OCA Statement No. 2-S

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

**SEPTEMBER 16, 2020**

**Introduction**

**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 03862.

**Q. Have you previously submitted testimony in this docket?**

A. Yes. I submitted Direct Testimony on July 28, 2020, marked as OCA Statement No. 2. My qualifications and experience are attached to my Direct Testimony.

**Q. What is the purpose of this Surrebuttal Testimony?**

A. In this Surrebuttal Testimony, I respond to the Rebuttal Testimony of Columbia Gas witnesses Cartella, Davidson, Kitchell, Krajovic, Miller, and Shultz. I am also presenting certain modifications to the adjustments that I proposed in my Direct Testimony and a revised calculation of the Company's revenue deficiency (or excess) to incorporate the effect of those modifications. I do not respond to all of the Company's Rebuttal addressing the issues presented in my Direct Testimony. However, this should not be interpreted to mean that I agree with the Company's Rebuttal on those issues or that I no longer believe that the positions expressed on those issues in my Direct Testimony is appropriate.

**Q. With the modifications to the original adjustments proposed in your Direct Testimony, what is the Company's revenue deficiency?**

A. Incorporating the modifications that I address in the following Surrebuttal Testimony, I have calculated a revenue deficiency of $31,262,000 (see my revised Schedule A, accompanying this testimony).

**Q. Did the Company respond to your testimony regarding the uncertainty caused by COVID-19 on the going-forward level of plant additions and operation and maintenance ("O&M") expenses?**

A. Yes. Ms. Krajovic states that "Mr. Effron characterizes the vast majority of the Company's proposed O&M increases as speculative, citing the Company's response to OCA V-13 that asked about the impact of COVID-19 on the remainder of 2020 and 2021" and asserts that "Mr. Effron is using the cover of the pandemic, with no data to support his beliefs, to reject the use of the FPFTY ratemaking principles and return to something more closely resembling rates based on a FTY (or even Historic Test Year ("HTY") in some instances.)"[1]

**Q. Is this an accurate description of your testimony?**

A. No. This is a gross misrepresentation of my testimony. What I actually said in my Direct Testimony regarding the effect of COVID-19 was that "*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."[2] In other words, my reference to COVID-19 related to the forecasts of costs in general and not to any of the individual specific adjustments addressed in my testimony. I did

[1] Company Statement No. 9-R, Pages 7-8
[2] OCA Statement No. 2, Page 4, emphasis added

not, in fact, “cite the Company’s response to OCA V-13” with regard to *any* of the Company’s particular forecasts of costs that I identified in my Direct Testimony as being speculative.

Nowhere in my testimony did I “use the cover of the pandemic” to support my conclusions regarding the speculative nature of certain of the Company’s specific adjustments and projections. My characterization of specific costs as being speculative makes no reference to, and does not rely on, the COVID-19 pandemic either directly or indirectly. Those costs are speculative, not because of COVID-19, but because of the lack of documentation to support those costs and/or the lack of any convincing evidence that the initiatives giving rise to the costs are actually being implemented.

**Q. Do you have “data” to support all of your proposed adjustments to the Company’s FPFTY expenses?**

A. No. Many of my proposed adjustments to the Company’s FPFTY expenses are based on the *absence* of data to support the Company’s projections and forecasts. If the Company does not have data to support those forecasts, it is only logical that there would also be no data or documentation to support adjustments to those forecasts. The Company asked me no information requests regarding any data that I might have to support my adjustments. Thus, the only way that Ms. Krajovic could know with such certainty that I have no data to support my conclusions is through her knowledge that no such data exist.

**Plant Additions**

**Q. Does the Company agree with your proposal to adjust the forecasted 2021 FPFTY plant additions?**

A. No. Company witnesses Shultz and Kitchell address my proposed adjustments to 2021 plant additions. Mr. Kitchell claims that "Mr. Effron's adjustments would jeopardize the Company's ability to maintain a safe and reliable system and jeopardize the Company's ability to meet its LTIIP commitments."[3]

**Q. Is this a valid criticism of your proposed adjustment to 2021 FPFTY plant additions?**

A. No. This statement ignores the availability of the Distribution System Improvement Charge ("DSIC") to the Company. As noted by Witness Krajovic, the Company is presently utilizing a DSIC. As she explains, once the Company's investment in DSIC eligible plant exceeds the projected balances from the prior rate case, the Company is able to restart its DSIC to recover the incremental investment that exceeds the projected test year balances.[4]

I interpret this to mean that, if the Company's forecast of FPFTY plant balances in the present case were to be reduced, then the DSIC would "kick in" when those reduced balances are exceeded. The Company would then be made whole through the DSIC, and the Company's ability to maintain a safe and reliable system would not in any way be jeopardized.

[3] Company Statement No. 14-R, Page 7
[4] Company Statement No. 9-R, Page 2

The Company does not deny that its forecast of plant additions for the FPFTY is well in excess of the actual plant additions in recent years. If the Company's actual additions in the FPFTY are short of its forecast, the customers will be paying for the cost of plant that does not exist in that test year. On the other hand, if my adjustment is accepted and the Company's actual additions in the FPFTY are in excess of my proposed plant balances, the Company will be able to recover any such excess through the DSIC.

I believe my proposed adjustment to FPFTY plant is reasonable, and it poses no risk of under-recovery to the Company.

**Employee Complement**

**Q. Ms. Krajovic testifies that your proposed "adjustment of $765,000 to FPFTY Labor expense, and corresponding adjustment to FPFTY Payroll Tax Expense of approximately $55,000 … should be rejected."[5] Is there any evidence that the number of employees in the FTY is actually increasing at the rate forecasted by the Company?**

A. No. In my Direct Testimony, I noted that "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."[6] In response to OCA Data Request X-02, Company provided the actual number of employees by month through August 2020.

[5] Company Statement No. 9-R, Page 10
[6] OCA Statement No. 2, Page 8

The actual employee complement *decreased* in June and July and was flat in August. As of August 2020, the employee complement stood at 773. My adjustment reflects an employee complement of 782. That has been the high point of the Company's employee complement in 2020 to date. Based on this actual experience, I believe that my proposed adjustment is reasonable and, if anything, conservative.

**Q. Have you modified the calculation of the effect of your proposed adjustment to the employee complement on employee benefits?**

A. Yes. Ms. Krajovic states that the Company's "original claims did not include employee benefits for [the] additional 17 employees"[7] that were eliminated in the revised version of SDR-GAS-RR-026 provided in response to OCA Data Request V-17. Therefore, in calculating my adjustment to employee benefits, I have not included the effect of eliminating benefits to those 17 employees.

I am now proposing a total reduction to FPFTY O&M expenses of $1,144,000.

**Incentive Compensation**

**Q. In its Rebuttal to your Direct Testimony on incentive compensation, has the Company provided any additional documentation to support its projected FPFTY incentive compensation expense?**

A. No. In my Direct Testimony, I noted that the FPFTY incentive compensation of $2,267,000 represents an increase of 53% over the incentive compensation expense actually incurred in the normalized HTY. I also noted that, in response to I&E Data

[7] Company Statement No. 9-R, Page 11

Request RE-014 the Company stated that "[t]here are no workpapers or documentation to provide as the calculations are performed within the budget development tool to produce a budget period expense."

Ms. Krajovic states that "Incentive Compensation awards are based on many factors," and "[l]ooking at one point in time does not provide a basis to qualify a projection as unreasonable."[8] This means nothing more than the incentive compensation in a given period might be more or less than in prior periods. However, the Company has still not provided any workpapers or documentation that would establish just how the FPFTY incentive compensation of $2,267,000 was determined.

Ms. Krajovic further asserts that "Mr. Effron's proposed adjustment reverts to the use of historical ratemaking principles rather than the use of a FPFTY which is the basis for this case and the past five base rate cases that the Company has filed."[9] In response, I would note that I did not simply propose that the HTY incentive compensation expense be used as the FPFTY expense. Rather, I calculated the ratio of incentive compensation to payroll expense in the normalized HTY and applied that ratio to payroll expense in the FPFTY to calculate the FPFTY incentive compensation expense. Given the utter lack of any workpapers or documentation to support the Company's projected FPFTY incentive compensation, I believe that this is a reasonable and unbiased method to determine the incentive compensation to be included in the Company's revenue requirement.

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[8] Company Statement No. 9-R, Page 12

[9] *Id.*

**Stock Rewards**

**Q. Did the Company respond to your testimony regarding the inclusion of stock rewards expenses in its revenue requirement?**

A. Yes. Ms. Cartella addresses this issue. She begins by stating that "Mr. Effron's claim that stock compensation is solely related to Columbia's financial goals is incorrect."[10] To be clear, what I actually said was "[s]tock rewards are a form of incentive compensation whose ultimate value is based solely on the attainment of financial goals by the parent company."[11] Ms. Cartella does not dispute this description of the Company's stock rewards program.

**Q. Ms. Cartella states that "denial of recovery of stock award compensation means that fixed base pay without incentives would become the preferable means to attract, motivate, and retain talented employees while retaining a reasonable opportunity for full recovery of that compensation."[12] Do you have a response?**

A. Yes. This statement does not establish that stock based compensation is appropriately recoverable from ratepayers. I am not taking the position that stock rewards should not be a component of the employees' total compensation package. The issue is whether it is the customers or shareholders that should bear the cost of the stock rewards program. As shareholders are the beneficiaries of increases to common stock valuations, it is not unreasonable for shareholders to bear the costs of the stock rewards program.

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[10] Company Statement No. 16-R, Page 5
[11] OCA Statement No. 2, Page 11
[12] Company Statement No. 16-R, Page 7

**Outside Services Expense**

**Q. In her Rebuttal Testimony, does Ms. Krajovic cite "additional detail" to support the Company's FPFTY outside services expense?**

A. Yes. Ms. Krajovic cites the response to I&E Data Request RE-18, which "identifies specific work streams that the Company anticipates will require incremental funding in the FPFTY over that in the FTY."[13]

**Q. Does the response to I&E Data Request RE-18 identify how the specific work streams will actually result in the increase of $2,221,000 in outside services expense from the FTY to the FPFTY?**

A. No. While the response to I&E Data Request RE-18 provides additional narrative description of the various activities summarized on Page 2 of Exhibit 104, Schedule 11, there are no workpapers or calculations showing how the identified work streams described in that response will increase the outside services expense by $2,221,000 from the FTY to the FPFTY.

Ms. Krajovic states that "[t]he budget for Outside Services is developed reflective of specific needs, plans and the realities of the day to day variability in work and resources."[14] Unfortunately, there is no documentation to establish just how those "specific needs, plans and the realities of the day to day variability in work and resources" translate into the FPFTY outside services expense that the Company is proposing to include in its revenue requirement.

[13] Company Statement No. 9-R, Page 13
[14] Company Statement No. 9-R, Page 15

**Rate Case Expense**

**Q. Does the Company agree with your testimony that a normalization period of two years for rate case costs is reasonable?**

A. No. Company Witness Miller states that my use of "a 24-month normalization period is biased and incorrect" and that I have improperly concluded that "the Company has a history of filing rate cases every two years."[15]

**Q. Did you testify that the Company has a history of filing rate cases every two years, as if this has been an absolute pattern without variation?**

A. No. I did not characterize the Company's history of filing rate cases beyond stating, accurately, that the Company's last three rate cases before the present case were filed in March 2015, March 2016, and March 2018. This means that, although the 2015 and 2016 cases were filed in consecutive years, the periods for the cases since then have been two years. Based on this experience, I continue to believe that a normalization period of two years for rate case costs related to the present rate case is reasonable.

**Safety Initiatives**

**Q. Did the Company respond to your testimony on its proposed adjustments to FPFTY expenses for certain safety initiatives it expects to implement in 2021?**

A. Yes. Ms. Krajovic and Mr. Davidson address the Company's forecasted expenses for safety initiatives in their Rebuttal Testimony. Ms. Krajovic addresses the workforce transition and legacy service line enhancement programs and the enhanced leak

[15] Company Statement No. 4-R, Page 9

detection program. Mr. Davidson addresses the cross bore program. Both address the customer-owned field assembled risers replacement program.

**Q. With regard to the workforce transition and legacy service line enhancement programs, Ms. Krajovic states that "[t]his work is incremental to the body of work contained in the existing Work Plan."[16] Is there any evidence that the Company is in the process of adding the incremental employees associated with these programs?**

A. No. At the time of my Direct Testimony, the Company had not hired any of the incremental employees related to the workforce transition and legacy service line enhancement programs (response to OCA Data Request VIII-06). Based on the response to OCA Data Request X-06, served on September 8, 2020, it still has not done so. Nor has the Company provided any evidence that it has commenced the process of filling these incremental positions.

**Q. Does the Company agree with your proposed adjustment to the FPFTY cross bore program?**

A. No. In response to my Direct Testimony, Mr. Davidson notes that spend levels for years 2015 through 2018 were higher than 2019 and 2020 because Columbia reallocated resources from other work activities to address this high risk concern in those years.[17] However, he does not explain why this concern became any less high risk in 2019 and 2020 than it was in the earlier years.

[16] Company Statement No. 9-R, Page 15
[17] Company Statement No. 7-R, Page 21

**Q. Does the actual spending on the cross bore program so far in 2020 show evidence of a trend in increased spending?**

A. No. In response to OCA Data Request X-10, the Company provided a comparison of actual spending by month in 2020 through July and for the corresponding months in 2020.[18] In January and February, the spending in 2020 was well below the spending in 2019, despite the mild 2020 winter weather referenced in the response to OCA Data Request V-03. Spending on the cross bore program was suspended from March 20, 2020 through May 17, 2020, so a comparison of spending for those months in 2020 to the prior year is not meaningful.

For June and July, the spending was somewhat higher in 2020 than in 2019. However the total for the months of January, February, June, and July in 2020 was less than the total spending for those months in 2019. I do not believe that this establishes an increasing level of spending on the cross bore program.

**Q. Did the Company, in its Rebuttal, respond to your testimony that it "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"?[19]**

A. No. Mr. Davidson states that "Columbia has provided Mr. Effron the necessary information to support the customer owned field assembled riser program, which included projected units to be completed in the FPFTY and an estimated cost per unit

[18] The Company also provided an estimate of spending for August 2020.
[19] OCA Statement No. 2, Page 17

which was also supported by Columbia's historical customer-owned field assembled riser replacement costs (see Exhibit MJD-3R)."[20] The cited support for the FPFTY program costs does not establish that those costs are incremental to the costs incurred in the HTY.

Ms. Krajovic states that I ignore "that the Safety Initiative is to establish an on-going base funding to programmatically support that work stream. Without incremental funding, the pace of these risk remediation programs cannot be hastened, without decreasing or eliminating other risk reducing or compliance activities, which include the replacement of Company owned field assembled risers."[21] Again, this does not establish that the FPFTY expense will be greater than the HTY expense. Assuming that the Company's estimate of the FPFTY customer-owned field assembled risers replacement expense of $1,700,000 is accurate, the Company has still not established that the FPFTY expense is completely incremental to the HTY expense.

**Q. Did the Company provide any further explanation of its treatment of the FPFTY customer-owned field assembled risers replacement expense as being incremental?**

A. Yes. In response to OCA Data Request X-12, the Company explained that "[t]he FPFTY budget, like prior year budgets, did not include incremental funding for replacement of customer-owned field assembled risers, but budgeted for the other workstreams, including company-owned risers. In order to provide a funding stream

[20] Company Statement No. 7-R, Pages 21-22
[21] Company Statement No. 9-R, Page 16

to bring the customer-owned riser rate to 2,700 to remediate this risk within ten years without requiring reductions in other workstreams, the $1.7 Million is included as an incremental amount over the budget."

In other words, the FPFTY expense is incremental not to the HTY expense, but rather to the FPFTY budget. However, according to the response to I&E-GS-008, 1,279 customer owned field assembled risers were replaced in 2019, the HTY in this case. Presumably, there was some expense associated with this activity. If this expense was incurred in 2019 but FPFTY budget does not include incremental funding for replacement of customer-owned field assembled risers, then the Company's schedules in its Exhibit 104 supporting the transition from the HTY to the FPFTY should show a decrease in some category of expenses to reflect the exclusion of this HTY expense from the FPFTY budget. But there is no such reduction in the Company's adjustments to transit from the HTY to the FPFTY.

Thus, it would appear that even if FPFTY budget does not include incremental funding for replacement of customer-owned field assembled risers, there is some amount for that expense implicitly included in the O&M expenses for the FPFTY, even before the Company's pro forma adjustments on Exhibit 104, Schedule 2, Page 18. The Company has still not established the extent to which the expense for the replacement of customer-owned field assembled risers in the FPFTY will be greater than that expense in the HTY.

**Q. Has the Company provided additional support for how the FPFTY estimate of $120,000 of O&M expenses for the enhanced leak detection program was developed?**

A. Yes. In response to OCA Data Request X-13, the Company provided a quote for the costs associated with the enhanced leak detection safety initiative. This documentation supports the costs of the program and is evidence that the Company is in the process of implementing this program. Therefore, I am no longer proposing to eliminate this expense from pro forma FPFTY O&M expenses. I am now proposing to reduce pro forma expenses for safety related initiatives by $3,776,000 rather than the $3,896,000 as set forth in my Direct Testimony.

**Compensation Adjustments**

**Q. Does the Company agree with your recommendation to eliminate its proposed adjustment for compensation modifications from pro forma FPFTY O&M expense?**

A. No. Ms. Krajovic states that my "recommendation to eliminate a projected expense in a future period simply because it has not yet been incurred and with no other justification is inconsistent with the use of a FPFTY and therefore should be rejected."[22]

**Q. Did you eliminate the Company's proposed adjustment for compensation modifications simply because the expense has not yet been incurred?**

[22] Company Statement No. 9-R, Page 18

A. No. As I stated in my Direct Testimony, "the compensation modifications have not been implemented and the Company has not provided any indication that it will commence implementation any time soon."[23] It was not only that expense had not yet been incurred, but also that the Company had not presented any evidence that the compensation adjustments are in the process of being implemented or that such implementation is imminent. Based on the Company's response to OCA Data Request X-03, provided on September 8, 2020, this has not changed since my Direct Testimony was filed.

**Budget Billing Adjustment**

**Q. Has the Company corrected its treatment of costs associated with modification of its budget billing system in its Rebuttal Testimony?**

A. Yes. Therefore, this matter is no longer at issue.

**Pennsylvania Corporate Net Income Tax**

**Q. In your Direct Testimony, you proposed 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 in the calculation of the revenue deficiency. Are you reflecting any further modifications in this Surrebuttal Testimony?**

A. Yes. In my Direct Testimony I explained that I 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 and then

[23] OCA Statement No. 2, Page 19

incorporated that negative state income tax expense into my calculation of pro forma net operating income under present rates. In addition, when I determined the additional revenue necessary to cover the income deficiency under present rates on my Schedule A, I used the statutory state income tax rate of 9.99% in the calculation of the Revenue Conversion Factor.

This process did not take account of the incremental usage of the Net Operating Loss Deduction in the calculation of the CNIT taxable income as taxable income increases. As shown on Company Exhibit No. 107, Page 17, an increase to the CNIT taxable income results in an increase to the Net Operating Loss Deduction equal to 40% of the increase to the CNIT taxable income. In effect, this incremental usage of the Net Operating Loss Deduction decreases the effective CNIT tax rate from 9.99% to 5.994% (that is, 9.99%*(1-.4)).

I now use this effective state income tax rate of 5.994% in the calculation of my adjustment to state income tax expense on my Schedule C-4 and in my calculation of the Revenue Conversion Factor. I now calculate a Revenue Conversion Factor of 1.3620 (my Schedule A accompanying this Surrebuttal Testimony).

Again, my method should not ultimately 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 Surrebuttal Testimony?**

A. Yes.

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 | $ 31,262 | $ 604,031 |
| Deductions | | | | | |
| O&M Expense | 336,663 | (10,714) | 325,949 | 355 | 326,304 |
| Depreciation | 98,833 | (1,958) | 96,875 | | 96,875 |
| Taxes: | | | | | |
| State | 42 | (988) | (946) | 1,853 | 906 |
| Federal | 16,227 | 2,277 | 18,504 | 6,101 | 24,605 |
| Deferred and ITC | - | | - | | - |
| Other | 3,826 | (111) | 3,715 | - | 3,715 |
| Total Deductions | 455,591 | (11,494) | 444,096 | 8,309 | 452,405 |
| | | | | | - |
| Net Income Available for Return | $ 117,179 | $ 11,494 | $ 128,673 | $ 22,953 | $ 151,626 |
| Rate Base | | | | | $ 2,329,124 |
| Return on Rate Base | | | | | 6.51% |

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) | | 117 | 387 |
| Labor and Benefits Expense | OCA St.1 | Sch. C-1, C-3 | | - | (1,144) | | (56) | 72 | 237 |
| Incentive Compensation | OCA St.1 | Sch. C-1, C-3 | | | (775) | | (56) | 50 | 164 |
| Stock Rewards | OCA St.1 | Sch. C-1 | | | (2,300) | | | 138 | 454 |
| Outside Services Expense | OCA St.1 | Sch. C-1 | | | (1,757) | | | 105 | 347 |
| Rate Case Expense | OCA St.1 | Sch. C-1 | | | (530) | | | 32 | 105 |
| Safety Initiatives | OCA St.1 | Sch. C-1 | | | (3,776) | | | 226 | 745 |
| Compensation Adjustments | OCA St.1 | Sch. C-1 | | | (432) | | | 26 | 85 |
| Budget Billing Adjustment | OCA St.1 | Sch. C-1 | - | | - | | | - | - |
| CNIT Taxable Income Effect | OCA St.1 | Sch. C-4 | | | | | | (1,579) | 332 |
| Interest Synchronization | OCA St.1 | Sch. C-4 | | | | | | (176) | (578) |
| Total Adjustment | | | (72,303) | - | (10,714) | (1,958) | (111) | (988) | 2,277 |
| | | | | | | | | | |
| Company Rate Base | CPA Exh. 108, Page 3 | | 2,401,427 | | | | | | |
| | | | | | | | | | |
| Recommended Rate Base | | | 2,329,124 | | | | | | |

Schedule A

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

| | (1) Company Position | Adjustments | | Proposed Position |
|---|---|---|---|---|
| Measures of Value (Rate Base) | $ 2,401,427 | $ (72,303) | (2) | $ 2,329,124 |
| Rate of Return | 8.00% | -1.49% | (3) | 6.51% |
| Operating Income Requirement | 192,114 | (40,488) | | 151,626 |
| Adjusted Operating Income | 117,179 | 11,494 | (4) | 128,673 |
| Income Deficiency (Excess) | 74,935 | (51,982) | | 22,953 |
| Gross Revenue Conversion Factor | 1.3394 | 0.0226 | (5) | 1.3620 |
| Revenue Deficiency (Excess) | $ 100,367 | $ (69,106) | | $ 31,262 |

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

| | | |
|---|---|---|
| Revenue | | 1.0000 |
| Uncollectible Accounts | | 0.0114 |
| Pre-Tax Income | | 0.9886 |
| Effective State Income Tax Rate | 5.994% | 0.0593 |
| Federal Taxable Income | | 0.9294 |
| Federal Income Tax | 21% | 0.1952 |
| Net Income | | 0.7342 |
| Gross Revenue Conversion Factor | | 1.3620 |

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 | - | (3) | 2,997 |
| Gas Stored Underground | 33,812 | - | | 33,812 |
| Subtotal | 37,977 | - | | 37,977 |
| | | | | |
| 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 | $ (72,303) | | $2,329,124 |

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 | | |

Schedule C

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 | 197,728 | (10,714) | (2) | 187,014 |
| Depreciation and Amortization | 98,833 | (1,958) | (3) | 96,875 |
| Taxes other than Income Taxes | 3,826 | (111) | (4) | 3,715 |
| State Income Tax Expense | 42 | (988) | (5) | (946) |
| Federal Income Tax Expense | 16,227 | 2,277 | (5) | 18,504 |
| | | | | - |
| Total Operating Expenses | 455,591 | (11,494) | | 444,096 |
| Adjusted Operating Income | $ 117,179 | $ 11,494 | | $ 128,673 |

Sources:
- (1) CPA Exhibit 102, Schedule 3, Page 3 (KKM-1R)
- (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) | $ (1,144) |
| Incentive Compensation | (2) | (775) |
| Stock Rewards | (3) | (2,300) |
| Outside Services Expense | (4) | (1,757) |
| Rate Case Expense | (5) | (530) |
| Safety Initiatives | (6) | (3,776) |
| Compensation Adjustments | (7) | (432) |
| Budget Billing Adjustment | (8) | - |
| Total Adjustment to Operation and Maintenance Expense | | $ (10,714) |

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, OCA X-13. | -3896+600/5 |
| (7) | CPA Exhibit 104, Schedule 2, Page 18 | |
| (8) | Resolved in Company Rebuttal | |

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, Revised | (4) | 39,536 |
| Adjustment to Company FPFTY Payroll Expense | | $ (773) |
| Other Employee Benefits Expense per Employee | (5) | $ 9.27 |
| Adjustment to FPFTY Employees | | (40) |
| Adjustment to Benefits Expense | | $ (371) |
| Total Adjustment to O&M Expense | | $ (1,144) |

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, Revised (OCA V-17)

(5) CPA Exhibit 104, Schedule 1 7779/839

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

Schedule C-3

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

| | | |
|---|---|---|
| Adjustment to FPFTY Payroll | (1) | $ (1,548) |
| Payroll Tax Rate | (2) | 7.18% |
| Adjustment to Payroll Taxes | | $ (111) |

Sources

| | | |
|---|---|---|
| (1) | FPFTY Employee Complement | (773) |
| | Incentive Compensation | (775) |
| | Total Labor Adjustment | (1,548) |
| (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) | (10,714) |
| Depreciation and Amortization | (1) | (1,958) |
| Taxes other than Income Taxes | (1) | (111) |
| Interest | (2) | 2,929 |
| Adjustment to Expenses | | (9,854) |
| Net Adjustment to Taxable Income | | 9,854 |
| Effective Pennsylvania Income Tax Rate | | 5.994% |
| Adjustment to Pennsylvania Income Tax | | 591 |
| Tax on CNIT Taxable Income before Adjustments | (3) | (1,579) |
| CNIT Adjustment for Revenue Requirement | | $ (988) |
| Adjustment to Federal Taxable Income | | 10,843 |
| Federal Income Tax Rate | | 21% |
| Net Adjustment to Federal Income Tax | | $ 2,277 |

Sources:

| | | | |
|---|---|---|---|
| (1) | Schedule C | | |
| (2) | Rate Base | 2,329,124 | Schedule B |
| | Weighted Debt Cost | 2.26% | Schedule D |
| | Interest Deduction | 52,638 | |
| | Company Interest Deduction | 49,710 | CPA Exhibit 107, Page 16 (Rev.) |
| | Adjustment | 2,929 | |
| (3) | CNIT Taxable Income per Company | | (26,341) |
| | Effective Pennsylvania Income Tax Rate | | 5.994% |
| | Pennsylvania Income Tax on CNIT Taxable Income | | (1,579) |

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

**Company Position**

| | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long Term Debt | 42.22% | 4.73% | 2.00% |
| Short Term Debt | 3.59% | 2.06% | 0.07% |
| Common Equity | 54.19% | 10.95% | 5.93% |
| Total Capital | 100.00% | | 8.00% |

**OCA Position**

| | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long Term Debt | 50.00% | 4.52% | 2.26% |
| Short Term Debt | 0.00% | 0.00% | 0.00% |
| Common Equity | 50.00% | 8.50% | 4.25% |
| Total Capital | 100.00% | | 6.51% |

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. | : | |

<u>VERIFICATION</u>

I, David J. Effron, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 2-S, 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).

David J. Effron

DATED: September 16, 2020 Signature: ______________________________
*296086 David J. Effron

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