OCA Statement No. 2

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	**:**	
	:	
v.	**:**	**Docket No. R-2020-3018835**
	:	
Columbia Gas of Pennsylvania, Inc.	**:**	

DIRECT TESTIMONY OF DAVID J. EFFRON
ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

JULY 28, 2020

DOCKET NO. R-2020-3018835
COLUMBIA GAS OF PENNSYLVANIA
DIRECT TESTIMONY OF DAVID J. EFFRON
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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is David J. Effron. My address is 12 Pond Path, North Hampton, New Hampshire.

Q. What is your present occupation?

A. I am a consultant specializing in utility regulation.

Q. Please summarize your professional experience.

A. My professional career includes over thirty years as a regulatory consultant, two years as a supervisor of capital investment analysis and controls at Gulf & Western Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public Accountant, and I have served as an instructor in the business program at Western Connecticut State College.

Q. What experience do you have in the area of utility rate setting proceedings?

A. I have analyzed numerous electric, gas, telephone, and water filings in different jurisdictions. Pursuant to those analyses, I have prepared testimony, assisted attorneys in case preparation, and provided assistance during settlement negotiations with various utility companies.

I have testified in over two hundred cases before regulatory commissions in Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North

Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and Washington.

Q. Please describe your other work experience.

A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was responsible for reports and analyses concerning capital spending programs, including project analysis, formulation of capital budgets, establishment of accounting procedures, monitoring capital spending and administration of the leasing program. At Touche Ross & Co., I was an associate consultant in management services for one year and a staff auditor for one year.

Q. Have you earned any distinctions as a Certified Public Accountant?

A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores in the May 1974 certified public accounting examination in New York State.

Q. Please describe your educational background.

A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College and a Masters of Business Administration Degree from Columbia University.

II. PURPOSE OF TESTIMONY

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate (“OCA”).

Q. What is the purpose of your testimony?

A. I have calculated the measures of value (or rate base) and pro forma operating income under present rates of Columbia Gas of Pennsylvania, Inc. ("Columbia," or "the Company") in this rate case, based on the adjustments to the Company's position that I am presenting in this testimony. I have also incorporated the overall rate of return recommended by Mr. O'Donnell into my calculation of the present revenue deficiency of the Company. The calculation of the Company's revenue deficiency in this testimony is based on issues that I have identified. At the time of the preparation of this testimony, the Company had not responded to all of the OCA's data requests. I reserve the right to modify or amend my testimony based on responses to those outstanding data requests.

In OCA Data Request V-3, the Company was asked to describe the expected impact of COVID-19 on capital spending and plant additions for the remaining months of 2020 and for 2021. The Company stated that it "anticipates completing this year's construction projects prior to year's end" but made no representation regarding the impact of COVID-19 on capital spending and plant additions for 2021, the Fully Projected Future Test Year ("FPFTY") in this case.

In OCA Data Request V-13, the Company was asked to describe the expected impact of COVID-19 on operation and maintenance expense for the remaining months of 2020 and for 2021. The Company acknowledged that "it is difficult to quantify the expected impact of the virus on operation and maintenance expense."

I believe that it is inherently difficult to know what the going forward effect of the COVID-19 on plant additions and operation and maintenance will be with any reasonable degree of certainty. Therefore, in addition to particular costs that I identify in this testimony as being speculative, the forecast of rate base and expenses for 2021 must be considered speculative as a general matter. OCA Witness Rubin concludes that it would not be just or reasonable to impose a rate increase on customers at this time and recommends that the Commission deny any rate increase to Columbia in this case.

In this testimony, I am presenting an analysis of the Company's revenue deficiency using its presentation of the estimated FPFTY rate base and operating income as my starting point. Given the inherently speculative nature of the estimated FPFTY rate base and expenses in the present circumstances, this should not be interpreted to mean that I believe that any calculated revenue deficiency based on those FPFTY inputs should result in a rate increase to customers.

III. REVENUE REQUIREMENT ISSUES

A. SUMMARY

Q. What revenue deficiency or excess have you calculated based on the Company's FPFTY as filed?

A. Based on the FPFTY consisting of the 12 months ending December 31, 2021, I have calculated jurisdictional rate base (measures of value) of $2,329,404,000 and pro forma jurisdictional operating income under present rates of $129,089,000. Based on the overall rate of return of 6.50% recommended by Mr. O'Donnell, the Company presently has an operating income deficiency of $22,206,000. This translates into a revenue deficiency of $31,587,000 under present rates. (To calculate the revenue deficiency, I have used a Revenue Conversion Factor of 1.4225 rather than the 1.3393 Revenue Conversion Factor shown by the Company on Exhibit 102, Schedule 3, Page 5. I explain the reasons why I have modified the Company's Revenue Conversion Factor in the section of my testimony addressing income taxes.) This is $68,850,000 less than the revenue deficiency of $100,437,000 presented by the Company in its filing. My calculation of the Company's revenue deficiency is summarized on my Schedule A. I have also prepared Table I and Table II, which summarize the effect of my adjustments in the format used by the Commission.

B. MEASURES OF VALUE

1. PLANT IN SERVICE

Q. Have you analyzed the Company's forecast of plant in service included in the FPFTY rate base?

A. Yes. The forecasted additions to plant in service by month from December 2019 through December 2021 are shown on Company Exhibit 108, Schedule 1. The budgeted capital expenditures by activity are shown in the response to OCA Data Request II-1. Company Witness Cote also addresses the Company's capital spending programs for the years 2019 – 2021 in his direct testimony. The Company is projecting net plant additions (gross plant additions less retirements) of $280,735,000 in 2020 and $338,559,000 in 2021.

Q. How does this compare to net plant additions in recent years?

A. The forecasted plant growth in 2020 is not out of line. However the forecasted growth for 2021 is significantly higher than the net plant additions in recent years. For example, in 2018, the net plant additions were approximately $210 million, and in 2019 the net plant additions were approximately $294 million.

Q. What accounts for the increased level of plant additions being forecasted for 2021?

A. As can be seen on Company Statement No. 14, Page 15, approximately $9 million of the increase from 2020 to 2021 is related to capital additions to replace plant on account of age and condition. Based on the response to OCA Data Request II-1, approximately $31 million of the increase from 2020 to 2021 is related to what the budget documents describe as "Betterment," which includes mains and service improvements and major projects.

Q. Are the forecasted plant additions for 2020 and 2021 reasonable?

A. The forecasted additions for 2020 are not unreasonable. The capital spending in the first three months of 2020 was actually somewhat above budget. As the Company explained in the response to OCA Data Request V-3, this was because of mild winter weather. The spending for April and May was below budget because of the COVID-19 Pandemic (response to OCA Data Request V-2). In the response to OCA Data Request V-3, the Company stated that it "anticipates completing this year's construction projects prior to year's end." I interpret this to mean that the Company anticipates that the 2020 plant addition will be in line with its forecasts.

However the forecasted plant additions for 2021 are well in excess of the forecasted plant additions for 2020 and the actual plant additions in 2018 and 2019. Therefore, I am proposing to adjust the Company's forecast of plant additions used to calculate the 2021 FPFTY rate base.

Q. What do you recommend?

A. The average of plant additions for the years 2018-2020 is $261,776,000. I am proposing to use that as the estimate of plant additions in 2021. This is $76,783,000 less than the net plant additions forecasted by the Company (my Schedule B-1). Therefore, I recommend that the plant in service included in the 2021 FPFTY rate base be reduced by $76,783,000. Consistent with this adjustment to plant, I am also proposing to reduce the related test year balances of depreciation reserve and accumulated deferred income taxes. The resulting net reduction to the test year rate base is $72,303,000 (my Schedule B). The reduction to plant in service also results in a reduction to test year depreciation expense of $1,958,000.

C. OPERATING INCOME

1. OPERATION AND MAINTENANCE EXPENSE

a. Labor Expense

Q. What labor expense does the Company include in pro forma FPFTY operation and maintenance expenses?

A. Salaries and wages of $39,528,000 are included in test year expenses (Columbia Exhibit 104, Schedule 1). This expense includes the effect of the Company's proposal to add 59 employees in the future test year ("FTY") and 17 employees in the FPFTY. The forecasted operation and maintenance expense associated with these new hires is $2,527,000.

Q. Is the forecasted increase in the number of employees in the FTY actually taking place?

A. The Company provided the actual number of employees by month through May 2020 in the response to OCA V-5. Based on that response, the number of employees increased from 763 at the end of the HTY to 781 at the end of February 2020 but has been relatively flat since then. The employee level peaked at 782 in April and as of May 2020 was 779, which was actually one less than the employee level at the end of January 2020.

Q. Are you proposing to adjust the Company's projected FPFTY labor expense?

A. Yes. While the number of employees has increased since the end of the HTY, that increase does not appear to be of a continuing nature. As I stated above, the number of employees peaked at 782 at the end of April 2020. I recommend that the increase in the number of employees from the end of the HTY to that peak be recognized but that no further increases be included in the determination of the FPFTY labor expense in the Company's revenue requirement. Thus, the remaining increases of 40 employees in the FTY and the additional 17 employees in the FPFTY should be eliminated from the FPFTY labor expense.

Q. What is the effect of eliminating these employee additions from the FPFTY labor expense?

A. In response to OCA Data Request V-17, the Company provided a revised version of SDR-GAS-RR-026 to correct what it describes as "errors in the budget data underlying the development of GAS RR-026." These corrections eliminate the 17 employee additions to the FPFTY headcount and also modify the effect of the "Cap/O&M Change" in the original SDR-GAS-RR-026. These changes approximately offset each other, and the net result is an increase in the normalized FPFTY payroll expense from $39,527,732 in the original SDR-GAS-RR-026 to $39,536,147 in the corrected version. I am basing the calculation of my adjustment to the FPFTY headcount on the corrected version of SDR-GAS-RR-026 in the response to OCA Data Request V-17.

On my Schedule C-1.1, I have calculated that the elimination of the FTY employee additions from the pro forma FPFTY labor expense results in a decrease of $773,000 to labor costs included in pro forma operation and maintenance expenses as shown in the corrected version of SDR-GAS-RR-026. This represents a net reduction of $765,000 to the labor expense reflected by the Company on its Exhibit 104, Schedule 1.

In addition, I have also calculated a $528,000 decrease to FPFTY employee benefits expense. (The Company did not adjust employee benefits expense for its elimination of the additional 17 FPFTY employees included in the original version of SDR-GAS-RR-026.) Thus, I am proposing a total reduction to FPFTY operation and maintenance expenses of $1,293,000.

b. Incentive Compensation

Q. Does the FPFTY include incentive compensation expense?

A. Yes. The FPFTY includes $2,267,000 of incentive compensation expense (SDR-GAS-RR-026). This represents an increase of 53% over the $1,472,000 of incentive compensation expense actually incurred in the normalized HTY. Based on the response to I&E Data Request RE-014, this incentive compensation represents payments to all classes of employees, not executive bonuses.

Q. Was the Company asked to explain how the FPFTY incentive compensation expense was determined?

A. Yes. I&E Data Request RE-014 asked the Company to "provide supporting workpapers and detailed calculations used to determine" the incentive compensation for the HTY, FTY, and FPFTY.

Q. Was the Company able to provide such information with regard to the FPFTY?

A. No. While the Company provided a general description of how incentive compensation is determined for a given year, it stated, with regard to the FTY and FPFTY, "There are no workpapers or documentation to provide as the calculations are performed within the budget development tool to produce a budget period expense."

Q. Are you proposing to adjust the incentive compensation included in the total FPFTY labor expense?

A. Yes. Given the lack of documentation to support the projected 53% increase in incentive compensation, I believe that it is more reasonable to assume that the ratio of incentive compensation to payroll expense in the FPFTY will be the same as the ratio of incentive compensation to payroll expense in the normalized HTY.

In the normalized HTY, the ratio of incentive compensation to payroll expense was approximately 3.77%. Applying this ratio to the FPFTY payroll expense of $39,536,000, the calculated incentive compensation is $1,492,000. This is $775,000 less than the $2,267,000 of incentive compensation included in the FPFTY by the Company. I have reflected this adjustment to FPFTY operation and maintenance expense on my Schedule C-1.

c. Stock Rewards

Q. Are stock rewards expenses included in FPFTY operation and maintenance expenses?

A. Yes. As described in the response to I&E Data Request RE-016, Labor Expense includes $571,000 of stock rewards expense and the NCSC Shared Services Expense includes $1,729,000 of stock rewards expense.

Q. Is this expense appropriately included in the Company's revenue requirement?

A. No. Stock rewards are a form of incentive compensation whose ultimate value is based solely on the attainment of financial goals by the parent company. Incentive compensation based solely on the attainment of financial goals, such as earnings, return on equity, or appreciation in the value of common stock of the utility's parent company should not be recoverable from ratepayers.

Q. Why is it inappropriate to include incentive compensation based on appreciation in the value of common stock of the parent company in the utility's revenue requirement?

A. Appreciation in the value of common stock is a shareholder-oriented goal, not a customer-oriented goal. For example, if all else is equal, higher rates will result in higher revenues, which in turn will result in higher earnings that increase the value of common stock. Thus, including such incentive compensation in the revenue requirement would, in effect, require customers to reward company management on a contingency basis for getting them to pay higher rates. If the incentive compensation program is successful in increasing earnings and common stock values, the shareholders should be happy to reward management accordingly and absorb the cost of the program. As shareholders are the beneficiaries of increases to common stock valuations, it should be those shareholders, not customers, who bear the cost of the stock rewards.

Q. What do you recommend?

A. I recommend that $2,300,000 of stock rewards expense ($571,000 Columbia expense plus $1,729,000 allocated from the parent company) be eliminated from pro forma test year operation and maintenance expense (my Schedule C-1).

d. Outside Services Expense

Q. What level of outside services expense does the Company include in FPFTY operation and maintenance?

A. The Company includes $24,052,000 of outside service expense in FPFTY operation and maintenance (Company Exhibit 104, Schedule 1, Page 2).

Q. Have you analyzed the Company's adjustments to get from the actual HTY outside services expenses to the FPFTY expense?

A. Yes. The transition from the HTY outside services expense to the FPFTY expense is shown on Company Exhibit 104, Schedule 11. In projecting the outside services expense from the FTY to the FPFTY, the Company makes a $2,221,000 budget adjustment related to various activities, which are summarized on Page 2 of Exhibit 104, Schedule 11.

Q. Was the Company asked to provide additional support for the $2,221,000 budget adjustment in the FPFTY?

A. Yes. OCA Data Request II-48 requested the Company to provide workpapers supporting the budget adjustments on Exhibit No. 104, Schedules 10-13, which include that adjustment for $2,221,000. With regard to Schedule 11, the Company responded that, "There are no additional worksheets to provide beyond the information presented on Schedule No. 11. The budget adjustments from the HTY to the FTY were identified as expenses not expected to recur and therefore not included in the development of the FTY budget. The budget adjustments from the FTY to the FPFTY represent anticipated increases in the cost and levels of particular workstreams in PA field operations."

Q. Are you proposing to modify the outside services expense included in the Company's FPFTY revenue requirement?

A. Yes. Given the lack of support for the $2,221,000 associated with "anticipated increases in the cost and levels of particular workstreams in PA field operations," I am proposing to eliminate this amount from FPFTY expenses. The transition of outside services from the HTY to the FPFTY also includes an expense reduction of $464,000 for "all other variances" in the FTY. The Company has also not provided support for this item. To be consistent, I am also removing the effect of the FTY $464,000 expense reduction.

Q. What is the net effect of your proposed adjustments to FPFTY outside services expenses?

A. The net effect of eliminating the $2,221,000 of FPFTY expense increases and $464,000 of FPFTY expense reductions is to reduce FPFTY outside services expenses by $1,757,000 (my Schedule C-1).

e. Rate Case Expense

Q. Has the Company included rate case expense in pro forma FPFTY operating expenses?

A. Yes. The Company includes $1,060,000 of rate case expense in pro forma test year operation and maintenance expenses. This consists of the estimated cost of the present rate case normalized over one year (Company Exhibit 4, Schedule 2, Page 27).

Q. Are you proposing to modify the pro forma rate case expense included in the Company's revenue requirement?

A. Yes. Referring to the response to OCA Data Request II-33, it can be seen that the Company's last three rate cases before the present case were filed in March 2015, March 2016, and March 2018. Based on this experience, I believe that a normalization period of two years is more reasonable. Normalizing the estimated cost of the present case over two years, rather than one year, results in a reduction of $530,000 to the annual rate case expense included in the Company's revenue requirement (my Schedule C-1).

f. Safety Initiatives

Q. Has the Company adjusted FPFTY expenses for certain safety initiatives it expects to implement in the FPFTY?

A. Yes. There is an adjustment of $3,896,000 to FPFTY expenses for safety initiatives. As described in Company Statement No. 7, at Pages 21 – 26, these programs consist of increased spending on the cross bore program initiated in 2013 ($1,400,000), workforce transition ($185,000), legacy service line enhancement program

($491,000), customer owned field assembled risers replacement ($1,700,000), and an enhanced leak detection program ($120,000).

Q. Has the Company provided any support for these safety initiatives in addition to the testimony in Company Statement No. 7, at Pages 21 – 26?

A. Yes. In response to OCA Data Request II-36, the Company provided additional documentation and workpapers supporting the costs associated with each of the referenced programs.

Q. Have you reviewed the additional documentation and workpapers provided by the Company?

A. Yes, I have reviewed this additional support for the $3,896,000 of safety initiative costs that the Company is proposing to include in FPFTY expenses.

Q. Based on your review, how are you proposing to treat the Company's proposed adjustment for projected safety initiatives expense?

A. The costs associated with workforce transition and legacy service line enhancement programs are attributable entirely to incremental employee headcount. In my testimony on labor expense, I described what I believe to be the appropriate employee headcount on which to base the pro forma FPFTY labor expense. I continue to believe that the headcount referenced in that testimony is proper, and the headcount should not be modified for additions related to the workforce transition and legacy service line enhancement programs.

The Company is forecasting that spending on the cross bore program will increase from $1.3 million in 2019 and 2020 to $2.7 million in 2021, the FPFTY. However, based on the response to OCA II-36, the spending in both 2019 and 2020 is below the actual spending in any year in the four year period from 2015 through 2018. It is not clear why the spending on the cross bore program must more than double from 2020 to 2021 after having been at reduced level from previous years in both 2019 and 2020.

With regard to the customer owned field assembled risers replacement program, the response to OCA II-36 shows 2,712 units per year being replaced at a cost of $625 per unit. The Company treats the resulting estimated expense of approximately $1,700,000 as entirely incremental to the HTY expense. The response to I&E-GS-008 shows 1,279 customer owned field assembled risers being replaced in 2019, the HTY in this case. The response to OCA VIII-04 states that "the COVID-19 pandemic temporarily impacted the company's ability to replace customer owned risers. Columbia plans to restart the customer owned riser replacement efforts in August and anticipates completing approximately 400-500 risers through the remainder of the year." In other words, even after the restart, the monthly rate of the replacement of risers in 2020 will be no greater than it was in the HTY. The Company has presented no evidence that customer owned field assembled risers replaced in the FPFTY will be any greater than the customer owned field assembled risers replaced in the HTY.

There is no description of how the FPFTY estimate of $120,000 of O&M expenses for the enhanced leak detection program was established.

Unless the Company can better support the costs associated with the safety initiatives and establish that these programs will be implemented in 2021 with some reasonable degree of certainty, these expenses should be eliminated from the determination of the Company's FPFTY revenue requirement.

Q. What is the effect of eliminating the Company's proposed adjustment for projected safety initiatives expense?

A. The effect is to reduce FPFTY operation and maintenance expenses by $3,896,000 (my Schedule C-1).

g. Compensation Adjustments

Q. Please describe the Company's proposed adjustment for costs associated with compensation modifications.

A. As explained in Company Statement No. 9 at Pages 17-18, the Company determined that compensation for certain employees was below market levels, and, in addition certain salaried employees should be compensated for overtime work. The Company is proposing to increase FPFTY operation and maintenance expense by $432,000 for costs associated with these compensation modifications (Company Exhibit 104, Schedule 2, Page 18.)

Q. Has the Company yet implemented any of these compensation modifications?

A. No. In response to OCA Data Request V-7, the Company stated that "The referenced compensation adjustments have not been implemented in either the HTY or FTY."

Q. What do you recommend?

A. Given that the compensation modifications have not been implemented and the Company has not provided any indication that it will commence implementation any time soon, I believe that the Company's proposed adjustment must be considered speculative. Therefore, I recommend that this adjustment be eliminated from pro forma FPFTY operation and maintenance expense. Elimination of this adjustment reduces FPFTY expenses by $432,000 (my Schedule C-1).

h. Budget Billing Adjustment

Q. Did the Company adjust FPFTY expenses to include costs associated with modification of its budget billing system?

A. Yes. As can be seen on Company Exhibit 104, Schedule 2, Page 18, the Company adjusted FPFTY operation and maintenance expense by $280,000 for budget billing modification costs.

Q. Is this expense properly includable in pro forma FPFTY operation and maintenance expense?

A. No. In response to OCA Data Request II-38, the Company stated that "These costs are actually a capital expenditure and should therefore have been recognized in Exhibit No. 108 claim for rate base in the FPFTY."

I have eliminated the $280,000 of costs associated with modification of the budget billing system from pro forma FPFTY operation and maintenance expense (my Schedule C-1) and added those costs to rate base on my Schedule B-1.

2. DEPRECIATION

Q. Have you reflected an adjustment to the FPFTY depreciation and amortization expense in your calculation of pro forma operating income under present rates?

A. Yes. Consistent with my adjustment to FPFTY plant in service, I am proposing to adjust depreciation expense. My adjustment to depreciation expense is shown on Schedule C-2.

3. TAXES OTHER THAN INCOME TAXES

Q. Are you proposing to adjust the pro forma FPFTY year taxes other than income taxes?

A. Yes. Consistent with my adjustments to FPFTY labor expense, I am proposing to adjust payroll taxes. My adjustment to payroll taxes is shown on Schedule C-3.

4. INCOME TAXES

Q. Please explain the calculation of your pro forma adjustments to FPFTY income tax expenses.

A. The calculation of my adjustments to income tax expenses is shown on my Schedule C-4. This schedule shows the adjustments to taxable income from the other adjustments to operating income that I am proposing. I also calculate the adjustment to interest expense (the weighted cost of debt times rate base) resulting from my proposed adjustments to rate base. I apply the state income tax rate to the adjustments to taxable income to calculate the adjustment to state income tax expense, and I then apply the federal income tax rate to the adjustments to taxable income net of state income taxes to calculate the adjustment to federal income tax expense.

Q. Other than these derivative income tax adjustments, are you proposing any modifications to the Company's calculation of pro forma FPFTY state and federal income taxes?

A. Yes. I am proposing to modify the Company's method of calculating the Pennsylvania Corporate Net Income Tax ("CNIT" or "state income tax") to be included in the calculation of pro forma operating income under present rates and the revenue deficiency.

On Exhibit No. 107, Page 17, the Company has calculated CNIT taxable income of negative $26,341,000. Because the CNIT income taxable income is negative and the Company does not use this tax loss immediately, the Company includes a zero state income tax expense into the determination of pro forma operating income under present rates (except for a relatively minor $42,000 deferred state income tax expense on customer advances). Then, to recognize that any revenue increase resulting in an increase to CNIT taxable income up to $26.3 million is, in effect, not subject to state income tax, the Company uses a "State Income Tax Effect Tax Rate" of only 4.58885% (Exhibit No. 102, Schedule 3, Page 5), rather than the statutory tax rate of 9.99%, in its Revenue Conversion Factor. The Revenue Conversion Factor is used to calculate the incremental revenue that is necessary to produce the incremental net after-tax income required to provide the authorized return on rate base.

The Company's method of accounting for state income tax expense under present and proposed rates does not come up with an incorrect result, given the total revenue requirement it has calculated. However, if there is any modification to that revenue requirement, for example if the return on equity is reduced, then there must be a whole new calculation of the "State Income Tax Effect Tax Rate" and the Revenue Conversion Factor to determine the new revenue requirement, under the Company's method.

To avoid this complication, I have applied the statutory state income tax rate of 9.99% to the CNIT Taxable Income of $26,341,000 on Exhibit No. 107, Page 17, to calculate a negative state income tax expense of $2,631,000. I have then incorporated that negative state income tax expense into my calculation of pro forma net operating income under present rates. Finally, when I determine the additional revenue necessary to cover the income deficiency under present rates on my Schedule A, I have used the statutory state income tax rate of 9.99% in the calculation of the Revenue Conversion Factor. Therefore, I have calculated a Revenue Conversion Factor of 1.4225 (my Schedule A) vs. the Revenue Conversion Factor of 1.3393 calculated by the Company (Exhibit No. 102, Schedule 3, Page 5).

Ultimately, this does not produce a different result from the method used by the Company, but it avoids the necessity of having to recalculate a new "State Income

Tax Effect Tax Rate" and a new Revenue Conversion Factor for changes in the revenue requirement.

Q. Does this conclude your direct testimony?

A. Yes.

Appendix 1

RESUME OF DAVID J. EFFRON

UTILITY REGULATION EXPERIENCE

Assistance to offices representing customer interests in Rhode Island, Maryland, Massachusetts, Illinois, and Texas regarding electric utility restructuring matters.

Presentation of testimony on various utility regulation matters involving electric, gas, telephone, and water utilities in the following jurisdictions: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, Washington, and FERC.

Assistance to attorneys in preparing discovery, cross-examination, post-hearing briefs, and analysis of orders; provision of technical assistance during settlement negotiations.

CABLE CONSULTING EXPERIENCE

Assistance to local franchising authorities in financial feasibility reviews, regulation of cable rates, franchise fee audits, and negotiation of franchise agreements.

OTHER BUSINESS EXPERIENCE

Supervision of capital project analysis, capital budgets, spending reports, leasing program, and special studies; feasibility studies, accounting systems, statistical surveys; audits of publicly held companies in various industries.

EMPLOYMENT HISTORY

Dates	Company
March 1982 - Present	Berkshire Consulting Services (Self-employed)
January 1977 - February 1982	Georgetown Consulting Group
April 1975 - January 1977	Gulf & Western Industries
February 1973 - March 1975	Touche Ross & Company

EDUCATION

Columbia University, MBA, 1973
Dartmouth College, BA Economics, 1968

HONORS AND AWARDS

Gold Charles Waldo Haskins Memorial Award for the highest scores in the May 1974 Certified Public Accounting Examination in New York State.

Graduated from Dartmouth College with distinction in the field of Economics

TABLE I
INCOME SUMMARY
($000)

	Pro Forma Present Rates	Recommended Adjustments	Adjusted Present Rates	Revenue Adjustment	Total Allowable Revenue
Operating Revenue	$ 572,770	$ -	$ 572,770	$ 31,587	$ 604,357
Deductions					
O&M Expense	337,209	(11,264)	325,945	359	326,304
Depreciation	98,833	(1,958)	96,875		96,875
Taxes:					
State	42	(1,606)	(1,564)	3,120	1,556
Federal	16,213	2,493	18,706	5,903	24,609
Deferred and ITC	-		-		-
Other	3,829	(111)	3,718	-	3,718
Total Deductions	456,126	(12,445)	443,681	9,381	453,062
					-
Net Income Available for Return	$ 116,644	$ 12,445	$ 129,089	$ 22,206	$ 151,295
Rate Base					$ 2,329,404
Return on Rate Base					6.50%

TABLE II
SUMMARY OF ADJUSTMENTS
($000)

Recommended Adjustment	Exhibit Reference		Rate Base Effect	Revenue Effect	Expense Effect	Depreciation Effect	Effect on Other Taxes	State Tax Effect	Federal Tax Effect
			$	$	$	$	$	$	$
FPFTY Plant Additions	OCA St.1	Sch. B-1, C-2	(72,303)			(1,958)		196	370
Labor and Benefits Expense	OCA St.1	Sch. C-1, C-3		-	(1,293)		(55)	135	255
Incentive Compensation	OCA St.1	Sch. C-1, C-3			(775)		(56)	83	157
Stock Rewards	OCA St.1	Sch. C-1			(2,300)			230	435
Outside Services Expense	OCA St.1	Sch. C-1			(1,757)			176	332
Rate Case Expense	OCA St.1	Sch. C-1			(530)			53	100
Safety Initiatives	OCA St.1	Sch. C-1			(3,896)			389	736
Compensation Adjustments	OCA St.1	Sch. C-1			(432)			43	82
Budget Billing Adjustment	OCA St.1	Sch. C-1	280		(280)			28	53
CNIT Taxable Income Effect	OCA St.1	Sch. C-4						(2,631)	553
Interest Synchronization	OCA St.1	Sch. C-4						(306)	(580)
Total Adjustment			(72,023)	-	(11,264)	(1,958)	(111)	(1,606)	2,493
Company Rate Base	CPA Exh. 108, Page 3		2,401,427						
Recommended Rate Base			2,329,404						

Schedule A

COLUMBIA GAS OF PENNSYLVANIA, INC.
REVENUE DEFICIENCY
($000)

	(1) Company Position	Adjustments		Proposed Position
Measures of Value (Rate Base)	$ 2,401,427	$ (72,023)	(2)	$ 2,329,404
Rate of Return	7.98%	-1.48%	(3)	6.50%
Operating Income Requirement	191,634	(40,339)		151,295
Adjusted Operating Income	116,644	12,445	(4)	129,089
Income Deficiency (Excess)	74,990	(52,784)		22,206
Gross Revenue Conversion Factor	1.3393	0.0831	(5)	1.4225
Revenue Deficiency (Excess)	$ 100,437	$ (68,850)		$ 31,587

Sources:
(1) CPA Exhibit 102, Schedule 3, Page 3
(2) Schedule B
(3) Schedule D
(4) Schedule C
(5) CPA Exhibit 102, Schedule 3, Page 5

Revenue		1.0000
Uncollectible Accounts		0.0114
Pre-Tax Income		0.9886
State Income Tax	9.99%	0.0988
Federal Taxable Income		0.8899
Federal Income Tax	21%	0.1869
Net Income		0.7030
Gross Revenue Conversion Factor		1.4225

Schedule B

COLUMBIA GAS OF PENNSYLVANIA, INC.
MEASURES OF VALUE (RATE BASE)
($000)

	(1) Company Position	Adjustments		Proposed Position
Total Gas Plant	$3,354,841	$ (76,783)	(2)	$3,278,058
Reserve for Accumulated Depreciation	(574,676)	(1,958)	(2)	(572,718)
Net Utility Plant in Service	2,780,165	(74,825)		2,705,340
Working Capital				
Materials and Supplies	1,168			1,168
Prepayments	2,997	280	(3)	3,277
Gas Stored Underground	33,812	-		33,812
Subtotal	37,977	280		38,257
Deduct				
Accumulated Deferred Income Taxes	413,463	(2,522)	(2)	410,941
Customer Deposits	3,262	-		3,262
Customer Advances	(10)	-		(10)
Subtotal	416,715	(2,522)		414,193
Net Measures of Value (Rate Base)	$2,401,427	$ (72,023)		$2,329,404

Sources:
- (1) CPA Exhibit 108, Page 3
- (2) Schedule B-1
- (3) Schedule C-1

Schedule B-1

COLUMBIA GAS OF PENNSYLVANIA, INC.
FPFTY PLANT ADDITIONS
($000)

Average Plant Additions 2018 - 2020	(1)	$ 261,776
FPFTY Plant Additions, per Company		338,559
Adjustment to FPFTY Plant in Service		(76,783)
Adjustment to Depreciation Reserve	(4)	(1,958)
Adjustment to ADIT	(5)	(2,522)
Net Rate Base Adjustment		$ (72,303)

Sources:

(1)	Plant Additions 2018	209,984	Exhibit NMS-2
	Plant Additions 2019	294,610	Exhibit NMS-3
	Plant Additions 2020	280,735	Exhibit 108, Schedule 1
	Average	261,776	
(2)	Plant in Service 12/30/2021	3,351,047	CPA Exhibit 108
	Plant in Service 12/30/2020	3,012,488	CPA Exhibit 108
	Increase	338,559	
(3)	Schedule C-2		
(4)	CPA Exhibit 108, Page 3		
	Assumes change in ADIT is proportional to plant adjustment		

COLUMBIA GAS OF PENNSYLVANIA, INC.
OPERATING INCOME
($000)

	(1) Company Position	Adjustments		Proposed Position
Sales Revenue	$ 571,297			$ 571,297
Other Operating Revenue	1,473	-		1,473
Operating Revenue	$ 572,770	$ -		$ 572,770
Gas Supply Expense	138,935			138,935
Operation and Maintenance Expense	198,274	(11,264)	(2)	187,010
Depreciation and Amortization	98,833	(1,958)	(3)	96,875
Taxes other than Income Taxes	3,829	(111)	(4)	3,718
State Income Tax Expense	42	(1,606)	(5)	(1,564)
Federal Income Tax Expense	16,213	2,493	(5)	18,706
				-
Total Operating Expenses	456,126	(12,445)		443,681
Adjusted Operating Income	$ 116,644	$ 12,445		$ 129,089

Sources:
(1) CPA Exhibit 102, Schedule 3, Page 3
(2) Schedule C-1
(3) Schedule C-2
(4) Schedule C-3
(5) Schedule C-4

COLUMBIA GAS OF PENNSYLVANIA, INC.
OPERATION AND MAINTENANCE EXPENSE
($000)

Labor and Benefits Expense	(1)	$ (1,293)
Incentive Compensation	(2)	(775)
Stock Rewards	(3)	(2,300)
Outside Services Expense	(4)	(1,757)
Rate Case Expense	(5)	(530)
Safety Initiatives	(6)	(3,896)
Compensation Adjustments	(6)	(432)
Budget Billing Adjustment	(6)	(280)
Total Adjustment to Operation and Maintenance Expense		$ (11,264)

Sources:

(1)	Schedule C-1.1	
(2)	SDR GAS-RR-026, Revised	1477/39142*39536-2267
(3)	I&E Data Request RE-016	(571+1729)
(4)	CPA Exhibit 104, Schedule 11, Pages 1-2	2221-464
(5)	CPA Exhibit 4, Schedule 2, Page 27	1060/2
(6)	CPA Exhibit 104, Schedule 2, Page 18	

Schedule C-1.1

COLUMBIA GAS OF PENNSYLVANIA, INC.
LABOR AND BENEFITS EXPENSE
($000)

FPFTY Payroll Expense per SDR-GAS-RR-026, Revised	(1)	$ 39,536
Actual Employees, April 2020	(2)	782
Actual Employees, November 2019	(2)	763
Increase		19
FTY Employee Increase Forecasted by Company	(1)	59
Adjustment to FTY Employees		(40)
FTY Incremental O&M Labor Expense per Employee	(3)	$ 19.322
Adjustment to FTY Labor Expense		$ (773)
Adjusted Pro Forma Labor Expense		$ 38,763
FPFTY Payroll Expense per SDR-GAS-RR-026, Original	(4)	39,528
Adjustment to Company FPFTY Payroll Expense		$ (765)
Other Employee Benefits Expense per Employee	(5)	$ 9.27
Adjustment to FPFTY Employees	(6)	(57)
Adjustment to Benefits Expense		$ (528)
Total Adjustment to O&M Expense	(6)	$ (1,293)

Sources:

(1)	SDR GAS-RR-026, Revised (OCA V-17)	
(2)	Response to OCA V-5	
(3)	SDR GAS-RR-026, Revised (OCA V-17)	1140/59
(4)	SDR GAS-RR-026, Original	
(5)	CPA Exhibit 104, Schedule 1	7779/839
(6)	Response to OCA V-5	782
	SDR GAS-RR-026	839

Schedule C-2

COLUMBIA GAS OF PENNSYLVANIA, INC.
DEPRECIATION EXPENSE
($000)

Adjustment to Plant in Service	(1)	$ (76,783)
Composite Depreciation Rate	(2)	2.55%
Adjustment to Depreciation Expense		$ (1,958)

Sources
(1) Schedule B-1
(2) CPA Exhibit 105, Page 9

COLUMBIA GAS OF PENNSYLVANIA, INC.
TAXES OTHER THAN INCOME TAXES
($000)

Adjustment to FPFTY Payroll	(1)	$ (1,540)
Payroll Tax Rate	(2)	7.18%
Adjustment to Payroll Taxes		$ (111)

Sources

(1)	FPFTY Employee Complement	(765)
	Incentive Compensation	(775)
	Total Labor Adjustment	(1,540)
(2)	CPA Exhibit 106, Page 3	

COLUMBIA GAS OF PENNSYLVANIA, INC.
INCOME TAXES
($000)

Adjustments to Taxable Income:

Revenue	(1)	$ -
Operation and Maintenance Expense	(1)	(11,264)
Depreciation and Amortization	(1)	(1,958)
Taxes other than Income Taxes	(1)	(111)
Interest	(2)	3,066
Adjustment to Expenses		(10,266)
Net Adjustment to Taxable Income		10,266
Pennsylvania Income Tax Rate		9.99%
Adjustment to Pennsylvania Income Tax		1,026
Tax on CNIT Taxable Income before Adjustments	(3)	(2,631)
CNIT Adjustment for Revenue Requirement		$ (1,606)
Adjustment to Federal Taxable Income		11,872
Federal Income Tax Rate		21%
Net Adjustment to Federal Income Tax		$ 2,493

Sources:

(1)	Schedule C			
(2)	Rate Base	2,329,404	Schedule B	
	Weighted Debt Cost	2.25%	Schedule D	
	Interest Deduction	52,295		
	Company Interest Deduction	49,229	CPA Exhibit 107, Page 16	
	Adjustment	3,066		
(3)	CNIT Taxable Income per Company			(26,341)
	Pennsylvania Income Tax Rate			9.99%
	Pennsylvania Income Tax on CNIT Taxable Income			(2,631)

Schedule D

COLUMBIA GAS OF PENNSYLVANIA, INC.
RATE OF RETURN
($000)

Company Position

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	42.22%	4.70%	1.98%
Short Term Debt	3.59%	2.06%	0.07%
Common Equity	54.19%	10.95%	5.93%
Total Capital	100.00%		7.98%

OCA Position

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	50.00%	4.49%	2.25%
Short Term Debt	0.00%	0.00%	0.00%
Common Equity	50.00%	8.50%	4.25%
Total Capital	100.00%		6.50%

Sources: CPA Statement No. 8, Page 2
Testimony of Mr. O'Donnell

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2020-3018835
	:	
Columbia Gas of Pennsylvania, Inc.	:	

VERIFICATION

I, David J. Effron, hereby state that the facts set forth in my Direct Testimony, OCA Statement 2, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: July 28, 2020
*293027

Signature: David J. Effron
David J. Effron

Consultant Address: Berkshire Consulting Services
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North Hampton, NH 03862