

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

SURREBUTTAL TESTIMONY OF  
JEROME D. MIERZWA

ON BEHALF OF THE  
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

September 16, 2020

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**EXETER**  
ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300  
Columbia, Maryland 21044

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## **I. INTRODUCTION**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. My Direct Testimony was submitted as OCA Statement No. 4, and my rebuttal testimony was submitted as OCA Statement No. 4-R.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain issues addressed in the rebuttal testimonies of Columbia Gas of Pennsylvania (“Columbia”) witnesses Chad Notestone and Melissa J. Bell; Office of Small Business Advocate (“OSBA”) witness Robert D. Knecht; Pennsylvania State University witness James L. Crist; and Columbia Industrial Intervenor (“CII”) witness Frank Plank.

## **II. COLUMBIA GAS OF PENNSYLVANIA**

Witness: Chad Notestone

Q. BRIEFLY SUMMARIZE YOUR DIRECT TESTIMONY CONCERNING THE COST OF SERVICE METHODOLOGY THAT SHOULD BE RELIED UPON FOR REVENUE DISTRIBUTION PURPOSES IN THIS PROCEEDING.

A. In my Direct Testimony I recommended that the Peak & Average cost of service methodology should be relied upon in this proceeding for revenue distribution purposes. Under this method, 50 percent of distribution mains investment is allocated based on annual throughput and 50 percent is allocated based on peak day demands.

Q. WHAT IS MR. NOTESTONE'S RESPONSE TO YOUR RECOMMENDATION TO ALLOCATE A PORTION OF DISTRIBUTION MAIN INVESTMENT BASED ON THROUGHPUT?

A. Mr. Notestone claims "customer throughput has absolutely no impact on the determinations of the size, length, or cost of the distribution main serving the customer," (page 6, lines 2 through 4).

Q. DO YOU AGREE WITH MR. NOTESTONE THAT CUSTOMER THROUGHPUT HAS NO IMPACT ON COLUMBIA'S DISTRIBUTION MAINS INVESTMENT?

A. No. As explained in my Direct Testimony, the basic reason why NGDCs like Columbia invest in their distribution systems is to meet the annual demands for gas by end-use customers. This is the reason for the existence of the NGDC in the first place. Without sufficient annual gas usage over which to amortize the annual costs of providing service, there would be no gas distribution system. That is, there would be no distribution mains or customers connected to them.

In addition, under the mains extension policy that the majority of Columbia's customers were extended service, annual demands and the associated revenues were the primary factor considered in Columbia's main extension investment decision-making process. That is, if a customer's annual throughput did not produce revenues sufficient to justify the costs associated with a main extension to serve that customer, Columbia was not required to extend its mains to serve that customer. Therefore, throughput absolutely has an impact on Columbia's distribution mains investment.

Q. MR. NOTESTONE CLAIMS THAT THE PEAK & AVERAGE METHOD OVER-ALLOCATES MAINS COSTS TO LARGE CUSTOMERS. DO YOU AGREE?

A. No. Mr. Notestone contends that the Peak & Average method over-allocates distribution mains costs to larger customers because it over-allocates the feet of mains to Columbia's largest customers. The notion that customers should be assigned a certain number of feet of distribution mains stems from Columbia's minimum system analysis which allocates mains costs based on the number of customers. The minimum system concept is a fictitious, hypothetical construct which does not exist, and if it did exist, it would not be capable of providing service to customers. Cost allocations should be based on actual cost causation factors, not hypothetical constructs. Therefore, it is unreasonable to consider distribution mains as customer-related and to allocate distribution mains costs on the basis of the number of customers. Mains investment is made when annual gas consumption is high enough to warrant the required investment, and mains are sized to meet expected peak demands, independent of the number of customers. Since distribution mains exist to deliver annual requirements and are sized to meet peak requirements, it is proper to allocate distribution mains costs on the basis of actual and real design day requirements and annual demands rather than a minimum system that does not exist and cannot meet any customer demands. In the calculations presented by Mr. Notestone to support his claim that the Peak & Average method over-allocates costs to large customers, he assumes that all customers are served by the same sized distribution mains. This is unreasonable. Larger customers would typically be served by large-sized mains. Presented below in Table 1-SR is the distribution main investment assigned to each customer class on a per unit of throughput basis under the Peak & Average cost of service method presented in my Direct Testimony. As shown there, Residential (RSS/RDS) customers are allocated approximately 60 percent more distribution mains investment than Columbia's larger customers (LDS/LGSS and FLEX).

**Table 1-SR**  
**Gross Distribution System Mains Investment**  
**Per Unit of Throughput**  
**OCA Peak & Average Method**

Class	Allocation
RSS/RDS	\$31.84
SGSS1/SCD1/SGDS1	32.71
SGSS2/SCD2/SGDS2	29.95
SDS/LGSS	24.77
LDS/LGSS	19.58
FLEX	20.14
<b>Average</b>	<b>\$27.77</b>

Q. IN YOUR DIRECT TESTIMONY, YOU PRESENT AN EXAMPLE TO SUPPORT YOUR CLAIM THAT DISTRIBUTION MAINS ARE NOT SIZED FOR THE NUMBER OF CUSTOMERS SERVED FROM THEM BUT THE LOADS PLACED ON THEM. PLEASE SUMMARIZE YOUR EXAMPLE AND MR. NOTESTONE’S RESPONSE TO YOUR EXAMPLE.

A. In my example, I address the costs Columbia would incur to serve 10 Residential customers located on one city block and the costs associated with serving a small factory on a separate city block, and use this example to support my claim that the distribution mains investment required by Columbia to serve each city block would be the same. In his Rebuttal Testimony, Mr. Notestone claims that the revenues generated by the city block with the 10 Residential customers would be higher and, therefore, Columbia’s distribution mains investment to serve this city block would be higher.

Q. WHAT IS YOUR RESPONSE TO MR. NOTESTONE’S CLAIM CONCERNING YOUR EXAMPLE?

A. Mr. Notestone’s claim is based on the assumption that the revenues generated by each city block reflects the cost of extending service to the customers on each city block. Columbia’s distribution line extension policy provides for the extension of service when the

incremental revenues exceed incremental costs. Mr. Notestone's revenue calculation assumes incremental revenues are equal to incremental costs. Since this is not the case under Columbia's line extension policy, Mr. Notestone's revenue calculations do not support his contention that it is more costly to extend service to 10 Residential customers on a city block than a small factory on a city block. The distribution mains investment required to extend service to the 10 Residential customers would be the same as the investment required to serve the small factory. Collectively, all else being equal, the revenues collected through the rates of the 10 Residential customers would be higher than the revenues collected through the rates of the small factory due to the additional service line and metering costs associated with serving 10 customers rather than 1 customer.

Q. IN YOUR DIRECT TESTIMONY, REFERRING TO A 1981 ARTICLE IN *PUBLIC UTILITIES FORTNIGHTLY* ("PUF"), YOU INDICATED THAT COLUMBIA'S CUSTOMER DEMAND STUDY DID NOT PROPERLY CONSIDER CUSTOMER DEMANDS THAT CAN BE MET FROM 2-INCH MAINS WHEN DETERMINING THE ALLOCATION OF THE DEMAND-RELATED PORTION OF DISTRIBUTION MAINS. WHAT WAS MR. NOTESTONE'S RESPONSE?

A. Mr. Notestone claims that the PUF article failed to recognize that most Residential customers are served downstream from larger diameter mains that feed the 2-inch main. Mr. Notestone contends that if a Residential demand credit were used in the allocation of mains investment, it would result in a severe under-allocation of the capacity that larger diameter pipes provide to the Residential class.

Q. WHAT IS YOUR RESPONSE TO MR. NOTESTONE?

A. In Columbia's 2015 base rate proceeding at Docket No. R-2015-2468056, Company witness Mark P. Balmert performed an analysis that found that the 2-inch minimum system would be capable of serving all Residential customers with an annual demand of 1,165.4

Mcf per year or less. He noted that virtually all Residential customers use less than 1,165.4 Mcf per year. Therefore, Mr. Balmert concluded that all Residential customers could be served by the minimum system. The average Residential customer uses 86 Mcf per year, and certainly the share of Residential customers using less than 1,165.4 Mcf per year is greater than the share in other rate classes. For example, the average usage per customer for the LDS/LGSS rate class is 152,672 Mcf per year and for the SDS/LGSS rate class average usage is 15,466 Mcf per year. Therefore, the proportionate share of demands being met by the minimum system for Residential customers is much greater than that of other rate classes.

As shown in Factor 20 of the Customer/Demand Study (Exhibit 111 Schedule 1), 74.5 percent of Columbia's distribution mains investment is assumed to represent the 2-inch minimum system and is allocated based on the number of customers. Under the Customer/Demand Study, the remaining 25.5 percent of distribution mains investment is allocated based on design day demands. Although I disagree with the use of a minimum system approach to the allocation of distribution mains, if this approach is used and the 2-inch minimum system can meet 100 percent of the Residential customer design day demands, the allocation of the demand component of distribution mains investment must be adjusted to account for the portion of the minimum system that can meet Residential customer design day demands. Columbia's Customer/Demand Study fails to do this.

Q. MR. NOTESTONE AGREES WITH YOUR STATEMENT ON PAGE 16 OF YOUR DIRECT TESTIMONY THAT "MAINS INVESTMENT IS UNDERTAKEN WHEN ANNUAL GAS CONSUMPTION IS HIGH ENOUGH TO WARRANT THE INVESTMENT," BUT CLAIMS THAT THIS IS ONLY TRUE BECAUSE COLUMBIA'S RATE DESIGN INCLUDES A VOLUMETRIC BASE RATE. WHAT IS YOUR RESPONSE?



A. Mr. Notestone contends that removing throughput as a basis to recover mains investment would remove throughput as a factor in the Company's decision making to extend its distribution mains. If theoretically, throughput was removed as a factor in the Company's decision-making process to extend its distribution mains, it would remain appropriate to continue to include throughput in the allocation of distribution mains costs. Columbia's system was built on a decision-making process under which throughput was the most critical factor. Therefore, even if Columbia's volumetric rates were eliminated, throughput would have been the most critical factor in Company's distribution mains extension decision-making process and would be appropriately reflected in the allocation of distribution mains costs.

Q. MR. NOTESTONE ADDRESSES THE ALLEGED DIFFERENCES BETWEEN THE "PRINCIPLE OF COST CAUSALITY" WHICH YOU SUPPORT AND DISCUSS IN YOUR DIRECT TESTIMONY VERSUS THE "PRINCIPLE OF COST CAUSATION" HE DISCUSSES AND SUPPORTS IN HIS TESTIMONY FOR THE ALLOCATION OF DISTRIBUTION MAINS COSTS. PLEASE EXPLAIN THE ALLEGED DIFFERENCE.

A. Mr. Notestone contends that the "principle of cost causality" refers to the reason customer request gas service, and the "principle of cost causation" is based on cost incurrence.

Q. WHAT IS YOUR RESPONSE TO MR. NOTESTONE'S CLAIMS CONCERNING THESE DIFFERENCES?

A. Mr. Notestone explains that under the principle of cost causality, the reason a customer requests gas service is so that the customer can utilize that service 365 days a year, regardless of weather, and that Columbia installs distribution mains because the customer requests service and the customer only requests service if the customer can utilize the service 365 days a year. I agree with Mr. Notestone's definition of the principle of cost causality and note that, if a customer does not request gas service to meet their annual gas

requirements, the customer would not cause Columbia to incur any distribution mains costs.

Q. IN RESPONDING TO YOUR DIRECT TESTIMONY AND THAT OF I&E WITNESS MR. ETHAN CLINE, MR. NOTESTONE CONTENDS THAT THE COMMISSION HAS PREVIOUSLY REJECTED DISTRIBUTION MAINS ALLOCATIONS BASED ON THE NUMBER OF CUSTOMERS BECAUSE THE METHODS SUPPORTING THOSE ALLOCATIONS WERE PROBLEMATIC, STATISTICALLY FLAWED, OR INACCURATE, AND NOT BECAUSE AN ALLOCATION BASED ON THE NUMBER OF CUSTOMER WAS NOT PERSUASIVE. WHAT IS YOUR RESPONSE?

A. As explained by Mr. Notestone, the method previously rejected by the Commission to allocate distribution mains costs based on the number of customers used a zero-intercept model. In this proceeding Columbia has not used a zero-intercept model to determine the customer component of distribution mains. Columbia has used a minimum system model which used 2-inch mains as the minimum system to determine the customer component of distribution mains. The minimum system model used by Columbia assigns 79 feet of distribution mains to each customer. As indicated by Mr. Notestone the average footage of distribution mains installed to serve Columbia's 9 largest customers is 2,559 feet (Notestone Rebuttal, page 8 at 19-20). Therefore, the minimum system model used by Columbia in this proceeding is problematic and inaccurate.

Q. WHAT IS MR. NOTESTONE'S RESPONSE TO THE FACT THAT THE COMMISSION APPROVED THE PEAK & AVERAGE METHOD IN A 1994 NATIONAL FUEL GAS DISTRIBUTION CORPORATION ("NFGD") PROCEEDING?

A. Mr. Notestone claims that in approving the Peak & Average method in the 1994 NFGD base rate proceeding at Docket No R-00942991, NFGD only presented cost of service

studies using the Peak & Average method. He further contends that the Order in the 1994 NFGD case referenced a prior Commission Order in a NFGD proceeding (Docket No. R-901670) in which NFGD presented a Peak & Average Study which included a customer component of distribution mains. Mr. Notestone claims that the reason the Peak & Average Study which included a customer component of distribution mains was rejected was because the method used by NFGD to determine the customer component of distribution mains was flawed.

Q. WHAT IS YOUR RESPONSE TO MR. NOTESTONE?

A. In Philadelphia Gas Works, Docket No. R-0006931, 2007 Pa. PUC Lexis 46 (2007), the Commission found that mains allocations based on the number of customers were not acceptable.

Q. IN THIS PROCEEDING YOU PRESENT A COST OF SERVICE STUDY USING THE PROPORTIONAL RESPONSIBILITY (“PR”) METHOD RECENTLY UTILIZED BY COLUMBIA GAS OF MASSACHUSETTS (“CMA”), A FORMER AFFILIATE OF COLUMBIA. WHAT IS MR. NOTESTONE’S RESPONSE TO THIS STUDY?

A. Mr. Notestone contends that the PR study has no relevance to the current proceeding.

Q. WHAT IS YOUR RESPONSE?

A. In its most recent base rate proceeding in Massachusetts (D.P.U. 18-45), CMA filed one cost of service study which utilized the PR method. The PR method is described in my Direct Testimony and my Direct Testimony includes a cost of service study for Columbia utilizing the PR method. The PR method produces cost of service study results that are consistent with the Peak & Average method, and supports the reasonableness of the Peak & Average method.

Q. MR. NOTESTONE CLAIMS THAT THE COMPANY’S ASSIGNMENT OF DISTRIBUTION MAINS TO SEPARATE PRESSURE GROUPS SHOULD

NOT BE REJECTED AS YOU RECOMMEND IN YOUR DIRECT TESTIMONY. WHAT IS YOUR RESPONSE?

A. Mr. Notestone claims that Columbia's assignment of distribution mains to separate customer groups allows the Company to more accurately identify the specific mains being used to serve customers and determine the revenue responsibility for each class. As I noted in my Direct Testimony, customer-class revenue responsibility is based on net plant investment. Columbia's assignment determines revenue responsibility based on original plant investment costs. Therefore, Columbia's assignment of distribution mains costs should be rejected.

Q. MR. NOTESTONE NOTES THAT IN YOUR DIRECT TESTIMONY YOU CLAIM THAT CUSTOMERS SERVED FROM STEEL PIPES SHOULD HAVE LOWER COSTS THAN CUSTOMERS SERVED FROM PLASTIC PIPES, BUT IN YOUR PEAK & AVERAGE COST STUDY YOU DO NOT ACCOUNT FOR THIS DIFFERENCE. WHAT IS YOUR RESPONSE?

A. To account for this difference in my Peak & Average cost study, net plant investment information for steel and plastic pipe is required. Columbia has indicated that this information is not available.

Q. MR. NOTESTONE DISAGREES WITH YOUR PROPOSED ALLOCATION OF THE COSTS ASSOCIATED WITH MAJOR ACCOUNT REPRESENTATIVES THAT MANAGE LARGE INDUSTRIAL AND COMMERCIAL CUSTOMER ACCOUNTS. WHAT IS YOUR RESPONSE?

A. In my Direct Testimony, I recommended that the costs associated with Major Account Representatives be allocated to the Company's larger customer classes. Mr. Notestone claims that if Major Account Representative costs were only assigned to larger customers, it would be fair to then credit large customers to recognize that they do not use the Company's call center for bill inquiries as Residential customers do. Mr. Notestone fails

to acknowledge, however, that the Company has assigned the Residential class more than 90 percent of the Major Account Representative costs, compared to the assigning of only 0.02 percent to the larger customer classes for the costs associated with the Company's call center. As I stated in my Direct Testimony, this discrepancy is a result of the Company allocating these costs based on the number of customers. This method of allocation unreasonably places the overwhelming majority of these costs on the Residential class. Further, while large customers have account representatives, these customers may use the call center and emergency numbers for other purposes such as odors and leaks.

Q. IN CONCLUDING HIS REBUTTAL TESTIMONY, MR. NOTESTONE REITERATES THE COMPANY'S POSITION THAT THE CUSTOMER/DEMAND AND PEAK & AVERAGE STUDIES PRODUCE A REASONABLE RANGE TO DETERMINE A MAINS ALLOCATION FACTOR TO BE USED TO SET RATES IN THIS PROCEEDING. WHAT IS YOUR RESPONSE?

A. As indicated in this Surrebuttal Testimony and my Rebuttal and Direct Testimonies, the Customer/Demand Study is unreasonable because it produces results that do not reasonably reveal an accurate indication of class-allocated cost responsibilities. A study which is unreasonable and uses a method to allocate distribution mains costs which the Commission has previously determined to be unacceptable cannot be used to determine a range of reasonableness and Columbia's range of reasonableness argument should be rejected.

### **III. COLUMBIA GAS OF PENNSYLVANIA**

Witness: Melissa J. Bell

Q. MS. BELL ARGUES THAT YOUR CLAIM THAT COLUMBIA'S CUSTOMER CHARGE IS ALREADY THE HIGHEST IN THE COMMONWEALTH IS DISTORTED. WHAT IS YOUR RESPONSE?

A. Ms. Bell claims that difference in rate structures can distort comparisons when looking just at one component in isolation. She then presents a hypothetical example where a declining block rate structure effectively results in an increase in a utility's monthly customer charge. However, even if one were to consider the impact of a declining block rate structure, Ms. Bell presents no evidence to dispute my claim that Columbia's current monthly Residential customer charge is not already the highest in Pennsylvania.

Q. MS. BELL CLAIMS THAT IT IS NOT REASONABLE TO ASSUME THAT ITS \$6.25 INCREASE IN THE MONTHLY RESIDENTIAL CUSTOMER CHARGE WOULD NOT AFFECT A CUSTOMER'S DECISION TO INVEST IN CONSERVATION. WHAT IS YOUR RESPONSE?

A. Columbia is proposing to increase its current monthly Residential customer charge from \$16.75 to \$23.00. As indicated in my Direct Testimony, Columbia's current Residential customer charge is already the highest among the major NGDCs in the Commonwealth. The additional proposed increase would further increase the difference between Columbia's Residential customer charge and those of the other major NGDCs. With the strains on household budgets attributable to the economic conditions caused by the pandemic, increasing fixed charges limits the benefits Residential customers can realize from engaging in conservation actions and their ability to address budgetary strains. Promotion of energy conservation has been a longstanding energy policy of the Commonwealth. To promote the Commonwealth's policy goals to encourage conservation and provide the Residential customers of Pennsylvania's largest NGDCs comparable

opportunities to control their heating bills, Columbia's current monthly Residential customer charge should not be increased.

Q. MS. BELL CITES THE NISOURCE HISTORY IN OHIO TO SUPPORT HER CLAIM THAT THE COMPANY'S PROPOSED INCREASE IN THE MONTHLY RESIDENTIAL CUSTOMER WILL NOT ADVERSELY IMPACT CUSTOMER CONSERVATION EFFORTS. PLEASE SUMMARIZE THIS EXPERIENCE.

A. Ms. Bell claims that just prior to 2010, affiliate Columbia Gas of Ohio ("COH") adopted straight fixed variable rate ("SFV") design for Residential customers. Under a SFV rate design, 100 percent of base rate recovery is collected through customer charges. In 2010, the weather normalized annual usage of Residential customers was 86.6 Mcf per year. For the 12-months ended July 2020, weather normalized annual usage was 81.4 Mcf per year. Based on this experience, Ms. Bell contends that there is no indication that a small increase in the percentage of costs recovered through customer charges will cause an increase in consumption.

Q. WHAT IS YOUR RESPONSE?

A. First, it was not my testimony that a small increase in customer charges for Residential customer will cause an increase in consumption. It was my testimony that an increase in customer charge will reduce the incentive to engage in conservation efforts.

Second, COH's experience does not support the claim that increases in customer charges will not reduce the incentive for customers to engage in conservation activities. It would be expected that over time, the gas heating equipment and appliances used by Residential customers would be replaced due to retirement, failure, and new construction. This replacement heating equipment and appliances would be more energy efficient than the equipment retired from service. Therefore, normalized usage would be expected to decline regardless of customer charges. To demonstrate that higher customer charges do

not reduce customer conservation efforts, a comparison of the decline in usage for two NGDCs with similar size and operating characteristics and different customer charges would need to be provided. Ms. Bell has not provided such a comparison and, therefore, her claim that customer charges do not impact customer conservation efforts is unsupported.

Q. THE COMPANY OPPOSES YOUR RECOMMENDATION TO MAINTAIN THE 3 PERCENT WEATHER NORMALIZATION ADJUSTMENT (“WNA”) DEADBAND. WHAT IS THE BASIS FOR THIS OPPOSITION?

A. As explained in response to I&E witness Ethan H. Cline, Ms. Bell claims that having a deadband in place undermines the purpose of the WNA, which is the elimination of impact of weather on the Company’s revenues.

Q. WHAT IS YOUR RESPONSE TO MS. BELL’S CLAIM?

A. The WNA was not designed to eliminate the impact of weather on the Company’s revenues. The WNA was designed to mitigate the revenue impact of temperatures that are warmer or colder than normal. Other weather variables can influence customer usage levels such as windspeed and the percentage of sunshine on a particular day. In addition, factors such as day of the week influence customer usage levels. The current WNA does not account for variations in usage due to these other factors. Maintaining the 3 percent deadband assists in limiting revenue adjustments solely attributable to differences between actual and normal temperatures.

Q. IN YOUR DIRECT TESTIMONY YOU MENTION 14 FACTORS IDENTIFIED IN THE COMMISSION STATEMENT OF POLICY CONCERNING ALTERNATIVE RATEMAKING THAT ARE REQUIRED TO BE ADDRESSED BY A COMPANY MAKING AN ALTERNATIVE RATEMAKING PROPOSAL LIKE THE COMPANY’S PROPOSED REVENUE NORMALIZATION ADJUSTMENT (“RNA”) AND NOTED THAT



COLUMBIA DID NOT ADDRESS THESE 14 FACTORS. WHAT WAS MS. BELL'S RESPONSE AND WHAT IS YOUR RESPONSE?

A. Ms. Bell claims that her Direct Testimony indirectly addresses some of the factors relevant to the proposed RNA, and then proceeds to address 5 of the 14 factors. The 14 factors set forth in the Commission's Statement of Policy should have been directly addressed in Columbia's initial filing in this proceeding, not indirectly in the rebuttal phase. Indirectly addressing the 14 factors in the rebuttal phase severely reduces the ability of the parties, and subsequently, the Commission to evaluate Columbia's alternative ratemaking proposal.

Q. MS. BELL DISAGREES WITH YOUR CLAIM IN YOUR DIRECT TESTIMONY THAT THE COMPANY'S PROPOSED RNA SHOULD NOT BE ASSESSED TO CUSTOMERS WITH CONSTANT USAGE. WHAT IS YOUR RESPONSE?

A. Under the RNA, a benchmark revenue per Residential customer ("Benchmark Distribution Revenue per Bill" or "BDRB") would be established through a base rate case proceeding. The RNA would collect or refund any variation in total Residential revenues that differed from the BDRB and that are not due to differences between actual and normal weather. Therefore, it would be unreasonable to apply the RNA to those Residential customers whose usage is relatively constant overtime.

Q. MS. BELL ALSO DISAGREES WITH YOU THAT THE RNA IS EQUAL TO A "TAKE-OR-PAY" ARRANGEMENT. WHAT IS YOUR RESPONSE?

A. Under the proposed RNA, consumers would pay for distribution service they do and do not receive. No matter how much distribution service is actually purchased by Columbia's Residential customers, ultimately, under the proposed RNA, those customers would pay for the presumed level of service whether they take delivery or not. This is how take-or-pay arrangements are structured.

Q. FINALLY, MS. BELL DISAGREES WITH YOUR ASSERTION THAT COLUMBIA'S CURRENT SYSTEM OF RATES AND CHARGES ALREADY PROVIDES FOR REVENUE STABILITY. WHAT IS YOUR RESPONSE?

A. Ms. Bell claims that the Company's Purchased Gas Adjustment ("PGA") mechanism does not provide for revenue stability. This claim is misplaced. My testimony was referring to base rate revenue stability. The PGA mechanism provides for dollar-for-dollar recovery of Columbia's purchased gas costs which eliminates the impact of purchase gas costs on base rate revenue. In addition, Ms. Bell claims that the Company's DSIC is capped at 5 percent and, therefore, limits its usefulness. I would note that Columbia's current DSIC is 1.69 percent, and is not being fully utilized. Ms. Bell presents no evidence or analysis to demonstrate that Columbia's current system of rates and charges do not provide sufficient revenue stability. Therefore, her claim should be dismissed.

#### **IV. OFFICE OF SMALL BUSINESS ADVOCATE**

Witness: Robert D. Knecht

Q. BRIEFLY SUMMARIZE COLUMBIA'S PROPOSAL IN THIS PROCEEDING CONCERNING THE SUB-FUNCTIONALIZATION AND ALLOCATION OF DISTRIBUTION MAINS COSTS, YOUR DIRECT TESTIMONY ADDRESSING COLUMBIA'S PROPOSAL, AND WITNESS KNECHT'S VIEW OF YOUR RECOMMENDATION.

A. In my Direct Testimony I explained that, excluding the MLDS rate class, Columbia assigned the original cost of distribution mains investment to three categories: (1) Low Pressure; (2) Regulated Non-Low Pressure; and (3) Remaining Regulated Pressure. Each of these categories was then separately allocated to rate classes under the Company's Customer/Demand, Peak and Average, and Average ACOS Studies. I recommended that Columbia's sub-functionalization of distribution mains investment be rejected because it

failed to consider the net investment of each distribution mains category, and rates in this proceeding will be set based on net investment, not original costs. That is, it failed to assign older, more depreciated mains costs to the specific rate classes served by those mains. Mr. Knecht claims that my Peak & Average cost of service study fails to account for differences in the depreciated value of the mains serving each customer class.

Q. WHAT IS YOUR RESPONSE TO WITNESS KNECHT'S OBSERVATIONS CONCERNING THE SUB-FUNCTIONALIZATION OF MAINS?

A. In its cost of service studies, the Company did not account for differences in the depreciated value of the mains serving each customer class because that information was not available. Since this information is not available, I could not account for these differences in my cost study.

Q. MR. KNECHT NOTES THAT THE COMMISSION HAS PREVIOUSLY APPROVED THE USE OF CUSTOMER/DEMAND STUDIES FOR ELECTRIC DISTRIBUTION COMPANIES ("EDC"). WHAT IS YOUR RESPONSE?

A. Mr. Knecht has failed to recognize that the mains extension policies of NGDCs like Columbia have historically been different from the line extension policies of EDCs. Until recently, under Columbia's line extension policy, Columbia was under no obligation to extend its distribution mains unless the annual revenues expected to be realized from the extension exceed the amount of the related investment over a specified period of time. Therefore, there was no customer component of distribution mains for Columbia and annual volumes were the primary cost-causation factor to be considered. PPL Electric Utilities Corporation ("PPL"), an EDC cited by Mr. Knecht, is required to extend its distribution lines to a customer located up to 500 feet from PPL's current distribution lines

at no cost, and annual volumes are not a primary cost-causation factor.<sup>1</sup> Therefore, cost causation for service extensions for NGDCs and EDCs differ.

## **V. PENNSYLVANIA STATE UNIVERSITY**

Witness: James L. Crist

Q. WHAT IS MR. CRIST'S RESPONSE TO YOUR CLAIM THAT DISTRIBUTION MAINS COSTS SHOULD NOT BE ALLOCATED BASED ON THE NUMBER OF CUSTOMERS?

A. Mr. Crist explains that Pennsylvania's two largest cities, Philadelphia and Pittsburgh, are served by other NGDCs, and the Columbia System serves the suburbs of Pittsburgh along with numerous rural regions in Pennsylvania. Mr. Crist claims that the density of customers served by Columbia is less dense than if it served the major urban cities in the Commonwealth, and this justifies an allocation of the cost of distribution mains on a customer basis.

Q. WHAT IS YOUR RESPONSE?

A. Mr. Crist's claims are based on hypothetical assumptions. Table 2 in my Direct Testimony presents actual information concerning the extent to which Columbia was required to extend its mains to serve larger customers. On average, Columbia's Customer/Demand Study assigns 79 feet of mains to every customer. As shown on Table 2, Columbia was required to extend its system by much more than 79 feet to serve its largest customers, and as indicated previously, facilities were extended an average of 2,559 feet.

Q. MR. CRIST CLAIMS IT IS YOUR RECOMMENDATION THAT DISTRIBUTION MAINS BE ALLOCATED BASED ON AVERAGE DEMAND AND NOT PEAK DEMAND. IS THIS YOUR RECOMMENDATION?

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<sup>1</sup> PPL Electric Tariff, 10<sup>th</sup> Revised Page no. 8.

A. No. Mr. Crist has misread my testimony. I recommended that distribution mains should not be allocated entirely on peak demand. In fact, in the cost of service study I present in my Direct Testimony, distribution mains are allocated 50 percent based on peak demand.

Q. MR. CRIST CLAIMS THAT THE MARYLAND PUBLIC SERVICE COMMISSION (“MDPSC”) RECENTLY ISSUED AN ORDER IN A BALTIMORE GAS & ELECTRIC (“BGE”) BASE RATE CASE APPROVING THE ALLOCATION OF DISTRIBUTION MAINS BASED ON PEAK DEMAND. WHAT IS YOUR RESPONSE?

A. First, BGE serves customers under a number of interruptible rate schedules, and the peak demands used by BGE in its cost of service study allocates distribution mains costs based on non-coincident peak (“NCP”) demands, which is the peak demand of each customer class, regardless of whether that demand occurs at the time of the coincident design day peak (“CP”) demand. Columbia has allocated costs based on CP demands in its cost studies. Interruptible customers served by BGE would typically be curtailed during CP demand periods and would receive no allocation of distribution mains costs if distribution mains were allocated based on CP demands which would be unreasonable.

Second, in Washington Gas Light Company (“WGL”) Case No. 9322, the MDPSC found “...that the CCOSS and accompanying demand study were sufficient for purposes of rate design and that the Proposed Order fairly assigned costs to each customer class, including non-residential customer classes.” (Order No. 86013, Issued November 22, 2013). In that proceeding WGL’s cost of service study utilized the Peak & Average approach to the allocation of distribution mains I am proposing in this proceeding. In WGL’s base rate proceeding in Case No. 9481, the cost of service study presented by WGL again used the Peak & Average method to allocate distribution mains, and WGL’s cost of service study was accepted by the MDPSC (Order No. 88944, Issued December 11, 2018). In WGL’s most recent base rate application with the MDPSC (Case No. 9605), the cost of

service study filed by WGL in that application also utilized the Peak & Average method. That proceeding was resolved by settlement.

## **VI. COLUMBIA INDUSTRIAL INTERVENORS**

Witness: Frank Plank

Q. MR. PLANK IS VERY CONCERNED ABOUT YOUR PROPOSAL TO INCREASE THE RATES FOR LDS CUSTOMERS BY 36 PERCENT. WHAT IS YOUR RESPONSE?

A. Mr. Plank is concerned about the proposed increase because it would further escalate the rate increase already proposed by Columbia during very difficult economic conditions. The OCA agrees with Mr. Plank that these are very difficult economic times. Because of this, as indicated in the Direct Testimony of OCA witness Scott J. Rubin, it is the OCA's primary recommendation that:

As a consequence of the pandemic devastating the health and economy of the Commonwealth and the world, the Commission cannot rely on many of the assumptions made in Columbia's filing. It also would not be just or reasonable to impose a rate increase on customers at this time.

In my Direct Testimony, I indicated that if the Commission determines that the traditional base rate setting process should be followed in this proceeding, certain adjustments to the cost allocation proposal presented by Columbia were appropriate. One of these adjustments was to determine the proposed revenue distribution based on the OCA's Peak & Average Study. The increase I have proposed for LDS customers is based on the OCA's Peak & Average Study.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

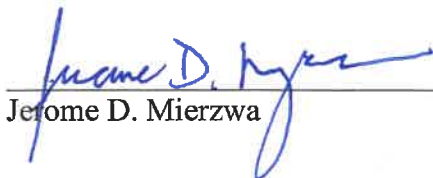
BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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 Surrebuttal Testimony, OCA Statement 4-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).

DATED: September 16, 2020  
\*296082

Signature:   
Jerome D. Mierzwa

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