

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC)	
UTILITY COMMISSION)	
)	
v.)	Docket No. R-2020-3018835
)	
COLUMBIA GAS OF)	
PENNSYLVANIA, INC.)	

REBUTTAL TESTIMONY OF
JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

August 26, 2020

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Jerome D. Mierzwa. I am a Principal and Vice President with Exeter
4 Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway,
5 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public
6 utility-related consulting services.

7 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
8 PROCEEDING?

9 A. Yes. My direct testimony was submitted as OCA Statement No. 4 on July 28, 2020.

10 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

11 A. The primary purpose of my rebuttal testimony is to respond to certain issues addressed
12 in the direct testimony of Bureau of Investigation and Enforcement (“I&E”) witness
13 Ethan H. Cline, Office of Small Business Advocate (“OSBA”) witness Robert D.
14 Knecht; Penn State University witness James L. Crist; and Columbia Industrial
15 Intervenors (“CII”) witness Frank Plank.
16

17 **II. I&E WITNESS ETHAN H. CLINE**

18 Q. COLUMBIA GAS OF PENNSYLVANIA (“CPA” OR “COMPANY”)
19 PRESENTED THREE ALLOCATED COST OF SERVICE (“ACOS”)
20 STUDIES IN THIS PROCEEDING. WHICH ACOS STUDY DOES MR.
21 CLINE RECOMMEND THAT THE COMMISSION ACCEPT IN THIS
22 PROCEEDING?

23 A. Mr. Cline recommends that the Commission accept the Company’s Peak & Average
24 ACOS study.

1 Q. DO YOU AGREE WITH MR. CLINE'S RECOMMENDATION THAT THE
2 COMPANY'S PEAK & AVERAGE ACOS STUDY SHOULD BE
3 ACCEPTED IN THIS PROCEEDING?

4 A. No. While I agree that the Peak & Average method should be accepted in this
5 proceeding, I do not agree that the Peak & Average ACOS study presented by CPA
6 should be accepted. The Company's Peak & Average ACOS study assigns distribution
7 mains investment into three separate categories and allocates these costs to classes
8 based on the original cost of its distribution mains investment. As I explain in my direct
9 testimony, this allocation is unreasonable because rates in this proceeding will be set
10 based on net investment, not original costs. In addition, as also explained in my direct
11 testimony, the Company's Peak & Average ACOS study fails to properly allocate the
12 costs associated with major account representatives. The Peak & Average ACOS study
13 I present in my direct testimony should be accepted in this proceeding as it eliminates
14 the separate assignment of distribution mains to categories and assigns the costs
15 associated with major account representatives to the appropriate classes.

16 Q. MR. CLINE SUPPORTS THE COMPANY'S PROPOSAL TO INCREASE
17 THE MONTHLY RESIDENTIAL CUSTOMER CHARGE FROM \$16.75
18 TO \$23.00, OR NEARLY 40 PERCENT. WHAT IS YOUR RESPONSE?

19 A. As explained in my direct testimony, CPA's current monthly residential customer
20 charge should be maintained for several reasons. First, CPA's Residential customer
21 charge proposal is out of line with the Residential customer charges of other NGDCs
22 in the Commonwealth, and CPA's current charge is already the highest in the
23 Commonwealth. Second, CPA's proposed Residential customer charge violates the
24 principle of gradualism. Third, as discussed in the direct testimony of OCA Witness
25 Colton, CPA's proposal will have a disproportionate impact on low-income customers.

1 Finally, a high fixed monthly customer charge is inconsistent with the Commission's
2 general goal of fostering energy conservation.

3
4 **III. OSBA WITNESS ROBERT D. KNECHT**

5 Q. MR. KNECHT PRESENTS TWO REVENUE ALLOCATION PROPOSALS
6 IN THIS DIRECT TESTIMONY. SHOULD EITHER OF THESE
7 PROPOSALS BE ADOPTED?

8 A. No. As explained in detail in my direct testimony, CPA has presented three ACOS
9 studies in this proceeding. More specifically, the Company has presented a Customer-
10 Demand ACOS study which allocates distribution mains costs partially on the basis of
11 the number of customers and partially based on peak demands, a Peak & Average
12 ACOS study which allocates distribution mains costs 50 percent based on annual
13 demand and 50 percent based on peak demands, and an Average ACOS study which
14 reflects an average of the Customer-Demand and Peak & Average ACOS studies. The
15 Company claims to have developed its proposed revenue allocation based on its
16 Average ACOS study. Mr. Knecht presents an alternative to CPA's revenue allocation
17 based on the Company's Average ACOS study and another revenue allocation based
18 on a 75 percent weighting of the Company's Peak & Average ACOS study and a 25
19 percent weighting of the Company's Customer-Demand ACOS study. Neither of Mr.
20 Knecht's proposed revenue allocations should be adopted.

21 Both of Mr. Knecht's revenue allocations are based on ACOS studies which
22 partially allocate distribution mains costs based on the number of customers. As
23 explained in my direct testimony an allocation of distribution mains costs based on the
24 number of customers is improper, and has previously been rejected by the Commission.
25 In his direct testimony, even Mr. Knecht has recognized that in Philadelphia Gas Works

1 Docket No. R-00061398 the Commission found that an allocation of distribution mains
2 costs based on the number of customers was unacceptable. In addition, both of Mr.
3 Knecht's proposed revenue allocations are based on the Company's Peak & Average
4 ACOS study which, as explained in responding to Mr. Cline, improperly allocates
5 distribution mains costs to classes based on the original cost of CPA's distribution
6 mains investment and fails to properly assign the costs associated with major account
7 representatives.

8

9

IV. PENN STATE WITNESS JAMES L. CRIST

10 Q. WHAT ISSUES RAISED BY MR. CRIST WILL YOU BE ADDRESSING
11 IN YOUR REBUTTAL TESTIMONY?

12 A. I will address certain aspects of Mr. Crist's testimony concerning CPA's issuance of
13 operational flow orders ("OFOs") and operational matching orders ("OMOs"),
14 (collectively "flow orders") to its general distribution service transportation customers,
15 and the responsibility for the penalties that may be assessed to CPA by interstate
16 pipelines for violating flow orders.

17 Q. MR. CRIST CLAIMS THAT CPA'S PENALTY FOR OMO NON-
18 COMPLIANCE OF ONE AND ONE-HALF TIMES THE APPLICABLE
19 DAILY MARKET INDEX PRICE FOR GAS IS UNREASONABLE AND A
20 MORE REASONABLE PENALTY WOULD BE A 20 PERCENT
21 PREMIUM OVER WHAT IT COSTS THE COMPANY TO REMEDY AN
22 OMO VIOLATION. WHAT IS YOUR RESPONSE?

23 A. OMO penalties are designed to discourage imbalances that could threaten system
24 reliability. The costs incurred by CPA to remedy an OMO violation may be less than
25 the daily market index price used to compute the penalty. If the costs incurred by CPA

1 are less than the daily market index price, an economically rational supplier would
2 likely incur the penalty proposed by Mr. Crist rather than comply with the OMO and
3 buy market priced gas to meet the requirements of an OMO. Therefore, the penalty
4 should reflect a premium on the higher of either CPA's actual costs or the daily market
5 index price. Moreover, as indicated by Mr. Crist, most of Penn State's campuses are
6 served by UGI Utilities, Inc. – Gas Division ("UGI"). The penalty assessed by UGI
7 for violating a flow order is 10 times the applicable daily market price of gas.
8 Therefore, CPA's penalty is relatively lenient and to encourage compliance with an
9 OMO, the current 50 percent premium should be maintained.

10 Q. MR. CRIST RECOMMENDS THAT IF CPA IS ASSESSED A PENALTY
11 BY AN INTERSTATE PIPELINE DUE TO NON-COMPLIANCE WITH A
12 FLOW ORDER, THAT PENALTY SHOULD BE PROPORTIONATELY
13 ASSESSED TO TRANSPORTATION CUSTOMERS AND PGC
14 CUSTOMERS BASED ON THE VOLUMES THAT FLOWED DURING
15 THE PERIOD THE FLOW ORDER WAS IN EFFECT. WHAT IS YOUR
16 RESPONSE?

17 A. Mr. Crist's recommendation on assessing transportation customers a portion of the
18 penalties assessed to CPA by interstate pipelines is not clear. Mr. Crist also
19 recommends that when CPA is assessed a penalty by an interstate pipeline due to non-
20 compliance with a flow order, a proportionate share of those penalties should be
21 assessed to transportation customers that did not comply with the flow order. CPA can
22 be assessed a penalty by an interstate pipeline when it violates a flow order. Interstate
23 pipelines can issue flow orders which require a natural gas distribution company like
24 CPA to require the delivery of minimum volumes or restrict deliveries. Transportation
25 customers should be assessed a share of the penalties assessed to CPA in proportion to

1 the extent their deliveries contributed to the assessment of interstate pipeline penalties.
2 Provided they were not imprudently incurred, the remaining share of the penalties
3 assessed to CPA would be assigned to PGC customers.

4 Q. MR. CRIST RECOMMENDS THAT ANY PENALTIES COLLECTED BY
5 CPA FOR OFO AND OMO VIOLATIONS BE APPLIED TO REDUCING
6 THE COSTS ASSOCIATED WITH PROVIDING BALANCING SERVICE
7 AND STORAGE TO SUPPLIERS. DO YOU AGREE?

8 A. No. CPA's system of OFOs and OMOs is designed to encourage compliance with the
9 Company's balancing requirements. Returning those penalties to suppliers by reducing
10 the costs associated with providing balancing service and storage would discourage
11 compliance. In addition, CPA may incur incremental gas costs to remedy the
12 imbalances of suppliers that violate OFOs and OMOs. These incremental costs are
13 currently recovered through PGC rates. Therefore, it would be appropriate to continue
14 to credit PGC customers for all penalties assessed for OFO and OMO violations.

15
16 **V. CII WITNESS FRANK PLANK**

17 Q. PLEASE SUMMARIZE THE RECOMMENDATIONS PRESENTED BY
18 MR. PLANK IN HIS DIRECT TESTIMONY.

19 A. It is Mr. Plank's primary recommendation that due to the COVID-19 pandemic, the
20 Commission deny CPA a rate increase at this time. However, if the Commission does
21 authorize an increase for CPA in this proceeding, Mr. Plank asks that the Commission
22 significantly limit the rate increase assigned to customers serviced under the Large
23 Distribution Service ("LDS") Rate Schedule due to the impact of the COVID-19
24 pandemic on LDS customers.

25 Q. WHAT IS YOUR RESPONSE TO MR. PLANK'S RECOMMENDATIONS?

1 A. As explained in the Direct Testimony of OCA witness Scott J. Rubin, it is also the
2 primary recommendation of the OCA that no customer should be subject to a rate
3 increase at this time. While the OCA is sensitive to the effects the COVID-19
4 pandemic is having on large businesses like customers served under the LDS Rate
5 Schedule, the effects are at least as severe on residential consumers and small
6 businesses. That is why the OCA has recommended no increase for any customers at
7 this time.

8 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

9 A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

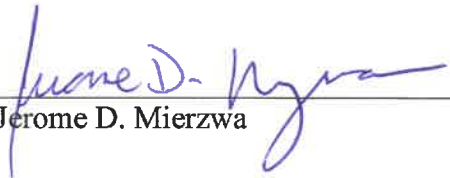
Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2020-3018835
 :
 Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, Jerome D. Mierzwa, hereby state that the facts set forth in my Rebuttal Testimony, OCA Statement 4-R, 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: August 26, 2020
*294539

Signature:



Jerome D. Mierzwa

Consultant Address: Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044-3575