PGW St. No. 7

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

DOUGLAS A. MOSER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R- 2017-2586783

Philadelphia Gas Works

General Rate Increase Request

System Reliability and Safety
Efficiencies and Cost Savings
Universal Service
Conservation Programs
Proposed Tariff Changes

February 2017

{L0691386.1}

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.

A. My name is Douglas A. Moser. My position with Philadelphia Gas Works ("PGW" or "Company") is Executive Vice President and Acting Chief Operating Officer.

Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science degree in Chemical Engineering from Pennsylvania State University in 1979. Also, I received a Master's in Business Administration from Widener University in 1990. I have held the following positions at PGW: Engineering Assistant; Production Engineer; Supervisor – Gas Conditioning; Operations Engineer – Gas Processing Department; Manager – Gas Control; Manager – Gas Acquisition; Senior Project Manager – Strategic Planning Department and Vice President and Senior Vice President of Gas Management.

Q. HAVE YOU EVER PROVIDED TESTIMONY BEFORE THIS COMMISSION?

A. Yes. I submitted testimony for the PGW 1307(f) Annual Gas Cost Rate ("GCR") filings before the Pennsylvania Public Utility Commission ("PUC" or "Commission") in Docket Nos. R-2012-2286447, R-2011-2224739, R-2010-20157062, R-2009-2088076, R-2008-2021348 and R-00072110 and in the Company's Distribution System Improvement Charge ("DSIC") proceedings in Docket Nos. P-2012-2337737; P-2015-2501500; and C-2015-2504092.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will describe the numerous efforts that PGW has undertaken during the last several years to improve the safety and reliability of the PGW gas distribution system, operate more efficiently, and improve its customer service. In particular, I will describe PGW's proactive efforts to modernize its distribution system infrastructure by replacing "as risk" pipe (cast iron and unprotected steel) with pipe that is made of modern materials, and by enhancing its efforts to detect and appropriately respond to any natural gas leaks, *in order to improve the safety and the reliability of PGW's facilities. I will* also review the many accomplishments that PGW has achieved to operate more efficiently, in order to maximize the use of its resources. I will discuss the several steps that PGW has been taking in order to provide its customers with better service. PGW has made all of these improvements consistent with its longstanding mission to provide the residents and businesses of Philadelphia with safe, reliable, and affordable natural gas service. PGW needs to maintain and improve its financial health through the tariff changes that are being requested in the subject rate proceeding in order to continue and to expand these accomplishments. In the last part of my testimony, I will explain several tariff modifications that PGW is proposing: the elimination of three rate schedules, Rate CG, rate LBS, and rate BPS, all of which have few or no customers and have adequate alternative rates; revision to the rate formula for interruptible transportation ("IT") customers that better recognizes the value of the interruptible service compared to alternative energy options or firm services; and a proposal to establish a new tariff provision to cover "back-up service," where a customer's primary energy source is something other than natural gas (e.g., steam or electricity) and the customer utilizes natural gas when its primary fuel source is unavailable or interrupted.

II. INFRASTRUCTURE IMPROVEMENTS TO ENHANCE SYSTEM SAFETY

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF PGW'S GAS DISTRIBUTION SYSTEM.

A. PGW's gas distribution system serves approximately 500,000 customers in Southeastern Pennsylvania in the County and City of Philadelphia, using approximately 3,000 miles of natural gas mains ("mains") and some 3,000 miles of service lines ("services"). At the end of calendar year 2016, PGW's mains were comprised of 47% cast iron, 16% plastic and protected coated steel and 37% unprotected coated steel and ductile iron.[1] The Company's services are made up of 77% plastic and protected coated steel, 19% bare steel and 4% unprotected coated steel.[2] PGW has more than double the number of miles of cast iron mains compared to any other natural gas distribution company in the Commonwealth of Pennsylvania. In fact, PGW's system accounts for approximately half of the total cast iron mains in the entire State.

Q. PLEASE DESCRIBE THE EFFORTS PGW HAS MADE SINCE ITS LAST RATE INCREASE IN 2009/2010 TO MODERNIZE ITS NATURAL GAS DISTRIBUTION SYSTEM.

A. PGW has made tremendous strides in reducing the amount of cast iron main in its system and replacing these mains with modern materials such as protected steel and plastic. Most notably, in 2010 PGW was annually replacing only approximately 18 miles of "at risk" pipe, mostly cast iron main. That replacement was financed through inclusion in PGW's base rates. With the help of the DSIC, enacted in 2013 at 5%, subsequently increased in 2016 to 7.5%, PGW has removed 111.37 miles of cast iron mains and projects that it will remove 31.35 more miles of cast iron mains in FY 2017. PGW's current projection for replacing all of its cast iron main is 47 years. PGW has broadened the prioritization process to a system-wide approach incorporating a new risk ranking strategy in its Distribution Integrity Management Program ("DIMP"), consistent with the

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1 *See*, PGW Long Term Infrastructure Improvement Plan ("LTIIP"), at 7.
2 *Id.*

U.S. Department of Transportation's ("DOT") Pipeline and Hazardous Materials Safety Administration's standards. The DIMP establishes relative risk rankings and an updated benchmarking / prioritization study to identify the poorest performing main segments, so that these mains can be targeted to be replaced at the earliest feasible times.

At the end of PGW's 5-year LTIIP in 2017, the amount of cast iron main removed from inventory is projected to be 10% above the original and modified planned amount.

Q. HOW ARE THE COSTS FOR PIPELINE REPLACEMENT RECOVERED?

A. PGW has financed these improvements both through funds made available from its current base rates as internally generated funds, debt financing, and the balance from PGW's DSIC, currently set at 7.5% of PGW's distribution revenues. Importantly, several costs incident to main replacement are not included in its DSIC and are being financed from present base rates. When PGW replaces distribution mains that are connected to the service line, PGW replaces the service lines when it encounters unprotected steel or failed plastic services. PGW replaced or reconnected some 5,522 service lines (with over 2,700 services related to accelerated main replacement) in FY 2016 and projects that it will replace or reconnect 7,500 service lines in FY 2017; that is a 57% increase in the number of service lines replaced or reconnected since 2010. To replace or reconnect these services, PGW is projecting to spend $9.9 million in FY 2017, more than half (58%) of which will come from its present base rates and the projected amount of services incorporated into LTIIP related projects in FY 2017 is more than the other years combined. PGW's total service related expenditures have increased by 36% since 2010.

Q. DID PGW TAKE ANY ACTIONS TO ENHANCE CUSTOMER UNDERSTANDING AND AWARENESS OF ITS ACCELERATED MAIN REPLACEMENT PROGRAM?

A. Yes. During FY 2016 PGW also enhanced its existing Pipeline Improvement Notification Program to implement a robust communication program with customers to better outline the Company's investment in its infrastructure, expand communication of pipeline improvement efforts, improve public perception, build stronger, more collaborative external relationships, and help to increase customer satisfaction.

The main audiences for this notification program are PGW customers, the affected public in areas where service improvements are scheduled, elected officials and key stakeholders, neighborhood associations and community organizations, local media outlets, City and State regulators, PGW contractors and PGW employees. The elements of the plan include the following:

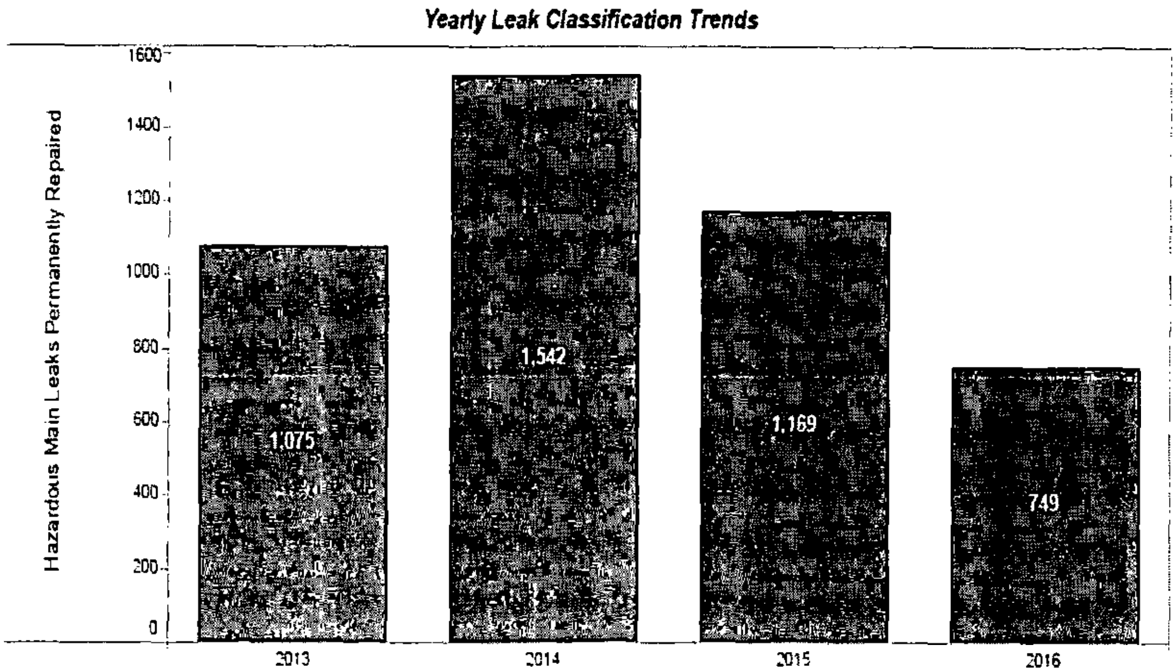
- The inclusion, on the PGW website (PGWORKS.com/worksites) of a webpage, providing infrastructure improvement information featuring an interactive worksites map and a comprehensive project listing by zip code;
- The establishment of an online survey asking customers to rate their experience with PGW in the context of an infrastructure improvement project;
- The creation of a "5-Steps of Pipeline Improvement" Customer Guide available online and as a handout;
- The use of blast messaging on Nextdoor.com mobile/email social platform in advance of each project start date;
- Contractor block by block notification using a tri-color door hanger notification system (Blue =notice of project starting, Yellow=notice of service reconnection to newly installed main, Green=final worksite restoration and paving notice);
- E-notices to community organizations and elected officials before the start of each project and the holding of community meetings as needed; and
- The creation of communications channels whereby customers and the public can get information and answer questions such as the "Public Affairs Hotline" (215-684-6880, Mon-Fri, 8 a.m. to 4 p.m.), and PGW Facebook and Twitter @MyPGW.

Q. DID THE PIPELINE REPLACEMENT PROJECT ALSO RESULT IN ENHANCED COORDINATION WITH COMMUNITY AGENCIES AND ORGANIZATIONS?

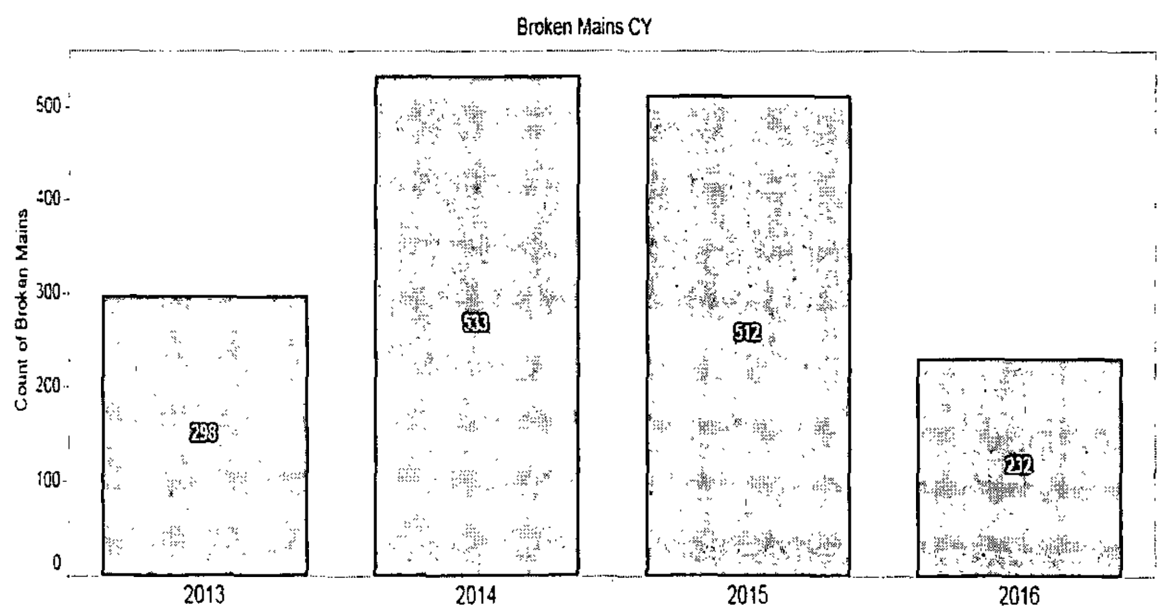
A. Yes. PGW increased its efforts to coordinate with Philadelphia agencies that might be impacted by main replacement activities, including: the Philadelphia Fire Department, the Philadelphia Streets Department, the Philadelphia Water Department, and the Philadelphia Police Department. PGW also increased its coordination work with the local electricity distribution utility, PECO, to ensure closer harmonization with PGW employees, in part, to reduce the possibility of any adverse electric issues. For example, PGW recently contracted with the Northeast Gas Association to provide a first responder E-learning portal that would be available to all first responders. This training offers a self-directed interactive online training package that provides emergency response personnel with information they need to safely identify and respond to incidents that may involve natural gas pipelines and other natural gas facilities. We are hopeful that this E-learning portal will enhance the cooperation and effectiveness of first responders in the event of a natural gas-related emergency.

Q. IS THERE ANY EVIDENCE THAT THE ACCELERATED PIPELINE REPLACEMENT PROGRAM HAS IMPROVED SAFETY?

A. Yes, some evidence is starting to develop. The total number of leaks permanently repaired for all classes of main has substantially decreased from calendar year 2014 to 2016. Most notably, the number of hazardous leaks permanently repaired has decreased. PGW attributes this decrease to the prioritized selection and removal of the most "at-risk" mains in the system and warmer than average winter seasons.



Moreover, in CY 2016, PGW experienced a four (4) year low in the amount of broken mains. Again, PGW attributes this reduction in broken mains to its prioritized removal of "at-risk" main segments and warmer than average winter seasons.



Q. HAS THE PIPELINE REPLACEMENT PROGRAM RESULTED IN ANY OTHER FAVORABLE SAFETY DEVELOPMENTS?

Yes. PGW significantly increased the number of third-party contractor work crews working on cast iron main replacement by approximately 200% since 2013, in order to facilitate the pipeline replacement operations. As a result of using these contractor employees, PGW's Full Time Equivalent ("FTE") employees have been able to focus more of their attention on pipeline safety issues, for example by increasing the number of class 2 and 3 leaks permanently repaired. This focus by PGW FTEs has enhanced the overall safety of PGW's operations. In order to utilize these contractor employees and still maintain the very highest levels of safety, PGW has successfully trained a total of 136 contractor employees from a total of 11 contractor companies. Below is a breakdown of the training classes held, number of employees successfully completing the training and total hours trained.

Class Name	# of Employees	Hours
Contractor Fusion Qualification	67	536
Live Gas Training	24	974
Relight Training	23	928
Bridge Main Inspection / Repair Training	13	104
Fusion School / Annual Fusion Class	5	40
Transmission Main Health & Safety Plan Training	4	4
Grand Total	**136**	**2,594**

III. RELIABILITY IMPROVEMENTS

Q. DID PGW TAKE ANY STEPS DURING FY 2016 TO ENHANCE THE RELIABILITY OF ITS SYSTEM?

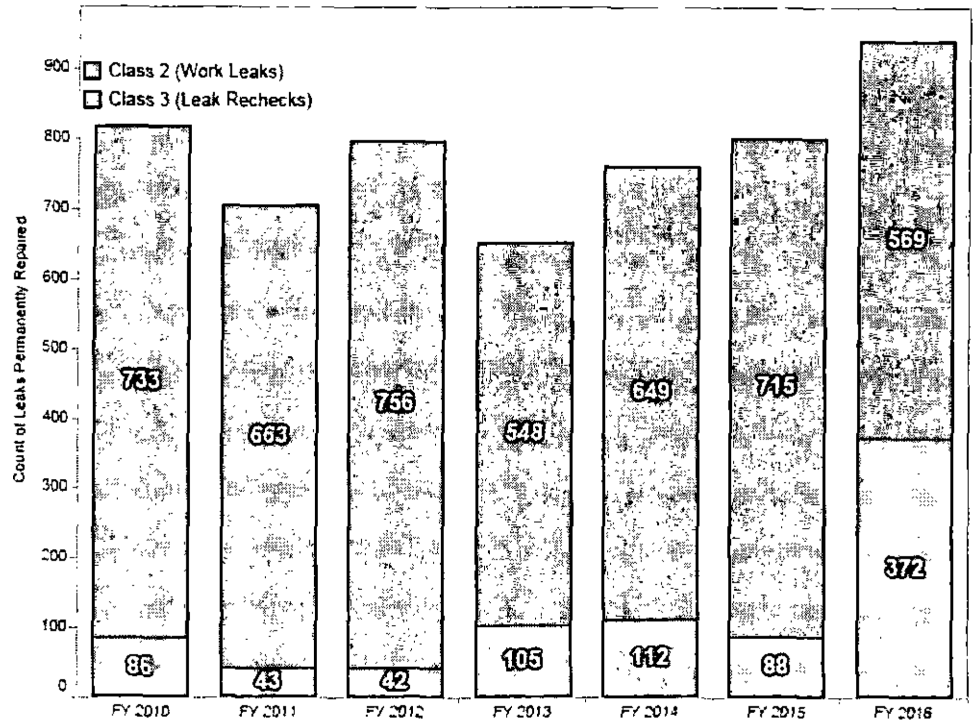
A. Yes. PGW has enhanced its efforts to detect and appropriately respond to natural gas leaks on its system.

Q. WHAT STEPS HAS PGW TAKEN TO ENHANCE ITS EFFORTS TO DETECT AND APPROPRIATELY RESPOND TO NATURAL GAS LEAKS ON ITS SYSTEM?

A. During FY 2016, PGW was able to meet leak response and construction goals even with significant changes in leadership due to abnormally high levels of retirements. PGW made great strides in reducing the number of open leaks in backlog. As noted above, the increase in contractors performing construction type work has given PGW the resources to prioritize and systematically attack these lower grade leaks. This has resulted in a lower open leak backlog and reduced the need for rechecking these open leaks.

The following chart depicts this. The portions labeled "Class 2" (Work Leaks) show the number of Class 2 leaks PGW has repaired by year. The portion of the chart labeled "Class 3" (Leak Recheck) show the number of Class 3 leaks that PGW has repaired each year. As can be seen, the total number of Class 2 and Class 3 leaks repaired has steadily grown since 2013.

CLASS 2 & 3 LEAKS REPAIRED



IV. INCREASED EFFICIENCIES AND COST SAVINGS

Q. HAS THE COMPANY TAKEN EFFORTS TO INCREASE EFFICIENCIES AND REDUCE COSTS IN THE AREA OF EMPLOYEE BENEFITS SINCE THE LAST BASE RATE CASE?

A. Yes, the Company has undertaken a multi-faceted program to build efficiencies into its employee benefit programs so as to reduce costs while maintaining an attractive employee benefits program, a step that PGW committed to taking in its last rate case. In fact, the Commission directed that the Company report on its efforts in this regard.

Q. WHAT WAS THE BACKGROUND AND NATURE OF THE REQUESTED REPORT?

A. In the 2010 Order approving the Settlement resolving PGW's last general rate increase request, the Commission approved a term in the Joint Petition for Settlement in which PGW agreed as follows: "[a]t the time of filing its next distribution base rate case, [PGW] will report on its efforts to control the claimed employee benefit expenses so as to continue providing employee benefits that do not unduly burden the Company and its ratepayers. Such report must include documentary evidence of the Company's efforts including the measures investigated."[3]

Q. WHAT WAS THE GENESIS OF THIS AGREED UPON REPORTING REQUIREMENT?

A. In the last rate proceeding, PGW requested and received the right to create an Other Post-Employment Benefit ("OPEB") surcharge designed to begin to fund its unfunded post-retirement benefit obligations. In part to support the reasonableness of that request, PGW presented evidence of its efforts to date to control employee benefit costs. As part of the settlement of that proceeding PGW agreed to report in its next rate case concerning its continuing efforts to control employee benefit costs.

Q. HAS THE COMPANY TAKEN STEPS TO CONTROL ITS EMPLOYEE BENEFIT COSTS SINCE ITS LAST RATE CASE?

A. Yes it has. It has undertaken a host of initiatives and modifications all designed to reduce its employee benefit costs while continuing to be able to attract and retain qualified employees. It is important to point out that PGW's employee salary and benefit levels for management employees are low compared to those of other natural gas utilities (salary and benefit levels for union employees are subject to collective bargaining).

Accordingly, PGW must attempt to keep employee benefit expenditures down without hurting the Company's ability to attract and maintain the qualified employees to provide safe and adequate natural gas distribution service to customers. Keeping these goals in mind, PGW was able to take material steps to reduce its employee benefit costs. Some of

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[3] R-2009-2139884 Joint Petition for Settlement, ¶ 27.

the changes produced immediate savings; others produce savings over time. In all events I am confident that PGW will continue to make reasonable efforts to reduce its employee benefit costs – or to a least slow the rate of growth – without materially harming its ability to attract qualified employees.

Q. PLEASE DESCRIBE THE MOST SIGNIFICANT OF THOSE STEPS.

A. Perhaps the most significant step PGW has taken in this period was to revise its medical and dental benefits plans to become self-insured. PGW's Self Insurance Plan means that PGW pays the eligible health care and dental costs of its eligible union and non-union employees up to specified levels. PGW has put in place "stop loss" insurance that covers expenditures when costs exceed designated levels. By taking this step, PGW has been able to significantly reduce its health insurance premium costs for employees. In the five years (FY 2012- FY 2016) that PGW's Self Insurance Plan for health care has been in effect, PGW has reduced its health insurance costs by a total of $77.2 million (See, Exh. DAM-1) compared to the projected cost if PGW had remained fully insured. Projection of savings from self-insurance for the period FY 2017 and FY 2018 totals an additional $48.02 million for a total savings for the seven years of $125.4 million. It is well to note that the savings from this single step was about $18 million annually. PGW has also recently transitioned to a similar self-insurance approach for dental care for eligible covered employees. That self-insurance effort started in FY 2016 and is estimated to save approximately $200,000 annually.

Q. HAS PGW TAKEN ANY STEPS TO ATTEMPT TO CONTROL POST-RETIREMENT BENEFITS?

A. Yes. Starting in 2011, retirement benefits for new employees do not include lifetime health insurance. Instead, upon retirement, those employees receive health insurance for five years after their retirement date. The Plan was amended to change post-retirement healthcare coverage from lifetime to five (5) years for union employees hired after 5/21/2011 and non-union employees hired after 12/21/11.

Q. HAS THIS CHANGE HAD AN EFFECT ON THE NUMBER OF PGW EMPLOYEES WHO WILL RECEIVE LIFETIME HEALTH BENEFITS WHEN THEY RETIRE?

A. Yes, the number of active employees who will receive lifetime health benefits upon their retirement has been greatly reduced. Currently, just 38% of PGW's active employees are eligible for lifetime health benefits upon retirement. In 2011, approximately 100% of its employees were eligible for this benefit. This will have a significant effect on benefit payouts. PGW's actuarial consultant has projected that savings from this and other plan changes for medical, dental, Rx, administrative expenses, life insurance, and taxes will reduce its post-retirement benefits obligation to retirees by $55.3 million through 2045 (see Exh. DAM-2).

Q. HAVE THERE BEEN ANY CHANGES IN PGW'S PENSION PLAN FOR UNION AND NON-UNION EMPLOYEES IN AN EFFORT TO CONTROL COSTS?

A. Yes. PGW's non-contributory defined benefit plan is no longer available to union employees hired as of May 22, 2011 or non-union employees hired as of December 21, 2011. As an alternative to the non-contributory defined benefit plan, new hires have two options:

1) A defined contribution 401(a) plan with the following features:
    a. PGW contributes 5.5% of an employee's applicable compensation;
    b. The employee cannot make additional contributions;
    c. The employee directs the investment of funds; and
    d. The account is fully vested at all times.

2) A contributory defined benefit plan with all of the same features as the non-contributory defined benefit plan except that the employee is required to contribute 6% of the employee's applicable compensation.

Because most new employees choose option 1 (defined contribution), the cost of the pension benefit has been significantly reduced.

Q. ARE THERE OTHER STEPS THAT THE COMPANY HAS TAKEN DESIGNED TO CONTROL BENEFIT COSTS?

A. Yes. The following is a list of the more material items (in addition to those discussed above) that PGW has put in place since 2010:

- Negotiated a new base medical insurance plan with GWEU Local 686 (PGW's union). The base plan increased the required deductibles from $5 to $15 per doctor visit.

- Implemented a new base medical insurance plan for non-union employees; as a result, co-pays for non-union employees increased from $5 to $10 per doctor visit.

- Negotiated an increase in brand drug co-pays with GWEU Local 686; the old co-pay of $10 for a branded drug was increased to $15. Similarly, an increase in brand drug co-pays for non-union employees was implemented at the same level as that negotiated with the Union ($15 per branded drug).

- Implemented an Employer Group Waiver Plan for Medicare eligible retirees on prescription drug plans. The Plan assures that PGW, as the self-insured carrier, receives credits for any portions of health care costs that Medicare-eligible employees or retirees receive.

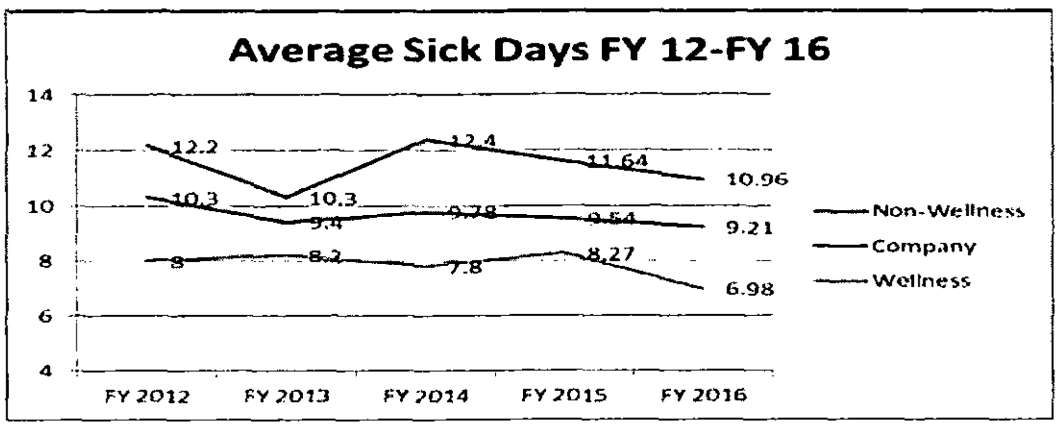
- Implemented a prior authorization requirement for specialty and compounding drugs for prescription carrier. Prior to implementing the prior authorization requirement, PGW was experiencing several hundred thousand dollars a year to cover the cost of specialty and compounding drug prescriptions. After the prior authorization requirement was implemented, the use of such prescriptions dropped almost to zero and non-compounded, non-specialty drugs were substituted by prescribing doctors.

- PGW put out to bid its prescription drug program and, as a result reduced the pricing by approximately 20.86% over 3 years, for $14.7 million in savings. (The same company that had previously been providing the prescription drug program was selected – but at a significant reduction in cost to PGW.)

- Implemented a Wellness Program for employees. The Wellness Program is designed to reduce employee health care costs by providing information, opportunities and incentives to employees to improve their fitness and live a healthier lifestyle. Such lifestyle changes, in turn, will reduce covered health care costs. For example, as part of this program, PGW has installed mini-gyms on site at five of its locations. Another provision offers decreases in certain co-pays if an employee participates in the Wellness Program, which many have done.

Q. WITH RESPECT TO THE LAST PROGRAM MENTIONED, HAS THE WELLNESS PROGRAM RESULTED IN REDUCED COSTS?

A. PGW believes that it has. The Wellness Program currently offers opportunities for employees to take charge of their individual health and well-being through fitness classes, nutrition counseling, and prevention and disease management programs and events. The tracking of absenteeism data on employees who participate in wellness activities has been ongoing since the inception of the program in 2011. An annual productivity metric for absenteeism was developed that compares the absences of non-wellness participants vs. wellness participants and the associated savings. Below is a comparison of average absences for wellness participants, non-wellness participants, and Company for the past three years, which shows the significant benefits of this program.



As one can see, at least on the basis of this metric, the Wellness Program has enabled PGW to improve its productivity by reducing used sick days. Without these cost reductions PGW's proposed rate increase would have had to have been larger than the $70 million requested.

Q. DO YOU HAVE AN OVERALL OBSERVATION CONCERNING THE VARIOUS EFFORTS YOU HAVE DESCRIBED?

A. Yes. I believe by any reasonable measure, PGW has taken substantial efforts to hold the line and/or to reduce the overall cost of employee benefits. Nonetheless, PGW's annual employee benefits costs increased by 15.6% over 6 years. The fact remains, however, that this increase would be much larger without the Company's efforts. On a national level, employee benefit costs have continued to increase, and PGW projected that its health care cost responsibility alone would have risen by 56.7% over the same time period if PGW had not changed to its Self-Insurance Plan. This means that PGW has managed to keep employee benefit cost increases lower than they otherwise would have been while still attracting and retaining qualified employees to provide safe, adequate and reasonable utility service.

Q. TURNING TO OTHER AREAS OF INCREASED EFFICIENCIES, WAS PGW ABLE TO ACHIEVE EFFICIENCIES BY OPTIMIZATION OF ITS COMPUTER RESOURCES?

A. Yes. PGW saved money by prudently upgrading its information technology resources. The new data center features a highly efficient hot aisle containment system and hosts state-of-the-art information technology equipment. It is cooled using exhaust heat from a Combined Heat and Power ("CHP") system. Waste heat is converted to cooling by using heat to condense refrigerant instead of utilizing electrically driven compressors for this purpose. PGW expects annual savings of $200,000 from the increased efficiencies produced by this project.

Q. DID THE INSTALLED CHP UNIT PRODUCE ANY OTHER BENEFITS?

A. Yes. In addition to providing cooling for PGW's information technology equipment, PGW's 200 kilowatt natural gas-fired micro-turbine CHP system produces electricity, heat and cooling for the entire 800 West Montgomery Avenue building in Philadelphia. PGW estimates that approximately half of the building's electricity is produced by the CHP facility at approximately half the cost of the electricity purchased from an electric supplier and delivered via the local distribution grid. Waste heat from the micro-turbine's exhaust is converted via an absorber chiller into building cooling, providing additional annual operating savings. The CHP system is also used by PGW's Marketing personnel to demonstrate the advantages of CHP systems to customers in the CHP service segment.

V. PROGRAMS BENEFITING LOW INCOME CUSTOMERS

Q. PLEASE DESCRIBE SOME OF THE STEPS THAT PGW HAS TAKEN IN THE LAST SEVERAL YEARS TO IMPROVE THE QUALITY OF SERVICE PROVIDED TO LOW INCOME CUSTOMERS.

A. Certainly. The provision of services to low income customers is important to the Company and starts with a robust Customer Assistance Program ("CAP") which PGW calls its "Customer Responsibility Program" ("CRP"). PGW's goals in providing CRP are to prevent loss of service for vulnerable households and assist low-income customers with bill payment. Participants do not need to demonstrate that they are "payment troubled" in order to qualify. Furthermore, there is no limit on the number of customers who can enroll in CRP.

Q. WHAT ARE THE CUSTOMER'S REQUIREMENTS WHEN ENROLLED IN CRP?

A. Customers enrolled in CRP are required to pay a fixed monthly bill that is based on their gross household size and income.[4] Participants who have pre-program arrears are also

[4] CRP is available to all low-income residential customers with an annual gross household income at or below 150% of the Federal Poverty Level ("FPL"). Customers enrolled in CRP are required to pay a fixed

required to pay an additional $5 co-pay which is applied towards their pre-program arrears. Currently, the minimum monthly CRP payment amount is only $25, not including the $5 co-payment towards the pre-program arrears.

Q. IN ADDITION TO A MONTHLY CHARGE BASED UPON THE CRP CUSTOMER'S INCOME DOES THE CUSTOMER RECEIVE ANY OTHER BENEFIT?

A. Yes. If a customer owes any arrears at the time of enrollment, they will receive arrearage forgiveness for each monthly CRP bill that is paid in full regardless of any past due bills. Arrearage forgiveness consists of the customer's account balance being reduced by 1/36th of the pre-program balance amount which essentially eliminates the balance over a three-year period.

Q. WHAT OTHER STEPS DOES PGW TAKE TO ASSIST LOW INCOME CUSTOMERS?

A. Most significantly, PGW provides the largest Low Income Usage Reduction Program ("LIURP") of any natural gas utility. Named CRP Home Comfort, the program seeks to provide cost-effective energy savings to low-income customers and make customers' homes more energy efficient, safe and comfortable. Home Comfort does this by:

- Repairing or replacing older and less energy efficient heating systems, as feasible;
- Providing comprehensive weatherization services, such as thermal envelope and domestic hot water heating improvements, as feasible;
- Making health and safety improvements that contribute to conservation measures, and referring some customers to other programs that offer comprehensive health and safety improvements;
- Educating customers on ways to reduce their energy use along with basic health and safety information;

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monthly bill that is based on their household size and income: Residential customers with an income that is (a) 0% to 50% of the FPL pay 8% of their gross income, (b) greater than 50% to 100% of the FPL pay 9% of their gross income, (c) greater than 100% to 150% of the FPL pay 10% of their gross income.

- Raising awareness of energy conservation and encouraging the incorporation of energy saving behavior;
- Targeting high-use customers to maximize impact, increase cost-effectiveness, and optimize total savings; and
- Engaging landlords and building owners as partners in energy efficiency.

Q. DOES THE HOME COMFORT PROGRAM PRODUCE BENEFITS FOR CUSTOMERS?

A. Yes. The Program provides significant savings and improves home comfort. Homes that receive a comprehensive treatment are achieving average annual savings of approximately 34 MMBtu and 18 percent of usage. Homes that receive a more limited or "core measure" treatment result in an average annual savings of approximately 7 MMBtu and 4 percent of usage.

Q. CAN YOU PROVIDE AN EXAMPLE OF THE BENEFITS THAT AN INDIVIDUAL LOW INCOME CUSTOMER MIGHT RECEIVE UNDER THE HOME COMFORT PROGRAM?

A. Yes. Although CRP Home Comfort projects vary considerably based on site-specific conditions, the example below illustrates how individual site opportunities can be leveraged to optimize cost-effective savings and home comfort through the program. The following is just one example of the 14,865 CRP Home Comfort cases closed from inception through FY 2016. This CRP customer had an annual usage of 167 MMBtu. The conservation service provider ("CSP") (with which PGW contracted to provide conservation services) was able to reduce this usage by 58 MMBtu, or 35 percent. The conservation treatment included insulating the attic, air sealing, and better defining the thermal envelope to lower the high building leakage rate by 28 percent. The customer's original furnace had a measured efficiency of 73 percent, which was replaced with a 96 percent efficient model. Other conservation improvements included replacing an old analog thermostat with a digital programmable model, installing water pipe insulation and low-flow faucet aerators, and reducing the unnecessarily high water temperature on the hot water heater.

In addition to the energy saving measures, work was done to improve health and safety conditions in the home. The CSP installed a carbon monoxide detector, a new chimney liner, and serviced the water heater to reduce a "spillage" problem that prevented exhaust gases from exiting properly through the flue. The CSP also remediated knob and tube wiring in the attic, allowing for the installation of attic insulation, and reducing risks of fire from outdated electrical systems. This comprehensive job package cost $7,099 and its measures averaged $5.11 per lifetime MMBtu, resulting in an estimated $8,611 in lifetime savings. In addition, the home was more energy efficient, more comfortable and safer.

Q. DOES PGW TAKE STEPS TO TRY TO MAXIMIZE THE EFFICIENCY OF THE DOLLARS SPENT FOR THE CRP HOME COMFORT PROGRAM?

A. Yes. One unique design element of CRP Home Comfort is its competitive CSP model. Each CSP is evaluated semi-annually based on total natural gas savings, cost-effectiveness, work quality, and customer service metrics. The evaluations inform funding allocations for each CSP, and budgets are reallocated to reward the highest performing CSPs. This approach has been effective for PGW to drive results and improve CSP performance over time.

Q. WILL PGW'S PROPOSED BASE RATE INCREASE AFFECT THE AVAILABILITY OF THESE PROGRAMS TO LOW INCOME CUSTOMERS OR UNIVERSAL SERVICE GENERALLY?

A. No. CRP, LIURP, CARES and Hardship Funds are not proposed to be reduced or limited by virtue of the filing. As noted above, customers who are enrolled in CRP pay an "asked to pay" amount that is calculated on the basis of the customer's family size and household income. Thus, the rate increase will not affect CRP customers. In order to assist its low-income customers, PGW has been engaged this LIHEAP season in extensive outreach, as well as advertising, and direct assistance with completing LIHEAP applications. Accordingly, as there will be no effect on the availability of universal service programs to low income customers or universal service generally from the proposed rate increase, PGW believes its proposed base rate increase will not adversely affect customers eligible for PGW's low income assistance programs.

VI. <u>ASSISTING ALL CUSTOMERS' CONSERVATION EFFORTS</u>

Q. DOES PGW HAVE ANY PROGRAMS TO ASSIST NON-CRP CUSTOMERS WITH ENERGY EFFICIENCY?

A. Yes. PGW voluntarily offers its customers a demand side management program – the EnergySense conservation program. These programs are available to all firm residential, commercial and industrial customers, including low income customers. In FY 2016, PGW spent $2 million on these non-LIURP gas efficiency programs, providing approximately 783 rebates/project incentives. Over the first six years of PGW's voluntary gas efficiency programs, the company spent $12.1 million. PGW expects to spend $10.6 million from FY 2017 through FY 2020 to provide an additional 4,973 rebates and project incentives.

Q. WHAT HAVE BEEN THE RESULTS OF THE ENERGY SENSE CONSERVATION PROGRAM?[5]

A. PGW's existing demand side management ("DSM") Plan has directly benefitted program participants through cost-effective energy savings. Similar to the measurement used for electric Act 129 EE&C plans, the Total Resource Cost ("TRC") test is the primary metric for measuring the cost-effectiveness of PGW's DSM Plan. Through August 2016 the DSM Plan delivered $13.2 million in TRC net benefits to customers (in 2014 dollars), achieving a benefit-cost ratio ("BCR") of 1.23. A benefit-cost ratio of 1.0 indicates that the plan is beneficial to PGW and its ratepayers on a total resources cost basis. These TRC results show that PGW has been delivering a meaningful return on investment to ratepayers and the regional economy.

Since inception through August 2016, the DSM portfolio reduced natural gas consumption by nearly 458 Bbtus (444,237 MCF), performed over 14,500 retrofits, issued over 3,600 rebates, and completed 69 commercial projects. This DSM activity is also expected to benefit the environment through the reduction of over 654,000 short tons of CO_2. Consumers and participants have expressed positive impressions of the existing DSM Plan in third-party survey evaluations. A survey found that 65 percent of residential heating equipment rebate recipients felt that rebates were important in their decision to purchase high efficiency equipment. Similarly, 70 percent of contractors reported that PGW's rebates were important to their sale of high efficiency equipment. The vast majority of customers – 91 percent – reported that they were satisfied with the PGW EnergySense rebate program.

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[5] The below answer includes results from the CRP Home Comfort program. The program was included in PGW's EnergySense conservation program through the end of fiscal year 2016.

Additionally, PGW's existing DSM programs have provided broader significant benefits to the local community in terms of increased economic activity, market transformation and reductions in carbon emissions. PGW coordinates its DSM programming with a number of community organizations to, among other things, address the treatment of homes with health and safety deficiencies that prevent comprehensive weatherization. Working closely with other programs and organizations is crucial to: (1) avoid duplicating services, (2) leverage existing resources, (3) identify additional opportunities; and, (4) maximize the cost-effectiveness of the DSM Plan. PGW has committed to continuing this outreach and coordination as its DSM programs continue.

DSM also provides economic benefits and job creation in the region. Since inception, PGW's DSM programs have created approximately 293-488 jobs and paid millions of dollars to businesses throughout the region.[6] These investments have supported the growing energy efficiency industry in the Greater Philadelphia region and put more money back into the pockets of local consumers. Overall, PGW's DSM activities for CRP and non-CRP customers have produced material benefits to customers and have enhanced the quality of service they received.

VII. <u>IMPROVING CUSTOMER SERVICE</u>

Q. WHAT STEPS HAS PGW TAKEN TO IMPROVE THE SERVICE IT PROVIDES TO ITS CUSTOMERS WITH RESPECT TO BILLING, COLLECTIONS AND INQUIRIES?

A. PGW has worked hard to improve its billing, collection and inquiry interactions with its customers. In that regard, PGW has worked to provide better and more comprehensive

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[6] Calculated based on a range of 30 to 50 jobs created for every lifetime TBtu saved. Energy Efficiency Job Creation: Real World Experiences" Bell, Casey J. American Council for an Energy-Efficiency Economy. October 2012.

training of customer service field and collection staff and also engaged in a replacement of its phone system. *Some expected benefits of this replacement are improved reporting* that will assist with coaching and analyzing call center performance and providing a more user friendly service representative interface. PGW has also upgraded its workforce planning software, which will assist PGW in more efficiently and effectively handling high call volume.

Q. DID PGW MAKE OTHER IMPROVEMENTS TO ITS DISTRICT OFFICES TO ENHANCE CUSTOMER SERVICES?

A. Yes. In FY 2016, PGW made improvements to District Offices (West, North, and South were totally reconstructed and the remaining District Offices are scheduled to be improved) in order to improve customer satisfaction. Also, PGW increased the number of customer service representatives in the District Offices by approximately 15 representatives. Thus, 2016 wait times improved by approximately 9 minutes over 2015 wait times and approximately 21 minutes over 2014 wait times (with an average wait time in 2016 of approximately 4.8 minutes).

Q. DID PGW MAKE ANY OTHER SYSTEM ENHANCEMENTS TO IMPROVE CUSTOMER SATISFACTION?

A. Yes. PGW has made various system enhancements to improve customer satisfaction. PGW took steps to improve accessibility by updating its customer interactive voice response ("IVR") system and to provide more self-service options for customers, including the ability for residential customers to analyze their bill, turn service on/off, opt-out of gas choice account information sharing, sign up for auto-pay or e-bill and purchase a parts and labor service program online.

Q. HAVE PGW'S EFFORTS BEEN REFLECTED IN CUSTOMER PERCEPTION OF THE SERVICE IT PROVIDES?

A. Yes, there is some evidence of this. PGW's Overall JD Power customer satisfaction trends from FY 2010 to FY 2016. PGW's results increased by 88 points during that timeframe (571 in 2010 compared to 659 in 2016); each year since 2010 PGW has shown positive growth year over year. PGW's successful efforts to improve customer service during FY 2016 are borne out by the fact that PGW's Wave 3 JD Power results Overall satisfaction during the March/April fielding period increased from 637 in FY 2014 to 709 this year. Positive growth can be attributed to several factors. In addition to the customer service enhancements described above, PGW has made significant improvements to customer communications, including: 1) the launch of a new corporate website in 2013; and 2) the introduction of social media channels – Twitter, Facebook and YouTube.

VIII. IMPROVING CUSTOMER CHOICE OPPORTUNITIES

Q. HAS PGW ALSO TAKEN STEPS TO IMPROVE CUSTOMER CHOICE AVAILABILITY FOR SMALL BUSINESS AND RESIDENTIAL CUSTOMERS?

A. Yes. PGW has, of course, offered its customers "choice" with dual billing of the customer for many years, but this program was mainly used by larger commercial and industrial customers due in some part to supplier interest. More recently, pursuant to a PUC approved settlement, PGW now offers eligible suppliers a purchase of receivables and consolidated billing option ("POR/CB") for residential and small business customers. Under the program, PGW provides a consolidated billing option to suppliers through which PGW bills both its delivery service charges as well as the supplier's commodity charges. Under this program, PGW purchases the receivables of the supplier for any enrolled customer and remits to the supplier the billed amount for the commodity, minus discounts reflecting PGW's bad debt and administrative expenses. The POR/CB option is available for residential and small commercial and industrial (annual usage of no more than 5,000 Mcf) ratepayers, and was implemented in January 2016. As of December 2016 there were 3 suppliers participating in the POR/CB program, with a total of 130 commercial/industrial service accounts and 82 residential service accounts shopping.

IX. RATE STRUCTURE

Rate IT: Interruptible Transportation

Q. PLEASE DESCRIBE TARIFF RATE "IT" (INTERRUPTIBLE TRANSPORTATION)?

A. Rate IT is only available to transportation customers that have selected and installed an alternative fuel source. Interruptible customers are unique in that they are not dependent upon natural gas as their sole energy source. Interruption is a possible fact of life for all Rate IT customers because they explicitly and voluntarily agree that their gas service can be interrupted by the Company.

It is the customers' choice to both install and maintain an alternative fuel source and take service under Rate IT. So, as a practical matter, customers taking service under Rate IT have concluded that the value of the interruptible service is worth the price in comparison with competing fuels, not because the price for interruptible service fairly reflects the Company's costs of providing interruptible service.

Rate IT was intended to create an incentive for dual-fuel customers to use natural gas at times when the relative prices of gas and their alternative fuel (such as Fuel Oil No. 2) would otherwise have tended to encourage those customers to use their alternative fuel. Originally, this rate schedule benefits firm service customers by attracting net revenue from customers that would otherwise have used an alternative fuel. As discussed below, this may no longer be the case.

Q. PLEASE DISCUSS THE SPECIFICS OF THE RATE DESIGN PROPOSAL FOR RATE IT.

A. The Company seeks to transition from a solely cost-based rate to a negotiated rate based on both the customer's share of system costs and the value of service that the customer is receiving from the interruptible service.

If approved by the Commission, the Company will establish stated price ranges for the distribution charge classes under Rate IT. One end of the range will be the actual cost of service as determined in this (or future) rate cases, and which allocates reasonable mains investment to interruptible customers. The other bound of the range is the equivalent firm transportation rate (since the customer would typically have the option of taking firm service). The range so established provides a reasonable framework for negotiations between the interruptible customer and the Company.

The distribution charge would be negotiated by the customer and the Company within the established range. That negotiated rate will reflect the cost of service as well as competitive considerations. Negotiations will result in a just and reasonable rate. That rate would properly reflect both cost of service and value of service pricing principles, properly reflect the competitive alternatives available to interruptible customers, provide greater revenue to the Company in exchange for assuming the ongoing risks related to serving this competitive market, and provide important benefits to all customers that would not be available under strict cost of service principles.

Importantly, PGW is proposing that the negotiating range can be either above or below the customer's cost to use alternative fuel. It would not be fair to IT customers to establish a rate that would always be at the relative cost of their alternative fuel. If the negotiated price is below the cost to use alternative fuel, the customer can elect to receive natural gas. If the negotiated price is above the relative cost of the alternative fuel, the customer can elect to use their alternative fuel source. In either situation, PGW has the incentive to negotiate a rate that takes into consideration the customer's alternative fuel cost and induces them to continue to use natural gas, rather than their available alternative fuel.

The Company is proposing a transition period to move all Rate IT customers to the negotiated rate. Customers who are receiving service under Rate IT as of the date of the Commission's approval of the compliance tariff in this proceeding would transition to a negotiated rate following the third anniversary of said approval, or when the term of the current contract ends, whichever is later. Others, including new customers or new load, that are seeking service under Rate IT will be subject to the negotiated rate provisions as set forth in this proposal.

This proposed change is shown in the proposed tariff, which is Exhibit KSD-2.

Q. PLEASE EXPLAIN WHY PGW IS PROPOSING TO CHANGE RATE IT.

A. Using only a cost-based rate has created an incentive for customers to avoid taking firm service which is resulting in fewer and fewer transportation customers contributing to the overall costs of running the distribution system. In other words, PGW's interruptible service is competing against PGW's firm service. Interruptible transportation increased from a volume of 146,000 MCF in FY 2002 – to a volume of 4,142,000 MCF in FY 2006 – to a volume of 11,751,637 MCF in FY 2016. PGW currently provides interruptible gas service to approximately 426 Rate IT customers, comprising over 17% of annual system throughput, that procure their own gas but have it delivered by PGW under Rate IT. This is a significant increase in Rate IT customers since PGW's 2006 Base Rate Case. In 2006, PGW only had 147 Rate IT customers, comprising just 7% of annual system throughput. In 2001, PGW had just 10 transportation customers who procured their own gas and had it delivered by PGW.

The Company expects that the shift towards Rate IT will continue in the short term because the pricing data for natural gas is, has been, and is expected to be,[7] lower than the price for common alternative fuels. For example, data from the US Energy Information Administration (EIA) shows the following for January 2017:

- The cost of 100,000 BTUs of natural gas is about $0.79 for commercial customers and about $0.41 for industrial customers.[8]
- The cost of 100,000 BTUs of propane is about $1.47 for commercial customers[9] and $1.16 for industrial customers.[10]
- The cost of 100,000 BTUs of No. 2 Fuel Oil is about $1.62.[11]

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7 US Energy Information Administration (EIA), Annual Energy Outlook 2017, Table A3 - Energy Prices by Sector and Source (release date, January 5, 2017). This report, which is available at http://www.eia.gov/outlooks/aeo/, shows model results from 2015 to 2050.

8 The 2017 cost per MMBTU ($7.884544) for commercial customer divided by the conversion factor (10) equals cost of 100,000 BTUs ($0.79). The 2017 cost per MMBTU ($4.08165) for industrial customers divided by the conversion factor (10) equals cost of 100,000 BTUs ($0.41). See footnote 7 for source of price data.

9 The 2017 cost per MMBTU ($14.65341) for commercial customers divided by conversion factor (10) equals cost of 100,000 BTUs ($1.47). See footnote 7 for source of price data.

10 The 2017 cost per MMBTU ($11.62346) for industrial customers divided by conversion factor (10) equals cost of 100,000 BTUs ($1.16). See footnote 7 for source of price data.

11 The 2017 cost per MMBTU ($16.22346) for commercial customers divided by conversion factor (10) equals cost of 100,000 BTUs ($1.62). The 2017 cost per MMBTU ($16.23147) for industrial customers divided by conversion factor (10) equals cost of 100,000 BTUs ($1.62). See footnote 7 for source of price data.

Moreover, for many years, PGW has been able to avoid interrupting IT customers, even during the winter. PGW has been able to do this both because its firm annual load has dropped due to the effects of increasing average temperatures in the Philadelphia area, and because PGW has utilized its liquefied natural gas ("LNG") resources to permit IT customers to continue to stay on the system on peak days. While PGW expects that, in the future, it will need to husband LNG during peak periods which may result in IT interruptions, the number and length of interruptions will continue to be extremely low. Thus, interruptible service on PGW's system is of virtually the same quality as firm service – but at a fraction of the price.

The strict cost of service rate structure for Rate IT has placed PGW and its firm service ratepayers in a "lose-lose" situation: If the price of alternative fuel (for 100,000 BTUs) remains higher than the price of natural gas (for 100,000 BTUs), there will be a significant incentive for customers to avoid taking firm service from PGW. If the price of alternative fuels falls below the price of natural gas for a comparable amount of energy there will be an incentive to customers to avoid taking any service from PGW and PGW and its customers will not realize any contribution to the costs of operating and maintaining the distribution system—on which the IT customers transport their gas.

The proposal provides the proper incentives to ensure the Company will strive to maximize the amount of revenue that can be achieved from interruptible service customers under higher risk and unpredictable market conditions over time. It also recovers system costs over the largest possible customer base, provides for greater rate stability to all classes, can defer the need for future base rate relief, and will shield firm customers from the possible adverse ratemaking consequence associated with the higher risk interruptible market. In my view, this approach produces a better outcome for all customers as compared to the alternatives of not offering interruptible service at all.

Q. IS THIS PROPOSAL A COST-BASED RATE?

A. Yes. While the natural gas system generally was originally built for firm transportation and sales customers, the distribution system is now being maintained and modernized for all customers, including IT customers that represent, by far, the largest share of the commercial and industrial customers. Accordingly, a portion of the costs of maintaining and modernizing PGW's distribution system should be allocated to interruptible customers. Mr. Hanser explains this in greater detail in his direct testimony (PGW St. 5). Cost of service remains one of the primary guideposts for rate setting under this proposal. The proposal provides a fixed offset to the Company's revenue requirement, which will be an amount equal to or greater than the cost of service for the interruptible customers.

I would add that neither the restructuring proceeding in Docket M-00021612 nor the Commission's prior base rate case orders bind PGW to use only cost-based rates, in perpetuity, for interruptible service. To explain, in its restructuring proceeding, the Company was directed to develop cost-based IT rates for the Commission's consideration. Cost-based rates were implemented as part of the Company's 2006 Base Rate Case (Docket No. R-00061931), increased in the Company's Emergency Rate Case (Docket No. R-2008-2073938) and maintained in the Company's 2009/10 Base Rate Case (Docket No. R-2009-2139884). But, none of these orders should be read as establishing the goal of solely cost-based rates for interruptible customers. The Commission may approve value of service pricing for interruptible customers that have competitive alternatives. This was done for UGI in its most recent base rate case (Docket No. R-2015-2518438), and should be done for PGW. The use of combined cost/value-based rates is consistent with the standards set forth in 52 Pa. Code § 60.2, which calls for a simple margin maximum rate for transportation of natural gas.

Q. WAS THIS PROPOSAL MODELED AFTER THE PRICING USED BY A PENNSYLVANIA NGDC FOR INTERRUPTIBLE SERVICE?

A. Yes. It was modeled after Rate IS (Interruptible Service) of UGI (Gas Division), as approved in its last base rate case (Docket No. R-2015-2518438). For UGI, the distribution charge is negotiated: The price is no less than proxy cost-of-service and is no greater than the alternative fuel price.[12]

Q. WHY DID PGW SELECT TO USE A DIFFERENT UPPER BOUNDARY THAN UGI?

A. PGW has different price structures for "firm" and "interruptible" delivery service. For example, the distribution charge for an industrial customer under Rate GS is $0.45332 per Ccf (or $4.5332 per Mcf) and the distribution charge for an industrial customer under Rate IT-A is $1.88 per Mcf. But, PGW's interruptible gas customers have only been interrupted once (in 2004) during the last 20 years. This means that PGW's interruptible customers are actually receiving a service that is nearly equivalent to the firm transportation rate at less than half the cost.

Given that interruptible customers typically have the option of taking firm service (as long as firm capacity is available on the system), thus eliminating any potential of being interrupted, PGW decided to use the equivalent firm transportation rate as the upper limit of the negotiated range. This limit is fair to both PGW and the interruptible customer because it enables (1) PGW to receive more than the strict cost of service and (2) the interruptible customer to retain any and all value between the price of firm service

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12 See UGI 2015-2016 Base Rate Case, R-2015-2518438, Statement 1.

and the price of their alternative fuel. Moreover, the use of the equivalent firm transportation rate also works to ensure that an interruptible customer will not be paying more for gas than if it was the equivalent firm transportation rate.

Q. WHY IS IT APPROPRIATE TO USE VALUE OF SERVICE PRINCIPLES FOR THE INTERRUPTIBLE MARKET?

A. Value of service pricing has long been used in utility service pricing and is appropriate for two main reasons. First, interruptible customers create higher risks than firm customers. Interruptible customers have competitive alternatives and are capable of choosing those alternatives and leaving the distribution system at any time. It is reasonable under these circumstances, in the Company's view, to charge these customers competitive prices because they have competitive alternatives. Cost of service pricing is more appropriate and indeed is designed for regulated monopoly conditions, which by definition do not exist where customers have competitive alternatives. Strict cost of service pricing is not appropriate where a customer group has verified competitive alternatives for gas service and can leave the distribution system at any time.

Meeting the needs of firm and interruptible customers creates risks and challenges for PGW. PGW and its natural gas customers are dependent upon the interstate natural gas pipeline system[13] to deliver natural gas into the PGW gas distribution system. PGW relies on interstate pipelines for all natural gas supply, storage and transportation services, except for PGW's own on-system peak shaving facilities (LNG). The original and primary current purpose of the Company's LNG facilities is to provide supply for firm

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[13] PGW is served by two interstate (Spectra Energy's Texas Eastern Transmission and Williams' Transco Gas) pipelines that deliver gas to PGW's city gates. PGW has firm capacity on both pipelines. All released capacity is recallable. The winter releases are recalled on the coldest days of the winter. No capacity is reserved specifically to serve interruptible service requirements. Interruptible transportation may be available on these pipelines for third party suppliers.

residential, commercial and industrial customers during the winter operating season (November through March). Due to system design, interruptible customers can draw down the line pack pressure in the system, and can trigger the need for the Company to use LNG. The use of only cost-of-services principles keeps interruptible customers from paying their share of the LNG costs incurred and the value of the "line pack" capacity on the distribution system that they are receiving. Second, and relatedly, interruptible customers have the option to become firm customers and take service under a cost-based firm service rate if they choose to do so, and to the extent that the system has sufficient capacity to allow for a conversion to firm service or if they contribute sufficient capital to finance the investment necessary to render firm service.

Because by using PGW's current system IT customers are rarely interrupted, the Company could have allocated the costs of the distribution system to them and priced their delivery rate on fixed basis and as if it were virtually "firm." However, PGW believes that this would fail to give consideration to the interruptible customer's ability to switch to an alternative fuel and could, in the long run, drive customers off the system and be harmful to firm customers.

Q. IS THIS PROPOSAL THE SAME AS THE MARGIN BASED RATES USED IN THE PAST BY PGW?

A. No. The essence of the current proposal creates an established range of prices and requires a bilateral negotiation between PGW and the interruptible customer. PGW's goal is to price the IT service in a way that maximizes the customer's contribution to the cost of maintaining the distribution system, while recognizing that the customer, rationally, will not pay more than its price of alternative fuel. Correspondingly, the customer will be unwilling to pay more than its alternative energy cost to obtain natural gas service, but likely will be willing to remit a price that reflects the convenience and environmental benefits of using natural gas, compared to No. 2 or No. 6 fuel oil, for example.

The prior unbundled IT rates did not have an established range and did not factor in the cost of providing IT service. The margin-based IT rates were set by simply removing the then existing price of natural gas from the bundled rate. They were developed to ensure that if all Interruptible Sales Service (ISS) customer classes customers (i.e., customers on Boiler and Power Plant Service (Rate BPS), Load Balancing Service (Rate LBS) or Cogeneration Service (Rate CG)) switched to transportation service, PGW would realize the same level of margin it received from the ISS rate classes. This proposal is distinctly different.

Q. PLEASE EXPLAIN HOW THE PROPOSAL WILL ASSIST THE COMPANY IN MANAGING RISK.

A. Interruptible customers create risks for the Company. They can use their alternative fuel option or move their facility to a different location with lower energy costs. In the past, the Company has been able to offer interruptible transportation services because the gas used for generation loads accounted for a lower percentage of the total pipeline loads, and the Company had economic incentive to provide these interruptible transportation services. As the number of interruptible customers increased, the risks and challenges of providing interruptible service also increased. Simply put, improper pricing decisions can lead to revenue losses, stranded investment, and increased rates in the future.

The proposal will permit the Company to better manage risks. To the extent that the proposal permits the Company to recover system costs, it spreads system costs over the largest possible customer base and provides for lower rate increases and greater rate stability for all customers. This can also defer the need for future base rate relief.

To the extent that the proposal permits the Company to charge rates above the direct cost of service for the interruptible customer, it provides the Company with greater cash flows that can be used to finance operations. These increased cash flows would not be available if interruptible rates were determined strictly on cost of service principles. Moreover, as usage per firm customer has declined over time, and is expected to continue to decline, having interruptible rates above a strict cost of service may contribute to increased revenues which assist to support funding for capital projects and other operations without the need for additional base rate relief.

The rate proposal will work no detriment to PGW's firm ratepayers, and may also be advantageous to those customers in the long term by allowing PGW to maximize revenues to the benefit of firm ratepayers by attracting net revenue from customers that would otherwise have used an alternative fuel.

Q. PLEASE EXPLAIN HOW PGW PROPOSES TO IMPLEMENT ITS PROPOSED COST/VALUE OF SERVICE RATE PROPOSAL FOR INTERRUPTIBLE CUSTOMERS?

A. PGW witness Hanser has calculated the appropriate cost of service based rate for each of the IT customer classes. That rate plus the cost of natural gas for the period being considered will be listed as one bound of the negotiated rate. (Typically, the price of natural gas or other fuels can be determined by examining futures prices). The other bound will be the equivalent firm transportation rate (since the customer would typically have the option of taking firm service). The rate would then be negotiated by the Company and the customer, taking into account the customer's equivalent alternative fuel price and other factors such as any positive or negative aspects of using natural gas versus alternative fuel.

Q. WHAT LEVEL OF REVENUES WILL BE USED TO DETERMINE THE ALLOCATION OF THE RATE INCREASE IN THIS PROCEEDING?

A. PGW has allocated the proposed rate increase assuming that each of the existing and projected incremental IT customers will pay the cost of service-based rate. If a rate is negotiated that is higher than that level, those revenues will contribute to PGW's overall cost of service and will be accounted for in PGW's next base rate case.

If the parties are not able to arrive at a mutually acceptable agreement as to rates *the rate would be set at the midpoint between the cost of service based rate and the firm* transportation rate.

Rate CG: Cogeneration Service

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO TARIFF RATE "CG" (COGENERATION SERVICE)?

A. The Company seeks to update and to simplify its rate structure by "grandfathering" Rate CG for the duration of the existing contracts as long as they continue to be eligible for Rate CG.

Q. PLEASE DESCRIBE RATE CG.

A. Rate CG is a retail rate for interruptible service which is available to new or existing Commercial or Industrial Customers to purchase natural gas from PGW for use in any form of combined cooling, heating and power production where a quantity of waste heat is recovered and used in a secondary application for almost any commercial, industrial or domestic use. Rate CG customers must demonstrate the ability to utilize waste heat in a second process.

Rate CG is intended to encourage cogeneration development. It provides the same incentive for every potential cogenerator. Under Rate CG, the commodity and distribution charges are based on the average commodity cost of gas purchased and delivered to PGW's gate stations, including an allowance for unaccounted for losses plus a fixed Distribution Charge of 7.5 cents per Ccf. For Rate CG customers using over 1,000,000 Mcf of gas per year, the fixed contribution is determined by negotiation between the customer and the Company provided, however, that the contribution shall not be less than 10% of the above computed cost of gas.

Q. PLEASE EXPLAIN WHY PGW IS PROPOSING TO CLOSE RATE CG TO NEW CUSTOMERS.

A. There has been little use of Rate CG for more than a decade. There currently are only 2 customers on this rate. There has been little expressed interest by new customers in using this rate schedule, which has been largely unchanged since 2003. This lack of interest has led PGW to the conclusion that this rate option is no longer a viable basis for incentivizing incremental cogeneration service.

It is reasonable and appropriate for the Company to diversify its encouragement and incentives for cogeneration development. This can be done under the proposed Technology and Economic Development ("TED") Rider, which is discussed by PGW witness Teme (PGW St. 8), and negotiated rates pursuant to Tariff Rule 2.3.[14] But, it is no longer appropriate to continue the standardized incentive under Rate CG, which has done little to encourage cogeneration in Philadelphia for more than the last decade.

[14] PGW Gas Service Tariff at First Revised Page No. 18.

Q. HOW DOES THE COMPANY PROPOSE TO EFFECTUATE THE CHANGES RESULTING FROM THE ELIMINATION OF RATE CG?

A. If the elimination of Rate CG is approved by the Commission, the Company will close Rate CG to new customers. See the proposed tariff, which is Exhibit KSD-2. Existing customers will be permitted to continue to receive service under Rate CG until the end of their current contract, so long as they continue to be eligible for Rate CG. At the end of their contract or eligibility, customers will migrate to the most appropriate rate schedule given their size and load profile.

<u>Rate LBS: Load Balancing Service</u>

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO TARIFF RATE "LBS" (LOAD BALANCING SERVICE)?

A. The Company is proposing to simplify its rate structure by eliminating Rate LBS.

Q. PLEASE DESCRIBE RATE LBS.

A. Rate LBS is a retail rate for interruptible sales service which is available for use in industrial and commercial establishments and multi-family residential buildings for seasonal gas uses, where the Company's facilities are, or can economically be made, available to supply the service.

A customer electing service under Rate LBS must have and maintain complete and adequate standby non-natural gas energy (e.g., oil, propane, electric, steam) and equipment for alternate operation in the event of an interruption of gas service. The gas price for a customer serviced under Rate LBS is based on alternative fuel, No. 6 heating oil. That price is calculated monthly and posted on PGW's website.[15]

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[15] http://www.pgworks.com/business/customer-care/rates/interruptible-service-rates

Q. PLEASE EXPLAIN WHY PGW IS PROPOSING TO ELIMINATE RATE LBS.

A. The Company is proposing to eliminate Rate LBS because there are no customers currently using it and there is no prospect of any future use. Given the lack of interest and the fact that interruptible transportation service is available to qualified customers under Rate IT, PGW has concluded that this rate is not a viable option for customers. Elimination of Rate LBS would also end the time, effort, and expense of calculating and posting the monthly prices for this rate. This proposed change is shown in the proposed tariff, which is Exhibit KSD-2.

<u>Rate BPS: Boiler and Power Plant Service</u>

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO TARIFF RATE "BPS" (BOILER AND POWER PLANT SERVICE)?

A. The Company is proposing to simplify its rate structure by eliminating Rate BPS.

Q. PLEASE DESCRIBE RATE BPS.

A. Rate BPS is a retail rate for interruptible sales service which is available to customers with alternate fuel capability, where the Company's distribution system is, or can economically be made available to supply the service.

A customer electing service under this rate must have and maintain complete and adequate standby non-natural gas energy (e.g., oil, propane, electric, steam) and equipment for alternate operation in the event of an interruption of gas service. The gas price for a customer serviced under Rate BPS is based on alternative fuel. No 2 heating oil is used for Small (BPS-S) and Large (BPS-L) Rate BPS customers. No. 4 heating oil is used for Heavy Oil (BPS-H) Rate BPS Customers. Each price is calculated monthly and posted on PGW's website.[16]

Q. PLEASE EXPLAIN WHY PGW IS PROPOSING TO ELIMINATE RATE BPS.

A. The Company is proposing to eliminate Rate BPS because there are no customers currently using it and there is no prospect of any future use. Given the lack of interest and the fact that interruptible transportation service is available to qualified customers under Rate IT, PGW has concluded that this rate is not a viable option for customers. Elimination of Rate BPS would also end the time, effort, and expense of calculating and posting the monthly prices for this rate. This proposed change is shown in the proposed tariff, which is Exhibit KSD-2.

Q. ARE THE PROPOSALS TO CLOSE RATES CG, LBS AND BPS IN THE PUBLIC INTEREST?

A. Yes. These rates no longer meet the needs of current customers; moreover, there are more attractive options and alternatives, as evidenced by the fact that there are virtually no customers using them. To be clear, Rate CG has active customers so PGW is proposing to "grandfather" its current Rate CG customers for the duration of their existing contracts, as long as they continue to be eligible for service under that rate schedule. Rates LBS and BPS do not have any customers, so those schedules can be eliminated without the need for any grandfathering.

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16 http://www.pgworks.com/business/customer-care/rates/interruptible-service-rates.

Rate BUS : Back-Up Service

Q. PLEASE DESCRIBE THE PROPOSED BACK-UP SERVICE.

A. PGW is proposing a tariff provision that would permit PGW to negotiate a rate with a customer installing any type of operable back-up or emergency equipment and that from, time to time, will require natural gas from the Company for the customer's operation of that equipment.

This service differs from existing services because the customer is not required to take any amount of gas from PGW. Customers can select the back-up level of service that is needed, and will pay a negotiated standby (or reservation) charge that would collect only those costs which standing ready to serve the generation equipment imposes on the system. If – during the term of the customer's contract with the Company – the customer requires gas to run its generator, the customer would pay the previously negotiated delivery and commodity charges.

The determination of whether the customer's usage is for back-up or emergency purposes would be within the Company's sole discretion. The use of such gas for any other purpose would be prohibited. All gas volumes received under this rate schedule would be separately metered. Service under this rate schedule would be firm. The addition of Rate BUS is shown in the proposed tariff, which is Exhibit KSD-2.

Q. IS THERE A NEED FOR BACK-UP SERVICE?

A. Yes. The Company believes that back-up generation could develop into a significant market. Customers and potential customers have the ability to install a generator to back-up their need for electricity (or other power source). Back-up generators have long been available for large commercial and industrial customers. These generators are becoming more available to homes and small businesses who are installing generators to ensure that they have electricity during an electricity outage.

Q. WHY IS A NEGOTIATED RATE BEING PROPOSED?

A. It is anticipated that this rate schedule, if implemented, would attract new customers and encourage the use of natural gas as the means of generating backup or emergency power. Importantly, the negotiated rate will need to recognize that PGW might provide natural gas to the back-up generation customer for just a few days or hours during the year. This means that the rate will have to be structured to recover the fixed costs of providing such service in a flat or fixed monthly "standby" charge. But, in order to promote the use of natural gas, PGW will need flexibility to negotiate a standby charge that is appropriate to each customer's anticipated level of outages and expected usage during outages. Simply put, each customer with a generator is likely to have different characteristics and potential to impact the system. Moreover, by having flexibility with the other charges, the Company will be in a position to support the growth of natural gas, to respond to competitive conditions, and to accommodate customer needs.

Q. IS THE PROPOSED TARIFF REASONABLE AND IN THE PUBLIC INTEREST?

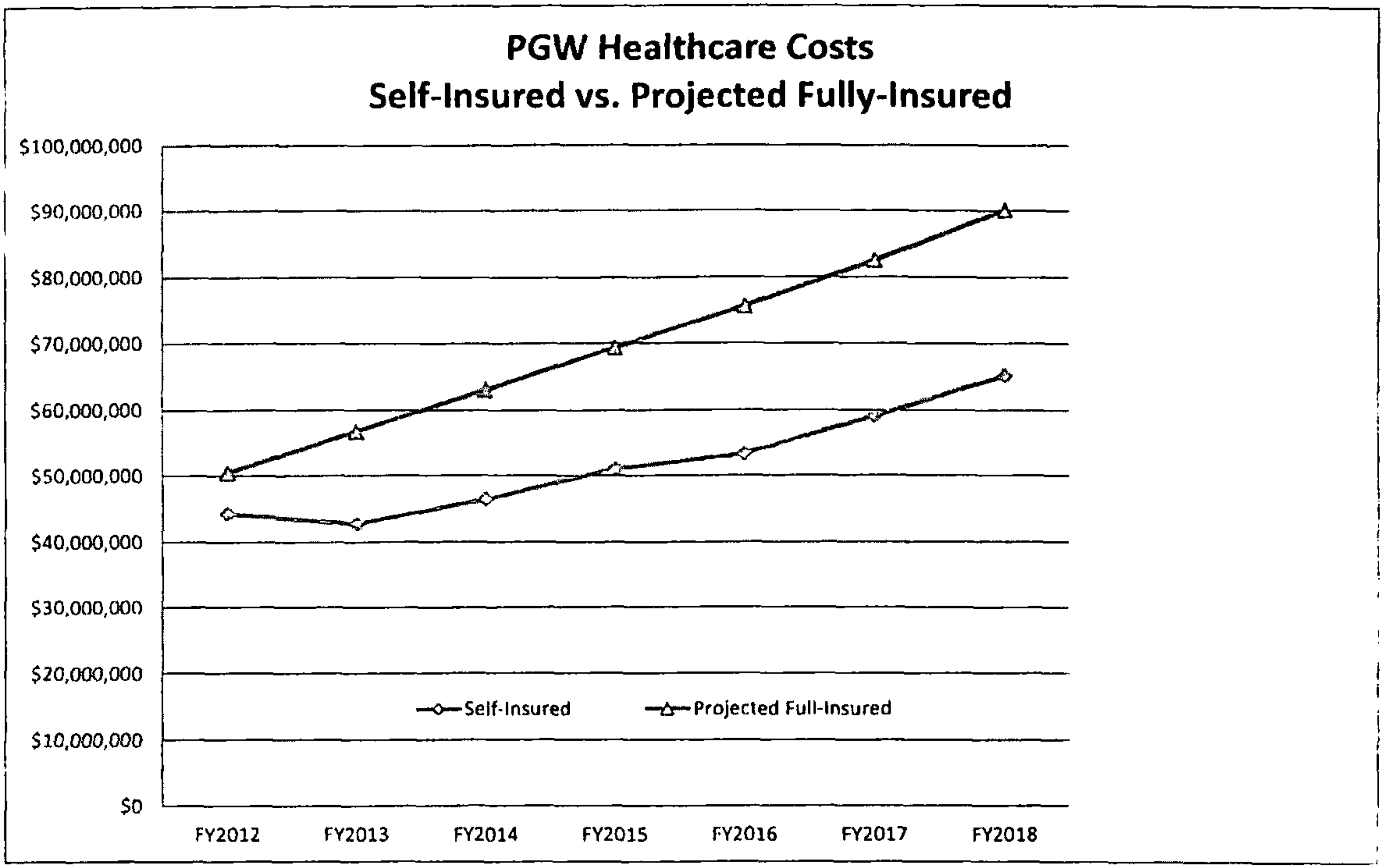
A. Yes. The addition of back-up (or emergency) generation equipment creates additional risks for the system. But, by their very nature, such generation equipment would operate infrequently. Gas would be used by the generation equipment for regular tests, but would be used primarily only during emergencies. The creation of a separate rate schedule for such equipment will: (a) create a reasonable difference between the proposed service and the Company's other services; (b) reflect the different nature of the service provided to the generation equipment; (c) allow PGW to moderate the effect on said demands on the system; and (d) permit PGW to recover the costs which the generation equipment imposes on the system.

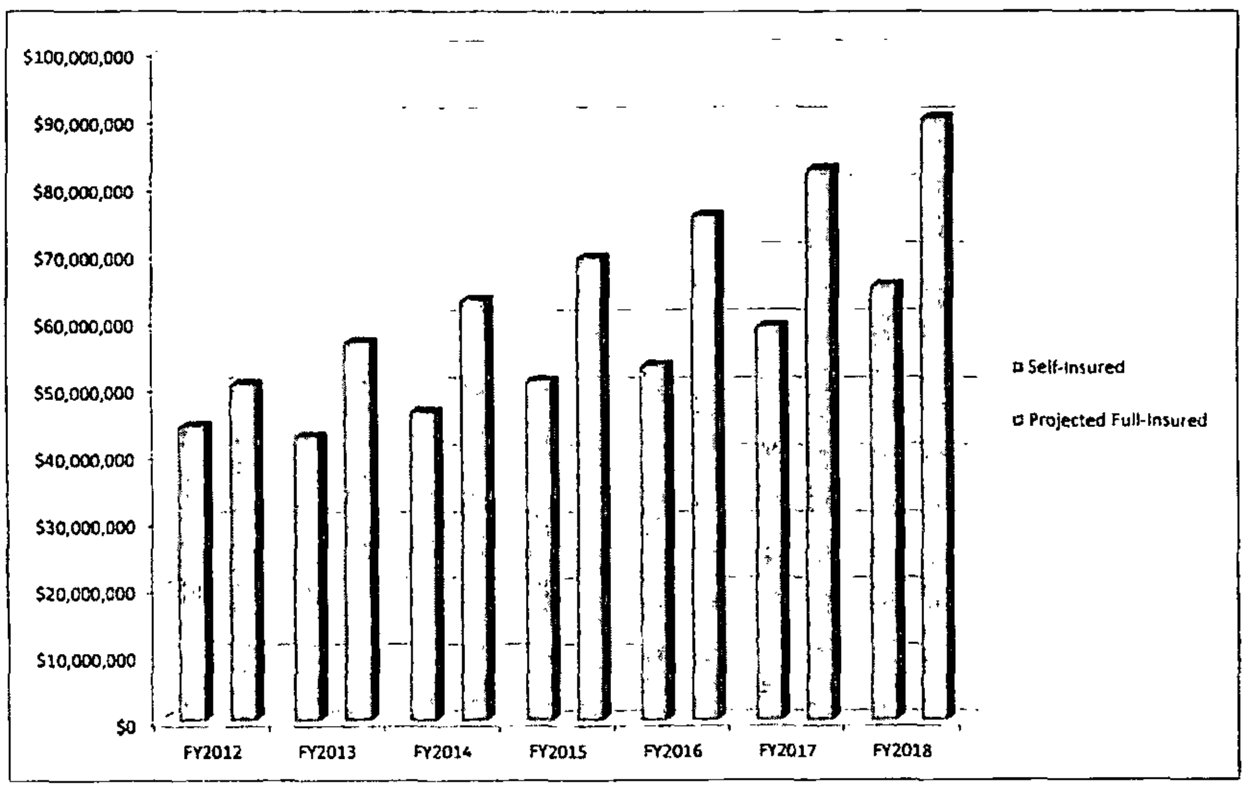
X. CONCLUSION

Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

A. Yes.

Exhibit DAM-1


PGW Healthcare Costs
Self-Insured vs. Projected Fully-Insured
$100,000,000
$90,000,000
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
Self-Insured
Projected Full-Insured
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
FY2018


$100,000,000
$90,000,000
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
FY2012
FY2013
FY2014
FY2015
FY2016
FY2017
FY2018
Self-Insured
Projected Full-Insured

PROJECTED FULLY-INSURED TO CHANGED SELF-INSURED SPENDING

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	
Self-Insured	$44,343,201	$42,787,010	$46,483,298	$51,051,486	$53,370,213	$59,110,000	$65,259,000	
Projected Full-Insured	$50,464,000	$56,776,000	$63,041,000	$69,350,000	$75,613,000	$82,505,000	$90,033,000	
Savings	($6,120,799)	($13,988,990)	($16,557,702)	($18,298,514)	($22,242,787)	($23,395,000)	($24,774,000)	($125,377,792)

Exhibit DAM-2

EXHIBIT
R-2017-2586783
PGW DAM-2
6/28/17 EP PHL
PENGAD 800-631-6989

Philadelphia Gas Works Health and Life Insurance Plan for Retired Employees (the "Plan")
Benefit Payout Projection (Closed Group Forecast as of September 1, 2016)
Impact of Coverage Plan Change
Current and Future Retirees

Year	Before Change	After Change	Plan Change Savings
2016	30,281,600	30,281,600	0
2017	32,053,800	32,053,800	0
2018	33,892,600	33,892,600	0
2019	35,717,600	35,717,600	0
2020	38,907,200	38,907,200	0
2021	39,847,400	39,846,300	1,100
2022	40,267,400	40,251,600	15,800
2023	40,946,900	40,917,000	29,900
2024	41,299,100	41,232,100	67,000
2025	41,756,700	41,659,500	97,200
2026	42,490,100	42,339,000	151,100
2027	43,642,800	43,434,900	207,900
2028	44,204,200	43,930,100	274,100
2029	44,775,300	44,434,700	340,600
2030	45,716,000	45,296,600	419,400
2031	46,416,300	45,839,400	576,900
2032	47,053,200	46,268,800	784,400
2033	48,099,500	46,991,100	1,108,400
2034	49,284,800	47,747,900	1,536,900
2035	50,411,000	48,381,800	2,029,200
2036	51,652,300	49,101,200	2,551,100
2037	53,004,600	49,979,600	3,025,000
2038	54,712,300	51,211,200	3,501,100
2039	55,948,900	52,015,500	3,933,400
2040	57,533,300	53,181,800	4,351,500
2041	59,747,000	54,852,800	4,894,200
2042	61,431,800	56,051,700	5,380,100
2043	63,373,100	57,422,000	5,951,100
2044	65,897,400	59,268,200	6,629,200
2045	68,296,000	60,848,900	7,447,100
	1,428,660,200	1,373,356,500	55,303,700

Payouts include: Medical, Dental, Rx, Administrative Expenses, Life Insurance and Taxes

PGW St. No. 7-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

DOUGLAS A. MOSER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R- 2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:

Interruptible Transportation Rate Proposal
Rate BUS: Back-Up Service
Cost Allocation Issues
Supplier/Choice Issues

June 9, 2017

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.

A. My name is Douglas A. Moser. My position with Philadelphia Gas Works ("PGW" or "Company") is Executive Vice President and Acting Chief Operating Officer.

Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON BEHALF OF PGW?

A. Yes. I submitted my direct testimony, PGW St. No. 7, on February 27, 2017.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of this rebuttal testimony is to respond to the direct testimony of other parties, including the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Retail Energy Supply Association ("RESA") and the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"). Specifically, my rebuttal testimony will address the other parties' direct testimony regarding: (1) PGW's Rate Interruptible Transportation ("IT") proposal; (2) PGW's proposed Rate BUS: Back-Up Service ("Rate BUS"); (3) the allocation of service line costs; (4) the allocation of meter costs; and (5) various matters impacting natural gas suppliers.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. By this rebuttal testimony, I respond to the recommendations of Mr. Richard A. Baudino, PICGUG St. No. 1, and Mr. Kurt Bresser, PICGUG St. No. 2, which propose that the Commission reject PGW's Rate IT proposal. I will reiterate the importance of implementing a negotiated rate for IT customers that reflects both cost of service and value of service principles and will explain why their criticisms of the proposal are flawed. Additionally, this rebuttal testimony responds to the recommendation of Mr. Jerome Mierzwa, OCA St. No. 3, which proposes rejection of Rate BUS. Through my rebuttal testimony, I will address the concerns raised by Mr. Mierzwa about the possibility of Rate BUS customers not covering their gas costs and will propose the submission of a report within a year after its approval showing the usage, rate and cost data for customers participating in Rate BUS. This rebuttal testimony responds to the testimony of Mr. Robert D. Knecht, OSBA St. No. 1, which addresses the Company's allocation of service line costs and meter costs. Finally, I respond to the issues raised by Mr. Anthony Cusati, III, and Mr. Orlando (Randy) Magnani, who testified on behalf of RESA.

II. INTERRUPTIBLE TRANSPORTATION PROPOSAL

Q. WHAT IS PGW'S RATE IT PROPOSAL?

A. Through the rate design proposal for Rate IT, the Company seeks to transition from a solely cost-based rate to a negotiated rate based on both the customer's share of system costs and the value of service that the customer is receiving from the interruptible service. As proposed by PGW, a range would be established for the distribution charge under Rate IT. One end of the range would be the actual cost of service, with a reasonable mains investment allocated to interruptible customers, as determined in this proceeding or subsequent base rate proceedings. The other bound of the range is the equivalent firm transportation rate. In PGW's view, this range provides a reasonable framework for negotiations between the interruptible customer and the Company.

Q. WHAT ARE THE BENEFITS OF PGW'S RATE IT PROPOSAL?

A. The negotiated rate would: (a) properly reflect both cost of service and value of service pricing principles; (b) properly reflect the competitive alternatives available to interruptible customers; (c) provide greater revenue to the Company (which, under the cash flow ratemaking methodology will offset the need for future rate increases) in exchange for assuming the ongoing risks related to serving this competitive market; and (d) provide important benefits to all customers that would not be available under strict cost of service principles.

Q. WOULD PGW'S RATE IT PROPOSAL RESULT IN THE COMPANY COLLECTING MORE REVENUES FROM ITS CUSTOMERS?

A. No. PGW's Rate IT proposal would not generate more revenue for the Company overall. Rather, it would recover more of the Company's costs from Rate IT customers and thereby reduce the increases to other customer classes in future cases. As the Commission is aware, PGW has no shareholders so any dollars collected are used to satisfy its cost of service and will flow to its cash on hand and debt service coverage. Additional dollars collected under the Rate IT proposal will reduce both the need for and the size of future rate increases.

Q. WHAT DOES PICGUG'S WITNESS, MR. BAUDINO, PROPOSE?

A. Mr. Baudino recommends rejection of PGW's Rate IT proposal. (PICGUG St. No. 1 at 18-25.)

Q. WHAT IS MR. BAUDINO'S FIRST CRITICISM?

A. Mr. Baudino testifies that PGW's Rate IT proposal is an attempt to fix a problem that does not exist. (PICGUG St. No. 1 at 19).

Q. DO YOU AGREE WITH MR. BAUDINO'S ASSESSMENT?

A. No. As I explained in my direct testimony, using only a cost-based rate has created an incentive for customers to avoid taking firm service which is resulting in fewer and fewer transportation customers contributing to the overall costs of running the distribution system. (PGW St. No. 7 at 28-30). By allowing the Company to maximize the amount of revenue that can be achieved from interruptible customers, the Rate IT proposal would recover system costs over the largest possible customer base, would provide for greater rate stability to all classes, can defer the need for future base rate relief and would shield firm customers from the possible adverse ratemaking consequences associated with the higher risk interruptible market. It is important to keep in mind that the additional monies collected from Rate IT customers would not increase PGW's overall revenues, but as I have mentioned, would instead offset the need for future rate cases and relieve PGW's firm customers from bearing the full costs of the distribution system.

Q. WHAT IS MR. BAUDINO'S NEXT ASSERTION?

A. Next, Mr. Baudino claims that PGW has not presented evidence showing that its Rate IT customers are not paying their fair share of system costs. (PICGUG St. No. 1 at 19-21).

Q. WHAT IS YOUR RESPONSE?

A. Through his rebuttal testimony, Mr. Hanser will address Mr. Baudino's assertions regarding the costs that are incurred by PGW to serve Rate IT customers. (PGW St. No. 5-R). However, Mr. Baudino's claim about costs in this context misses the point. As I explained in my direct testimony, PGW's Rate IT proposal is not strictly cost-based but also contains a value of service component due to the competitive alternatives that are available to Rate IT customers. (PGW St. No. 7 at 32-34). These customers could leave the system tomorrow; by staying, they have made a decision that the service they receive from PGW is valuable. Quite simply, they should pay for that value. Also, Mr. Baudino's criticisms overlook the fact that the distribution system is maintained and modernized for all customers, including Rate IT customers that represent, by far, the largest share of commercial and industrial customers.

Q. DOES MR. BAUDINO HAVE AN ADDITIONAL CRITICISM OF PGW'S RATE IT PROPOSAL?

A. Yes. He testifies that PGW's proposed value of service pricing would allow the Company to charge excessive and economically damaging rates to its Rate IT customers. (PICGUG St. No. 1 at 19-20, 21-23).

Q. HOW DO YOU RESPOND TO THAT CLAIM?

A. Mr. Baudino's claim that PGW's proposal would allow the Company to charge excessive and economically damaging rates to IT customers is without any basis. As I explained in my direct testimony, PGW would offer a range of rates in negotiating with IT customers with the ceiling price being the equivalent firm transportation rate. (PGW St. No. 7 at 32-33). Since IT customers have competitive alternatives and PGW desires to keep them on the distribution system for their contributions to those costs, PGW is inherently incentivized to negotiate fair and reasonable rates. To the extent that Rate IT customers would not be satisfied with their negotiated rate, they would be free to exercise their option to rely on other alternatives.

Q. WHAT DOES MR. BAUDINO SAY ABOUT USING PRINCIPLES OTHER THAN COST OF SERVICE IN A UTILITY'S PRICING STRUCTURE?

A. Mr. Baudino asserts that deviations from cost of service principles introduce economic efficiencies into a utility's pricing structure. (PICGUG St. No. 1 at 21).

Q. PLEASE ADDRESS MR. BAUDINO'S ASSERTION.

A. PGW has not deviated from cost of service principles but rather has incorporated, along with cost of service principles, a value of service element into its Rate IT proposal. Mr. Baudino's assertions overlook the competitive alternatives that are available to Rate IT customers, as well as the value of the distribution services they receive from PGW. Also, I note that the Commission has approved a similar pricing model for UGI Utilities, Inc.

for interruptible customers (Docket No. R-2015-2518438). UGI described the price as no less than proxy cost-of-service and no greater than the alternative fuel price.[1]

Q. WHAT DO THE PICGUG WITNESSES SAY ABOUT PRIOR COMMISSION DIRECTIVES REGARDING COST-BASED TRANSPORTATION RATES?

A. Mr. Baudino and Mr. Bressler refer to a 2007 Commission order that directed PGW to establish cost-based transportation rates and suggest that PGW is thereby precluded from incorporating a value of service component into transportation rates. (PICGUG St. No. 1 at 21-22, and PICGUG St. No. 2 at 6).

Q. PLEASE RESPOND.

A. As I explained in my direct testimony, the Company's Rate IT proposal in this case is distinctly different than the unbundled IT rates that were in place prior to 2007. (PGW St. No. 7 at 31, 34-35). Those rates did not have an established range and did not factor in the cost of providing interruptible service. Rather, the margin-based IT rates in effect at that time were set by simply removing the then existing price of natural gas from the bundled rate. In requiring PGW to develop cost-based IT rates for the Commission's consideration, the Commission did not conclude that PGW must rely solely on the cost of providing service to interruptible customers. Rather, the Commission merely found that costs have to be a factor. As noted above, the Commission has approved value of service pricing for interruptible customers that have competitive alternatives, and the approach should likewise be approved for PGW.

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1 *See* UGI 2015-2016 Base Rate Case, R-2015-2518438, St. No. 1.

Q. PLEASE RESPOND TO MR. BAUDINO'S ASSERTION THAT PGW'S RATE IT PROPOSAL WOULD ALLOW THE COMPANY TO EARN EXCESSIVE PROFITS. (PICGUG ST. NO. 1 AT 19-20, 22).

A. This testimony fails to recognize that as a municipal utility, PGW does not earn profits. As I have previously explained, the Rate IT proposal would not result in additional dollars for PGW, but would result in other customers paying less. Every dollar PGW collects will accrue to customers by defraying the costs of operating its system and deferring future rate increases. Moreover, while Mr. Baudino describes PGW's Rate IT proposal as being "completely untethered from cost of service pricing principles," my direct testimony establishes exactly the opposite. As I explained in my direct testimony, cost of service remains one of the primary guideposts for rate setting under this proposal. (PGW St. No. 7 at 31). Since the distribution system is now being maintained and modernized for all customers, including Rate IT customers, it is appropriate that a portion of those costs be allocated to them. Importantly, as noted above, the ceiling for PGW's Rate IT proposal is the equivalent firm transportation rate, which ensures that the Company would not earn "supernormal profits from IT customers," as suggested by Mr. Baudino.

Q. HOW DO YOU RESPOND TO PICGUG'S CLAIM THAT THE RATE IT CUSTOMERS ARE NOT RECEIVING FIRM SERVICE?

A. Mr. Baudino and Mr. Bresser claim that because Rate IT customers must invest in alternative fuel capability and stand ready to be interrupted, they are not receiving firm service. (PICGUG St. No. 1 at 22-23; PICGUG St. No. 2 at 6). While I agree that these customers are not receiving firm service, my point is that the quality of the interruptible service that they receive on PGW's system is of virtually the same quality as firm service

– due to the lack of interruptions over many years – but at a fraction of the price. Notably, the PICGUG witnesses do not contest the long-term pattern of no interruptions.

Q. WHAT DO THE PICGUG WITNESSES SAY ABOUT THE COSTS INCURRED BY RATE IT CUSTOMERS TO MAINTAIN ALTERNATIVE FUEL SYSTEMS?

A. Mr. Baudino and Mr. Bressler discuss the fact that Rate IT customers must incur certain costs to maintain alternative fuel systems. (PICGUG St. No. 1 at 22; PICGUG St. No. 2 at 6-7).

Q. PLEASE RESPOND.

A. I recognize that the Rate IT customers incur a certain level of costs to maintain alternative fuel systems. However, I note that neither of the PICGUG witnesses quantify these costs. Nor do they compare them to the costs they would incur to rely on these alternative fuel systems. PGW would be pleased to consider this factor as an additional data points in its determination of a reasonable, negotiated rate for Rate IT customers to pay.

Q. WHAT DOES MR. BAUDINO SAY ABOUT RATE IT CUSTOMERS NOT CONTRIBUTING TO DESIGN-DAY DEMAND?

A. Mr. Baudino asserts that because Rate IT customers do not contribute to design-day demand, they are not responsible for design day costs like firm service customers. (PICGUG St. 1 at 22).

Q. PLEASE RESPOND.

A. Although Rate IT customers do not contribute to design-day demand, PGW still incurs costs to plan the system so that demand is met on every other day. PGW could use a different model such as throughout and demand, rather than a design-day demand model, which would allocate far greater costs to the Rate IT customers. Simply because Rate IT customers' needs are not considered in the design-day model does not alleviate the need for PGW to recover a reasonable amount of costs from Rate IT customers to keep the system operating on all other days.

Q. DO YOU DISPUTE THAT INTERRUPTIBLE TRANSPORTATION CUSTOMERS PERMIT PGW TO AVOID THE COSTS OF SERVING THEM ON PGW'S DESIGN DAY (ON WHICH THEY ARE PRESUMED TO BE INTERRUPTED)?

A. I agree that IT rates should properly reflect the cost savings these customers provide. But the only cost savings IT customers can reasonably claim are the costs that PGW would have to incur to have the capacity to serve them on PGW's design day. As the discovery response referenced by Mr. Baudino identifies, for PGW to serve IT customers on the design day, PGW would have to expand a gate station along with some additional costs associated with that expansion (the other costs are Gas Cost Rate ("GCR") related). While I have not conducted a specific study to determine the precise level of such costs, I do feel confident in saying that they would be a very small fraction of the cost of replacing and maintaining PGW's ~ 3,000 mile gas distribution system, the cost of which is now predominantly borne by the firm ratepayer. Certainly, this rather minor "cost savings" does not justify the current spread between IT rates and firm rates.

Q. WHAT DOES MR. BAUDINO SAY ABOUT THE RISKS POSED BY LARGE VOLUME CUSTOMERS?

A. Mr. Baudino testifies that Rate IT customer are "likely" less risky than temperature sensitive customers. (PICGUG St. No. 1 at 20, 23).

Q. HOW DO YOU RESPOND?

A. The fact that large volume customers have competitive alternatives makes them inherently more risky to PGW's system. It is entirely inappropriate to compare the risk to PGW's system of the loss of very high volume customers to the reduced consumption by temperature sensitive customers over a certain period. Not only would the impact on the system be much more significant in the event of the departure of a very high volume customer, the weather normalization clause helps to somewhat moderate the reductions in usage associated with temperature sensitive customers.

Q. WHAT DOES MR. BAUDINO CLAIM WITH RESPECT TO THE LIKELIHOOD OF RATE IT CUSTOMERS SWITCHING TO OTHER ALTERNATIVES?

A. Mr. Baudino suggests that Rate IT customers are unlikely to switch from natural gas to other alternatives. (PICGUG St. No. 1 at 23).

Q. PLEASE RESPOND.

A. I view Mr. Baudino's testimony on this issue as purely speculative. Over time, market conditions are unpredictable. The ability of Rate IT customers to switch to other alternatives justifies the implementation of a model that would enable PGW to negotiate a rate with those customers if the price of alternative fuels falls below the price of natural gas for a comparable amount of energy.

Q. WHAT IS MR. BAUDINO'S TESTIMONY REGARDING THE ONLY RELEVANT CONSIDERATION IN EVALUATING IT RATES?

A. Mr. Baudino testifies that the only relevant consideration is whether the IT rates are cost-based and suggests that the price of alternative fuels is irrelevant to proper pricing. (PICGUG St. 1 at 24).

Q. PLEASE RESPOND.

A. Mr. Baudino's assertion that pricing must be based only on cost of service ignores the competitive alternatives that are available to Rate IT customers. Further, the Commission has already endorsed value of service pricing under a similar proposal approved for UGI. Moreover, the argument that the price of alternative fuels should be ignored may have something to do with the fact that at present gas costs are low compared to alternatives.

Q. PLEASE ADDRESS THE SUGGESTION OF MR. BAUDINO FOR THE COMMISSION TO DISREGARD UGI'S INTERRUPTIBLE TARIFF. (PICGUG ST. NO. 1 AT 25).

A. As I understand Mr. Baudino's testimony, he does not view UGI's interruptible transportation tariff as relevant because it has been in use for a number of years and it offers customers two types of transportation service. I do not view either of those factors as having any bearing on whether the Commission should approve PGW's Rate IT proposal. Merely because a value of service pricing has been in place for a number of years does not mean that it should not be used for other natural gas companies going forward. Similarly, the availability of two types of firm transportation service for UGI's large commercial and industrial customers has no bearing on whether PGW's proposal to incorporate value of service pricing for Rate IT customers should be approved. Rather, all this means is that the Rate IT customers do not like the price that PGW charges for firm transportation service. However, that is the cap that PGW has proposed, with the ability of the Rate IT customers to negotiate for a price below that level.

Q. DO THE PICGUG WITNESSES COMPARE PGW'S FIRM TRANSPORTATION RATES TO THE FIRM TRANSPORTATION RATES OF PECO ENERGY COMPANY ("PECO")?

A. Yes. Mr. Baudino and Mr. Bresser make comparisons between PGW's firm transportation rates and PECO's firm transportation rates. (PICGUG St. No. 1 at 25 and PICGUG St. No. 2 at 7).

Q. PLEASE RESPOND.

A. Comparisons between PGW's firm transportation rates and PECO Energy's firm transportation rates are irrelevant to PGW's proposal to incorporate value of pricing principles into Rate IT. The rates charged by PGW for firm transportation service are a separate issue that can be examined in a future proceeding. However, PGW would be willing to take such considerations into effect if, for example, a PGW customer had the ability to shift load to another, PECO-Gas served facility.

Q. WHAT DOES MR. BRESSER CLAIM REGARDING THE IMPACT OF PGW'S RATE IT PROPOSAL ON TEMPLE UNIVERSITY ("TEMPLE")?

A. Mr. Bresser testifies to the potential impact of PGW's Rate IT proposal, claiming that the "value of service pricing could increase its cost of IT service by as much as $3,860,000 per year." (PICGUG St. No. 2 at 8).

Q. HOW DO YOU RESPOND?

A. Mr. Bresser's assertion overlooks the negotiated aspect of the rate proposed by PGW. He also ignores PGW's proposal to set the rate at the midpoint between the cost of service based rate and the firm transportation rate if the parties are not able to arrive at a mutually acceptable agreement. (PGW St. No. 7 at 37). Notably missing from Mr. Bresser's analysis is any indication of the value of PGW's service to Temple, compared to other alternatives that are available.

Q. DOES OCA ALSO ADDRESS PGW'S RATE IT PROPOSAL?

A. Yes. Mr. Mierzwa supports PGW's Rate IT proposal, except that he recommends that PGW begin implementing it one year, rather than three years, after Commission approval. (OCA St. No. 3 at 32).

Q. PLEASE RESPOND TO MR. MIERZWA'S RECOMMENDATION.

A. PGW continues to believe that it is appropriate to afford a three-year transition period to existing customers, while applying the negotiated rate provisions to new customers immediately.

III. RATE BUS: BACK-UP SERVICE

Q. PLEASE BRIEFLY DESCRIBE PGW'S PROPOSED RATE BUS: BACK-UP SERVICE.

A. PGW proposed a tariff provision that would permit the Company to negotiate a rate with a customer installing any type of operable back-up or emergency equipment and that, from time to time, would require natural gas from the Company for the customer's operation of that equipment. As proposed, the customer would select the back-up level of service that is needed and pay a negotiated standby charge. The rationale for the proposal is that customers and potential customers have the ability to install a generator to back-up their need for electricity, and a negotiated rate would attract new customers and encourage the use of natural gas as the means of generating back-up service. (PGW St. No. 7 at 42-44).

Q. DOES OCA RECOMMEND REJECTION OF THIS PROPOSAL?

A. Yes. In recommending that the Commission not approve this proposal, Mr. Mierzwa first describes the proposal as "incomplete" and lacking in reporting requirements that would enable interested parties to assess whether the rates negotiated by the Company would collect the costs associated with standing ready to provide service. He suggests that the same reporting requirements be imposed as he recommends for the Technology and Economic Development ("TED") Rider. (OCA St. No. 3 at 32-33).

Q. WHAT IS YOUR RESPONSE?

A. I note that Mr. Mierzwa's contention that the proposal is "incomplete" appears to be solely based on the lack of a reporting requirement since he does not point to any other desired feature that is purportedly missing from the proposal. As to submitting reports, PGW has no objection to such a requirement but it is unclear how the TED Rider reporting requirements would be applied since they are specifically tailored for a pilot program with a planned expiration date, whereas this proposed rate would remain in effect indefinitely.

Q. DOES MR. MIERZWA RAISE ANOTHER CONCERN ABOUT RATE BUS?

A. Yes. Mr. Mierzwa raises a concern about Rate BUS customers not covering their gas costs, which would then be borne by GCR customers. (OCA St. No. 3 at 33).

Q. HOW DO YOU RESPOND?

A. As an initial matter, it is noteworthy that the majority – approximately 80-90% – of the customers that would qualify for Rate BUS are small commercial customers taking service under General Service–Rate GS. Therefore, PGW does not expect Mr. Mierzwa's concern to be realized. However, to address this issue, PGW proposes to submit a report within one year following the entry of an order in this proceeding, which sets forth usage, rate and cost data for the customers participating in Rate BUS.

IV. COST ALLOCATION ISSUES

Q. WHAT DOES MR. KNECHT SAY ABOUT THE ALLOCATION OF SERVICE LINE COSTS?

A. Mr. Knecht criticizes the Company's method for allocating service line costs. He contends that there is little underlying data support for the adjustment factors used by PGW. He also testifies that the Company does not appear to attempt to reflect wide variations in the number of customer per service line in the various rate classes; the end result of the Company's method is that the service cost index for commercial customers is 1.5; and the Company's method produces various anomalies. (OSBA St. No. 1 at 19-21).

Q. HOW DO YOU RESPOND?

A. The Company classifies service lines into two large groups based on service line diameter: 1.25 inches and smaller, and 2 inches and larger. Because the service lines within each group are not entirely homogenous in their cost characteristics, and limited data is available related to the exact costs of the services that are installed in each individual customer premise, the Company uses the factors of 1.5 and 3.0 to capture the difference in the cost of service lines for different customer classes. I believe this is a reasonable approach and adequately reflects the cost per customer for cost allocation purposes. Further, I note that Mr. Knecht did not specify an alternative approach that he believes would be any more accurate and in fact used the Company's method for his testimony.

Q. DOES MR. KNECHT ALSO ADDRESS THE COMPANY'S ASSIGNMENT OF METER COSTS BY CLASS?

A. Yes. Mr. Knecht notes that the Company uses meter replacement cost values in assigning meter costs by class. While he agrees with this approach, in general, he believes that the Company's method is biased against the commercial class because it uses the replacement cost of an 800 cubic feet per hour ("cf/h") meter when many commercial customers are of a size similar to residential customers. Based on that assumption, he factors in the meter costs of 250, 425 and 630 cf/h meters to propose an alternative assignment of meter costs. (OSBA St. No. 1 at 21-25).

Q. DO YOU AGREE THAT MR. KNECHT'S APPROACH IS SUPERIOR TO THAT USED BY THE COMPANY?

A. No. As Mr. Knecht acknowledges, his approach is based on an assumption that many commercial customers can be served by a smaller meter, for which he offers no supporting data. He further concedes that his recommended method is a crude estimate.

In the absence of a factual basis to use a different approach that relied upon by the Company, I see no reason to adjust the assignment of meter costs to the customer classes. However, PGW would be willing to review this issue and to take Mr. Knecht's concerns into consideration in its next base rate case.

V. SUPPLIER/CHOICE ISSUES

A. PGW Choice Participation

Q. MR. CUSATI, ON BEHALF OF RESA, TESTIFIED THAT THERE ARE CURRENTLY NO COMPETITIVE NGSS CURRENTLY OFFERING SERVICE TO RESIDENTIAL CUSTOMERS IN PGW'S SERVICE TERRITORY. (RESA ST. NO. 1 AT 3-4). IS THIS ACCURATE?

A. No. As of May 31, 2017, two of the four current purchase of receivables/consolidated bill (collectively "POR") suppliers had active residential customers. Also as of May 31, 2017, there were 255 active residential customers in the POR program. PGW's POR program is still relatively new—it was implemented in January 2016. Future participation by additional suppliers is expected. There are currently ten suppliers who are expected to become EDI-certified with PGW who indicated that they include residential customers in their market segments.

B. PGW POR Discount Rate

Q. MR. CUSATI'S TESTIMONY STATES THAT HE BELIEVES IT IS REASONABLE FOR PGW TO HAVE A POR BAD DEBT DISCOUNT IN PRINCIPLE, BUT TAKES ISSUE PRIMARILY WITH THE POR ADMINISTRATIVE "ADDER." (RESA ST. NO. 1 AT 6). IS THAT YOUR UNDERSTANDING?

A. Yes. It appears that Mr. Cusati's main issue is with the POR 2% administrative discount, though he does also state he believes the uncollectible discount is too high.

Q. IS MR. CUSATI'S STATEMENT THAT NO OTHER NATURAL GAS UTILITY IN PENNSYLVANIA ADDS AN ADMINISTRATIVE DISCOUNT ACCURATE?

A. No, he appears to be incorrect. While PGW has not performed a full review of all natural gas utilities in Pennsylvania and does not think it is relevant in this proceeding, I note that the Commission granted PECO Gas full recovery of its costs to implement its POR Program. The Partial Settlement of that proceeding includes the following language:

> A 1% discount on purchased NGS receivables will be utilized by PECO to reduce the balance of the implementation costs until the conclusion of PECO's first distribution rate case following the implementation of the Gas POR. In PECO's first distribution base rate case following the implementation of the POR if any implementation costs remain unrecovered, PECO will propose a mechanism to recover the remaining implementation costs as a charge to LVT customers (both shopping and non-shopping) and/or as a charge to NGSs serving LVT customers in the form of a future discount on purchased receivables (which shall be at least 1% until such remaining costs are recovered). PECO's right to the prospective full recovery of the implementation costs (and a return on those implementation costs, if they are capital costs), may not be challenged, but all parties reserve all rights to address how the charge for PECO's full recovery will be allocated among customers and/or NGSs in the base rate proceeding.[2]

Additionally, in 2012, PECO Gas reached a settlement that permitted it to recover its incremental costs associated with the development, implementation and administration of its Gas POR Program through a discounted POR rate after those costs were determined.[3]

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2 *Petition of PECO Energy Company for Approval of its Natural Gas Supplier Purchase of Receivables Program*, Docket No. P-2009-2143588, Joint Petition for Settlement at 8 (June 16, 2010). The Partial Settlement was thereafter approved by the Commission without modification. Opinion and Order (Nov. 8, 2010). Direct Energy Services, LLC; Interstate Gas Supply, Inc., and Dominion Retail, Inc. were all parties to the Partial Settlement and are members of RESA.

3 See *Petition of PECO Energy Company – Gas Division – Pursuant to 66 Pa. C.S. § 1308(a) for Approval of its Proposed Tariff Revisions*, Joint Petition for Complete Settlement at 7 (Mar. 1, 2013). The Full Settlement was thereafter approved by the Commission without modification. Opinion and Order (Apr. 18, 2013).

Q. REGARDING THE 2% ADMINISTRATIVE DISCOUNT, CAN YOU EXPLAIN WHY POR SUPPLIERS ARE RESPONSIBLE FOR THIS DISCOUNT?

A. Yes. PGW's current administrative discount was designed to recover some of the customer education, consolidated billing implementation, and POR and EDI capital and operating costs from the POR suppliers (as the POR program was implemented for the benefit of POR suppliers). As approved by the Commission, the current administrative discount will be applied until these costs are fully recovered (subject to a PUC approved maximum, which PGW does not expect to reach).

Q. ARE THERE ANY OTHER REASONS WHY THIS ADMINISTRATIVE DISCOUNT IS RECOVERED FROM POR SUPPLIERS?

A. Yes. PGW charges the administrative discount pursuant to a settlement ("POR Settlement") that was the result of a Purchase of Receivables ("POR") Collaborative convened pursuant to the Joint Petition for Settlement submitted in PGW's 2009 § 1308(d) base rate proceeding at Docket No. R-2009-2139884 ("2009 Rate Case Settlement"). The 2009 Rate Case Settlement included a provision that PGW would convene a collaborative with the purpose of identifying the systems (e.g., EDI) and billing improvements (e.g., utility consolidated billing) it needs to make in order to implement a POR Program, as well as a timeline for implementing the necessary systems and billing changes.

Q. CAN YOU EXPLAIN THE RELEVANT TERMS OF THE POR SETTLEMENT?

A. For purposes of this discussion, the most relevant term of the POR Settlement is section II.e, which states:

> The Administrative Discount applied to the accounts receivable purchased by PGW to compensate PGW for costs identified in items a (i), b (i), c and d shall be 2.00%, ***which will remain in effect until the costs set forth in paragraphs a (i), b (i), c and d are fully recovered***. If, at any time, a modified cost recovery mechanism is approved by the Commission (subsequent to the order

> *entered addressing this Settlement) for the costs recovered via the* Administrative Discount, that modified cost recovery mechanism shall be the means by which the costs in paragraphs a (i), b (i), c and d shall be recovered by PGW, unless the Commission should determine otherwise.[4]

The relevant excerpts of the POR Settlement are attached as PGW Exhibit DAM-3.[5]

Q. *WILL YOU PLEASE BRIEFLY EXPLAIN THE CATEGORIES OF COSTS* THAT THE POR SETTLEMENT PERMITTED PGW TO RECOVER FROM NGSS UNTIL THOSE COSTS ARE FULLY RECOVERED?

A. The items referred in subsections a(i), b(i), c, and d of the POR Settlement state that the NGSs will pay for portions of the variety of administrative costs that PGW incurred to implement its POR program. These costs include:

- Consumer education costs (equal to the lesser of $500,000 or 50% of those costs);
- Incremental costs associated with implementing the POR program (equal to the lesser of $165,800 or 10% of those costs);
- Capital costs for implementing EDI system upgrades (not to exceed $35,000) and annual billing system O&M costs for the first three years of the POR program (not to exceed $108,000 in total); and
- The initial 3 years of annual EDI Transactional Fees imposed on the accounts receivable purchased by PGW (not to exceed $65,000 for the first 50,000 customers and an additional $1.30 for each additional customer over 50,000).

Q. WAS RESA A SIGNATORY PARTY TO THE POR SETTLEMENT?

A. Two RESA members were signatory parties. They were Dominion Retail, Inc. and Interstate Gas Supply, Inc. ("IGS"). Additionally, a third RESA member, Direct Energy

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[4] POR Settlement at 10 (emphasis added).

[5] The entire POR Settlement is available at the following link: http://www.puc.pa.gov/pcdocs/1245351.pdf.

Services, LLC, was a party to the POR Collaborative and did not oppose the POR Settlement.

Q. ARE YOU FAMILIAR WITH IGS?

A. Yes.

Q. IS MR. CUSATI CONNECTED WITH IGS?

A. Yes, according to Mr. Cusati's testimony in this proceeding, he has been employed by IGS since 2008.

Q. DID MR. CUSATI PARTICIPATE IN THE POR COLLABORATIVE ON BEHALF OF IGS?

A. Yes.

Q. IN THE CURRENT PROCEEDING, MR. CUSATI IS NOW TESTIFYING THAT THE TERMS OF THE POR SETTLEMENT—IN WHICH HE WAS INVOLVED, AND TO WHICH HIS COMPANY, IGS WAS A SIGNATORY PARTY—IS NOT REASONABLE?

A. It is concerning that Mr. Cusati states an administrative discount is "not reasonable" and asks the Commission to nullify terms of a settlement to which his company was a party and he participated. While I understand that Mr. Cusati is testifying on behalf of RESA and not IGS in the current proceeding, it is nonetheless important that the Commission understands the relationship between Mr. Cusati (IGS's Director of Regulatory Affairs-Eastern Division), IGS (a RESA member), and RESA (on behalf of whom Mr. Cusati is testifying in this proceeding). It is hard for me to understand how Mr. Cusati can claim that PGW's POR cost recovery is not reasonable when his company, IGS (a RESA member) is a signatory party to the POR Settlement and stated such things in support of the POR Settlement as:

- "IGS/DR [Dominion Resources] believe and therefore aver that the Settlement is in the Public Interest and ask that it be approved as submitted."[6]
- "In addition to providing substantial cost recovery, the benefits of the settlement include the implementation of a POR program with the administrative discount at set of a level to recover all the costs described in the settlement (2%), and an uncollectable discount based upon the actual experienced uncollectibles of PGW."[7]
- "From a public interest perspective, the Suppliers have also agreed to commit substantial resources, in the form of substantial contributions for these programs to be paid-for via the POR discount."[8]

Q. BASED ON THIS DISCUSSION, IS PGW'S 2% ADMINISTRATIVE DISCOUNT REASONABLE?

A. Yes, for all of the reasons I described above. And not only is it reasonable as I explained, the Commission issued an Order on February 20, 2014, determining that the POR Settlement was in the public interest.

Q. MR. CUSATI ALSO SUGGESTS THAT PGW ADOPT A ZERO-DISCOUNT RATE APPLIED TO SUPPLIER UNCOLLECTIBLES AS PECO ELECTRIC DID. (RESA ST. NO. 1 AT 8). DO YOU SUPPORT THIS STATEMENT?

A. No. First, the POR Settlement set out the current 4.68% uncollectible rate for residential customers (which decreases to 3.76% in this filing). Second, if PGW were to adopt a zero-discount rate applied to POR shopping customer uncollectibles, then the actual cost

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6 POR Settlement at 3.

7 POR Settlement at 4.

8 POR Settlement at 5.

for those uncollectibles would be paid for by the paying customers. Third, PECO Electric's discount rate is not relevant to PGW's, nor is their experience with bad debt.

Q. MR. CUSATI FURTHER STATES THAT HE HAS CONCERNS ABOUT PGW'S SUPPLIER PROGRAM BECAUSE "PGW DOES NOT DIFFERENTIATE BETWEEN COMMODITY-RELATED UNCOLLECTIBLES AND DISTRIBUTION-RELATED UNCOLLECTIBLES FOR PURPOSES OF SETTING ITS POR UNCOLLECTIBLE RATE." (RESA ST. NO. 1 AT 9). IS THIS STATEMENT ACCURATE?

A. No. PGW has a Merchant Function Charge ("MFC") that removes the cost of uncollectibles applicable to natural gas costs from distribution rates.

Q. MR. CUSATI ALSO STATES THAT HE DOES NOT UNDERSTAND HOW PGW IS COMPLYING WITH THE COMMISSION'S REGULATION AT 52 PA. CODE §62.223(C), WHICH "APPEARS TO REQUIRE AN NGDC TO DEVELOP AN MFC TO REMOVE THE COST OF UNCOLLECTIBLES APPLICABLE TO NATURAL GAS COSTS FROM ITS DISTRIBUTION RATES AND RECOVER THOSE ANNUAL COSTS AS PART OF THE PRICE TO COMPARE." (RESA ST. NO. AT 9). DO YOU HAVE ANY COMMENTS ON THIS?

A. While I am not a lawyer, and to my knowledge, neither is Mr. Cusati, I have been advised by counsel that Mr. Cusati's interpretation of the regulation as it applies to PGW is incorrect. PGW unbundled its uncollectible expenses in 2013 in order to, among other things, calculate its MFC. In that proceeding, at Docket No. R-2012-2286447, the parties entered into a Joint Petition for Settlement that required PGW to incorporate the GPC and MFC into the Commodity Charge on PGW's bill.[9] Additionally, residential shopping customers are part of the residential class of customers and the uncollectible percentage is based on the uncollectible experience of all residential customers, both shopping and non-shopping. It is also important to note that PGW continues to be compliant with §62.223(c)(4) in that the Company has updated the MFC in the Cost of Service Study

[9] *Pa. PUC v. PGW*, Joint Petition for Settlement of Philadelphia Gas Works' Natural Gas Procurement Cost and Uncollectible Expense Unbundling Filing at 3 (Mar. 27, 2013). The Settlement was thereafter approved by the Commission without modifying the terms of the MFC provisions. Opinion and Order (June 20, 2013).

(see revised Exhibit PQH-11) filed in this docket. The MFC is now based on an uncollectible percentage of 3.76%. This same percentage, if approved, will apply to the uncollectible related discount rate charged to suppliers. As a result, the current uncollectible related portion of the discount rate will decrease from 4.68% to 3.76%.

C. PGW's GPC Charge

Q. MR. CUSATI TAKES ISSUE WITH PGW'S GAS PROCUREMENT CHARGE ("GPC") ON THE GROUNDS THAT PGW SHOULD PROVIDE MORE INFORMATION ABOUT THE CHARGE. (RESA ST. NO. 1 AT 10). DO YOU AGREE?

A. PGW's GPC is explained in its existing Gas Service Tariff that has been approved by the Commission. PGW also submitted its Cost of Service Study as part of this proceeding, which included Exhibit PQH-10. That exhibit provides how the GPC is calculated. Further, RESA did not issue any discovery seeking further clarity on how the GPC is calculated.

Q. HOW LONG HAS PGW'S SWITCHING FEE BEEN IN PLACE?

A. PGW's switching fee has been PUC-approved in PGW's Supplier Tariff since December 1, 2003—which was the origin of choice on PGW's system.

D. Magnani Testimony

Q. RESA'S OTHER WITNESS, MR. MAGNANI, BELIEVES THAT SEVERAL ITEMS NEED TO BE CLARIFIED AND A COLLABORATIVE ESTABLISHED. (RESA ST. NO. 2 AT 4). CAN YOU SUMMARIZE HIS OPINIONS?

A. Mr. Magnani believes that the load balancing charge ("LBC"), pool charge, and daily delivery quantity ("DDQ") are not clear. He also believes that the DDQ is "often changed retroactively." He further opines that "a collaborative be established to work on making the bill and all its components more transparent."

Q. WHAT IS YOUR RESPONSE TO MR. MAGNANI'S CLAIM THAT THE LBC IS UNCLEAR? (RESA ST. NO. 2 AT 3).

A. PGW's LBC is set forth in its Gas Supplier Tariff at page 39 and a detailed calculation is filed with the Commission every quarter as part of PGW's quarterly gas cost rate ("GCR") filings. Additionally, PGW's practice is to bill suppliers at the end of each month for charges accumulated during that month. Since firm-pool suppliers carry forward and later reconcile any over or under-shipment of gas rather than cashing it out, billed charges will usually include the following:

- Penalty charges, if any. Generally, penalty charges only occur when a supplier fails to deliver its DDQ, or does not comply with OFO or DOB instructions;[10]
- Monthly Supplier and Peaking Charge;
- Switching fees.

The Supplier Storage and Peaking Charge is intended to recover the normal costs of operating LNG facilities and procuring storage. Gas from these sources is likely to be used in the same proportion by the firm transportation pool as by PGW-supplied customers, who contribute to these costs through the GCR.

Q. WHAT IS YOUR RESPONSE TO MR. MAGNANI'S CLAIM THAT THE POOL CHARGE IS NOT SUPPORTED OR JUSTIFIED? (RESA ST. NO. 2 AT 4).

A. The pool charge is part of PGW's Commission-approved Supplier Tariff.

Q. WHAT IS YOUR RESPONSE TO MR. MAGNANI'S CLAIM THAT THE DDQ IS NOT EXPLAINED AND "OFTEN CHANGED RETROACTIVELY"? (RESA ST. NO. 2 AT 4).

A. Mr. Magnani is incorrect. PGW provides DDQs to suppliers on a daily basis for the next gas day and the three subsequent gas days on a rolling basis (with the exception of non-

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[10] Please see the Gas Supplier Tariff for further details on penalties.

business days). PGW's transportation management software features a sophisticated profiling and forecasting capability that includes a profile of gas usage, tied to historic weather, and the predicted daily weather for several future days. These factors are combined to forecast a firm pool's gas usage. A pool's forecast determines its DDQ.

Q. IS PGW AMENABLE TO MR. MAGNANI'S RECOMMENDATION FOR A COLLABORATIVE?

A. PGW is willing to speak, and work with suppliers at any time, and has done so. PGW would be willing to host a collaborative meeting to further listen to, and explain, issues regarding supplier bill calculations.

Q. MR. MAGNANI ALSO OPINES THAT PGW'S +/- 2.5% CASHOUT TOLERANCE BAND FOR MONTHLY DELIVERIES IS TOO NARROW. (RESA ST. NO. 2 AT 4-5). DO YOU AGREE?

A. No. PGW's cashout band is reasonable and should not be adjusted. PGW has waived the restrictions on its pool size for purposes of making it easier for suppliers to balance. By waiving the pool size, suppliers are able to balance one pool only and use all of their assets within that pool to balance, which should enable those suppliers to balance within the +/- 2.5% band. In calendar year 2016, PGW's suppliers were within the +/- 2.5% band 80% of the time. This demonstrates that PGW has set its tolerance band at a range that is bearable to suppliers currently on the system.

Q. ARE THERE OTHER PROBLEMS WITH MR. MAGNANI'S SUGGESTION TO EXPAND THE RANGE TO +/- 5% FOR CASHOUTS?

A. Yes. I illustrate the problem with Mr. Magnani's suggestion using the following high-use IT example: In a high use month such as January, IT customers use approximately 1,500,000 Mcf of gas and a 5% imbalance would result in PGW being required to supply 75,000 Mcf that month. Currently, PGW permits an imbalance of 10% on a daily basis and on a cold high use day, IT customers may use 80,000 Mcf or more of gas and a 10%

imbalance would result in PGW being required to supply 8,000 Mcf that day. As this example shows, if PGW expanded its cashout range to +/- 5%, it could be required to supply a substantial volume of excess gas (at a cost to other customers).

Also, more broadly, Mr. Magnani does not provide support for his proposition, offering only the concept of expanding the range. As my rebuttal testimony on this topic—and the example above illustrates—Mr. Magnani's suggestion would be problematic.

Q. MR. MAGNANI OPINES THAT PGW'S CURRENT $75/DTH PENALTY FOR OPERATIONAL FLOW ORDERS IS TOO HIGH AND SHOULD BE REDUCED TO $25/DTH. (RESA ST. NO. 2 AT 5). DOES MR. MAGNANI OFFER ANY SUPPORT FOR THIS POSITION?

A. No. Mr. Magnani's testimony on this topic is limited to three sentences.

Q. DO YOU AGREE WITH MR. MAGNANI'S SUGGESTION?

A. No. First, PGW has never employed an operational flow order ("OFO") penalty. Second, the two interstate pipelines that service PGW use a minimum of $50/Dth, with the ability to float even higher if necessary. Third, if PGW were to issue an OFO, it would be for a legitimate operational reason that warrants issuing it. As PGW's Supplier Tariff states, PGW issues OFOs "In order to alleviate operating conditions which threaten the integrity or safe operation of the Company's distribution system or interfere with the Company's ability to provide reliable firm service."[11] PGW's penalty provision is set at a rate that is meant to protect the integrity of the system by making the penalty for violation sufficiently stiff without being excessive. The rate of $75/Dth accomplishes that goal by seeking to ensure that suppliers are abiding by the OFO. PGW's concern is maintaining the integrity, safety, and availability of natural gas on its system.

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[11] Gas Supplier Tariff at 32.

VI. <u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT DAM-3

EXHIBIT
R2017 2586785
PGW DAM-3
6-28-17 EP PAL
PENGAD 800-631-6989

Program, as well as a time line for implementing the necessary systems and billing changes.

14) As set forth above, on January 13, 2012, the NGSs filed a Motion To Hold Matter in Abeyance. In the Motion, the NGSs requested that disposition of the November 23, 2011 Joint Petition (Docket R-2008-2073938) regarding the SOLR Collaborative be held in abeyance until such time as a joint resolution of both the SOLR and POR Collaborative issues were submitted to the Commission for approval. The NGSs request was granted on February 15, 2012.

15) As set forth in the settlement terms below, PGW has agreed to implement a POR Program, consolidated billing and an Electronic Data Interchange ("EDI")[8] and has also agreed to other competition enhancing steps as set forth in this Settlement for both the SOLR and POR Collaboratives.

II) TERMS AND CONDITIONS OF SETTLEMENT

1) PGW will provide Choice related customer education and will implement a POR program and utility consolidated billing. The POR/consolidated billing applications and systems will be developed within 18 months after the Commission approves the terms of this Settlement. Additionally, PGW is currently in the process of implementing an EDI as a result of the Collaboratives and will expand these capabilities for residential and small business customers within 18 months after the Commission approves the terms of this Joint Petition for Settlement.

2) Cost Recovery

[8] PGW currently exchanges data with suppliers via its Transaction Management System but now that suppliers have expressed interest during the Collaboratives in marketing to all of PGW's customers, PGW is implementing EDI in order to enhance its data exchange capabilities in order to accommodate a larger volume of shopping customers.

a) Consumer education expenses are currently estimated to be $1,000,000 for the cost of two choice/supplier informational mailings to PGW Rate GS Residential, Commercial and Industrial customers who are eligible to participate in the POR program. Costs in excess of $1,000,000 will not be recovered through the restructuring and consumer education surcharge or from NGSs and the consumer education spending will be capped at $1,000,000 unless there is an agreement among the settling parties for the recovery of the costs exceeding $1,000,000.

   (i) The NGSs will pay one-time costs equal to the lesser of $500,000 or 50 percent of the consumer education expenses through a component of the POR administrative discount ("Administrative Discount") on the accounts receivable purchased by PGW.

   (ii) One-time costs equal to the lesser of $500,000 or 50 percent of the consumer education expenses will be recovered from customers through the restructuring and consumer education ("R&CE") surcharge.[9]

b) The incremental costs associated with the implementation of consolidated billing and a POR program (i.e. development of applications and systems) are currently estimated to be $1,658,000.

   (i) The NGSs will pay one-time costs equal to the lesser of $165,800 or 10 percent of the incremental costs which are associated with the implementation of a POR program – these costs will be recovered through a component of the Administrative Discount on the accounts receivable purchased by PGW.

[9] Actual costs incurred for the consumer education program shall be subject to review in the Company's annual GCR proceedings. The restructuring and consumer education surcharge is not applicable to Interruptible Transportation customers.

(ii) PGW will recover from customers the lesser of $1,492,000 or 90 percent of the incremental costs which are associated with the implementation of consolidated billing – these costs will be recovered through the R&CE surcharge.[10]

(iii)Incremental costs associated with the implementation of consolidated billing and a POR program in excess of $1,658,000 will not be recovered through the restructuring and consumer education surcharge or from NGSs. PGW will not make a claim for the incremental costs associated with implementation of consolidated billing in any future base rate case.

c) The NGSs will pay one-time capital costs for EDI system upgrades (not to exceed $35,000) and annual billing system O&M costs for the first three years of the POR program (not to exceed $108,000 in total) through the Administrative Discount on the accounts receivable purchased by PGW. Any costs in excess of these amounts shall not be recovered through the restructuring and consumer education surcharge or from NGSs.

d) The NGSs will pay the initial 3 years of annual EDI Transactional Fees through the Administrative Discount imposed on the accounts receivable purchased by PGW. The annual EDI Transactional fee recovered via the Administrative Discount shall not exceed $65,000 if the average annual customer shopping level does not exceed 50,000 customers. If the annual customer shopping level exceeds 50,000 customers, the annual fee recovery via the Administrative Discount shall be $65,000 plus an additional $1.30 per customer for all shopping customers greater than 50,000 customers ("EDI Transactional Fees"). The EDI Transactional Fees in excess of

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[10] Actual costs incurred for the consolidated billing implementation shall be subject to review in the Company's annual GCR proceedings.

those funded in the Administrative Discount shall not be recovered through the restructuring and consumer education surcharge.

e) The Administrative Discount applied to the accounts receivable purchased by PGW to compensate PGW for costs identified in items a (i), b (i), c and d shall be 2.00%, which will remain in effect until the costs set forth in paragraphs a (i), b (i), c and d are fully recovered. If, at any time, a modified cost recovery mechanism is approved by the Commission (subsequent to the order entered addressing this Settlement) for the costs recovered via the Administrative Discount, that modified cost recovery mechanism shall be the means by which the costs in paragraphs a (i), b (i), c and d shall be recovered by PGW, unless the Commission should determine otherwise.

f) PGW explicitly agrees that its recovery of consumer education costs, consolidated billing implementation, POR and EDI capital and annual operating costs will be capped at the maximum levels specified in paragraphs a, b, c and d above. No interest charges on these amounts will apply.

g) The 2.00% Administrative Discount on accounts receivable purchased by PGW applies only to Rate GS Commercial and Industrial shopping customer accounts that are at or under 5,000 Mcf per year and all Rate GS Residential shopping customer accounts. It does not apply to any other customer accounts that are not eligible for POR.

h) Actual amounts included in the R&CE surcharge related to paragraphs a (ii) and b (ii) above shall be subject to regulatory review in PGW's annual Section 1307(f) proceedings. Non-Company Parties retain their rights to challenge claimed costs in those proceedings, and PGW retains its right to defend its incurred costs.

i) The Administrative Discount will be set at the level necessary to recover any continuing administrative costs related to the POR program not addressed in this Settlement subject to commission approval and consistent with 52 Pa.Code §62.224 and other continuing administrative costs such as EDI transactional fees incurred after the time period set forth in this Settlement. In order to request recovery of the continuing administrative costs not addressed in the Settlement or after the time period set forth in this Settlement, PGW shall provide notice to all Parties of any such request/filing if the request/filing is outside the context of a 1307(f) or 1308(d) proceeding.

j) PGW reserves the right to request modification of all cost recovery mechanisms set forth in this Settlement and/or file other customer choice cost recovery proposals and to provide notice to all Parties of any such request/filing if the request/filing is outside the context of a 1307(f) or 1308(d) proceeding.

k) An Uncollectible Discount will be charged to NGSs. The Uncollectible Discount is related to the uncollectible rate for supply service customers and will be calculated consistent with the Commission's regulation at 52 Pa. Code Section 62.224, including risk and cost differences among PGW's customer classes. Currently, the Uncollectible Discounts are 4.68% - residential, 0.28% - commercial and 0.30 % - industrial.

3) Consumer Education - PGW will provide consumer education about natural gas suppliers operating in its service territory. PGW has offered to provide this information by the

following means with the details to be determined by a smaller breakout group of the Collaborative Process participants: [11]

a) Bill messages.

b) PGW website.

c) Good Gas News (PGW's bill insert) and the e-bill equivalent of Good Gas News.

d) Two choice/supplier informational mailings to all customers and mailings to new applicants.

e) Call center (and district office) script additions at time of application.

   (i) Ask customers if they have selected a natural gas supplier.

   (ii) Direct customers to the natural gas equivalent of papowerswitch.com.

   (iii)Inform customers that a mailing will be sent discussing natural gas suppliers and natural gas supplier offers.

f) Add a hold recording which discusses gas choice.

4) EDI

[11] The settlement provision includes a multipart effort (bill messages, PGW website, Good Gas News, call center scripts, hold recording) to better educate PGW customers about natural gas suppliers. This settlement intends for a smaller breakout group of interested stakeholders that are Parties to this Docket to finalize the details of these efforts ("Stakeholder Process"). Consistent with this approach, the details of what subject matter is contained in the two choice/supplier informational mailings sent to all customers will be determined at a point closer in time to when the mailings will be sent to customers. Each mailing will contain: 1) general information about customers' choice of a competitive supplier; and 2) supplier specific information. Each mailing will thus provide customers with all the information (process and information on supplier alternatives) that will position a customer to actually shop. This flexible and balanced approach is especially important to maintain because the mailings will occur at a point in the future that cannot be currently specified. The Stakeholder Process will ensure that the material included reflects this balance and is accurate.

The general information contained in each mailing will be provided in a PGW cover letter which will *inter alia*: i) Describe the competitive nature of gas supply in Pennsylvania; ii) Describe how PGW purchases and sells gas in its regulated role as supplier of last resort; iii) Explain how the price-to-compare is calculated and where it may be found on PGW's bills; iv) Explain how the migration rider works; v) List the then currently approved NGSs operating on PGW's system; vi) Encourage all customers to shop regularly for the best available alternatives; vii) Encourage customers to understand the terms and conditions of a natural gas supply offer before selecting the offer; and viii) Provide references to other sources for information on gas supply competition in Pennsylvania.

a) PGW will provide natural gas suppliers with releasable customer contact information if a natural gas supplier customer moves within PGW's service territory (i.e. the customer terminates current gas service and applies for new gas service at a different service address).[12] [13]

b) PGW will inform natural gas suppliers via an EDI transaction when a customer drops a natural gas supplier in order to switch to PGW or another supplier.[14]

5) *Consolidated Billing*

a) PGW will provide rate ready utility consolidated billing.

b) In addition to traditional fixed and variable rates, PGW's utility consolidated billing system will also have the ability to administer a percentage discount off of PGW's Price to Compare, flat rates and multiple per mcf rates.[15]

6) PGW's utility consolidated billing system will be designed to provide, upon request, a percentage discount off of PGW's Price to Compare for a three month period but customers must affirmatively select this natural gas supplier offer and then affirmatively select the natural gas supplier again after the initial three month period.[16]

7) Annual Meeting – PGW agrees to meet and discuss issues with the Collaborative Process parties once a year[17] in order to assess the operation of PGW's Choice Program. The first

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[12] Unless the customer has opted out of releasing customer information.

[13] If the EDI transaction is available.

[14] If the EDI transaction is available.

[15] PGW's billing system will not administer block rates.

[16] The NGSs expressed an interest in a referral program but PGW expressed legal concerns as well as concerns about implementation and administration of a referral program. The Settling Parties agreed to this alternative. PGW will not implement a customer referral program at this time.

[17] PGW agrees to meet mid-year during any given year if requested by the other Settling Parties.

annual meeting will occur one year after the complete implementation of PGW's Purchase of Receivable's Program.

8) Capacity Collaborative

PGW agrees to form a collaborative ("The Capacity Collaborative") with interested parties regarding capacity and capacity related issues. The Capacity Collaborative will be charged with exploring modifications to the following PGW processes and procedures: 1) transportation capacity assignment; 2) storage capacity allocation; and 3) the Daily Delivery Quantities ("DDQ") and Daily Contract Quantities ("DCQ") calculations.

The Capacity Collaborative will initially convene within 30 days of the entry of an order by the Commission approving this Settlement. In the initial session, NGSs and any other Party who chooses to do so shall identify all of the specific concerns that they have with PGW's procedures, and make specific alternative proposals. A second session shall be held within 90 days of the approval of this Settlement, at which time PGW will respond to the concerns raised by the Parties and offer its own proposal to resolve any issues raised. Also at this second session, or at any time prior to this session, the NGSs or any other Party may make a formal proposal concerning modifications to the Company's processes and procedures regarding matters subject to this Settlement. The Parties will then endeavor to reach consensus regarding the proposals put forward. It is the intent of the Parties to conclude this Collaborative by December 31, 2013.[18] To the extent

[18] Depending upon when the order is entered approving this Settlement, it may not be feasible to conclude this Collaborative by December 31, 2013. If it is not feasible, the parties may either: 1) make their best effort to reach a consensus in time to include tariff changes in the March 1, 2014 annual 1307(f) filing; or 2) conclude this Collaborative during 2014 and, to the extent consensus can be achieved, PGW will propose any necessary tariff changes in its March 1, 2015 annual 1307(f) filing.

consensus can be achieved, PGW will propose any necessary tariff changes in its March 1, 2014 annual 1307(f) filing.[19] If the Collaborative participants do not reach an agreement regarding tariff modifications, the participants retain any rights they otherwise might have to raise the aforementioned issues in that (or any other) proceeding.

9) Purchase of Receivables Program

a) Natural gas suppliers ("NGS") providing basic gas supply service to Rate GS Commercial and Industrial customers (using no more than 5,000 Mcf per year) and Rate GS Residential customers are eligible to participate in PGW's POR Program. An all-in, all-out provision will apply.[20]

b) PGW will net the purchased receivable payment of the following discounts:

(i) A 2% Administrative Discount; plus

(ii) An Uncollectible Discount, currently: Residential – 4.68%, Commercial – 0.28% and Industrial – 0.30%.

c) Budget Billing will be offered to shopping customers.

d) PGW's POR program comports with 52 Pa.Code § 62.224(a) and § 62.224(b) with respect to program design and customer care.

e) Title to the NGS accounts receivable passes to PGW at the time of billing; PGW will remit payment for the receivable on the 25th day of the month following the billing month.

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[19] *Id.*

[20] To be eligible for the Rate GS residential customer POR program, an NGS must choose consolidated NGS billing for all of their residential customer accounts and must sell all associated residential customer accounts receivable to PGW. To be eligible for the small business customer (i.e. Rate GS Commercial and Industrial customers using no more than 5,000 Mcf per year) POR program, an NGS must choose consolidated NGS billing for all of their small business customer accounts and must sell all associated small business customer accounts receivable to PGW.

10) Miscellaneous

a) The Parties agree that with issuance of an order by the Commission accepting/approving of this Settlement, the SOLR docket currently before ALJ Pell should be closed. PGW will continue as the SOLR[21] and the proceeding the Commission has made available to explore this topic will be closed.

b) The Parties agree that with issuance of an order by the Commission accepting/approving of this Settlement, the settlement conditions set forth in paragraph 32 of the May 19, 2010 Joint Petition for Settlement in docket No. R-2009-2139884 shall be deemed satisfied.

III) THE SETTLEMENT IS IN THE PUBLIC INTEREST

1) The Joint Petitioners will submit Statements in Support of this Settlement.

2) The Joint Petitioners submit that the Settlement is in the public interest for the following additional reasons:

a) ***Substantial Litigation And Associated Costs Will Be Avoided.*** The Settlement amicably and expeditiously resolves a number of important and potentially contentious issues. The administrative burden and costs to litigate these matters to conclusion would be significant.

b) ***The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements.*** The Joint Petitioners arrived at the Settlement terms after preparing and submitting positions/legal questions and engaging in in-depth discussions. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, the

[21] This settlement provision shall be subject to any prospective modifications by regulation or statute.

PGW St. No. 7-SR

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

SURREBUTTAL TESTIMONY OF

DOUGLAS A. MOSER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R- 2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topic Addressed:

Interruptible Transportation Rate Proposal
Supplier Issues

June 22, 2017

{L0689682.1}

EXHIBIT
R 2017 2586783
PGW Stellenkat No. 7-SR
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Table of Contents

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.

A. My name is Douglas A. Moser. My position with Philadelphia Gas Works ("PGW" or "Company") is Executive Vice President and Acting Chief Operating Officer.

Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON BEHALF OF PGW?

A. Yes. I submitted my direct testimony, PGW St. No. 7, on February 27, 2017, and my rebuttal testimony on June 9, 2017.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of the witnesses for the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG") regarding PGW's Rate Interruptible Transportation ("IT") proposal. Specifically, by this surrebuttal testimony, I respond to the rebuttal testimony of Mr. Richard A. Baudino, PICGUG St. No. 1-R, and Mr. Kurt Bresser, PICGUG St. No. 2-R. In their rebuttal testimony, Mr. Baudino and Mr. Bresser respond to the direct testimony of Mr. Robert D. Knecht submitted on behalf of the Office of Small Business Advocate ("OSBA"), OSBA St. No. 1, and the direct testimony of Mr. Jerome D. Mierzwa, submitted on behalf of the Office of Consumer Advocate ("OCA"), OCA St. No. 3. Additionally, I respond to the rebuttal testimony of two OCA witnesses, Mr. Mierzwa, OCA St. 3-R, and Ms. Barbara R. Alexander, OCA St. 5-R, regarding supplier issues.

II. INTERRUPTIBLE TRANSPORTATION PROPOSAL

Q. WHAT IS INTERRUPTIBLE SERVICE?

A. Interruptible service is only available to transportation customers that have selected and installed an alternative fuel source, or which demonstrated to the Company's sole satisfaction the ability to manage their business without the use of gas during periods of curtailment of interruption. They must have a demonstrated ability to be interrupted. Interruptible customers are unique in that they are not dependent upon natural gas as their sole energy source. Rate IT is intended to create an incentive for dual-fuel customers to use natural gas at times when the relative prices of gas and their alternative fuel would otherwise have tended to encourage those customers to use their alternative fuel. Originally, Rate IT benefited firm service customers by attracting net revenue from customers that would have otherwise used an alternative fuel. (PGW St. No. 7 at 26-27). As a result of their ability to be interrupted, PGW does not plan to serve them on its design day.[1] However, PGW could make revisions in its planning so that interruptible customers could be planned to be served at relatively little cost. Thus, the great majority of the benefit of interruptible service is to the interruptible customer – not to PGW.

Q. WHY DOES PGW BELIEVE THAT A CHANGE NEEDS TO BE MADE TO RATE IT?

A. PGW believes that a change needs to be made to Rate IT because using only a cost-based rate has created an incentive for customers to avoid taking firm service which is resulting in fewer and fewer transportation customers contributing to the overall costs of running the distribution system. This hurts firm customers by making them responsible for a disproportionate share of the distribution system. Since the Company expects this shift to

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1 The Design Day is the coldest day PGW plans to experience (based on actual historical data). The Design Day corresponds to the day with the greatest gas throughput.

continue, it is essential that PGW take steps now to modify the pricing model to reflect the value of the service received by Rate IT customers.

Q. WHAT IS PGW'S RATE IT PROPOSAL?

A. Through the rate design proposal for Rate IT, the Company seeks to transition from a solely cost-based rate to a negotiated rate based on both the customer's share of system costs and the value of service that the customer is receiving from the interruptible service. As proposed by PGW, a range would be established for the distribution charge under Rate IT. The lower end of the range would be the actual cost of service, with a reasonable mains investment allocated to interruptible customers, as determined in this proceeding or subsequent base rate proceedings. The upper bound of the range would be the equivalent firm transportation rate. In PGW's view, this range provides a reasonable framework for negotiations between the interruptible customer and the Company. Notably, no customers would be subject to the value of service rate proposal immediately, as PGW is proposing a three year transition for its implementation.

Q. WHAT ARE THE BENEFITS OF PGW'S RATE IT PROPOSAL?

A. The negotiated rate would: (a) properly reflect both cost of service and value of service pricing principles; (b) properly reflect the competitive alternatives available to interruptible customers; (c) provide greater revenue from IT customers which will lessen the burden on firm customers and offset the need for future rate increases in exchange for assuming the ongoing risks related to serving this competitive market; and (d) provide important benefits to all customers that would not be available under strict cost of service principles.

Q. PLEASE DESCRIBE MR. KNECHT'S OBSERVATION ABOUT THE VALUE OF THE SERVICE RECEIVED BY RATE IT CUSTOMERS.

A. Mr. Knecht agrees that "the existing model is broken" since "customers taking Rate IT service are receiving firm service, or at least nearly firm service, at a rate far below that of similarly situated customers." (OSBA St. No. 1 at 26).

Q. PLEASE DESCRIBE MR. MIERZWA'S OBSERVATION ABOUT THE VALUE OF THE SERVICE RECEIVED BY RATE IT CUSTOMERS.

A. Mr. Mierzwa describes the service provided to interruptible customers as nearly equivalent to firm service. (OCA St. No. 1 at 27).

Q. WHAT IS THE BASIS FOR THESE OBSERVATIONS MADE BY THE OSBA AND OCA WITNESSES?

A. The basis for the observations made by Mr. Knecht and Mr. Mierzwa about interruptible customers receiving the functional equivalent of firm transportation service is that PGW's Rate IT customers have only been interrupted once (in 2004) during the last 20 years. Because PGW's Rate IT customers are rarely interrupted, they are actually receiving a service that is nearly equivalent to firm transportation service at less than half the cost. (PGW St. No. 7 at 32).

Q. WHAT DOES MR. BRESSER CONTEND WITH RESPECT TO THESE OBSERVATIONS?

A. Mr. Bresser disagrees that PGW's Rate IT customers receive the functional equivalent of firm transportation service. Rather, he contends that a Rate IT customer "must meet several significant and costly requirements that distinguish this service from firm transportation service." (PICGUG St. No. 2-R at 2).

Q. DOES MR. BRESSER IDENTIFY THOSE "SIGNIFICANT AND COSTLY REQUIREMENTS" THAT TEMPLE UNIVERSITY ("TEMPLE")" INCURS TO MAINTAIN FUNCTIONAL ACCESS TO ALTERNATIVE FUEL SUPPLIES?

A. Yes. Mr. Bresser lists the categories of costs that are incurred by Temple to maintain functional access to alternative fuel supplies. (PICGUG St. No. 2-R at 3).

Q. DOES MR. BRESSER QUANTIFY THOSE "SIGNIFICANT AND COSTLY REQUIREMENTS"?

A. No. Mr. Bresser does not quantify the costs that he identifies as being incurred by Temple to maintain functional access to alternative fuel supplies. (PICGUG St. No. 2-R at 3).

Q. MR. BRESSER ALSO REFERS TO EFFORTS UNDERTAKEN BY TEMPLE TO MAINTAIN THE EQUIPMENT NEEDED FOR THESE ALTERNATIVE FUEL SOURCES. DOES HE QUANTIFY THE COSTS OF THOSE EFFORTS?

A. No. Mr. Bresser does not quantify the costs of efforts undertaken by Temple to maintain the equipment needed for these alternative fuel systems. (PICGUG St. No. 2-R at 3-4).

Q. DOES MR. BRESSER ACKNOWLEDGE THE FACT THAT RATE IT CUSTOMERS ARE RARELY INTERRUPTED?

A. Yes. Mr. Bresser acknowledges that PGW has interrupted service once in 20 years. However, he argues that the fact that PGW rarely interrupts its Rate IT customers does not change the reality that customers on Rate IT have invested in additional infrastructure and must maintain the equipment needed for these alternative fuel sources because "PGW has the ability to interrupt Rate IT customers at any time." (PICGUG St. No. 2 at 3-4).

Q. PLEASE RESPOND.

A. PGW recognizes that Rate IT customers have invested in additional infrastructure and must maintain the equipment needed for these alternative fuel sources. However, it is telling that Mr. Bresser does not quantify these costs. He also does not provide any information showing the costs that Temple would incur if it relied on these alternative fuel systems. As I noted in my rebuttal testimony, PGW would be pleased to consider these additional data points in its determination of a reasonable, negotiated rate for Rate IT customers to pay. (PGW St. No. 7-R at 8).

Q. DOES THE FACT THAT RATE IT CUSTOMERS INCUR COSTS TO INSTALL AND MAINTAIN ALTERNATIVE FUEL CAPABILITY CHANGE THE FACT THAT INTERRUPTIBLE CUSTOMERS ARE RARELY INTERRUPTED?

A. No. The quality of the interruptible service that Rate IT customers receive on PGW's system is of virtually the same quality as firm service – due to the lack of interruptions over many years – but at a fraction of the price. The fact that Rate IT customers incur costs to invest in and maintain alternative fuel systems does not change that fact.

Q. DOES MR. BRESSER DISCUSS PGW'S DESIGN-DAY DEMAND?

A. Yes. Mr. Bresser testifies that "granting PGW the right to interrupt service also beneficially impacts PGW's design-day demand." (PICGUG St. No. 2 at 4).

Q. PLEASE RESPOND.

A. Although Rate IT customers do not contribute to design-day demand, PGW still incurs costs to plan the system so that demand is met on every other day. PGW could use a different model such as throughput and demand, rather than a design-day demand model, which would allocate far greater costs to the Rate IT customers. In fact, this is the model that both the Office of Consumer Advocate and the Bureau of Investigation and Enforcement advocate. Simply because Rate IT customers' needs are not considered in the single design-day model does not alleviate the need for PGW to recover a reasonable amount of costs from Rate IT customers to keep the system operating on all other days. These issues are addressed in greater detail in my rebuttal testimony. (PGW St. No. 7-R at 9).

Q. DOES MR. BRESSER DISCUSS THE RISK TO PGW OF INTERRUPTIBLE CUSTOMERS LEAVING THE SYSTEM?

A. Yes. Mr. Bresser testifies that the "fact that IT customers have invested in alternative fuel systems poses no risk that these customers will abandon PGW." (PICGUG St. No. 2 at 4).

Q. DO YOU AGREE?

A. No. The fact that Rate IT customers have invested in alternative fuel systems means that they have the ability to leave PGW's system on short notice and would likely do so if the price of alternative fuels would be lower than PGW's rates. If the economics worked in their favor, I cannot fathom a reason that Rate IT customers would stay on PGW's system since they have the capability to leave. At the very least, I am confident that customers like Temple would be demanding a rate that reflected the cost of the alternative fuels.

Q. MR. BRESSER INDICATES THAT THE PRIMARY BUDGETARY JUSTIFICATION FOR HAVING AN ALTERNATIVE FUEL SYSTEM IS THE AVAILABILITY OF LOWER PRICED NATURAL GAS AFFORDED BY RATE IT. (PICGUG ST. NO. 2 AT 4). PLEASE RESPOND.

A. I do not question the attractiveness to Temple of the lower priced natural gas afforded by PGW's Rate IT. Indeed, the whole point of PGW's proposal is for the price paid by Temple and other Rate IT customers to reflect, in part, the value of the service that is received by the customers and the fact that they have competitive alternatives. If the Rate IT customers choose to stay on the system, they have made that determination because PGW's service is valuable to them. Quite simply, they should pay for that value.

Q. IN ADDRESSING MR. MIERZWA'S PROPOSAL TO IMPLEMENT PGW'S RATE IT PROPOSAL IN ONE YEAR, DOES MR. BRESSER DISCUSS THE IMPACT ON TEMPLE?

A. Yes. In discussing Mr. Mierzwa's proposal to implement PGW's Rate IT proposal one year following Commission approval, instead of the three years proposed by PGW, Mr. Bresser refers to a table in his direct testimony that is offered to show Temple's exposure to possible increases up to \$3.81/Dth. (PICGUG St. No. 2 at 6).[2] It is important to note that Mr. Bresser's assertion as to a possible increase up to \$3.81/Dth overlooks the negotiated aspect of the rate proposed by PGW. He also ignores PGW's proposal to set the rate at the midpoint between the cost of service based rate and the firm transportation rate if the parties are not able to arrive at a mutually acceptable agreement. (PGW St. No. 7 at 37; PGW St. No. 7-R at 12).

Q. DOES MR. BAUDINO ALSO ADDRESS MR. MIERZWA'S PROPOSAL TO IMPLEMENT PGW'S RATE IT PROPOSAL IN ONE YEAR?

A. Yes. Mr. Baudino also addresses Mr. Mierzwa's proposal to implement PGW's Rate IT proposal in one year. He notes that Mr. Mierzwa did not address whether Rate IT customers would be able to fully convert their facilities to substitute alternative fuel for PGW's natural gas service in one year. He claims that if "Rate IT customers are not set up to convert their facilities into taking alternative fuels, then they do not actually have a viable alternative fuel option." (PICGUG St. No. 1 at 3).

Q. PLEASE RESPOND.

A. In order to qualify for Rate IT, PGW requires a customer to have installed <u>and operable</u> alternate fuel equipment, including appropriate fuel storage capacity, capable of displacing the daily quantity of gas subject to curtailment or interruption. Alternatively, customers can qualify for Rate IT if they demonstrate to the Company's sole satisfaction the ability to manage their business without the use of gas during periods of curtailment or interruption.[3]

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2 Mr. Baudino also references this assertion in his rebuttal testimony. (PICGUG St. No. 1-R at 3).

3 PGW Gas Service Tariff, Page 111-112.

Q. HOW MANY OF PGW'S RATE IT CUSTOMERS FALL IN EACH CATEGORY?

A. PGW currently has 422 Rate IT customers. Approximately 12 of those customers fall into the category of demonstrating to PGW's satisfaction that they would be able to manage their business during periods of curtailment or interruption. The remaining approximately 410 Rate IT customers should have – and, in fact, are required to have – installed <u>and</u> operable alternate fuel equipment, including appropriate fuel storage capacity, and thereby be fully capable of leaving PGW's system.

Q. DOES MR. BAUDINO PROVIDE EXAMPLES OF CUSTOMERS WHO MAY NOT HAVE VIABLE ALTERNATIVE FUEL OPTIONS?

A. He attempts to do so. Specifically, Mr. Baudino suggests that "Rate IT customers may have alternative fuel systems sized only for limited durations (*e.g.*, interruptions)." (PICGUG St. No. 1 at 3). I note, however, that Mr. Baudino's testimony is purely speculative in that it refers to no Rate IT customers who have such systems. Further, he makes no effort to consider whether an alternative fuel system that is sized only for limited durations would comply with PGW's tariff requirements. If a Rate IT customer is not capable of operating for whatever length of interruption that may be necessary, the customer is likely not in compliance with the Rate IT's eligibility standards.

Q. DO YOU HAVE ANY OTHER OBSERVATIONS ABOUT MR. BAUDINO'S TESTIMONY REGARDING THE ABILITY OF RATE IT CUSTOMERS TO LEAVE THE SYSTEM?

A. Yes. Any Rate IT customers, other than the approximately 12 customers noted in my prior answer, who are unable to leave PGW's system due to not having their facilities ready to take alternative fuels should not be on Rate IT. Rather, they should be taking service under PGW's firm transportation rate.

Q. WHAT DOES MR. BAUDINO SAY ABOUT THE ECONOMIC VIABILITY OF ALTERNATIVE FUELS?

A. Mr. Baudino opines that alternative fuels are not an economically viable alternative to PGW's natural gas service for the foreseeable future. In offering this opinion, Mr. Baudino compares the natural gas price forecasts to price forecasts for alternate fuels, including propane and fuel oil. (PICGUG St. No. 1 at 4).

Q. DO YOU AGREE?

A. Yes. I relied on these price forecasts in my direct testimony to illustrate the problem that PGW is facing with respect to Rate IT. PGW's rate that is strictly based on costs has created an incentive for customers to avoid taking firm service. As a result, fewer and fewer transportation customers are contributing to the overall costs of running the distribution system. The Company expects this trend to continue because the pricing for natural gas is, has been and is expected to be lower than the price for common alternative fuels. (PGW St. No. 1 at 28-30).

Q. PLEASE EXPLAIN WHY HIGHER PRICES FOR ALTERNATE FUELS CAUSES A PROBLEM FOR PGW WITH RESPECT TO RATE IT.

A. The higher prices for common alternative fuels causes a problem for PGW with respect to Rate IT because they provide a significant incentive for customers to avoid taking firm service from PGW. In other words, PGW's interruptible service is competing against PGW's firm service.

Q. HOW DOES PGW'S PROPOSAL ADDRESS THIS PROBLEM?

A. PGW's proposal addresses this problem by allowing PGW to recover system costs over the largest possible customer base while providing the proper incentives to ensure that the

Company will strive to maximize the amount of revenue that can be achieved from interruptible service customers.

Q. ACCORDING TO MR. BAUDINO, IT DOES NOT MAKE SENSE TO IMPLEMENT EITHER PGW'S ORIGINAL PROPOSAL OR MR. MIERZWA'S PROPOSAL IF ALTERNATIVE FUELS ARE NOT ECONOMICALLY VIABLE FOR RATE IT CUSTOMERS. (PICGUG ST. NO. 4-5). PLEASE RESPOND.

A. Over time, market conditions are unpredictable. The ability of Rate IT customers to switch to other alternatives justifies the implementation of a model that would enable PGW to negotiate a rate with those customers if the price of alternative fuels falls below the price of natural gas for a comparable amount of energy. When Rate IT was initially implemented, it was done so to prevent these customers from leaving PGW's system and using alternate fuels at more attractive prices at that time. If these customers do not currently have economically viable options, perhaps PGW should not have a Rate IT at all.

Q. WHAT DOES MR. BAUDINO SAY ABOUT THE EFFECT OF THE PGW AND OCA PROPOSALS ON RATE IT CUSTOMERS?

A. Mr. Baudino testifies that both the PGW and OCA proposals "would inflict serious economic harm on the customers taking service under Rate IT." (PICGUG St. No. 2 at 5).

Q. HOW DO YOU RESPOND?

A. Mr. Baudino's testimony wholly overlooks the negotiated aspect of both proposals. It also ignores the fact that the bottom end of the range for the negotiations would be the actual cost of service as determined in this (or future) rate cases and which allocates reasonable mains investment to interruptible customers. Additionally, it is important to keep in mind that since PGW does not have shareholders, every dollar collected from interruptible customers is a dollar that does not have to be recovered from the rest of the customer base including firm customers who are now forced to bear the brunt of the costs of maintaining and modernizing PGW's distribution system.

Q. PLEASE DISCUSS MR. BAUDINO'S TESTIMONY REGARDING MR. MIERZWA'S ASSERTIONS THAT HIS REVENUE ALLOCATION MODERATES THE INCREASE PROPOSED BY PGW.

A. As explained by Mr. Baudino, Mr. Mierzwa's recommended revenue allocation lowered the floor rate under PGW's proposal but left the ceiling rate unchanged. On this basis, Mr. Baudino claims that "PGW could impose the same increase to Rate IT customers regardless of Mr. Mierzwa's recommendation." PICGUG St. 2 at 5.

Q. WHAT IS YOUR RESPONSE?

A. Again, Mr. Baudino is overlooking the negotiated aspect of the Rate IT proposal, both as structured by PGW and by the OCA's witness. PGW will not be imposing the ceiling rate on any Rate IT customer. Rather, PGW will use all of the information that is available to negotiate an appropriate rate that is designed to keep the customer on the system and maximize the revenues that can be recovered from the interruptible customers. If PGW and the Rate IT customer are unable to arrive at a mutually acceptable rate, PGW proposes to use the mid-point between the actual cost of service, as determined in this and future base rate proceedings, and the equivalent firm transportation rate.

III. <u>SUPPLIER ISSUES</u>

Q. OCA WITNESS MIERZWA STATES THAT HE DOES NOT SUPPORT RESA WITNESS MAGNANI'S RECOMMENDATION TO DECREASE PGW'S OFO PENALTY TO $25 PER DTH. IS THIS CORRECT?

A. That is correct. Mr. Mierzwa agrees with PGW that decreasing the OFO penalty to $25 per Dth would provide suppliers with an incentive not to deliver gas supplies during an

OFO when market prices exceed $25 per Dth. However, Mr. Mierzwa does recommend a change to PGW's OFO penalty.

Q. WILL YOU PLEASE EXPLAIN MR. MIERZWA'S RECOMMENDATION?

A. Mr. Mierzwa recommends an OFO penalty of $25 per Dth plus the applicable daily TETCO M-3 index price.

Q. DO YOU AGREE?

A. No. While I understand what Mr. Mierzwa is trying to achieve with his recommendation, there is no guarantee that the M-3 index price on the day an OFO is issued would be sufficiently high enough to prevent suppliers from delivering. Additionally, there is no guarantee it would be higher than the penalty charged by the interstate pipelines that supply PGW.

Q. MR. MIERZWA ALSO OPINES ON PGW'S MONTHLY DELIVERY IMBALANCE TOLERANCE. WILL YOU PLEASE SUMMARIZE HIS POSITION ON THIS ISSUE?

A. Mr. Mierzwa testifies that PGW's current +/- 2/5% monthly imbalance tolerance has not been shown to be unreasonable or unrealistic to attain and is necessary. He also states that it should not be increased, as suggested by Mr. Magnani, unless a cost-based charge is implemented for the storage assets that would be used to accommodate the more lenient imbalance tolerance. Mr. Mierzwa then goes on to state that, because Mr. Magnani has not proposed such a charge, the +/- 5% suggestion should not be approved.

Q. DO YOU AGREE WITH MR. MIERZWA?

A. I agree with Mr. Mierzwa's statement that the +/- 5% monthly imbalance tolerance should not be approved, as I testified in my rebuttal testimony. I would add that because

Mr. Mierzwa is not recommending that PGW move to a cost-based charge, I am not responding, other than to state that PGW would not agree with such a change at this time.

Q. ON THE TOPIC OF PGW'S SWITCHING FEE, WILL YOU PLEASE SUMMARIZE OCA WITNESS ALEXANDER'S TESTIMONY?

A. Ms. Alexander agrees with Mr. Cusati that PGW should not charge suppliers a switching fee.

Q. DO YOU AGREE WITH MS. ALEXANDER ON THIS POINT?

A. No. As I stated in my rebuttal testimony, PGW's switching fee has been PUC-approved as part of PGW's Supplier Tariff since December 1, 2003.

IV. <u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2017-2586783
Office of Consumer Advocate	:	C-2017-2592092
Office of Small Business Advocate	:	C-2017-2593497
Philadelphia Industrial & Commercial	:	
Gas Users Group	:	C-2017-2595147
William Dingfelder	:	C-2017-2593903
	:	
v.	:	
	:	
Philadelphia Gas Works	:	

VERIFIED STATEMENT

I, Douglas A. Moser, hereby state that the facts set forth below are true and correct to the best of my knowledge, information and belief and I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

1. I have submitted testimony in this proceeding on behalf of Philadelphia Gas Works and am authorized to make this statement on its behalf.
2. I prepared PGW St. No. 7 which includes Exhibit DAM-1 & DAM-2 and was served on the parties in this proceeding on February 27, 2017.
3. I have two corrections to PGW St. No. 7. First, Page 19, line 22 incorrectly stated "by 60 MMBtu, or 36 percent" and has been corrected to read "by 58 MMBtu, or 35 percent." Second, Page 20, lines 10-11 incorrectly stated "$4.83 per lifetime MMBtu" and have been corrected to read "$5.11 per lifetime MMBtu."
4. I prepared PGW St. No. 7-R which includes Exhibit DAM-3 and was served on the parties in this proceeding on June 9, 2017.
5. I have one correction to PGW St. No. 7-R. Page 19, line 6 incorrectly stated "[t]he relevant excerpts of the POR Settlement are attached as PGW Exhibit DAM-1" and has been corrected to read "[t]he relevant excerpts of the POR Settlement are attached as PGW Exhibit DAM-3." The labels on Exhibit DAM-1 were corrected to read Exhibit DAM-3.
6. I prepared PGW St. No. 7-SR which was served on the parties in this proceeding on June 22, 2017.
7. Subject to the above-referenced corrections, if I were asked the same questions set forth in each of these statements today, my answers would be the same.

Date: June 27, 2017

Douglas A. Moser

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