public Utility Code, a waiver of Section 1357(a)(1)(ii)
17 regarding the requirement that plant included in the DSIC be placed into service prior to
18 the effective date of the DSIC, and a waiver of Section 1358(e)(3) regarding the
19 requirement that interest be paid on over collections. PGW is also asking permission to
20 file an amended LTIP on one day's notice after approval of its Petition to increase the
21 DSIC cap is granted.

1 Proposal to increase the DSIC cap to 7.5%

2 **Q. Please summarize the increase in the DSIC cap that PGW has proposed.**

3 A. PGW proposes to increase the DSIC cap from 5% of distribution revenues to 7.5% of
4 distribution revenues, or by 2.5%. Under PGW's proposal, this 7.5% cap would be
5 *exclusive of reconciliations*. PGW proposes to be allowed an additional 2.5% increase in
6 the DSIC for recouping undercollections, for a total DSIC of 10% (7.5% + 2.5%).

7

8 **Q. Under what circumstances can a utility increase the statutory 5% cap to the DSIC?**

9 A. Section 1358 grants the Commission authority to waive the 5% DSIC cap but the waiver
10 is only to be granted "to ensure and maintain adequate, efficient, safe, reliable and
11 reasonable service." 66 Pa. C.S. § 1358(a)(1).

12

13 **Q. Has PGW shown that an increase to its DSIC cap is needed to ensure and maintain
14 adequate, efficient, safe, reliable and reasonable service?**

15 A. No, PGW has not provided the information necessary for the Commission to determine
16 whether an increase in the DSIC cap is needed to ensure and maintain adequate, efficient,
17 safe, reliable and reasonable service. As discussed below, the Company has not filed a
18 revised Long Term Infrastructure Improvement Plan (LTIIP) or an updated
19 benchmarking study to substantiate the link between further acceleration of main removal
20 and reduction in main breaks and incidents and has not established that PGW can safely
21 increase construction to support its proposed spending increase. Later in my testimony, I
22 will also discuss PGW's failure to take all reasonable steps to find non-ratepayer sources
23 of funding for infrastructure improvements.

1 **Q. Please discuss whether PGW’s proposal to increase its DSIC cap prior to filing a**
2 **revised LTIP is reasonable.**

3 A. The Company’s request for approval of a higher DSIC rate before it files a supporting
4 LTIP is cause for concern. PGW says the “scope and pace of the accelerated main
5 replacement program was determined by the amount of funds available to PGW from its
6 18-mile program funded in base rates and its approved LTIP and DSIC” (Petition, page
7 4). In other words, its current 5-year plan is based on DSIC spending of \$22 million per
8 year. The Company is asking the Commission to approve a 50% DSIC spending increase
9 from \$22 million to \$33 million before it sees the LTIP supporting the additional
10 spending.

11
12 The Commission’s regulations regarding LTIPs require utilities to have a supporting,
13 approved LTIP in place as a condition of DSIC recovery (52 Pa. Code § 121).
14 Subsection 121.2 defines a “major modification” as one that increases the total estimated
15 cost of the LTIP by more than 20%. PGW proposes to increase its LTIP by at least
16 50%.

17
18 Further, the Ordinance approving PGW’s Fiscal Year 2016 Capital Budget, enacted on
19 June 18, 2015, conditions approval for PGW to accelerate its infrastructure investment
20 above the 5% DSIC cap on two submissions:

- 21 PGW shall file with Gas Commission by no later than November 30, 2015:
22 i. a copy of the Cast Iron Main Replacement (“CIMR”) benchmarking
23 study that will be performed for PGW by DNV GL (formerly GL
24 Noble Denton) which has an anticipated completion date of September
25 30, 2015; and

- 1 ii. a report identifying what, if any, changes to the design of the
2 incremental CIMR program reflected in the Budget Amendment will
3 be made and accordingly, what, if any, line item transfers will be
4 required to implement such changes, accompanied by an appropriately
5 revised FY 2016 Compliance Capital Budget.
6

7 (Bill No. 150442, Section 4.A.) PGW did not include the referenced benchmarking study
8 in its filing in this proceeding. The Public Utility Commission should also have the
9 benefit of these filings prior to approving an increase in the DSIC cap.
10

11 When PGW petitioned for approval of a 5% DSIC in 2012, the Company indicated that
12 accelerating replacements using its main replacement prioritization model would reduce
13 serious incidents, reduce breakage repairs and reduce future breakage repair costs.¹ The
14 Company's proposed 7.5% DSIC rate should not be put into effect until the LTIP is filed
15 and PGW substantiates the link between further acceleration of main removal and
16 reduction in main breaks and incidents. This is particularly important given that PGW has
17 actually experienced an increased incidence of leaks and breaks between 2013 and 2014.²
18 This casts doubt on the Company's claims that those benefits stated above will actually
19 occur due to a further acceleration under a 7.5% cap.³
20

21 PGW only provides the general assertion that it will target higher risk cast iron mains
22 (Petition, pages 11-13). For example, PGW is currently replacing 3 different categories of
23 mains: 30-inch, 12-inch and smaller and 8-inch and smaller (PGW LTIP at 5-20). It is
24 unknown what pipe sizes and in what order PGW will target replacement under its

¹ 2012 LTIP, page 17.

² Petition, pages 11-12, 15-16; PGW St. 1, pages 5-9.

³ Petition, pages 15-16; PGW St. 1, pages 12-14.

1 proposed increased DSIC. This assertion is not sufficient to ensure the reasonableness
2 and prudence of its proposed increase.

3
4 PGW should provide an LTIP supporting the proposed \$33 million replacement
5 program, which includes an updated benchmarking study before any approval is granted.
6 PGW's proposal to increase the DSIC cap above 5% should not be approved unless and
7 until the Commission approves the new LTIP and determines that further main
8 replacement acceleration is cost-effective and prudent. Consistent with the Commission's
9 regulations, parties should have 30 days to comment on the proposed LTIP. 52 Pa. Code
10 § 121.5(a).

11
12 **Q. Are there are other concerns with an increase in the DSIC cap to 7.5%?**

13 A. Another concern with accelerating main replacement to 7.5% is that PGW has incurred
14 costs in excess of the existing 5% cap in only one quarter.⁴ There is no guarantee that
15 PGW can increase construction to the level that would be necessary to support the higher
16 level of spending it has proposed. The Company has identified its own concerns with
17 increasing the level of main replacements: the effect on commerce, traffic congestion and
18 noise, and the availability of qualified contractors to perform the work (Petition, page 17;
19 PGW St. 1, pages 14-15). These concerns become even more problematic due to the
20 Company's request to levelize and annualize the DSIC rate, as well as the Company's
21 request to waive interest on the over-collections of the proposed levelized DSIC. If the

⁴ In two additional quarters, PGW met the 5% cap through a combination of recoverable costs and reconciliation from the previous year.

1 Company increases the DSIC to the level it has proposed, based on projected spending
2 for the next year, the potential for over collection is significant.

3
4 **Q. Does PGW’s historical DSIC spending indicate that it will be able to increase**
5 **spending to the level it has proposed?**

6 A. No. Since PGW’s DSIC was first implemented, the Company has spent amounts that
7 equate to the following DSIC percentages, exclusive of reconciliation. Although one
8 quarter shows a DSIC over 5%, the Company charged only the maximum of 5%.

<u>Quarter</u>	<u>DSIC Spending</u>
July 1, 2013	3.02%
October 1, 2013	4.14%
January 1, 2014	4.34%
April 1, 2014	0.00%
July 1, 2014	4.88%
October 1, 2014	7.04%
January 1, 2015	2.24%
April 1, 2015	1.78%
July 1, 2015	1.34%
October 1, 2015	4.81%

9
10 What this chart shows is that PGW has only spent up to its 5% cap one time since July of
11 2013, and has never spent to the level of the increased cap that it is requesting (7.5%).
12 The quarterly DSIC beginning April 1 represents spending from the preceding December,
13 January and February. In 2014, PGW had no spending in these months. In 2015, PGW
14 had spending in February, resulting in a DSIC of only 1.78%. The low amount of
15 spending in this quarter in both 2014 and 2015 may have been due to the difficulty of
16 doing construction in the winter months. Regardless of the reason, if this pattern
17 continued, the lack of spending in that quarter would have to be “made up” in other
18 quarters in order for PGW’s annualized, levelized approach to produce the level of

1 spending it has projected. This means that under PGW's proposal to increase the DSIC to
2 7.5%, it would actually need to spend much more than 7.5% in some quarters in order to
3 spend the amount that it has proposed over the course of the year. As discussed, there are
4 questions whether PGW can safely ramp up construction to even a 7.5% spending level.
5

6 **Q. You also mentioned that the availability of qualified contractors is a concern. Please**
7 **discuss how this bears on the Company's request to increase the rate cap.**

8 A. The availability of qualified contractors is crucial to consideration of whether or not the
9 utility will be able to replace infrastructure at the level it proposes. In its Final
10 Rulemaking Order in the Review of Long-Term Infrastructure Improvement Plan
11 proceeding, the Commission stated "Act 11 contemplates that the utilization of qualified
12 personnel is essential to the successful implementation of any long-term plan to improve
13 infrastructure" (L-2012-2317274, Pages 14-15).

14
15 PGW has no experience with replacing infrastructure at a DSIC spending level of \$33
16 million per year and has expressed concern about the availability of qualified contractors
17 to perform the work. The Company's service territory is within close proximity to PECO,
18 PSE&G and South Jersey Gas. Each of those large natural gas utilities is accelerating
19 infrastructure replacement and is in competition with PGW for qualified contractors.
20

21 Given that PGW proposes to charge a DSIC that is based on projected, rather than actual
22 spending, it is even more important that the Company file an amended LTIIP before it is
23 permitted to increase rates and spending. The Commission should have the benefit of

1 PGW's plans for implementing a \$33 million replacement program⁵ utilizing qualified
2 contractors in making its determination whether to increase the DSIC rate cap.

3
4 Further, on an ongoing basis, if the Commission allows PGW to increase the DSIC cap,
5 the Company should be required to provide quarterly reports about its training efforts, the
6 qualifications of contractors being utilized and how those contractors are performing. The
7 reports should also include updates regarding the condition of the three categories of
8 mains being replaced, how leaks are trending and how the Company explains the trends.
9 This information will help to address the concern that acceleration is being performed by
10 qualified personnel and that the condition of infrastructure is improving as a result of the
11 Company's efforts.

12
13 **Q. Do you have any other concerns about raising the DSIC rate cap?**

14 **A.** Yes. PGW's capital budget does not appear to allow it to spend the amount that it has
15 proposed in the DSIC for 2016. PGW's proposed annualized, levelized DSIC for Fiscal
16 Year 2016, exclusive of reconciliation, is 7.34% (PGW St. 2, Page 13). This equates to
17 annual DSIC spending of \$32.3 million (\$440 million of annual revenues times 7.34%),
18 or an increase of \$10.3 million from the currently approved \$22 million. However,
19 PGW's incremental budget includes only \$5.5 million of additional DSIC-eligible
20 spending (OCA-I-10).

⁵ PGW's approved LTIP addresses a \$22 million accelerated main replacement program.

1 **Q. Are there other reasons that PGW’s proposal should not be approved at this time?**

2
3 A. Yes. PGW’s proposal turns to ratepayers as the first or only source of funding for
4 infrastructure. As I discuss in more detail in the customer impact section, this is a
5 significant burden on ratepayers, many of whom live in deep poverty. Before any
6 increase to ratepayers, PGW should explore other funding options, including a waiver of
7 the \$18 million annual payment to its owner, the City of Philadelphia, and other sources
8 of internally generated funds.

9
10 In response to OSBA Set I-4, PGW stated that it “will consider other sources of funds for
11 mains replacement should this DSIC petition be denied,” including sources other than a
12 base rate increase. If the Commission does consider waiving any provision of Act 11, the
13 waivers should be conditioned on commitment by PGW to evaluate and pursue these
14 other funding sources before any DSIC increase goes into effect.⁶

15
16 One potential funding source is additional bond refunding and bond reissuances. For
17 example, PGW’s recent bond refunding is generating savings of \$3.2 million per year
18 (OCA-I-12).

19
20 Some other potential funding sources are identified in the Commission Staff’s April 21,
21 2015 Inquiry into PGW’s Pipeline Replacement Program. In response to PICUG Set I-1
22 through 4, however, PGW states that it has considered and rejected each of those sources.
23 With regard to the waiver of all or a portion of the \$18 million annual payment to the

⁶ I recommend additional conditions below.

1 City of Philadelphia, PGW states that it has no control over whether the City waives the
2 payment, as it has done historically.

3
4 First, even if the decision to waive the \$18 million payment is outside of PGW's
5 authority, the request must be made: it is incumbent upon PGW to let its owner know of
6 its needs. Second, it is appropriate that the City share responsibility with PGW's
7 ratepayers to ensure adequate, efficient, safe, reliable and reasonable service at rates that
8 are reasonable because it has a vested interest in the condition of PGW's system and the
9 utility's financial viability. Ratepayers should not be the sole source for funding
10 infrastructure improvements, particularly in the current economic environment and given
11 the economic demographics of PGW's customer base.

12
13 *Before the Commission allows PGW to recover more dollars from ratepayers for*
14 *infrastructure improvements by increasing the DSIC cap above 5%, PGW should initiate*
15 *consideration by the appropriate entities of waiving all or a portion of the \$18 million*
16 *annual payment to the City of Philadelphia to generate funds for infrastructure*
17 *improvements, in addition to considering other funding sources included but not limited*
18 *to bond refunding and bond reissuances.*

19
20 **Q. Should PGW be allowed to increase its DSIC cap to 7.5%?**

21 A. No, not at this time. Additional information is required for the Commission to make the
22 determination that additional spending is needed. Moreover, given the issues outlined
23 above, it is unknown whether PGW would be able to increase its spending to the level it

1 has proposed. This is particularly important given that PGW has proposed to levelize its
2 DSIC, which essentially forecasts the DSIC-eligible spending for the whole year.
3 Additionally, as I discuss later, PGW has proposed to waive the protection of interest on
4 over collections, which may be particularly relevant if PGW is not able to accelerate
5 spending as it has proposed. PGW should not be permitted to increase the DSIC cap until
6 it exhausts all other forms of non-ratepayer supplied funds.
7

8 Proposal to annualize and levelize the DSIC rate

9 **Q. Please discuss PGW's proposal to levelize and annualize the DSIC rate.**

10 A. PGW proposes to charge an annualized DSIC rate based on projected DSIC-eligible
11 spending for a 12-month period. This annualized, levelized approach may potentially be
12 reasonable for PGW because it is a cash-flow regulated company. However, PGW has
13 not proven that it has been unable to collect amounts spent in the past when it did not
14 have a levelized DSIC; i.e., PGW has not substantiated that a levelized DSIC is
15 necessary. The annualized DSIC approach is only appropriate if PGW is able to
16 demonstrate it is necessary and if the problems with PGW's proposal are corrected. The
17 problems with PGW's approach include the frequency of reconciliation and the interest
18 paid on over collections, as I will discuss below. Additionally, PGW should only be
19 allowed to implement an annualized DSIC if accounting controls are put in place to
20 ensure that the DSIC revenues that are collected in advance of DSIC-eligible spending
21 are designated for this purpose.
22

1 Regarding the potential appropriateness of the levelization approach of the DSIC rate, it
2 is important to note that this approach is only potentially appropriate because of the
3 unique characteristics of PGW. A typical utility regulated by the Commission has a rate
4 base (PGW does not) and as such, its DSIC-eligible costs accumulate each quarter,
5 creating a higher DSIC rate each quarter until either the utility reaches the statutory cap
6 or the utility files a base rate case, at which time the DSIC-eligible plant is rolled into
7 base rates. PGW, on the other hand, operates using a cash flow methodology, which
8 means that its DSIC fluctuates each quarter depending on what plant is placed and
9 booked into service in the previous quarter. The levelized approach would reduce the
10 fluctuations in the DSIC rate, making its DSIC more similar to that of other natural gas
11 distribution utilities.

12
13 If the Commission allows PGW to annualize and levelize the DSIC portion of bills, the
14 Company should also make efforts to levelize the entire bill for residential customers.
15 PGW's tariff currently allows for budget billing. I recommend that PGW develop a plan
16 to enroll a greater percentage of its customers in budget billing. Levelizing bills would be
17 consistent with the Company's arguments that customers want predictable bills (Petition,
18 page 4) and it will provide some relief for customers who are paying higher winter bills
19 and will see an increase in the DSIC charged in the winter months if the DSIC is
20 levelized.

1 **Q. If the Commission does allow PGW’s DSIC to be annualized, how often should the**
2 **DSIC rate be updated?**

3 A. PGW’s proposal indicates that the annualized, levelized DSIC would be set annually
4 based on the DSIC funded construction budget. PGW states that “PGW may make
5 quarterly adjustments to the annualized DSIC for the difference between projected and
6 actual billed amounts” and “PGW may make quarterly adjustments to account for
7 changes to the construction budget during the year for the accelerated replacement
8 program” (emphasis added, Petition, Page 21).

9
10 If the levelized, annualized DSIC proposed by PGW is approved, PGW should be
11 required to update the DSIC rate each quarter to reflect changes in projected construction
12 costs and projected quarterly revenues, in order to reduce under or over collections. With
13 a levelized DSIC, it is important that changes, particularly decreases in planned
14 construction, are reflected in the DSIC rate in a timely manner so as to reduce
15 overcollections. The decision whether to update the DSIC rate in response to a change
16 should not be discretionary.

17
18 **Q. Please summarize your recommendation regarding the conditions under which the**
19 **Commission could approve an annualized, levelized DSIC for PGW.**

20 A. I recommend that the Commission only allow PGW to implement an annualized,
21 levelized DSIC if it requires PGW to continue to pay interest on over collections, as
22 detailed in Section 1358(e)(3) of the Public Utility Code; requires PGW to update the
23 DSIC every quarter to ensure that the DSIC reflects the most recent projected annual

1 construction costs and projected quarterly revenues; requires PGW to develop a plan to
2 enroll a greater percentage of its customers in budget billing; and requires PGW to
3 establish accounting controls in order to ensure that revenues collected from the DSIC are
4 designated for DSIC-eligible spending.

5 Interest on over-collections

6 **Q. Please discuss whether PGW's proposal to waive interest on over-collections is**
7 **reasonable.**

8 A. The Company's request to waive interest on over-collections should not be approved. As
9 discussed above, PGW has outlined several potential barriers to accelerating
10 infrastructure replacement. If PGW is not able to increase spending to the level it has
11 proposed, the Company could have substantial over-collections under its levelization
12 approach, despite mitigation efforts, with no repercussion because of PGW's companion
13 proposal to pay no interest on those amounts.

14
15 In fact, PGW's DSIC filing proposes spending of \$33 million in fiscal year 2016 but
16 PGW's approved budget for 2016 assumes DSIC spending of only \$27.1 million in
17 2016.⁷ If the annualized DSIC rate effective January 1, 2016 is based on \$33 million,
18 collections in the first quarter would exceed spending by as much as 1.25% (\$11 million
19 = 2.5%, \$5.5 million = 1.75%).

20

⁷ \$22 million of DSIC spending in the current LTIP plus incremental DSIC-eligible spending of \$5.5 million in the Company's capital budget (OCA-I-9 and OCA-I-10).

1 PGW's customers are entitled to this protection for their DSIC payments just as they
2 receive interest on refunds for other overcharges (66 Pa. C.S. sec. 1307, 1308, 1309,
3 1312). If the Commission allows PGW to increase its DSIC cap to 7.5% and/or levelize
4 the DSIC rate, the waiver of interest payments should be denied. The protection of
5 interest payments on over-collections should be maintained.

6 Proposal to increase the DSIC cap to 10%

7 **Q. Is PGW's proposal to increase the DSIC cap to 10%, inclusive of reconciliations,**
8 **reasonable?**

9 A. It is not. First, PGW has not demonstrated in its Petition that a waiver and an increase in
10 the cap to 10% is necessary for purposes of ensuring and maintaining adequate, efficient,
11 safe, reliable and reasonable service (66 Pa. C.S. § 1358(a)(1)). Rather, PGW has only
12 averred that it wants to exceed the cap so that it can "fully bill amounts it is hoping to
13 spend on main replacement" (Petition, page 24). Given that the 2.5% is not tied to
14 additional spending above 7.5%, it does not represent additional acceleration of main
15 replacement above 7.5% and should not be approved.

16
17 Second, every other utility that has a DSIC at 5% or 7.5% manages its over and under-
18 collections within that threshold, i.e. the cap is inclusive of over and under-collections.

19 Unlike other proposals by PGW that are directly and narrowly tied to its unique situation,
20 all utilities are subject to reconciliation of their DSIC recovery. All utilities have seasonal
21 usage variations and have seasonal limitations on construction. PGW has proposed other
22 mechanisms to avoid significant DSIC rate fluctuations inherent in its cash-basis DSIC –
23 levelization/annualization and the ability to mitigate under and over collections by

1 adjusting the DSIC rate in any quarter. No other utilities will have those benefits because
2 they cannot waive the requirements of Act 11. It is unnecessary to also allow PGW an
3 additional 2.5% increase.

4
5 Third, PGW's DSIC proposal includes the ability to adjust the DSIC rate up or down in
6 any quarter to account for changes to its accelerated construction budget or the difference
7 between projected and actual billed amounts, to mitigate over or under collections
8 (Petition, page 21-22; PGW St. 2, pages 10, 11: "PGW believes that levelization will
9 result in smaller under collections which otherwise would continually have to be
10 recovered from customers over time.") PGW notes that the level of undercollection that it
11 expects to be in effect on January 1, 2016 is 0.30%. The harm of increasing rates by up to
12 2.5% – that is, 2.5% more than the 2.5% increase already sought – far outweighs the
13 benefit of avoiding "de minimus" undercollections (Petition, page 24; PGW St. 2, page
14 12).

15
16 For each of these reasons, the Company's request for approval of DSIC recovery up to
17 10% of customer bills is not reasonable.

18
19 Customer impact

20 **Q. Please discuss the impact on PGW's customers of its proposal to increase the DSIC**
21 **cap to 7.5% or 10%.**

22 A. PGW's Petition discusses only the incremental impact above the current 5% cap, not the
23 total impact that the DSIC will have on customers (Petition, page 18; PGW St. 2, page 6)
24 or the impact over its current DSIC billing trend. Because PGW's DSIC rate fluctuates

1 throughout the year and the highest DSIC rate was not charged during the highest sales
 2 volume quarter, the effect customers feel will be much greater than the difference
 3 between 7.5% and 5% or the difference between 10% and 5%. Petition, pages 20-21;
 4 PGW St. 2, pages 7-8. PGW has only charged the maximum DSIC rate of 5% in three out
 5 of the ten quarters that the DSIC rate has been in effect. PGW's DSIC has been an
 6 average of 3.5% over the last 10 sales quarters. Using the monthly revenues provided in
 7 the response to OCA-I-1 and June 2015 rates, I found that the DSIC billing in 2015
 8 would have been approximately \$18.47 per year for a residential customer using 83 MCF
 9 per year. In contrast, at the levelized 7.5% DSIC rate proposed by PGW, the same
 10 customer would pay \$52.83 per year in DSIC charges, an increase of \$40.92 per year, or
 11 an average increase of \$2.86 per month.⁸ With regard to fluctuation, in paragraph 32 of
 12 the Petition, PGW provided a chart showing the incremental impact of increasing the
 13 DSIC to 7.5% (i.e. 7.5% minus 5.00%). In the chart below, I show what the impact will
 14 be, as compared to the actual DSIC rates billed in 2014 and 2015.

Incremental Impact - Average Residential Heating Customer Bill			
	Increase Compared to 5.00% Rate Per PGW	Increase Compared to Actual 2014 Charges	Increase Compared to Actual 2015 Charges
DSIC	7.50%	7.50%	7.50%
Customer Impact \$/Year	17.60	23.13	34.36
Customer Impact \$/Month	1.47	1.93	2.86

15
 16 With regard to the quarter with the highest usage, PGW's DSIC in effect in January,
 17 February and March 2014 was 4.34%, while the DSIC in effect in January, February and
 18 March 2015 was 2.24%. A customer using 46.1 MCF during these three months would

⁸ The average DSIC rate charged in 2015 was 2.74%.

1 have paid a total DSIC of \$17.18 in January through March 2014 and a total DSIC of
2 \$8.87 in January through March 2015. Under PGW's levelized DSIC proposal at 7.5%,
3 this customer would pay a total DSIC of \$29.69 for the same amount of usage in January
4 through March.

5
6 **Q. Are there any other considerations regarding the impact of raising the DSIC rate?**

7 A. Yes. As noted in the Commission Staff Report on April 21, 2015,⁹ PGW's rates are
8 already very high compared with other Pennsylvania utilities and approximately one-third
9 of PGW's customers are considered low income, which is nearly double the amount of
10 low income customers for the average natural gas distribution company (Staff Report,
11 page 41). Additionally, a recent news article stated that Philadelphia has the highest
12 percentage of households in "deep poverty" of any large U.S. city. "Deep poverty" is
13 defined as household income of 50% or less of the federal poverty level.¹⁰ For these
14 customers, particularly, increasing the DSIC cap will have a substantial impact.

15
16 Conclusion and Recommendations

17 **Q. Please provide a summary of your recommendations with respect to PGW's**
18 **proposed waivers of Act 11.**

- 19 1. No increase in the DSIC rate above 5% should be authorized until PGW files and
20 receives approval of a supporting LTIIP (including the benchmarking study

⁹ Pennsylvania Public Utility Commission Staff Report: Inquiry into Philadelphia Gas Works' Pipeline Replacement Program, April 21, 2015.

¹⁰ Lubrano, Alfred. "Many in Phila. living far below poverty line." *Philadelphia Inquirer* 1 Oct. 2015. Web. 15 Oct. 2015.

1 expected to be completed in September 2015) and establishes the need for an \$11
2 million acceleration in its main replacement program to ensure and maintain
3 adequate, efficient, safe, reliable and reasonable service. Parties should have 30
4 days to comment on the proposed LTIP.

5 Any approval to increase the DSIC cap to 7.5% should be conditioned on commitment by
6 PGW to:

- 7 2. evaluate and pursue other funding sources including but not limited to bond
8 refunding and bond reissuances.
- 9 3. initiate consideration by the appropriate entities of waiving all or a portion of the
10 \$18 million annual payment to the City of Philadelphia to further support
11 infrastructure repair and replacement.
- 12 4. provide quarterly reports about the Company's training efforts, the qualifications
13 of contractors being utilized and how those contractors are performing. The
14 reports should also include updates regarding the condition of the three categories
15 of mains being replaced, how leaks are trending and how the Company explains
16 the trends.

17 If PGW is granted the necessary waivers to levelize and annualize the DSIC rate:

- 18 5. PGW should be required to designate revenues that are pre-collected from the
19 DSIC for DSIC spending.
- 20 6. PGW should be required to do more to enroll customers in budget billing.
- 21 7. PGW should be required to update the DSIC rate each quarter to reflect changes
22 in projected construction costs and projected quarterly revenues.

23 Additionally, I recommend:

1 8. The proposal to waive the requirement to pay interest on over-collections should
2 be denied.

3 9. PGW's request to increase the DSIC cap to 10% should be denied.

4

5 **Q. Does this conclude your direct testimony at this time?**

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

213159

**QUALIFICATIONS OF
ASHLEY E. EVERETTE**

Education

- 2012 M.B.A., University of Illinois
- 2010 B.A. Economics, University of Illinois

Positions

- 2012 – Present Regulatory Analyst, Pennsylvania Office of Consumer Advocate
- 2009 – 2012 Research Assistant, Center for Business and Regulation;
University of Illinois

Experience

I am currently employed by the Pennsylvania Office of Attorney General, Office of Consumer Advocate (OCA) as a Regulatory Analyst. At the OCA, my responsibilities include reviewing utility company filings with the Pennsylvania Public Utility Commission and analyzing the financial, economic, rate of return, and policy issues that are relevant to the filings. Additionally, my responsibilities include preparing recommendations for the OCA's involvement in utility filings with the PA PUC, writing testimony and presenting oral testimony on behalf of the OCA.

Continuing Education

- IPU Advanced Regulatory Studies Program, Michigan State University, October 2015
- NARUC Staff Subcommittee on Accounting and Finance Conference, April 2015
- NARUC Staff Subcommittee on Accounting and Finance Conference, March 2014
- Camp NARUC, Michigan State University, August 2013
- NARUC Staff Subcommittee on Accounting and Finance Conference, April 2013
- SURFA Financial Forum, April 2013

Testimony

The following is a list of cases in which I submitted testimony or provided substantial assistance:

- R-2012-2310366 Pa. P.U.C. v. City of Lancaster – Sewer Fund
- R-2012-2302261 Pa. P.U.C. v. Herman Riemer Gas Company*
- R-2012-2330877 Pa. P.U.C. v. North Heidelberg Sewer Company*
- R-2012-2315536 Pa. P.U.C. v. Imperial Point Water Company*
- R-2012-2336662 Pa. P.U.C. v. Rock Spring Water Company*
- R-2013-2350265 Pa. P.U.C. v. NRG Energy Center Harrisburg*
- R-2013-2350509 Pa. P.U.C. v. City of DuBois – Bureau of Water
- R-2013-2360798 Pa. P.U.C. v. Columbia Water Company
- R-2013-2370455 Pa. P.U.C. v. Penn Estates Utilities, Inc. – Sewer Division
- R-2013-2367108 Pa. P.U.C. v. Fryburg Water Company*
- R-2013-2367125 Pa. P.U.C. v. Cooperstown Water Company*
- R-2013-2390244 Pa. P.U.C. v. City of Bethlehem – Bureau of Water
- R-2013-2400003 Pa. P.U.C. v. Borough of Ambler Water Department*
- R-2014-2402324 Pa. P.U.C. v. Emporium Water Company
- R-2014-2420204 Pa. P.U.C. v. Pocono Waterworks Company Inc. – Water Division*
- R-2014-2420211 Pa. P.U.C. v. Pocono Waterworks Company Inc. – Wastewater Division*
- R-2014-2428304 Pa. P.U.C. v. Hanover Municipal Waterworks
- R-2014-2144379 Pa. P.U.C. v. Herman Oil and Gas Company*
- R-2014-2452705 Pa. P.U.C. v. Delaware Sewer Company
- P-2014-2404341 Petition of Delaware Sewer Company
- R-2014-2427035 Pa. P.U.C. v. Venango Water Company*

R-2014-2427189 Pa. P.U.C. v. B.E. Rhodes Sewer Company*

R-2014-2430945 Pa. P.U.C. v. Plumer Water Company*

R-2015-2462723 Pa. P.U.C. v. United Water Pennsylvania

C-2014-2427657 Pa. Off. of Atty. General and Off. of Consumer Advocate v. IDT Energy, Inc.

C-2014-2427659 Pa. Off. of Atty. General and Off. of Consumer Advocate v. Respond Power, LLC

C-2014-2427655 Pa. Off. of Atty. General and Off. of Consumer Advocate v. Blue Pilot Energy, LLC

R-2015-2470184 Pa. P.U.C. v. Borough of Schuylkill Haven Water Department*

C-2014-2447138 Tanya J. McCloskey, Acting Consumer Advocate v. Hidden Valley Utility Services, L.P. – Water

C-2014-2447169 Tanya J. McCloskey, Acting Consumer Advocate v. Hidden Valley Utility Services, L.P. – Wastewater

**Case settled prior to the filing of testimony.*

163664

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. P-2015-2501500
Philadelphia Gas Works :

VERIFICATION

I, ASHLEY E. EVERETTE, hereby state that the facts set forth in my Direct Testimony, OCA Statement No. 1, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

October 19, 2015
Date

Signed: Ashley E. Everett
ASHLEY E. EVERETTE

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Philadelphia Gas Works for :
Approval of a Distribution System : Docket No. P-2015-2501500
Improvement Charge :

SURREBUTTAL TESTIMONY

OF

ASHLEY E. EVERETTE

ON BEHALF OF

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

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1 **Introduction**

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

3 A. My name is Ashley E. Everette. My business address is 555 Walnut Street, Forum Place,
4 5th Floor, Harrisburg, Pennsylvania 17101. I am currently employed as a Regulatory
5 Analyst by the Pennsylvania Office of Consumer Advocate (OCA).

6
7 **Q. Have you previously provided testimony in this case?**

8 A. Yes. I provided direct testimony in this case on October 19, 2015 in OCA Statement 1.
9

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

11 A. In my surrebuttal testimony, I will comment on the rebuttal testimony of Philadelphia
12 Gas Works (PGW or Company) witnesses Murray, Dybalski, and Golden, Jr. in PGW
13 Statement Numbers 1-R, 2-R and 3-R, respectively. I will address the Company's rebuttal
14 testimony which responds to the issues discussed in my direct testimony.

15
16 **Q. Did PGW make any changes to its proposal?**

17 A. Yes. PGW withdrew its request to waive interest payments on over-collections (PGW St.
18 2-R, page 3). As discussed in OCA Statement 1, OCA opposed the waiver of interest
19 payments on over-collections. Therefore, I agree with the Company's withdrawal of this
20 request.

21
22 Also, PGW has amended or clarified its proposal by stating that it will not spend the
23 proposed incremental revenues above 5% until it has: (1) revised its DIMP in accordance
24 with discussions with the Commission's Gas Safety Division (GSD), (2) reflected those

1 revisions to its DIMP in its proposed revised LTIIIP to be submitted to the PUC for
2 approval, (3) provided information in the revised LTIIIP to show that it will have
3 adequately trained personnel and programs to handle the additional accelerated program,
4 and (4) received approval from the PUC for its revised LTIIIP.

5
6 **Long-Term Infrastructure Improvement Plan**

7 **Q. Please discuss the Company's response to your direct testimony regarding the**
8 **requirement to increase the DSIC rate prior to the approval of a revised LTIIIP.**

9 A. In direct testimony, I stated that the Company should file an amended LTIIIP before it is
10 permitted to increase rates and spending. The Commission should have the benefit of
11 PGW's plans for implementing a \$33 million replacement program¹ utilizing qualified
12 contractors in making its determination whether to increase the DSIC rate cap.

13 In response, the Company stated that it does not plan to spend the additional amount prior
14 to Commission approval of its LTIIIP; rather, it wants to be able to collect the amounts
15 from ratepayers prior to approval of its LTIIIP, and spend once it has approval. (PGW St.
16 1, page 10.) It is inappropriate to collect surcharge revenues from ratepayers with neither
17 a plan nor approval in place to ensure that the additional spending will be cost-effective,
18 prudent and safely performed. PGW should not be permitted to increase the DSIC rate
19 prior to approval of an LTIIIP that shows how the increased revenues will be spent.

¹ PGW's approved LTIIIP addresses a \$22 million accelerated main replacement program.

1 **Q. PGW witness Murray’s testimony states that your testimony suggests “there is no**
2 **substantiated link between accelerated main replacement and a reduction in main**
3 **breaks and incidents” (PGW St. 1-R, page 3). Is this what your testimony says?**

4 A. No. My testimony notes that PGW’s incidence of leaks and breaks has actually increased
5 since the implementation of the DSIC. It is up to PGW to show how a higher DSIC rate
6 will decrease the incidence of leaks and breaks. The revised LTIP should show the
7 Company’s plans regarding this matter.

8
9 PGW’s testimony states further that my testimony says “PGW should not be undertaking
10 an accelerated main replacement program” (PGW St. 1-R, pages 3-5). My testimony does
11 not say this. Rather, my testimony recommends that the Commission require PGW to
12 have an approved LTIP in place before charging ratepayers a higher DSIC rate. The
13 LTIP is necessary to properly prioritize the Company’s spending and to establish that
14 PGW can safely increase construction to support its proposed spending increase.

15
16 **Q. Please discuss PGW’s statements that the OCA is recommending PGW be required**
17 **to make filings that are not required of other utilities.**

18 A. Specifically, PGW states the following: “OCA witness Everette suggests that PGW
19 should file separate quarterly reports about its training efforts, qualifications of
20 contractors, the performance of said contractors, categories of main replaced, and leak
21 trends.... as far as I am aware, no other gas or electric utility with a DSIC has been
22 required to make such filings” (PGW St. 1-R, pages 9-10).

1 As noted in my direct testimony, PGW itself has expressed concern over its ability to
2 retain sufficient qualified contractors to complete projects at the proposed level of
3 spending.² Accompanied with the fact that the incidence of leaks has not improved since
4 the implementation of the DSIC, it is appropriate for the Company to evaluate and report
5 on the performance of its contractors as well as on the progress of main replacement and
6 leak trends. PGW's reference to other gas and electric utilities is not relevant because no
7 other gas or electric utility has received approval to increase the DSIC rate to 7.5%,
8 particularly under the circumstances previously described. Nor has any other utility
9 sought to recover costs *before* plant is in service. Nor has any other utility proposed to
10 increase DSIC recovery by one-half on the first day of its increased DSIC. The other
11 utilities ramp up their spending and recovery, which gradually increases their DSIC rate.
12 Because of PGW's levelization proposal, the DSIC rate will increase by one-half on the
13 first day.

14
15 With regard to the OCA's recommendation that PGW file separate quarterly reports
16 about its training efforts, qualifications of contractors, the performance of said
17 contractors, categories of main replaced, and leak trends, PGW states that reports will not
18 be useful because the Annual Asset Optimization Plan "should provide all the relevant
19 information for the Commission and other parties to evaluate whether PGW is on track with
20 plans to attract and train qualified operators, etc." (PGW St. 1-R, pages 9-10). Review of
21 PGW's 2014 and 2015 AAOPs shows that the reports address only the categories of main

² The Stratified Management and Operations Audit of Philadelphia Gas Works released October 22, 2015 noted that "PGW has an exceptionally high number of employees who are currently or soon to be eligible for retirement" (page 43). The report notes that 60% of PGW's workforce will be eligible to retire within the next five years. Another reason that PGW's LTIIP should be in place prior to collecting additional revenues from customers is to ensure that PGW will have the workforce necessary to ramp construction up to the level that it has proposed.

1 replacements. There is no information in the AAOPs regarding training, qualifications,
2 performance quality or leak trends.

3
4 **Historical Spending**

5 **Q. Please discuss PGW's response to your testimony that PGW's historical spending**
6 **does not support that it will be able to ramp up spending to 7.5% in 2016.**

7 A. PGW witness Murray stated, "OCA suggests that experience (actual spending and
8 construction) above the current DSIC limitation (or cap) of 5% of billed distribution
9 revenues should be required before the DSIC limitation can be increased" (PGW St. 1,
10 page 10).

11
12 This statement is a misrepresentation of my testimony. On pages 7-8 of OCA Statement
13 1, I explained that PGW has had spending that reached the 5% cap in only quarter since
14 July 2013. Therefore, in order for PGW to spend at a level that reaches the 7.5%
15 annualized, levelized DSIC the Company has proposed, it would have to significantly
16 increase spending during the construction season, even beyond the difference in spending
17 between a 5% and 7.5% DSIC. This raises the question of whether PGW will be able to
18 ramp construction up to the level of spending it has proposed. Given PGW's proposal to
19 charge customers for the increased DSIC rate before putting the plant into service (or
20 even having an approved LTIIP in place), it is particularly relevant whether they will
21 actually be able to spend at the proposed level.

22
23 The chart on page 6 of PGW Statement 2-R provides a concise example of the gap
24 between the current spending and the proposed spending. In 2014, PGW had DSIC-

1 eligible spending of \$15,820,577, which is \$6.2 million, or 28% less than the \$22 million
2 approved by its LTIP. The most PGW has ever spent on DSIC Infrastructure in a 12
3 month period was \$18,536,584,³ which is \$3.5 million, or 16% less than the \$22 million
4 approved by its LTIP.

5
6 To clarify, I am not suggesting that PGW is required to spend the full 5% before it could
7 propose to increase the DSIC cap. However, historical spending levels do not provide
8 assurance that PGW will be able to ramp spending up to \$33 million per year, given that
9 PGW spent less than half that much in the only calendar year for which data is available
10 (2014). Because PGW is proposing to levelize and annualize the DSIC spending and
11 collect the revenues before eligible improvements are made, the historical level of
12 expenditures is relevant and should be considered.

13
14 **Funding Options**

15 **Q. Please discuss PGW's testimony that the OCA is recommending that PGW be**
16 **required to pursue funding options that are not required of other utilities.**

17 A. Yes. PGW says, "[T]his position [recommending the pursuit of non-ratepayer funding] is
18 tantamount to suggesting that before it may utilize a DSIC a utility must show that its
19 base rates are not sufficient to justify funding accelerated infrastructure. The Commission
20 and the General Assembly appeared to make quite clear that the DSIC was intended to be
21 in addition to whatever regular capital expenditures a utility might make, the costs of
22 which would be recovered in base rates" (PGW St. 3-R, page 12).

23

³ The expenditures totaling \$18,536,584 occurred in November 2013, May 2014 and August 2014.

1 What PGW has not recognized in this statement is that it is requesting major
2 modifications to the DSIC that was created by the General Assembly in Act 11. PGW has
3 requested a 50% increase in the DSIC cap, from 5% to 7.5%. Additionally, PGW
4 proposes to charge customers DSIC rates prior to placing the eligible plant in service.
5 Other utilities, as referenced in PGW's testimony, would fund the upfront costs of
6 eligible improvements, and receive recovery later. The reason PGW should look for other
7 sources of funding is that it is asking ratepayers to be the first and only source of funding
8 distribution system improvements.

9
10 Further, all other utilities with a DSIC are subject to an earnings cap on the total rates
11 charged to customers. The earnings cap is not applied to PGW.⁴ For PGW alone, the
12 Commission determines whether the DSIC should be reset to zero in a given quarter
13 based on its review of PGW's rate levels and financial condition pursuant to the standards
14 set forth in its policy statement at 52 Pa. Code § 69.2703. Pursuant to the policy
15 statement, relevant factors include internal generation of funds (IGF) to fund
16 construction. It is entirely consistent with Commission policy and Orders, thus, for other
17 sources of funding to be considered before charging ratepayers a 7.5% DSIC. In addition
18 to a waiver of the \$18 million annual payment to the City, possible IGF to offset DSIC
19 recovery includes the \$3.2 million annual debt service decrease from the revenue bond
20 refunding that was completed on August 18, 2015 and the estimated \$2.2 million in
21 annual savings, plus a one-time savings of approximately \$1.1 million, that could be

⁴ See 66 Pa. C.S. § 1358(b)(3) and the Commission's Final Order at Docket No. M-2012-2293611, pages 42-43.

1 generated by implementation of the recommendations identified in PGW's recent
2 Stratified Management and Operations Audit Report.⁵

3
4 **Q. PGW states that the City “is aware of the suggestion in the PUC Staff Report**
5 **[regarding waiver of the \$18 million annual payment], as well as similar suggestions**
6 **made in the recent past, and has considered and rejected them under the present**
7 **circumstances.” Do you have a response?**

8 A. Mr. Golden acknowledges that the City granted back the payment in 2004 through 2010.
9 He says that it is his understanding that it was only done to avoid financial crisis –
10 circumstances that do not currently exist (PGW Statement No. 3R, pages 9-10). First, his
11 testimony makes clear that PGW has not formally requested that the City consider
12 waiving the annual payment. If the City was concerned with avoiding financial crises, it
13 may also be concerned with avoiding a threat to life and property and preventing the
14 Company from increasing rates to customers, many of whom live in deep poverty.⁶

15
16 **Proposal to Annualize and Levelize the DSIC rate**

17 **Q. Please summarize your testimony regarding the proposed levelization and**
18 **annualization of the DSIC rate.**

19 A. In direct testimony, I stated that if PGW is allowed to levelize and annualize its DSIC
20 rate, this approval should be subject to several conditions, as follows:

⁵ The Audit Report identified additional savings of \$6.2 million to \$7.3 million related to PGW's gas supply costs, which may have an impact on PGW's cash working capital needs.

⁶ See PGW Statement No. 1, pages 3-4 (citing the Commission's Staff Report dated April 21, 2015, where the Commission concluded that PGW's cast iron and unprotected steel pipe are a threat to life and property). See also my discussion in direct testimony regarding poverty in PGW's service territory.

- 1 1. PGW should be required to designate revenues that are pre-collected from the
- 2 DSIC for DSIC spending.
- 3 2. PGW should be required to do more to enroll customers in budget billing.
- 4 3. PGW should be required to update the DSIC rate each quarter to reflect changes
- 5 in projected construction costs and projected quarterly revenues.

6

7 **Q. Please discuss the Company's response to your proposal to require PGW to**

8 **segregate revenues and to update the DSIC rate quarterly.**

9 A. PGW witness Dybalski (PGW St. 2-R, pages 7-8) stated that "there is no need to

10 segregate DISC [sic] revenues from other revenues." Mr. Dybalski explained that the

11 DSIC is an automatic adjustment clause and is reconciled annually. In response to my

12 recommendation regarding required quarterly updates, Mr. Dybalski stated that PGW

13 should not be required to update the DSIC rate quarterly because "the cost of making the

14 adjustments might outweigh the benefits" (PGW St. 2-R, page 8).

15

16 Both of these conditions are important safeguards that should be required if the

17 Commission allows PGW to levelize and annualize the DSIC rate. As a cash flow

18 company, PGW should not be permitted to divert ratepayer collections for one purpose to

19 another purpose. As explained previously, PGW is proposing to charge customers the

20 DSIC prior to spending on infrastructure investments. Therefore, in order to ensure that

21 DSIC revenues are spent the way PGW has proposed, it is important to segregate DSIC

22 funds in order to ensure that the funds collected from customers are spent as planned.

23 Additionally, in order to be ensure that over-collections are minimized, PGW should be

1 required to make quarterly updates. This is particularly important given the deep poverty
2 in PGW's service territory. PGW should not collect from ratepayers any more than it can
3 spend in the rate period to avoid unnecessarily and unreasonably burdening customers.
4

5 **Proposal to Increase the DSIC Cap to 10%**

6 **Q. PGW claims that its proposal to increase DSIC to 10% is needed because it has been**
7 **unable to collect amounts spent, and that it has a historical under-collection of**
8 **\$4,101,365. Does this amount comport with the annual reconciliations it has filed**
9 **with the Commission?**

10 A. No. PGW's chart (PGW St. 2-R, page 6) shows a total of \$4.1 million of under-
11 collections between 2013 and 2015. However, there is a difference in timing between
12 what is included in PGW's chart and what is included in the calculations of the DSIC.
13 For example, although this chart shows \$8.2 million of under-collections in 2013, the
14 reconciliation filed with the Commission showed under-collections of only \$3.1 million
15 in 2013. The difference is that the \$5.1 million of infrastructure placed in service in
16 November 2013 was not billed in the DSIC revenue until the January 1, 2014.

17
18 The 2014 reconciliation report shows that in 2014, PGW recouped the entire 2013 under-
19 collection of \$3.1 million, and ended 2014 with an under-collection of \$1.4 million. This
20 under-collection is being recovered during 2015. Because 2015 is not over, calculations
21 of under or over-collections would not be accurate at this point. If PGW ends 2015 with
22 an under-collection based on the costs eligible for recovery during 2015, the under-
23 collections will be recovered during 2016. Contrary to PGW's testimony, it does not have
24 a large outstanding amount of under-collections that is growing each year because of

1 under-collections. As explained in my direct testimony, the increased cap to 10% to
2 account for the recovery of under-collections should not be approved.

3
4 **Bill Impact**

5 **Q. Please discuss Mr. Dybalski's testimony regarding the actual bill impact that**
6 **customers will see with a 7.5% DSIC.**

7 A. In direct testimony, I explained that increasing the DSIC to a levelized 7.5% would be a
8 greater impact than the incremental difference between 5% and 7.5% because PGW has
9 only charged the maximum 5% DSIC in three out of 10 quarters that the DSIC has been
10 in effect. Mr. Dybalski stated that the customers "will actually see a net decrease in their
11 rates" because bills are projected to be lower in 2016 than in July 2013. (PGW Statement
12 No. 2-R, page10.)

13
14 **Q. Did Mr. Dybalski explain why bills would be lower in 2016 than in June 2013?**

15 A. No. He did not specify the reason, but I presume he was referring to lower gas costs.
16 (According to the tariffs posted on PGW's website, the Company's Gas Cost Rate (GCR)
17 decreased by \$1.8988 per MCF between June 2013 and June 2015, which decreased
18 customers' total bills during that time period.) Even if the customers will see a "net
19 decrease" in their total bills because the gas cost portion of their bill is lower, they would
20 see a greater net decrease if the DSIC portion of their bill were not increased.

1 **Q. Please discuss the Company's response to your proposal to require PGW to develop**
2 **a plan to enroll a greater percentage of its customers in budget billing.**

3 A. PGW witness Dybalski states that there is no basis to modify the budget billing or
4 Customer Responsibility Program (CRP) at this time because it would be inappropriate to
5 force a customer onto an optional program. PGW Statement No. 2-R at 9. To clarify, I
6 did not suggest that PGW should force customers onto budget billing. Rather, I
7 recommended that PGW increase its efforts to ensure that all customers who are eligible
8 are aware of the program and have the informed option to enroll, to both mitigate the
9 impact of the rate increase for customers and to reduce the fluctuations in PGW's revenue
10 cycle.

11

12 **Conclusion**

13 **Q. Does this conclude your surrebuttal testimony at this time?**

14 A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. P-2015-2501500
Philadelphia Gas Works :

VERIFICATION

I, ASHLEY E. EVERETTE, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement No. 1S, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

November 3, 2015

Date

Signed: Ashley E. Everette
ASHLEY E. EVERETTE