I&E Statement No. 1-SR
Witness: John Zalesky

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2020-3018835

Surrebuttal Testimony

of

John Zalesky

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John Zalesky. My business address is Pennsylvania Public Utility Commission (Commission or PUC), Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation and Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME JOHN ZALESKY WHO SUBMITTED TESTIMONY IN I&E STATEMENT NO. 1 AND I&E EXHIBIT NO. 1?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Columbia Gas of Pennsylvania, Inc. (Columbia or Company) witnesses Kelley K. Miller,[1] Nancy J. D. Krajovic,[2] and Kimberly K. Cartella.[3]

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[1] Columbia Statement No. 4-R.
[2] Columbia Statement No. 9-R.
[3] Columbia Statement No. 15-R.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN ACCOMPANYING EXHIBIT?

A. No, but I refer to my direct testimony and its accompanying exhibit.[4]

Q. HAS COLUMBIA UPDATED ITS REVENUE INCREASE REQUEST?

A. Yes. The Company revised its revenue increase request from $100,437,420 to $100,366,797.[5] The Company's revisions were due to changes to the actual cost of long-term debt, budget billing modification costs, labor expense, and the 2020 Merit Increase Program.

Q. PLEASE SUMMARIZE YOUR UPDATED ADJUSTMENTS.

A. A summary of my updated recommended adjustments is shown below:

	Updated Company Claim	**Updated I&E Recommended Allowance**	**Updated I&E Adjustment**
Rate Case Expense	$1,060,000	$636,000	($424,000)
Labor Expense	$39,474,022	$36,420,494	($3,053,528)
Other Employee Benefits	$7,779,000	$7,278,032	($500,968)
Incentive Compensation	$2,267,000	$1,482,314	($784,686)
FICA Taxes	$3,001,823	$2,726,151	($275,672)
PUC, OCA, OSBA Fees	$2,262,000	$1,913,451	($348,549)
Total O&M Expense Adjustments			**($5,387,403)**

4 I&E Statement No. 1 and I&E Exhibit No. 1.
5 Columbia Statement No. 4-R, pp. 2-3.

SUMMARY OF OVERALL UPDATED I&E POSITION

Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT?

A. I&E's updated total recommended revenue requirement for the Company is $648,704,136. This recommended revenue requirement represents an increase of $75,934,562 to the Company's claimed present rate revenues of $572,769,574. This total recommended allowance incorporates my adjustments made in this testimony and those made in the testimony of I&E witnesses Christopher Keller.[6] The following table summarizes I&E's surrebuttal position:

Columbia Gas of PA Inc		TABLE I			
R-2020-3018835		INCOME	SUMMARY		
	12/31/21	INVESTIGATION & ENFORCEMENT			
	Proforma	[-----			-----]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	572,769,574	0	572,769,574	75,934,562	648,704,136
Deductions:					
O&M Expenses	336,662,770	-5,111,731	331,551,039	862,138	332,413,177
Depreciation	98,832,789	0	98,832,789		98,832,789
Taxes, Other	3,825,546	-275,672	3,549,874	0	3,549,874
Income Taxes:					
Current State	42,372	237,046	279,418	3,303,187	3,582,605
Current Federal	16,484,249	1,081,575	17,565,824	15,071,540	32,637,364
Deferred Taxes	0	0	0		0
ITC	-257,415	0	-257,415		-257,415
Total Deductions	455,590,311	-4,068,782	451,521,529	19,236,865	470,758,394
Income Available	117,179,263	4,068,782	121,248,045	56,697,697	177,945,742
Measure of Value	2,401,427,019	0	2,401,427,019	0	2,401,427,019
Rate of Return	4.88%		5.05%		7.41%

[6] I&E Statement No. 2, and I&E Statement No. 2-SR.

RATE CASE EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR RATE CASE EXPENSE.

A. In direct testimony, I recommended an allowance of $636,000, or a reduction of $424,000 to the Company's claim ($1,060,000 - $636,000).[7] I recommended a 20-month normalization period based on the Company's actual base rate filing history over the most recent four base rate cases.

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Miller responded to my recommendation.[8]

Q. SUMMARIZE MS. MILLER'S RESPONSE.

A. Ms. Miller states that Columbia has filed annual rate cases in recent years with few exceptions. Further, Columbia anticipates needing to file annual rate cases for the foreseeable future. Therefore, a normalization period of 12 months is appropriate.[9]

7 I&E Statement No. 1, pp. 4-7.
8 Columbia Statement No. 4-R, pp. 8-9.
9 Columbia Statement No. 4-R, p. 8.

Q. WHAT IS YOUR RESPONSE TO MS. MILLER'S ARGUMENT?

A. While it is true that Columbia has filed annual rate cases with few exceptions, recent history indicates that these exceptions have become more common. Using the filing frequency of the three most recent rate cases and the current rate case provides a more accurate basis for the normalization period, which is 20 months rather than the Company's claimed 12 month period.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. I continue to recommend an allowance of $636,000, or a reduction of $424,000 to the Company's claim ($1,060,000 - $636,000) for rate case expense.

<u>LABOR EXPENSE</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR LABOR EXPENSE.

A. I recommended an allowance of $36,516,506 for labor expense, or a reduction of $3,011,226 ($39,527,732 - $36,516,506) to the Company's claim. [10] My recommendation was based on (1) the rejection of an annualization adjustment of $497,691 and (2) an employee vacancy adjustment of 54 positions (6.44%). These adjustments determine an allowance amount that more accurately reflects what will be incurred in the FPFTY.

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[10] I&E Statement No. 1, pp. 7-12.

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION FOR LABOR EXPENSE?

A. Yes. Kelly K. Miller responded to my recommendation for the annualization adjustment[11] and Nancy J. D. Krajovic responded to my recommendation for the employee vacancy adjustment.[12] I will address each recommendation separately.

<u>Annualization Adjustment</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING THE PAY INCREASE ANNUALIZATION.

A. I recommended disallowance of the Company's entire as-filed claim of $497,691 for the pay increase annualization adjustment as included in the FPFTY labor expense claim.[13]

Q. DID THE COMPANY UPDATE ITS ANNUALIZATION ADJUSTMENT IN REBUTTAL TESTIMONY?

A. Yes. Company witness Kelley K. Miller states that the Company is revising its annualization adjustment from $497,691 to $546,602, for an increase of $48,911.[14]

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11 Columbia Statement No. 4-R, pp. 7-8.
12 Columbia Statement No. 9-R, pp. 18-19.
13 I&E Statement No. 1, pp. 8-10.
14 Columbia Statement No. 4-R, p. 8 and Exhibit KKM-3R, Column 2.

Q. WHAT WAS MS. MILLER'S RESPONSE TO YOUR RECOMMENDATION FOR THE PAYROLL ANNUALIZATION ADJUSTMENT?

A. Ms. Miller asserts that the Company annualizes labor expense in order to match annualized revenue, terminal rate base, and annualized expenses. She states that future wage increases are known for the FPFTY and that annual merit pay increases are expected to continue to occur in the FPFTY. Ms. Miller notes that cost recovery through base rates is not designed to recover expenses dollar-for-dollar like a reconciling tracker mechanism. Further, annualization of labor costs to end-of-year conditions was approved in the 2018 UGI Electric case.[15]

Q. DO YOU AGREE WITH MS. MILLER'S RESPONSE?

A. No. As stated in my direct testimony, by annualizing FPFTY pay increases, the Company is claiming the full labor expense that would occur if the variably occurring pay increases all occurred on day one of the FPFTY.[16] A revenue requirement calculated on this basis would recover an expense level for labor expense that will never be reached in the FPFTY. Therefore, the revised pay increase annualization adjustment of $546,602 is an unfair and unreasonable burden on ratepayers because the Company's revenue requirement does not accurately reflect FPFTY expenses. Further, I disagree with Ms. Miller's

[15] Columbia Statement No. 4-R, pp. 7-8.
[16] I&E Statement No. 1, p. 9.

comparison to a reconciling tracker mechanism, because it is simply inappropriate to include more expenses than will actually occur in the FPFTY. Finally, the Commission's decision to annualize labor costs to end-of-year conditions in the 2018 UGI Electric case does not ensure Columbia has proven its claim for an annualization adjustment in this base rate case.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR THE ANNUALIZATION ADJUSTMENT?

A. No. I continue to recommend disallowance of the Company's revised pay increase annualization amount of $546,602 as included in the Company's updated labor expense claim.

<u>Employee Vacancy Adjustment</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING THE EMPLOYEE VACANCY ADJUSTMENT.

A. In direct testimony, I calculated an employee vacancy rate of 54 employees by reviewing the Company's monthly history of vacant positions for the fiscal years 2017, 2018, and 2019 relative to the actual monthly employee count for the same time period. I calculated a monthly vacancy rate by dividing monthly employee counts by monthly vacancies, which I then averaged to determine annual vacancy rates for each year. Then, I averaged the three annual vacancy rates for a vacancy rate of 6.44%. Finally, I multiplied the vacancy rate by the FPFTY total budgeted positions of 839 to calculate 54 vacant positions (839 x 0.0644).[17]

Q. WHAT WAS COMPANY WITNESS KRAJOVIC'S RESPONSE TO YOUR RECOMMENDATION FOR THE EMPLOYEE VACANCY ADJUSTMENT?

A. Ms. Krajovic disagrees with my recommendation for the employee vacancy adjustment and notes that the Company has updated some of its schedules due to mathematical errors. She asserts that budgeted labor expense is driven largely by the Field Operations Work Plan that requires work to get done despite vacancies using overtime and contracted labor. Further, labor expense is based on projected headcount which is considered within the context of overtime and outside services being used to accomplish the tasks outlined in the Field Operations Work Plan. Ms. Krajovic recommends that my adjustment be rejected.[18]

Q. WHAT IS YOUR RESPONSE TO MS. KRAJOVIC'S ARGUMENT?

A. Based on the Company's data, a certain level of ongoing vacancies due to normal retirements, resignations, transfers, layoffs, etc., exist on a day-to-day operating basis.[19] It is, therefore, unreasonable to assume that the Company will maintain 100% full staffing in the FPFTY. Further, there will always be search and

[17] I&E Statement No. 1, pp. 10-11 and I&E Exhibit No. 1, Schedule 3 PROPRIETARY.
[18] Columbia Statement No. 9-R, pp. 18-19.
[19] I&E Exhibit No. 1, Schedule 3, p. 6 PROPRIETARY.

placement time involved in filling employee vacancies as per the Company's vacancy-filling or hiring procedures.[20]

The Company failed to reflect a reduction in its budgeted amounts due to ongoing vacancies in the labor cost. Further, it has not been clearly demonstrated how the use of contractors or overtime when such means were necessary to meet the Company's needs has not already been reflected in the Company's claim amounts, since the Company's historic results included vacancies that would have presumably included the corresponding impact to contract labor and overtime as necessary to meet field work requirements.

Furthermore, the Company's argument that vacant positions automatically increase outside contract work by an equal amount of payroll costs that would otherwise be incurred is unsupported.

Q. HAS MS. MILLER MADE ANY CHANGES TO THE COMPANY'S AS-FILED LABOR EXPENSE CLAIM?

A. Yes. In rebuttal testimony, Ms. Miller revised the pay increase annualization adjustment from $497,691 to $546,602 (as discussed above) as well as other items (e.g., lobbying adjustment, etc.).[21] Also, Ms. Krajovic provided updated labor data based on corrected errors and revisions.[22] These changes result in an updated labor expense claim of $39,474,022.

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[20] I&E Exhibit No. 1, Schedule 3, p. 5 PROPRIETARY.
[21] Columbia Exhibits KKM-3R and KKM-4R.
[22] Columbia Exhibit NJDK-5R.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR LABOR EXPENSE?

A. Yes. I continue to recommend an employee vacancy adjustment, however, with a revised number of vacant positions of approximately 53 as calculated below, based on the Company's updated labor expense claim.[23]

Q. SUMMARIZE YOUR UPDATED RECOMMENDATION FOR LABOR EXPENSE.

A. I recommend an updated allowance for labor expense of $36,420,494, or a reduction of $3,053,528 ($39,474,022 - $36,420,494) to the Company's updated claim. My total adjustment is composed of (1) disallowance of the annualization adjustment of $546,602 and (2) a vacancy adjustment of $2,506,926.

Q. HOW DID YOU CALCULATE YOUR UPDATED RECOMMENDATION?

A. The following table shows my updated calculation of adjusted labor expense:

FPFTY Labor Expense Claim – Updated	$39,474,022
Less Annualization Adjustment – Updated	-$546,602
Adjusted FPFTY Labor Expense – Updated	$38,927,420

[23] Columbia Exhibit NJDK-5R, p. 3.

I updated my recommended vacancy adjustment by incorporating the Company's updated FPFTY employee count of 822, which is shown in the table below to show my updated adjusted payroll expense:

	CALCULATION	RESULT
VACANCY RATE:		
Average Vacancy Rate for 2017, 2018, and 2019		6.44%
Updated FPFTY Employee Count		822
Projected Employee Vacancies (rounded)	822 x 0.0644	53
PAYROLL EXPENSE:		
FPFTY Adjusted Payroll Expense	\$39,474,022 - \$546,602	\$38,927,420
Average per Employee Payroll Cost	\$38,927,420 ÷ 822	\$47,357
Total Payroll Claim Reduction for Vacancies	\$38,927,420 x 0.0644 (\$47,357 x 53, approximately)	\$2,506,926

<u>OTHER EMPLOYEE BENEFITS</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR OTHER EMPLOYEE BENEFITS?

A. In direct testimony, I recommended an allowance of \$7,278,032 for other employee benefits expense, or a reduction of \$500,968 (\$7,779,000 - \$7,278,032) to the Company's claim.[24] My recommendation was based on the vacancy adjustment of 54 employees as discussed above in the Labor Expense section. I multiplied the FPFTY other employee benefits expense claim of \$7,779,000 by my

[24] I&E Statement No. 1, pp. 12-14.

recommended employee vacancy rate based on 54 employees (a 6.44% vacancy rate) which produced a recommended reduction of $500,968 ($7,779,000 x 0.0644).

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Nancy J. D. Krajovic responded to my recommendation.[25]

Q. SUMMARIZE MS. KRAJOVIC'S RESPONSE.

A. Ms. Krajovic analyzes Other Employee Benefits actual versus budgeted amounts for 2017 through 2019. She argues that there is not a corresponding underspend in budgeted versus actual expense for this category. She notes that two of the three years actually exceeded budget. She further asserts that actual amounts spent for this category can vary from budget for reasons other than headcount (i.e., insurance premiums and actual payouts), and therefore, my proposed adjustment should be rejected.

Q. DO YOU AGREE WITH MS. KRAJOVIC'S RESPONSE?

A. No. My argument for the vacancy adjustment as discussed above applies equally to employee benefits expense and a corresponding adjustment is necessary to

[25] Columbia Statement No. 9-R, pp. 19-20.

reflect an accurate expense amount for ratemaking purposes. Further, although two of the last three years exceeded the budget (2017 was 124 over budget; and 2019 was 80 over budget), the year that did not (2018 was 429 under budget) far outweighed the other two years combined.[26]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. I continue to recommend an allowance of $7,278,032, or a reduction of $500,968 ($7,779,000 - $7,278,032) to the Company's claim for other employee benefits expense.

<u>INCENTIVE COMPENSATION</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR INCENTIVE COMPENSATION?

A. In direct testimony, I recommended an allowance of $1,893,251 for incentive compensation, or a reduction of $373,749 ($2,267,000 - $1,893,251) to the Company's claim.[27] My recommendation was based on a three-year historic average of incentive compensation payouts due to the variability in incentive payouts on an annual basis and because there is no guarantee of the highest percentage payout in a given year.

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[26] Columbia Exhibit NJDK-1.
[27] I&E Statement No. 1, pp. 14-17.

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witnesses Kimberly K. Cartella[28] and Nancy J. D. Krajovic[29] responded to my recommendation for employee incentive compensation expense.

Q. SUMMARIZE MS. CARTELLA'S RESPONSE.

A. Ms. Cartella asserts that my adjustment based on historical results departs from the principles of a FPFTY claim. She also states that incentive compensation is based on numerous factors such as customer, safety, and financial metrics and individual employee contributions and performance.

Q. WHAT IS YOUR RESPONSE TO MS. CARTELLA'S ARGUMENT?

A. I disagree with Ms. Cartella's assertion that my adjustment departs from the principles of a FPFTY claim. Without adequate justification for an FPFTY claim it is reasonable to rely on historical data, particularly when there is no guaranteed full payout in any given year and as a result the amount can fluctuate from year to year. Therefore, it is more appropriate to rely on historical data for a just and reasonable estimate.

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[28] Columbia Statement No. 15-R, pp. 4-9.
[29] Columbia Statement No. 9-R, pp 20-22.

Q. SUMMARIZE MS. KRAJOVIC'S RESPONSE.

A. Ms. Krajovic echoes Ms. Cartella's concerns that using historical averages disregards the fact that the Company is using a FPFTY and that actual incentive compensation awarded is dependent upon many factors. Ms. Krajovic also notes that incentive compensation is paid as a percentage of base pay, so using a three-year historical average is out of sync with payroll growth. Further, Ms. Krajovic identifies an inconsistency in the numbers used in my calculation, mixing historical incentive compensation for the twelve months ended (TME) November 30, 2017 and TME November 30, 2018 with the normalized expenses for TME November 30, 2019. She recommended that I be consistent in this regard. Alternatively, Ms. Krajovic calculated the historical payout percentage of 5.8% and applied it to the FPFTY labor expense claim which approximated the Company's FPFTY claim for incentive compensation. Therefore, Ms. Krajovic recommended that my adjustment be rejected.

Q. WHAT IS YOUR RESPONSE TO MS. KRAJOVIC'S ARGUMENT?

A. I disagree with Ms. Krajovic's assertion that my historical average is out of sync with payroll growth. Incentive compensation has decreased as labor expense has increased. Based on this example, it appears that incentive compensation is not correlated with labor expense as suggested. Below is an expanded version of the table from Ms. Krajovic's rebuttal testimony[30] which includes incentive compensation and labor expense.

Twelve Months Ended	Per Books Labor Expense	Incentive Compensation (Columbia Ex. 4, Sch. 1, p. 2)	Percentage Payout (Incentive Compensation ÷ Labor Expense)
11/30/17	$30,125,334	$2,682,071	8.90%
11/30/18	$32,215,808	$1,521,149	4.72%
11/30/19	$36,130,190	$1,472,179	4.07%
Total	$98,471,332	$5,675,399	5.76%
Average	$32,823,777	$1,891,800	5.76%

Incentive compensation has decreased significantly over the most recent historical years, both in dollars and percentage of labor expense. In fact, incentive compensation as a percentage of labor expense has decreased by more than half, going from 8.90% in the TME November 30, 2017 to 4.07% in the TME November 30, 2019. Given these considerations, it would be inappropriate to use a historical payout percentage to estimate FPFTY incentive compensation.

30 Columbia Statement No. 9-R, p. 21.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. Yes. I recommend an updated allowance of $1,482,314, or a reduction of $784,686 ($2,267,000 - $1,482,314) to the Company's claim for incentive compensation.

Q. WHAT IS THE BASIS OF YOUR UPDATED RECOMMENDATION?

A. I accept the Company witnesses' points in this instance about not basing my recommendation on a three-year historic average of incentive compensation dollars and have updated my recommendation to reflect the most recent incentive compensation payout of 4.07%, since the percent has declined year after year from 8.90% to 4.72% between 2017 and 2018, then to 4.07% in 2019. This downward trend suggests that the most recent year is reasonable.

Q. HOW DID YOU CALCULATE YOUR UPDATED RECOMMENDATION?

A. I multiplied my recommended labor expense allowance of $36,420,494 by 4.07%, the most recent payout percentage, to calculate my updated recommended allowance for incentive compensation of $1,482,314 ($36,420,494 x 4.07%). Given the decreasing trend of incentive compensation payout it is prudent to use the most recent payout percentage of 4.07% as opposed to the Ms. Krajovic's historic average payout percentage recommendation. Finally, my recommendation of $1,482,314 is higher than the 2019 actual payout.

FICA TAXES

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR FICA TAX EXPENSE?

A. In direct testimony, I recommended a FICA tax expense allowance of $2,758,704 or a reduction of $243,119 ($3,001,823 - $2,758,704) to the Company's claim.[31] My recommended adjustments to labor expense and incentive compensation necessitated a corresponding reduction to the Company's FICA tax expense. In determining my recommended adjustment, I applied the Company's HTY FICA experienced rate of 7.1823%.[32] I multiplied my recommended total reduction to labor expense and incentive compensation of $3,384,975 ($3,011,226 + $373,749) by the Company's HTY FICA experienced rate of 7.1823% to determine my recommended reduction of $243,119 ($3,384,975 x 7.1823%) to FICA tax expense.

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. No. However, Company witnesses Kelley K. Miller,[33] Nancy J. D. Krajovic,[34] and Kimberly K. Cartella[35] indirectly responded to my recommendation by addressing the underlying adjustments of labor expense and incentive compensation as

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[31] I&E Statement No. 1, pp. 17-19.
[32] Columbia Exhibit No. 106, Schedule 2, p. 3.
[33] Columbia Statement No. 4-R, pp. 7-8.
[34] Columbia Statement No. 9-R, pp. 18-22.
[35] Columbia Statement No. 15-R, pp. 4-9.

discussed above. Only Ms. Krajovic mentioned my corresponding payroll tax adjustment pertaining to incentive compensation but did not address it specifically.[36]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR FICA TAXES?

A. Yes.

Q. WHAT IS YOUR UPDATED RECOMMENDATION FOR FICA TAXES?

A. I recommend an updated allowance for FICA taxes of $2,726,151, or a reduction of $275,672 ($3,001,823 - $2,726,151) to the Company's claim.

Q. WHAT IS THE BASIS FOR YOUR UPDATED RECOMMENDATION?

A. I continue to recommend a reduction to the Company's FICA tax expense claim. However, my recommendation is revised due to my updated labor expense and incentive compensation recommendations.

Q. HOW DID YOU COMPUTE YOUR UPDATED RECOMMENDATION FOR FICA TAXES?

A. I multiplied my updated recommended total reduction to labor expense and

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[36] Columbia Statement No. 9-R, p. 20, lines 10-11.

incentive compensation of $3,838,214 ($3,053,528 + $784,686) by the Company's HTY FICA experienced rate of 7.1823% to determine my recommended reduction of $275,672 ($3,838,214 x 7.1823%) to FICA tax expense.

PUC, OCA, OSBA FEES

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR PUC, OCA, OSBA FEES ("PUC ASSESSMENTS")?

A. In direct testimony, I recommended an allowance of $1,805,024, or a reduction of $456,976 to the Company's claim ($2,262,000 - $1,805,024).[37] I based my recommendation on the most recent general assessment notice of $1,805,024 because it is more prudent to rely on the most up-to-date data for PUC assessments. Further, due to the current pandemic the present moment is a special time without historical precedence and using the most recent assessment is reasonable because it is lower than other recent years.[38]

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Krajovic responded to my recommendation.[39]

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[37] I&E Statement No. 1, pp. 19-21.
[38] I&E Exhibit No. 1, Schedule 8, p. 2.
[39] Columbia Statement No. 9-R, pp. 22-23.

Q. SUMMARIZE MS. KRAJOVIC'S RESPONSE.

A. Ms. Krajovic declares that the basis of my adjustment as it related to the pandemic is unsubstantiated conjecture. Ms. Krajovic asserts that it is just as likely that costs may increase due to additional costs attributed to COVID-19. Therefore, my proposed adjustment should be rejected.

Q. WHAT IS YOUR RESPONSE TO MS. KRAJOVIC'S ARGUMENT?

A. I accept Ms. Krajovic's point that costs attributed to COVID-19 are uncertain and in my updated recommendation I am not taking potential changes to PUC assessments related to the pandemic into consideration. Nevertheless, I continue to recommend that the most recent general assessment factors should be used to calculate an appropriate allowance.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. Yes. I recommend an allowance of $1,913,451, or a reduction of $348,549 ($2,262,000 - $1,913,451) to the Company's claim for PUC assessments.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. Based on the 2020-2021 PUC assessment factors just released from the PUC fiscal office I calculated the allowance amount by multiplying FTY revenues (2020 revenues) by the PUC -approved assessment factors for 2020-21.[40] Assessments for a given year are based on multiplying assessment factors by prior year revenues as reported in annual reports submitted to the Commission each year. Therefore, the proper allowance should be produced by multiplying FTY revenues by the current assessment factor.

Q. HOW DID YOU CALCULATE YOUR UPDATED RECOMMENDATION?

A. First, I calculated the 2020-21 total assessment factor of 0.003341127043 by adding the individual assessment rates for the PUC, OSBA, OCA, and DPC (0.002750034807 + 0.000147364448 + 0.000426214848 + 0.000017512940, respectively). Next, I multiplied the FTY claimed revenues of $572,696,261[41] by the 2020-21 total assessment factor of 0.003341127043 to calculate my updated recommendation of $1,913,451 ($572,696,261 x 0.003341127043).

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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[40] PA PUC Public Meeting Thursday, August 27, 2020 (DS) Agenda Nos. 3021324-ADM, 3021326-ADM, 3021327-ADM, 3021328-ADM, 3021329-ADM, 3021331-ADM.

[41] Columbia Exhibit No. 102, Schedule 3, p. 3.

I&E Statement No. 2-SR
Witness: Christopher Keller

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2020-3018835

Surrebuttal Testimony

of

Christopher Keller

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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<u>INTRODUCTION OF WITNESS</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christopher Keller. My business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME CHRISTOPHER KELLER WHO IS RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address statements made by Columbia Gas of Pennsylvania, Inc. (Columbia or Company) witness Paul R. Moul (Columbia Statement No. 8-R) and Office of Consumer Advocate (OCA) witness Kevin W. O'Donnell (OCA Statement No. 3R) in their rebuttal testimony regarding rate of return topics including the cost of common equity and the overall fair rate of return, which will be applied to the Company's rate base. I will also address the Company's risk of bypass discussed by Mr. Moul and the Company's management performance claim discussed by Mr. Moul and Company witness Andrew S. Tubbs (Columbia Statement No. 1-R).

Q. DID THE COMPANY PROVIDE AN UPDATE TO ITS RATE OF RETURN?

A. Yes. The Company provided an update to its cost of long-term debt. The Company is now requesting a cost of long-term debt of 4.73% to reflect the cost of a new issue of promissory notes issued in March 2020 (Columbia Statement No. 8-R, p. 6, lines 17-18). The Company's update to its cost of long-term debt is an increase of 0.03% (4.73% - 4.70%) to its initial claim of 4.70%. It should be noted that although Mr. Moul provided an update to his cost of equity to due to events around the COVID-19 pandemic which would have resulted in an increase in the Company's cost of equity by 0.72%, he does not propose to change his recommendation and continues to recommend a cost of equity of 10.95% (Columbia Statement No. 8-R, pp. 6-10). Below is the Company's updated rate of return claim (Columbia Exhibit No. 400 (Updated), Schedule 1, p. 1):

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
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	100.00%		8.00%

SUMMARY OF MR. MOUL'S REBUTTAL TESTIMONY

Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RECOMMENDATIONS MADE IN DIRECT TESTIMONY.

A. Mr. Moul disputes my recommendations regarding an appropriate proxy group, the use of methods other than the Discounted Cash Flow (DCF), the DCF growth rate, disallowance of his leverage adjustment, the Capital Asset Pricing Model (CAPM) risk-free rate, rejection of his leverage adjusted betas, disallowance of his size adjustment, and my disagreement with his use of the Risk Premium (RP) and Comparable Earnings (CE) methods. Additionally, Mr. Moul opines that the Commission-determined Distribution System Improvement Charge (DSIC) rates should serve as the bare minimum cost of equity in this proceeding. Finally, Mr. Moul disputes my comments regarding the Company's risk of bypass, the potential loss of the weather normalization adjustment, and my recommended disallowance of additional basis points for management effectiveness.

SUMMARY OF MR. O'DONNELL'S REBUTTAL TESTIMONY

Q. SUMMARIZE MR. O'DONNELL'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RECOMMENDATIONS MADE IN DIRECT TESTIMONY.

A. Mr. O'Donnell disputes my recommendations regarding an appropriate proxy group, capital structure, the DCF growth rate, and the CAPM expected return on the overall stock market.

DSIC RATES

Q. PLEASE SUMMARIZE MR. MOUL'S THEORY THAT DSIC RATES SHOULD SERVE AS THE MINIMUM AUTHORIZED COST OF EQUITY IN THIS PROCEEDING.

A. Mr. Moul claims that the cost of equity in a rate case should not be lower than the Company's DSIC rate. He makes this assertion on the basis that: (1) investments carrying the DSIC return should not be penalized with a lower return when they are included in rate base when setting base rates; and (2) DSIC investments receive a 'true-up' such that the achieved returns on DSIC investments equal the intended returns in those proceedings and that there is no true-up of the achieved return in a rate case. Mr. Moul suggests there is additional risk associated with achieving a particular return in base rates because there is no true up (Columbia Statement No. 8-R, pp. 11-12).

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S ASSERTION THAT THE COMPANY'S DSIC RATE SHOULD SERVE AS THE MINIMUM AUTHORIZED COST OF EQUITY IN THIS PROCEEDING?

A. Mr. Moul's comparison between the I&E recommended return on equity in this proceeding and the Company's DSIC rate is misguided. The DSIC return for utilities is calculated differently than the equity return in a base rate case and does not represent the full scope of risk for a given utility company. The DSIC rate is designed to encourage its use and to incentivize accelerated pipeline replacement and infrastructure upgrades to bring the existing aging infrastructure closer to meeting safety and reliability requirements in between base rate filings. To suggest the cost of equity must be at or above the DSIC rate in this base rate proceeding is inappropriate and not in the public interest. Additionally, the DSIC rate establishes a benchmark above which a utility company is considered "overearning." As such, the DSIC rate does not serve as a proper measurement of a subject utility's cost of equity in a rate case proceeding. In fact, 66 Pa. C.S. § 1358(b)(3) states the following:

> The distribution system improvement charge shall be reset at zero if, in any quarter, data filed with the commission in the utility's most recent annual or quarterly earnings report show that the utility will earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the distribution system improvement charge.

Finally, the DSIC mechanism serves to lower a utility's risk because it reduces the lag time in the recovery of its capital outlays.

PROXY GROUP

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR PROXY GROUP.

A. Mr. Moul opines that using the percentage of revenue as a criterion for a proxy group is incorrect and that the percentage of gas assets to total assets is a more appropriate criterion because the margins of utility-based activities are not comparable to that of non-utility business segments (Columbia Statement No. 8-R, pp. 15-16).

Q. DO YOU AGREE WITH MR. MOUL'S ASSERTION THAT THE PERCENTAGE OF GAS UTILITY ASSETS TO TOTAL ASSETS IS A MORE APPROPRIATE CRITERION?

A. No. Calculating the percentage of utility assets that make up the total assets of a company is not always a reliable way of determining if a business is primarily a regulated utility. Assets are accounted for at the original cost minus depreciation, which means that the value of an asset depends on its age. Therefore, it is possible for the regulated utility segment of a company to predominately have assets that are depreciated. Although a utility may have assets that are significantly depreciated, it does not always indicate the level of business a company does. A parent company can have most of its utility assets depreciated but still do more business as a utility than it does in another business segment.

Another reason that the percentage of utility business is not always accurately represented by using the percentage of utility assets to total assets is that there are differences between businesses in the amount of capital needed. A utility with all new equipment may need a large amount of assets to produce a small level of cash flow while another business may need only a small amount of assets to produce a large level of cash flow. Therefore, comparing the assets of a gas utility segment to the total assets of a company is not an appropriate criterion.

Q. MR. MOUL ARGUES THAT YOUR CRITERION THAT 50% OR MORE OF REVENUE MUST BE GENERATED FROM THE GAS UTILITY INDUSTRY FOR INCLUSION IN THE PROXY GROUP IS NOT APPROPRIATE. DO YOU AGREE?

A. No. Revenues represent the percentage of cash flow a company receives from each business line related to providing a good or service. If fewer than 50% of revenues come from the regulated gas business sector, a company is not comparable to the subject utility as it does not provide a similar level of regulated business (I&E Statement No. 2, p. 10).

Q. OUT OF THE TWO COMPANIES THAT MR. MOUL USES IN HIS PROXY GROUP THAT YOU DO NOT USE IN YOURS, WHICH OF THE TWO WERE EXCLUDED FOR FAILING TO MEET THE CRITERION THAT 50% OR MORE REVENUES MUST BE GENERATED FROM THE GAS UTILITY INDUSTRY?

A. As explained in my direct testimony, both companies, New Jersey Resources Corp. and Southwest Gas Holdings, Inc. were excluded for not meeting my criterion that 50% or more of revenues must be generated from regulated gas utility operations (I&E Statement No. 2, p. 10). There were other companies that did not meet this criterion as well, however, they were previously eliminated for not meeting one of the other criteria required to be included in my proxy group.

Q. SUMMARIZE MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING YOUR PROXY GROUP.

A. Mr. O'Donnell opines that due to the limited number of available gas utilities as a result of mergers and acquisitions, he chose not to eliminate the entire proxy group provided by Value Line and that the removal of companies from a proxy group is subjective and can result in data integrity issues (OCA Statement No. 3R, pp. 6-7).

Q. WHAT IS YOUR RESPONSE TO MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING YOUR PROXY GROUP?

A. As stated in my direct testimony, the criterion for my proxy group was designed to select companies that are most like the gas distribution company subject in this proceeding (I&E Statement No. 2, p. 7). Additionally, as I stated in response to Mr. Moul above, revenues represent the percentage of cash flow a company receives from each business line related to providing a good or service. If fewer than 50% of revenues come from the regulated gas business sector, a company is not comparable to the subject utility as it does not provide a similar level of regulated business (I&E Statement No. 2, p. 10).

Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING WHICH COMPANIES SHOULD BE INCLUDED TO PRODUCE A PROPER PROXY GROUP?

A. Yes. Mr. O'Donnell utilizes the same nine company proxy group as Mr. Moul;

however, he also performs a stand-alone analysis directly on NiSource, Inc. (OCA Statement No. 3, p. 21). For the same reasons discussed by Mr. Moul, I believe such a stand-alone analysis is inappropriate and unnecessary (Columbia Statement No. 8-R, p. 15).

Q. DO YOU HAVE ANY CHANGES TO YOUR PROXY GROUP?

A. No. For the reasons discussed above, the percentage of revenue is an appropriate criterion. As New Jersey Resources Corp. and Southwest Gas Holdings, Inc. include an insufficient percentage of regulated gas revenues, they should not be included in the proxy group and compared to Columbia.

CAPITAL STRUCTURE

Q. SUMMARIZE MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING YOUR CAPITAL STRUCTURE RECOMMENDATION.

A. Mr. O'Donnell disagrees with my acceptance of the Company's capital structure and asserts that his capital structure recommendation of 50% common equity and 50% debt should be used as the average of his common equity ratios for 2019 was 50.70%, which is comparable to the companies in his proxy group as well as the average common equity ratios granted to utilities across the country (OCA Statement No. 3R, p. 11).

Q. WHAT IS YOUR RESPONSE TO MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING CAPITAL STRUCTURE?

A. My position remains unchanged from the arguments made in my direct testimony. The Company's claimed capital structure falls within the range of my proxy group's 2019 capital structures, which differs from Mr. O'Donnell's proxy group for the reasons mentioned above. The 2019 range consists of long-term debt ratios ranging from 33.18% to 53.48% and equity ratios ranging from 32.78% to 59.01%, with a five-year average of 40.29% for long-term debt and 47.60% for common equity. Although the Company's short-term debt is below the 2019 range of 4.77% to 19.65%, it is within the range for the five-year period 2015-2019 for short-term debt of 0.41% to 26.85% (I&E Statement No. 2, p. 12).

DISCOUNTED CASH FLOW

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR DCF ANALYSIS.

A. Mr. Moul agrees that the results of a DCF analysis should be given weight but disagrees with my approach. Mr. Moul disagrees with my results based on the outcomes of certain individual companies and disputes the growth rate I used. He further disagrees with my recommendation to reject his leverage adjustment (Columbia Statement No. 8-R, pp. 16-23).

<u>EXCLUSIVE USE OF THE DCF</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR USE OF THE DCF.

A. Mr. Moul explains that the use of more than one method provides a superior foundation for the cost of equity determination. Mr. Moul claims that the use of more than one method will capture the multiplicity of factors that motivate investors (Columbia Statement No. 8-R, pp. 16-17).

Q. WERE ANY METHODS OTHER THAN THE DCF EMPLOYED IN YOUR ANALYSIS?

A. Yes. Although my recommendation was based primarily on the results of my DCF analysis, I also employed the CAPM as a comparison. The result of my DCF analysis is 9.86% while the result of my CAPM analysis is 8.72%, both of which are significantly lower than the Company's claim of 10.95%. For the reasons discussed in my direct testimony, the DCF method is the most reliable (I&E Statement No. 2, pp. 17-18). I have considered the fact that no method can perfectly predict the return on equity, which is why I also use the CAPM as a comparison to the DCF. Although no one method can capture every factor that influences an investor, including the results of methods less reliable than the DCF does not make the end result more reliable or more accurate. As a result, I stand by my method of using the DCF with a CAPM comparison which is consistent with the methodology historically used by the Commission in base rate proceedings, even as recently as 2017, 2018, and 2020.[1]

EVALUATING THE DCF BASED ON INDIVIDUAL RESULTS

Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY REGARDING THE RESULTS OF YOUR DCF?

A. Mr. Moul argues that when some results are unreasonable on their face, the application or the reliability of that method must be questioned. He points to the results of one of my proxy group companies and claims that they fall into that category. Mr. Moul attempts to support his argument by asserting that I erroneously removed Value Line's growth projection for Northwest Natural Gas, explaining that my removal of Northwest Natural Gas was one-sided due to its high growth rate, and had I left this estimate in my analysis, my overall DCF analysis would have yielded a higher result (Columbia Statement No. 8-R, pp. 18-20).

[1] *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150 (Order Entered March 28, 2017). *See generally* Disposition of Cost Rate Models, pp. 96-97; *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Cost of Common Equity, p. 119; *Pa. PUC v. Wellsboro Electric Company;* Docket No. R-2019-3008208 (Order Entered April 29, 2020). *See generally* Disposition of Primary Methodology to Determine ROE, pp. 80-81; *Pa. PUC v. Citizens Electric Company of Lewisburg, PA;* Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 91-92.

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S ATTEMPT TO DISAGGREGATE YOUR RESULTS?

A. Generally, to remove individual companies or data points based solely on the results creates a bias and can be described as tampering with market-based results. I chose criteria for my proxy group with the intention of creating a group that is comparable to Columbia, and then calculated a DCF from the companies that fit my criteria. Admittedly, as discussed in greater detail below, I have removed the Value Line projected earnings growth rate for Northwest Natural Gas from my overall projected growth rate average as I believed it had hindered my ability to conduct a reasonable and fair analysis.

As for Mr. Moul's assertion that my removal of Northwest Natural Gas was one-sided due to its high growth rate and I did not remove any low growth rates, I&E has previously removed growth estimates in its analysis that would have lowered a company's return on equity calculation. For both PECO Energy Company – Electric Division (at Docket No. R-2018-3000164) and Duquesne Light Company (at Docket Nos. R-2018-3000124 and R-2018-3000829), I&E removed all growth estimates that had negative growth projections. I&E believed that the growth projections for some of the proxy companies in those proceedings were extremely inconsistent and would have had an unnecessary and unwarranted negative impact on its DCF analysis, which would have adversely affected the recommended cost of common equity. While I understand the purpose of a proxy group is to smooth out anomalies, I believe it is reasonable to remove extreme abnormalities based on proper objectivity and professional judgement.

GROWTH RATE

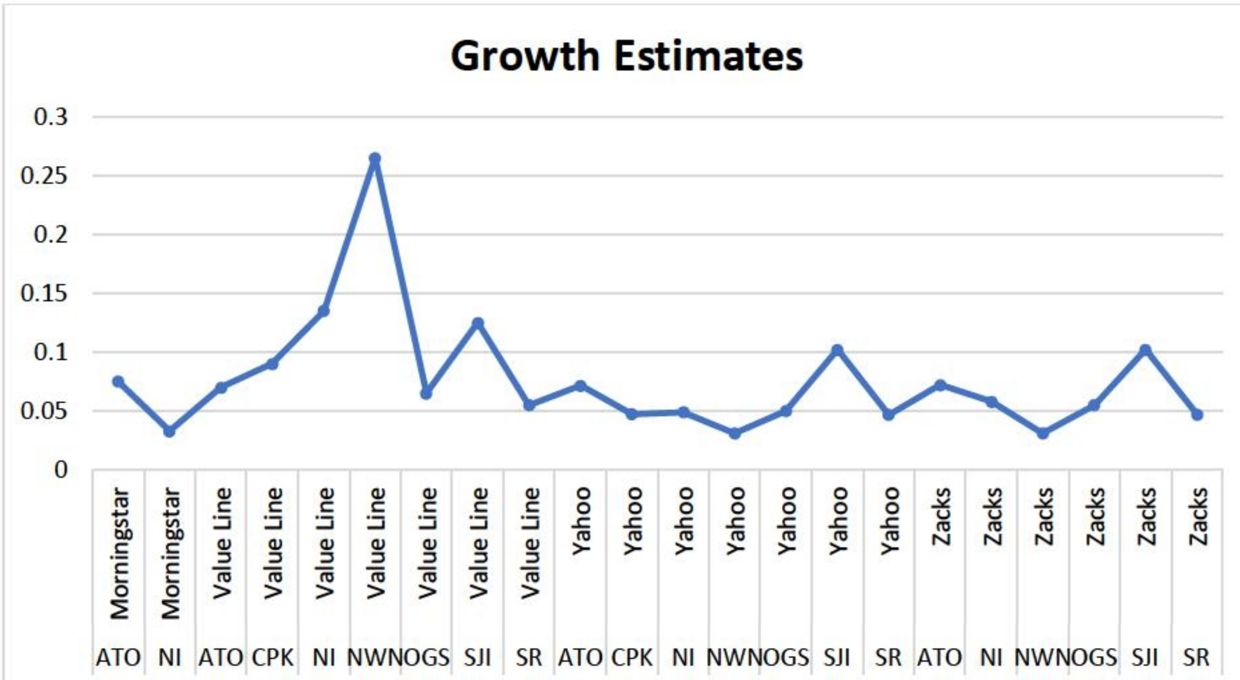
Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR GROWTH RATES.

A. Mr. Moul explains that I adjusted my actual calculated growth rate of 7.64% for my proxy group and instead used a rate of 6.52% (Columbia Statement No. 8-R, p. 18). He opines that I erroneously eliminated the Value Line earnings forecast projection for Northwest Natural Gas from my analysis (Columbia Statement No. 8-R, p. 19).

Q. PLEASE EXPLAIN YOUR BASIS FOR ELIMINATING THE VALUE LINE EARNINGS FORECAST FOR NORTHWEST NATURAL GAS FROM YOUR GROWTH RATE ANALYSIS.

A. As explained above and in greater detail in my direct testimony, Value Line's projected earnings growth estimate for Northwest Natural Gas is clearly an outlier. The estimate of 26.50% is more than 3.5 times higher and greater than three standard deviations over the originally calculated 7.64% overall average. Furthermore, the estimate is almost four times higher than the average of the remaining estimates. The chart below, which is also included in my direct testimony, illustrates just how extreme the Value Line estimate for Northwest

Natural Gas is in comparison to all the other companies and sources used in my analysis (I&E Statement No. 2, pp. 23-24).



Including this anomaly in my analysis would have an unreasonable and unwarranted impact on my DCF analysis and would be harmful to ratepayers as it creates an unjustified increase in return on equity and consequently puts upward pressure on rates, which is not in the public interest.

Q. MR. MOUL ARGUED YOU REMOVED NORTHWEST NATURAL GAS BECAUSE IT RAISED YOUR CALCULATED GROWTH RATE. HAS I&E EVER REMOVED GROWTH ESTIMATES IN ITS ANALYSIS THAT OTHERWISE WOULD HAVE LOWERED A COMPANY'S RETURN ON EQUITY CALCULATION?

A. Yes. As stated above, I&E has removed growth estimates in its analysis that would have lowered a company's return on equity calculation. In both the PECO Energy Company – Electric Division proceeding at Docket No. R-2018-3000164 and the Duquesne Light Company proceeding at Docket Nos. R-2018-3000124 and R-2018-3000829, I&E removed all growth estimates that had negative growth projections. I&E believed that the growth projections for some of the proxy group companies in those proceedings were extremely inconsistent and would have had an unnecessary and unwarranted negative impact on the DCF analysis, adversely affecting I&E's recommendation for the cost of common equity, which is also not in the public interest.

Q. SUMMARIZE MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING YOUR GROWTH RATES.

A. Mr. O'Donnell disagrees with my use of only using forecasted growth rates in my DCF analysis. Mr. O'Donnell opines that historical growth rates as well as forecasted growth rates should be used as this would provide a more complete picture and given the inherent uncertainties as a result of the COVID-19 pandemic (OCA Statement No. 3R, pp. 8-9).

Q. DO YOU AGREE WITH MR. O'DONNELL'S USE OF HISTORIC GROWTH RATES IN DCF ANALYSIS?

A. No. I have used forecasted growth rates for my DCF recommendation in order to estimate a cost of equity that is forward looking. The growth rate forecasts are made by analysts who are aware of both the historic events of each company and what is expected both at a company and industry level. The past performance of a company is taken into account in a growth rate forecast, and although past performance can be a valuable piece of information, Mr. O'Donnell's method of relying on it for a DCF analysis causes his recommendation to place too much weight on past performance.

Q. HAVE YOU CHANGED YOUR GROWTH RATE AS A RESULT OF MR. MOUL'S OR MR. O'DONNELL'S REBUTTAL TESTIMONY?

A. No. For the reasons discussed above, I continue to recommend a growth rate of 6.52%. Value Line's projected earnings growth estimate for Northwest Natural Gas is clearly an outlier and would have an unreasonable and unwarranted impact on my DCF analysis. This would be harmful to ratepayers as it creates an unjustified increase in return on equity and consequently puts upward pressure on rates, which is not in the public interest. Additionally, only forecasted growth rates should be used as growth rates to estimate a cost of equity as it is forward looking. The growth rate forecasts are made by analysts who are aware of both the historic events of each company and what is expected both at a company and industry level where past performance of a company is taken into account in a growth rate forecast.

LEVERAGE ADJUSTMENT

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING HIS RECOMMENDED LEVERAGE ADJUSTMENT.

A. First, Mr. Moul clarifies that his "leverage adjustment" is not a traditional "market-to-book" ratio adjustment. Next, he states that credit rating agencies do not measure the market-required cost of equity for a company, nor are they concerned with how it is applied in the rate-setting context. Instead, credit rating agencies are only concerned with the interests of lenders and the timely payment of interest and principal by utilities. Mr. Moul then questions my references to prior Commission Orders. Finally, Mr. Moul disagrees with my assertion that investors base their decisions on book value capitalization (Columbia Statement No. 8-R, pp. 23-25).

Q. HAVE YOU CLAIMED THAT MR. MOUL'S ADJUSTMENT IS A MARKET-TO-BOOK RATIO ADJUSTMENT?

A. No. As I stated in my direct testimony, Mr. Moul does not propose to change the capital structure of the utility (a leverage adjustment), nor does he propose to apply the market-to-book ratio to the DCF model (a market-to-book adjustment) (I&E Statement No. 2, pp. 39-40).

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL TESTIMONY CONCERNING CREDIT RATING AGENCIES?

A. Mr. Moul has supported the I&E argument that his proposed leverage adjustment is not needed by stating that the credit rating agencies are only concerned with the timely payment of interest and principal by utilities (Columbia Statement No. 8-R, p. 23). Mr. Moul's stated need for the leverage adjustment is based on his assertion that the difference between the book value capital structure and his market value capital structure causes a financial risk difference (Columbia Statement No. 8, p. 26).

Financial risk does relate to the capital structure of a company, but it is created by the financing decisions (the use of debt or equity) and the amount of leverage or debt a company chooses to finance its assets. Financial risk and the book value capital structure of a company are represented in the income statement, part of what is evaluated by rating agencies. Mr. Moul agrees with me that credit rating agencies use a company's financial statements in their analysis to assess financial risk and determine creditworthiness (Columbia Statement No. 8-R, p. 23).

Q. SUMMARIZE MR. MOUL'S RESPONSE TO YOUR REFERENCING PRIOR COMMISSION ORDERS.

A. Mr. Moul refers to the discussion in my direct testimony where I point to three recent cases (Aqua Pennsylvania, Inc., City of Lancaster – Bureau of Water, and UGI Utilities, Inc. – Electric Division) where the Commission has rejected a "leverage adjustment." He claims that the adjustment proposed in the City of Lancaster case was much different than what he is proposing in this proceeding. Additionally, Mr. Moul explains that even though the Commission declined to make a "leverage adjustment" in the Aqua Pennsylvania case, it does not invalidate its use. Further, Mr. Moul states, "Notably, the Commission did not repudiate the leverage adjustment in the Aqua case, but instead arrived at an 11.00% return on equity for Aqua by including a separate return increment for management performance." Finally, Mr. Moul states that the Commission granted basis points for management performance in the UGI Electric case to arrive at the return on equity of 9.85% (Columbia Statement No. 8-R, p. 24).

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE REFERENCED PRIOR COMMISSION ORDERS IN YOUR DIRECT TESTIMONY?

A. In this proceeding, Mr. Moul is recommending a 172-basis point "leverage adjustment." To be clear, the Commission did in fact refuse to accept the leverage adjustment in the Aqua case by stating "…we reject the ALJ's recommendation to allow a 65 basis point leverage adjustment."[2] The management performance points awarded to Aqua were case-specific and in no way related to the proposed leverage adjustment. Regarding the Lancaster case, the Commission did not reject the leverage adjustment based on the manner in which it was calculated, but rather, the Commission stated, "…the ALJ's recommendation is in error as any adjustment to the results of the market based DCF as we have previously adopted are unnecessary and will harm ratepayers."[3] Regarding the UGI Electric case, the Commission concluded that, "…an artificial adjustment in this proceeding is unnecessary and contrary to the public interest. Accordingly, we decline to include a leverage adjustment in our calculation of the DCF cost of equity."[4]

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S ASSERTION THAT INVESTORS DO NOT BASE THEIR DECISIONS ON BOOK VALUE, BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS THEY INVEST?

A. Mr. Moul's assertion that an investor is concerned with the return earned on dollars invested and not "some accounting value of little relevance to them," (Columbia Statement No. 8-R, p. 25) is unsupported. Clearly an investor takes financial risk into consideration when determining a required return. In addition,

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[2] *Pa. PUC v. Aqua Pennsylvania, Inc.*; Docket No. R-00072711, pp. 38-39 (Order entered July 31, 2008).
[3] *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R-2010-2179103, p. 79 (Order entered July 14, 2011).
[4] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058, pp. 93-94 (Order entered October 25, 2018).

the market capitalization information included in Value Line's reports and discussed by Mr. Moul is not the same as market value capital structure (Columbia Statement No. 8-R, p. 25). Market capitalization refers to the number of shares outstanding multiplied by the current price. A market value capital structure refers to the ratio of market debt to market equity, which is not included in Value Line's reports. Therefore, Mr. Moul's contention that Value Line includes market capitalization data does not offer any support for his leverage adjustment.

Q. HAS MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY CONCERNING HIS PROPOSED LEVERAGE ADJUSTMENT CAUSED YOU TO CHANGE YOUR RECOMMENDATION?

A. No. For the reasons discussed above, I continue to recommend that Mr. Moul's leverage adjustment be rejected.

CAPITAL ASSET PRICING MODEL

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR APPLICATION OF THE CAPM.

A. Mr. Moul opines that my CAPM analysis understates the cost of equity for several reasons, including my use of the yield on 10-year Treasury notes for my risk-free rate, failure to use leverage adjusted betas, and rejection of his size adjustment (Columbia Statement No. 8-R, p. 26). Each of these topics are discussed in more detail below.

RISK-FREE RATE

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR USE OF THE YIELD ON THE 10-YEAR U.S. TREASURY NOTE.

A. Mr. Moul claims that his use of the yield on a 30-year U.S. Treasury Bond is more appropriate than my use of the yield on a 10-year Treasury Note because a longer-term bond is less susceptible to Federal policy actions (Columbia Statement No. 8-R, p. 26).

Q. DO YOU AGREE WITH MR. MOUL THAT USING THE YIELD OF A 30-YEAR U.S. TREASURY BOND IS MORE APPROPRIATE DUE TO A LONGER-TERM BOND BEING LESS SUSCEPTIBLE TO FEDERAL POLICY ACTIONS?

A. No. As stated in my direct testimony, I chose the 10-year Treasury Note which balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond. Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with the market risk. In addition, long-term Treasury bonds bear the risk of unexpected inflation. As such, my choice of a 10-year Treasury Note is more appropriate (I&E Statement No. 2, pp. 26-27). Further, as also pointed out in my direct testimony, the Commission has recently agreed with I&E and recognized the 10-year Treasury Note as the superior measure of the risk-free rate of return.[5]

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[5] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 p. 99 (Order entered October 25, 2018).

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR RISK-FREE RATE USED IN THE CAPM FORMULA.

A. Mr. Moul opines that I have incorrectly given weight to the yield on the 10-year Treasury Note for the third and fourth quarters of 2020 and the first, second, and third quarters of 2021 as I do for the entire five-year period encompassing 2022 to 2026. Then, Mr. Moul incorrectly recalculates the risk-free rate by averaging the 10-year treasury yield forecasts by year from 2021 through 2026 to inflate my calculated risk-free rate of 1.22% to 2.15% (Columbia Statement No. 8-R, pp. 26-27).

Q. DO YOU AGREE WITH MR. MOUL'S ANALYSIS OF YOUR RISK-FREE RATE?

A. No. Mr. Moul's new calculation proposes to give equal weight to each separate year from 2021 to 2026. The flaw with this approach is that the further out into the future one forecasts, the less reliable and more speculative the estimates become; therefore, to give the less reliable estimates equal weight would not be prudent. It is more appropriate to weight the quarters and years as I have done in my direct testimony (I&E Exhibit No. 2, Schedule No. 10). My calculation provides a more accurate estimation of the risk-free rate during the Fully Projected Future Test Year, as the further out one forecasts, the less reliable the information becomes.

FORECASTED MARKET RETURN

Q. SUMMARIZE MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING YOUR RECOMMENDED FORECASTED MARKET RETURN.

A. Mr. O'Donnell opines that my use of a 10.35% forecasted market return is not realistic given the current economic situation even when examining market trends prior to the impacts felt by the COVID-19 pandemic (OCA Statement No. 3R, p. 10).

Q. WHAT IS YOUR RESPONSE TO MR. O'DONNELL'S REBUTTAL TESTIMONY REGARDING YOUR FORECASTED MARKET RETURN RECOMMENDATION?

A. I agree with Mr. O'Donnell's assertion in rebuttal testimony that, "The development of the current market risk premium is, undoubtedly, the most controversial aspect of the CAPM calculations" (OCA Statement No. 3, p. 65, lines 1-2). Each witness uses a variety of trusted sources in determining the overall market rate of return as well as a degree of professional judgment. As a result, the subjectivity of the CAPM variables allows for such a wide range and interpretations, unlike the DCF that uses specific and defined inputs.

Q. ARE YOU CHANGING YOUR FORECASTED MARKET RETURN AS A RESULT OF MR. O'DONNELL'S REBUTTAL TESTIMONY?

A. No. For the reasons discussed above, I continue to recommend a forecasted market return of 10.35%.

<u>LEVERAGED BETAS</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE USE OF LEVERAGE-ADJUSTED BETAS.

A. Mr. Moul simply mentions my "failure to use leverage adjusted betas…" (Columbia Statement No. 8-R, p. 26). He does not offer an explanation beyond what he argued in his direct testimony.

Q. IS THE USE OF LEVERAGE-ADJUSTED BETAS IN CAPM ANALYSES APPROPRIATE?

A. No. As stated in my direct testimony, Mr. Moul's adjustment only serves to inflate the result of his CAPM analysis. Enhancements such as leverage adjusted betas are unwarranted in CAPM analyses for the same reasons that enhancements are unwarranted for DCF results. Until this type of adjustment is demonstrated in academic literature to be valid, such leverage-adjusted betas in a CAPM should be rejected (I&E Statement No. 2, pp. 44-45).

<u>SIZE ADJUSTMENT</u>

Q. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING A SIZE ADJUSTMENT.

A. In direct testimony, I stated that Mr. Moul's 102 basis point CAPM size adjustment is unnecessary because none of the technical literature he cited in his direct testimony supporting investment adjustments related to the size of a company is specific to the utility industry. In addition, I presented an article by Dr. Annie Wong that demonstrated there is no need to make an adjustment for the size of a company in utility rate regulation (I&E Statement No. 2, pp. 45-46).

Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY REGARDING A SIZE ADJUSTMENT.

A. Mr. Moul states the distinction between regulated utilities and unregulated industrial companies from the technical literature that he cites is not enough to reject his size adjustment and that the size adjustment he derived from the Ibbotson study included public utilities. Mr. Moul also states that enormous changes have occurred in the industry since the article, "Utility Stocks and the Size Effect: An Empirical Analysis," by Dr. Annie Wong was published. He also references the Fama/French study, "The Cross-Section of Expected Stock Returns," to illustrate that his size adjustment is a separate factor from beta which helps explain systematic risk and returns (Columbia Statement No. 8-R, pp. 28-29).

Q. DO THE FAMA/FRENCH STUDY AND THE IBBOTSON STUDY REFUTE DR. WONG'S ARTICLE?

A. No. As stated in my direct testimony, Dr. Wong's article presents evidence that although a size effect may exist for industrial stocks, it does not exist for utility stocks. As the Fama/French study is not specific to utility stocks, and although the Ibbotson study included public utilities, this does not adequately demonstrate that a size effect exists in the utility industry. In addition, the size effect that exists for industrial stocks varies to such an extent that it is difficult to predict. The difficulty in predicting the effect of size is demonstrated in the variance from year to year of the measurement of difference between the annual returns on the large and small-capitalization stocks of the NYSE/AMEX/NASDAQ in the Ibbotson *Stocks, Bonds, Bills & Inflation: 2015 Yearbook*. As stated on page 100 of the SBBI Yearbook,

> While the largest stocks actually declined in 2001, the smallest stocks rose more than 30%. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and 10th decile returns was far more substantial. The divergence in the performance of small- and large- cap stocks is evident. In 30 of the 89 years since 1926, the difference between the total returns of the largest stocks (decile 1) and the smallest stocks (decile 10) has been greater than 25 percentage points.

Page 109 states,

> In four of the last 10 years, large-capitalization stocks (deciles 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-capitalization stocks (deciles 9-10). This has led some market observers to speculate that there is no size premium. But statistical evidence suggests that periods of underperformance should be expected.

Page 112 states,

> Because investors cannot predict when small-cap returns will be higher than large-cap returns, it has been argued that they do not expect higher rates of return for small stocks.

Q. DOES THE TIME WHICH HAS ELAPSED SINCE AN ARTICLE WAS WRITTEN NECESSARILY INVALIDATE ITS RESULTS?

A. No. Although Mr. Moul states that enormous changes have occurred in the industry since the 1960s, he presents no evidence that these "changes" have caused the need for a size adjustment. To the contrary, Dr. Wong's study demonstrated that one does *not* need to be made in the regulated utility industry. As stated in my direct testimony, absent any credible article to refute Dr. Wong's findings, Mr. Moul's size adjustment to his CAPM results should be rejected.

Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. MOUL'S SIZE ADJUSTMENT?

A. I continue to recommend that his use of the 1.02% size adjustment be disallowed in calculating the CAPM.

Q. MR. MOUL HAS RECALCULATED YOUR CAPM RESULTS. DO YOU AGREE WITH HIS RECALCULATION?

A. No. Mr. Moul's recalculation is incorrect for a couple of reasons. He used an inaccurate risk-free rate and an unnecessary size adjustment, as stated in both my direct testimony and above. Because of these factors, a recalculation of my CAPM results is imprudent and any recalculation provided by Mr. Moul of my CAPM results is unreliable and unnecessary.

RISK PREMIUM

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE RP METHOD.

A. Mr. Moul opines that the RP approach should be given serious consideration because it is straight-forward, understandable, and uses a company's own borrowing rate. He claims it provides a direct and complete reflection of a utility's risk and return. Mr. Moul also states that I make an unfounded assertion that the RP method does not measure the current cost of equity as directly as the DCF (Columbia Statement No. 8-R, pp. 32-34).

Q. DO YOU AGREE WITH MR. MOUL THAT THE RP METHOD PROVIDES A DIRECT AND COMPLETE REFLECTION OF A UTILITY'S RISK AND RETURN?

A. No. The RP method produces an indirect measure when compared to the DCF method.

Q. PLEASE COMMENT ON THE INDIRECT MEASURE OF THE RP METHOD VERSUS THE MORE DIRECT MEASURE OF THE DCF METHOD.

A. Mr. Moul claims that my statement that the RP method does not measure the current cost of equity as directly as the DCF is without foundation. In my direct testimony, I have clearly illustrated how the two measures are different (I&E Statement No. 2, pp. 15-20). The main reason is that the RP method determines the rate of return on common equity indirectly by observing the cost of debt and adding to it an equity risk premium. The DCF measures equity more directly through the stock information (using equity information), whereas the RP method measures equity indirectly using debt information.

COMPARABLE EARNINGS

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE COMPARABLE EARNINGS METHOD.

A. Mr. Moul claims that using the CE method satisfies the comparability standard established in the *Hope* case. Additionally, he states, "…the financial community has expressed the view that the regulatory process must consider the returns that are being achieved in the non-regulated sector to ensure that regulated companies can compete effectively in the capital markets" (Columbia Statement No.8-R, p. 34, lines 15-18). Finally, Mr. Moul addresses my statement that the use of 20% as the point where returns can be viewed as profitable is arbitrary, unjustified, and that there needs to be some point of demarcation to identify high returns and the 20% which he uses as the point where returns would be viewed as highly profitable (Columbia Statement No. 8-R, pp. 34-35).

Q. DO YOU AGREE THAT COMPANIES USED BY MR. MOUL IN HIS CE METHOD ARE COMPARABLE TO COLUMBIA?

A. No. As stated in my direct testimony, the companies in Mr. Moul's analysis are not utilities, and therefore, are too disparate to be used in a CE analysis (I&E Statement No. 2, pp. 29-30). For example, the criteria Mr. Moul uses to choose the companies in his CE group results in the selection of companies such as Cheesecake Factory Inc., Colgate Palmolive Co., Erie Indemnity Company, Republic Services Inc., and Yum Brands Inc. All these companies operate in industries very different from a utility company and operate under varying degrees of regulation. Also, most, if not all, of the companies Mr. Moul uses in his analysis are not monopolies in the sense that utilities are. This means that they have significantly more competition and would require a higher return for the added risk. Further, the CE method should be excluded because it is entirely subjective as to which companies are comparable and it is debatable whether historic accounting returns are representative of the future.

<u>BYPASS RISK</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE RISK OF BYPASS.

A. Mr. Moul states that the situation of overlapping service territories is unique to gas utilities operating in Western Pennsylvania and that other than the Company's parent, NiSource, no company in his proxy group faces the same risk of bypass. He claims that the Company's risk is generally higher than those in his proxy group (Columbia Statement No. 8-R, pp. 36-37).

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE COMPANY'S RISK OF BYPASS?

A. My position remains unchanged from the arguments made in my direct testimony. The Western Pennsylvania market is unique in that the overlapping territories create "gas on gas" competition; however, whatever competition exists is limited to a very small number of competitors and only in overlapping territories. Additionally, to the degree that customers must absorb switching costs to move from one natural gas distribution company to another, competition will be discouraged. Beyond the claimed risk of bypass resulting from overlapping territories of competitors, Columbia faces no more risk than any of the companies in the proxy group.

WEATHER NORMALIZATION ADJUSTMENT

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE POTENTIAL LOSS OF THE WEATHER NORMALIZATION ADJUSTMENT.

A. Mr. Moul opines that the loss of the weather normalization adjustment (WNA) will materially increase the Company's risk and would require a return greater than his proxy group (Columbia Statement No. 8-R, p. 37).

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE POTENTIAL LOSS OF THE WEATHER NORMALIZATION ADJUSTMENT?

A. My position remains unchanged from arguments presented in direct testimony. The Commission allows utilities the opportunity to propose alternative ratemaking mechanisms, and Columbia has requested continuation of its WNA, albeit with modification in this proceeding. Furthermore, Mr. Moul has not produced evidence demonstrating that the Gas Group companies employ the WNA mechanism.

MANAGEMENT PERFORMANCE POINTS

Q. SUMMARIZE MR. MOUL'S AND MR. TUBBS'S REBUTTAL TESTIMONY REGARDING MANAGEMENT PERFORMANCE POINTS.

A. Mr. Moul simply states, "I continue to support the 10.95% return on equity that includes the increment for management performance" (Columbia Statement No. 8-R, p. 10, lines 9-10). He does not offer an explanation beyond what he argued in his direct testimony. Mr. Tubbs states that I only focused on a few items in the recently issued Management and Operations Audit for Columbia Gas of Pennsylvania, Inc., that I did not address the positive outcomes in the report, and that I did not recognize the Commission made no recommendations regarding the Company's gas operations and how the Company manages to provide safe and reliable service (Columbia Statement No. 1-R, pp. 32-33).

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S AND MR. TUBBS'S REBUTTAL TESTIMONY REGARDING MANAGEMENT PERFORMANCE?

A. My position remains unchanged from the arguments made in my direct testimony. Mr. Tubbs is correct that the Management and Operations Audit expressed no findings regarding the Company's gas operations, however, it is not to say that the Company does not have room for improvement as I provided the deficits regarding Columbia's customer service, an area of management and operations over which the Company has complete and direct control. By awarding the Company management effectiveness points, it adds an increased cost to ratepayers for service that can and should be improved. Furthermore, any savings from effective operating and maintenance cost measures should flow through to ratepayers and/or investors. These claimed savings would likely be offset by the addition of basis points for management effectiveness as ratepayers would have to fund the additional costs. This defeats the purpose of cutting expenses to benefit ratepayers. Ensuring that these cost saving measures flow to ratepayers is especially important now as many have recently experienced reduced household income as a result of job loss or reduction in hours due to the global pandemic where the Pennsylvania unemployment rate was 13.7% as of the end of July 2020.[6]

Finally, as I discussed in my direct testimony, true management effectiveness is earning a higher return through its efficient use of resources and cost cutting measures. The greater net income resulting from cost savings and true efficiency in management and operations is available to be passed on to shareholders. Columbia, or any utility should not be awarded additional basis points for doing what they are required to do in order to provide adequate, efficient, safe, and reasonable service under 66 Pa C.S.A. §1501.

OVERALL RATE OF RETURN

Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION CHANGED FROM YOUR DIRECT TESTIMONY?

A. Yes. While I continue to support each recommendation made in I&E Statement No. 2 regarding the Company's return on equity, I am updating my

[6] https://www.bls.gov/web/laus/laumstrk.htm, accessed September 3, 2020.

recommendation to reflect the Company's update to its cost of long-term debt from 4.70% to 4.73% (Columbia Statement No. 8-R, p. 6), which results in a weighted cost of debt of 2.00% or an increase of 0.02% (2.00% - 1.98%) to the Company's original claim.

Q. WHAT IS YOUR OVERALL RATE OF RETURN RECOMMENDATION?

A. I recommend the following rate of return for Columbia:

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	42.22%	4.73%	2.00%
Short-Term Debt	3.59%	2.06%	0.07%
Common Equity	54.19%	9.86%	5.34%
Total	100.00%		7.41%

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Statement No. 3-SR
Witness: Ethan H. Cline

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2020-3018835

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Fully Projected Future Test Year Reporting Requirements
Flex Rate Customers
Weather Normalization Adjustment
Revenue Normalization Adjustment
Cost of Service Study
Scale Back of Rates

TABLE OF CONTENTS

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ethan H. Cline. My business address is Pennsylvania Public Utility Commission, 400 North Street, Harrisburg, PA 17120.

Q. ARE YOU THE SAME ETHAN H. CLINE THAT SUBMITTED I&E STATEMENT NO. 3 ON JULY 28, 2020?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony submitted by witnesses on behalf of Columbia Gas of Pennsylvania, Inc. ("Columbia" or "Company"): Andrew S. Tubbs (Columbia Statement No. 1-R), Melissa J. Bell (Columbia Statement No. 3-R), and Chad Notestone (Columbia Statement No. 11-R). I will also address the rebuttal testimony submitted on behalf of the Pennsylvania Office of Consumer Advocate ("OCA") by witness Jerome D. Mierzwa, the rebuttal testimony submitted on behalf of the Pennsylvania Office of Small Business Advocate ("OSBA") by witness Robert D. Knecht (OSBA Statement No. 1-R) and the rebuttal testimony submitted on behalf of the Pennsylvania State University ("PSU") by James L. Crist, P. E. (PSU Statement No. 1-R). My surrebuttal testimony specifically addresses the following issues:

- Fully Projected Future Test Year Reporting Requirements;
- Flex Rate Customers;
- Weather Normalization Adjustment;

- Revenue Normalization Adjustment;
- Cost of Service allocation;
- Customer Charges; and
- Scale back of rates.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?

A. No.

Q. DID YOU DISCOVER ANY ERRORS IN YOUR DIRECT TESTIMONY?

A. Yes. I inadvertently attached an old version of my Appendix A to my direct testimony. I have attached the most up-to-date Appendix A to my surrebuttal testimony.

<u>FPFTY REPORTING REQUIREMENTS</u>

Q. DID YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT ADDITIONS THAT COLUMBIA PROJECTS TO BE IN SERVICE DURING THE FTY ENDING NOVEMBER 30, 2020 AND THE FPFTY ENDING DECEMBER 31, 2021?

A. Yes. I recommended that the Company provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2021, under this docket number, which should include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2020. An additional update should be provided for actuals through December 31, 2021, no later than April 1, 2022. (I&E Statement No. 3, p. 4).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Shultz stated that the Company was agreeable to my recommendation on page 3 of Columbia Statement No. 6-R.

<u>FLEX-RATE CUSTOMERS</u>

Q. WHAT DID YOU RECOMMEND REGARDING FLEX-RATE CUSTOMERS IN YOUR DIRECT TESTIMONY?

A. I recommended that the Company provide an update to the competitive alternative analysis for any customer that has not had their alternative fuel source verified for a period of 10 years or more at the point at which Columbia Gas files its base rate case. (I&E St. No. 3, p. 7).

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION REGARDING ITS FLEX-RATE CUSTOMERS?

A. No. Columbia witness Tubbs disagreed with my recommendation (Columbia Statement No. 1-R, pp. 62-63).

Q. WHY DID THE COMPANY DISAGREE WITH YOUR RECOMMENDATION REGARDING FLEX RATE CUSTOMERS?

A. Mr. Tubbs cited to the Company's compliance with the terms of the settlement of Columbia's last base rate case at Docket No. R-2018-264757 to update alternative supply verifications but stated that "Columbia does not believe this analysis is necessary going forward." (Columbia St. No. 1-R, p. 62). Mr. Tubbs further stated that Columbia prefers to enter into contracts that are less than 10 years in length and agreed with my testimony that facts and circumstances may change through the life of the contract. He then provided the example of a 30-year mortgage at a time when the market supported a 3% interest rate, which the lender would not be permitted to change even if circumstances warranted a different rate. (Columbia St. No. 1-R, pp. 62-63).

Q. IS MR. TUBBS' EXAMPLE APPLICABLE TO THE CIRCUMSTANCES OF FLEX RATE CUSTOMERS?

A. No. Mr. Tubbs example does not compare to the contract provided to a flex rate customer. This is because the interest rate of a mortgage does not affect the interest rates of other home buyers and is not contingent upon a lower interest rate alternative being available through the life of the loan. Customers under flex rates are not paying the full cost of service rate that they would otherwise be charged absent a verifiable alternative, which creates a revenue shortfall that must be subsidized by the other rate classes. As I stated on page 7 of I&E Statement No. 3, providing excessive discounts to customers would be harmful to both the Company and its customers, because other customers make up the lost revenue that results when flex-rate customers pay less than tariff rates. Therefore, providing an accurate and up-to-date analysis of competitive alternatives is necessary. In Mr. Tubbs example, the other home buyers and the lender are not harmed by the interest rate of the mortgage of one home buyer. Therefore, Columbia's argument has no merit and should be rejected.

Q. PLEASE COMMENT ON THE COMPANY'S STATEMENTS CONCERNING THE CHANGING CIRCUMSTANCES SURROUNDING FLEX RATE CUSTOMERS.

A. The Company's statements that the facts and circumstances surrounding flex rate customers changing supports my recommendation that the alternative supply and flex rates be evaluated at least every 10 years, so that the flex rate customers make the maximum contribution to fixed costs.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION??

A. No. I continue to recommend that the Company provide a competitive alternative analysis for any customer that has not had their alternative fuel source verified for a period of 10 years or more at the point at which Columbia Gas files its next base rate case.

<u>WEATHER NORMALIZATION ADJUSTMENT</u>

Q. WHAT DID YOU RECOMMEND REGARDING THE WEATHER NORMALIZATION ADJUSTMENT?

A. I recommended that the proposal to remove the 3% deadband be denied (I&E St. No. 3, p. 10).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION REGARDING THE WNA?

A. Yes. The Company disagreed with my recommendation to deny the proposed removal of the 3% deadband (Columbia St. No. 3-R, p. 4).

Q. WHAT REASONS DID THE COMPANY PROVIDE FOR NOT AGREEING WITH YOUR RECOMMENDATIONS?

A. First, Columbia witness Bell opines, on page 4 of Columbia Statement No. 3-R, that she does not agree that the WNA only serves as an extreme weather fix. She further reiterates that the goal of the WNA is to "eliminate revenue and bill variations due to warmer and colder than normal weather." (Columbia St. No. 3-R, p. 4). Second, witness Bell provides an example of the revenue impact of 2.5% colder than normal weather on a typical residential customer with the 3% deadband in place (Columbia St. No. 3-R, pp. 4-7), which resulted in a 3% variance in customers' bills.

Q. PLEASE RESPOND TO WITNESS BELL'S FIRST ARGUMENT THAT THE WNA IS NOT ONLY AN EXTREME WEATHER FIX.

A. On pages 10-11 of I&E Statement No. 3, I stated that I believe that a tariff provision that allows the Company to adjust Commission-approved rates in between rate cases is a departure from traditional ratemaking and that such a departure should only occur due to circumstances that are an extraordinary departure from normal operating conditions, such as abnormal weather. I continue to believe that the 3% deadband represents a range of what can be considered "normal" weather and that the WNA with the 3% deadband achieves the Company's stated goal of eliminating revenue and bill variations due to warmer and colder than normal weather. Further, the Company did not provide sufficient evidence in its direct or rebuttal testimony that shows that weather variations within 3% above or below an established base line could or should not be considered "normal" weather. Weather is inherently variable, and I continue to believe that there is no need to reconcile day-to-day temperature variations that fall within the 3% deadband. Further, on page 4 of Columbia Statement No. 3-R, witness Bell opines that the deadband applies to the billing month as a total and that small variances in the weather throughout the month could potentially offset the larger adjustment, or "extreme" days. However, if, in one month, the Company experiences enough variable weather days to offset a larger weather adjustment that the adjustment falls within the 3% deadband, then an adjustment is not necessary.

Q. DID THE COMPANY PROVIDE A THEORETICAL BILL IMPACT TO A TYPICAL RESIDENTIAL CUSTOMER INCLUDING THE 3% DEADBAND AS A PERMANENT PROVISION OF THE WNA?

A. Yes. The Company stated that the bill impact for a typical residential customer for a three-month period (January through March) with normal usage and the same three-month period with 2.5% colder than normal usage results is a difference of $8.07 (Columbia St. No. 3-R, pp. 5-7). The $8.07 difference represents approximately 2% ($8.07 / $423.74). A 2% variance in a customers' bill over a three-month period falls within what can be considered normal weather changes and a normal part of doing business as a utility. Additionally, such a small variance would likely not be considered detrimental to the Company nor the customer. I do not believe this small variance is a suitable reason to deviate from traditional ratemaking procedures or the Company's Commission-approved rates.

Q. SHOULD THE EFFECTS OF THE WNA ON THE PROPOSED REVENUE NORMALIZATION ADJUSTMENT BE CONSIDERED WHEN DETERMINING WHETHER A 3% DEADBAND IS APPROPRIATE?

A. No. The proposed Revenue Normalization Adjustment ("RNA") should not be considered when determining whether a 3% deadband in the WNA is reasonable. The RNA is currently at issue in the present proceeding and has not yet been approved by the Commission; therefore, it is not appropriate to consider the benefits, or lack thereof, of a WNA with or without a 3% deadband on a tariff provision that does not yet exist and may not be approved.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. I continue to recommend that the 3% deadband be made a permanent part of the Company's WNA.

REVENUE NORMALIZATION ADJUSTMENT

Q. DID YOU AGREE WITH THE COMPANY'S PROPOSED RNA?

A. No. On page 12 of I&E Statement No. 3, I disagreed with the Company's proposal to implement an RNA and stated that "through Act 11 and the FPFTY, the Company is permitted to build into its revenue requirement an adjustment for revenue lost due to a decline in usage that is projected to occur after rates go into effect."

Q. DID THE COMPANY RESPOND TO YOUR POSITION?

A. Yes. The Company did not agree with my recommendation regarding the RNA.

Q. WHY DID THE COMPANY NOT AGREE WITH YOUR RECOMMENDATION REGARDING THE RNA?

A. The Company did not agree with my recommendation regarding the RNA for the following reasons; first, the Company claims that "the stability provided by the RNA is beneficial for both the Company and its residential customers," (Columbia St. No. 3-R, p. 8). Second, the Company claims that I made two incorrect assumptions in my direct testimony that the proposed RNA can cause harm (Columbia St. No. 3-R, pp. 8-9).

Q. WHAT SUPPORT DOES WITNESS BELL PROVIDE FOR THE RNA BEING BENEFICIAL TO BOTH THE COMPANY AND ITS CUSTOMERS?

A. On page 8 of Columbia Statement No. 3-R, witness Bell states that the RNA is beneficial because "the Company would credit or collect any distribution revenues over or under the benchmark revenue per customer that is established as part of a base rate proceeding."

Q. IS WITNESS BELL'S STATEMENT AN ADEQUATE DEMONSTRATION OF A BENEFIT TO THE COMPANY AND ITS CUSTOMERS?

A. No. Based on the information provided by the Company in the current proceeding, it appears that the Company would be receiving most of the benefit of any revenue stabilization while the customers receive little or no benefit. The ways in which customers could benefit from an RNA is through less frequent base rate cases and receiving revenue credits. However, witness Bell stated on page 8 of Columbia Statement No. 3-R that the "Company is not able to state with certainty" that a residential RNA would result in fewer rate cases, thus removing that potential benefit from Columbia's customers.

Q. WHAT STATEMENTS REGARDING THE RNA DID THE COMPANY CLAIM ARE INCORRECT?

A. The Company claimed that two assumptions made in I&E Statement No. 3 are incorrect. First, the Company claims that my statement that for customers to benefit from the RNA, they would need to use more gas to trigger the refund, which is contrary to conservation efforts is flawed (Columbia St. No. 3-R, p. 9). Second, the Company disagrees with my statement that customers will see their investment payback time increase as rates increase in response to usage declines (Columbia St. No. 3-R, p. 10).

Q. WHAT SUPPORT DID THE COMPANY PROVIDE FOR CLAIMING YOUR STATEMENT REGARDING CONSERVATION EFFORTS IS FLAWED?

A. Columbia witness Bell, in Columbia Statement No. 3-R, pp. 9-10, states that I fail to recognize the many reasons that a residential customer's usage could increase. Bell argues that a customer turning up their heat to benefit from the RNA credit would not have lower bills due to the commodity charge and that usage may increase for other reasons such as with the example provided of a customer deciding to work from home, that increase would not be contrary to conservation efforts.

Q. PLEASE RESPOND TO THE COMPANY'S ARGUMENT REGARDING INCREASED USAGE.

A. The Company's example regarding customers that turn up their heat on a cold day would not help them to lower their bill because they would pay for using the additional gas commodity (Columbia St. No. 3-R, p. 9) shows that the RNA in general is less beneficial to customers than it is to the Company. Based on the Company's statement, it is clear that for all residential customers, the credit received for higher usage is mitigated by the increase to their bills due to the commodity cost. However, the Company experiences no such offset when collecting extra revenue under the RNA during times of declining usage. This shows that the RNA is unfairly tilted in favor of the Company at the expense of the customers.

While I agree with the Company that there are other reasons that could cause usage to increase, a large reason for the decline in the usage of gas that the natural gas industry has experienced in recent years is due to conservation efforts. As witness Bell stated on page 9 of Columbia Statement No. 3-R, RNA adjustments are calculated on a class-wide basis and are not customer specific. Therefore, while the example of a customer deciding to work from home may apply in this case due to the COVID-19 pandemic, there is no evidence of how long that situation will last. Witness Bell provided no evidence that large sections of residential customers are deciding to work from home long-term and, thus, would not be a class-wide factor of increasing usage.

Q. WHAT SUPPORT DOES THE COMPANY PROVIDE TO ITS STATEMENT THAT YOUR COMMENT REGARDING THE INCREASE TO THE INVESTMENT PAYBACK TIME FOR CUSTOMER CONSERVATION EFFORTS IS INCORRECT?

A. The Company stated that, because the adjustments to the RNA are real time, a customer who reduces consumption will experience immediate savings on their bill and provided an example of the type of savings a customer could experience (Columbia St. No. 3-R, pp. 9-10). Also, the Company stated that the proposed RNA reflects what happens in a rate case when customers implement conservation measures in that fixed costs are spread over lower volumes and rates for all residential customers would increase (Columbia St. No. 3-R, p. 10).

Q. DO YOU AGREE THAT YOUR COMMENTS REGARDING THE INCREASE IN INVESTMENT PAYBACK TIME DUE TO REDUCED USAGE IS INCORRECT?

A. No. First, if the RNA is simply doing what the normal rate case process does without the benefit of less frequent base rate cases, then there is no need for the RNA as the Company's rates will continue to be adjusted every year or two as has been the Company's pattern of rate case filing. Second, I disagree that witness Bell's example regarding conservation savings shown on Columbia Exhibit MJB-1R shows that the payback time would not increase. The schedule shows two hypothetical scenarios involving two RNA rates: Rate A at $0.25 per Dth and Rate B at $0.75 per Dth. The conservation savings without an RNA, with Rate A, and Rate B generated by a furnace replacement, attic insulation, and wall insulation are shown on Columbia

Exhibit MJB-1R, columns 9-12, lines 13-19 and below.

Table 3-SR-1				
	Furnace Replaced	Attic Insulation	Wall Insulation	Total
No RNA Savings	$175.17	$122.19	$173.01	$470.37
Rate A	$17.46	$18.69	$17.51	$10.64
Rate A Savings	$157.71	$103.50	$155.50	$459.73
% of Total Savings	90%	85%	90%	98%
Rate B	$52.38	$56.06	$52.53	$31.91
Rate B Savings	$122.79	$66.13	$120.48	$438.46
% of Total Savings	70%	54%	70%	93%

This table clearly shows that the customer who installs the furnace replacement would have their savings reduced to 90% of the no-RNA savings under RNA Rate A and 70% of the no-RNA savings under Rate B. With the customer saving less through their investment in conservation efforts each year after the first, the time it takes for the customer to recover their investment will take longer. Therefore, the Company's assertion that my statement is incorrect, is incorrect.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. I continue to recommend that the RNA be denied.

COST OF SERVICE

Q. DID THE COMPANY PROVIDE AN ALLOCATED COST OF SERVICE STUDY IN THIS PROCEEDING?

A. Yes. The Company performed and provided three allocated cost of service ("ACOS") studies in its filing sponsored by Columbia witness Notestone as he described on pages 1-2 of Columbia Statement No. 11-R. The first is a customer-demand ACOS study (Columbia Exhibit No. 111, Schedule 1), the second is a peak and average ACOS study (Columbia Exhibit No. 111, Schedule 2), and the third ACOS study is an average of the customer-demand studies and the peak and average studies (Columbia Exhibit No. 111, Schedule 3).

Q. WHICH OF THE THREE ACOS STUDIES SPONSORED BY WITNESS NOTESTONE DID THE COMPANY UTILIZE TO ALLOCATE THE PROPOSED REVENUE INCREASES?

A. The Company utilized the third ACOS study sponsored by Mr. Notestone, which is the average of the customer-demand study and the peak and average study, presented on Columbia Exhibit No. 111, Schedule No. 3 to allocate the proposed revenue increases (Columbia St. No. 11-R, p. 2).

Q. WHICH ACOS STUDY DID YOU RECOMMEND THE COMMISSION USE TO ALLOCATE THE REVENUE INCREASES AMONG THE DIFFERENT CUSTOMER CLASSES IN THIS PROCEEDING?

A. I recommended the Commission use the peak and average ACOS study provided by the Company on Columbia Exhibit No. 111, Schedule 2 to allocate the final revenue increases among the different customer classes (I&E St. No. 3, p. 17).

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION REGARDING THE USE OF THE PEAK AND AVERAGE COSS FOR REVENUE ALLOCATION AND CUSTOMER CHARGE SETTING?

A. No. Mr. Notestone claimed that throughput has no impact on the determination of the size, length, or cost of the distribution main serving the customers (Columbia St. No. 11-R, p. 6). Furthermore, citing the National Association of Regulatory Utility Commissioners' 1989 Gas Distribution Rate Design Manual, Columbia objected to the use of a single COSS in revenue allocation and rate design (Columbia St. No. 11-R, p. 2).

Q. DO YOU AGREE THAT THROUGHPUT IS NOT A DETERMINING FACTOR WHEN IT COMES TO MAINS INVESTMENT?

A. No. The purpose of a natural gas distribution company ("NGDC"), such as Columbia, is to deliver gas at all times, 365 days a year. The two main reasons an NGDC invests in its distribution system is to improve safety and to meet the gas supply needs of its customers. The Company states that "the availability of receiving gas service 365 days a year is a reason the customer requests gas service and causes the gas distribution company to invest in the purchase and installation of gas mains but has nothing to do with Columbia's incurred cost of the pipe or the cost of installing the gas main to provide service to the customer." (Columbia St. No. 11-R, p. 6). This statement essentially claims that a customer who wants gas service is the reason that Columbia incurs the cost of serving that customer but providing the requested service has nothing to do with the cost of connecting that customer. This makes no sense.

Further, Mr. Notestone, on pages 10-13 of his rebuttal testimony, discusses an example provided by OCA witness Mierzwa on page 11 of his direct testimony. The example is that on one street are 10 residential customers with a peak demand of one Dth each and on another street is one commercial customer with a peak demand of 10 Dth. If the commercial customer is torn down and replaced with five high-usage residential customers who each have a peak demand of 2 Dth, the main that was sized to deliver 10 Dth is adequate and that is not the number of customers but rather the load that is the determining factor in the main investment.

The Company claims that the example is incorrect because the commercial customer would pay a contribution in aid of construction ("CIAC") because it provides less revenue than the residential customers and that, therefore, the mains investment made by the Company for one residential customer is more than the investment for the commercial customer. However, the Company determined the need for, and amount of, CIAC that will be required by comparing the revenue received by the commercial customer with the revenue received by the residential customer. The revenue received from each customer includes a calculation based on the throughput. Therefore, the throughput of the customer is a factor in the cost of the mains.

Q. DO YOU AGREE WITH THE COMPANY THAT MULTIPLE COST OF SERVICE STUDIES ARE NECESSARY WHEN ALLOCATING COSTS?

A. No. The Commission has not made such a distinction regarding allocations based on multiple cost of service studies that I am aware of. Requiring multiple cost of service studies could be overly burdensome to other utilities. Whether a utility presents a single or multiple cost of service studies in a base rate case should be decided based on the utility's decision, prior Commission Orders, or the specific requirements of each base rate case. If multiple cost of service studies are presented, it is then up to the Commission to decide whether to adopt all, one, or none of the studies presented on a case by case basis. In this case, I continue to recommend that the Commission find that the Peak and Average is reasonable as it has in prior Commission Orders.

Q. OTHER THAN THE COMPANY, DID OTHER PARTIES ALSO DISAGREE WITH YOUR RECOMMENDATION THAT ONLY THE PEAK AND AVERAGE ACOS SHOULD BE USED IN THIS PROCEEDING?

A. Yes. Mr. Knecht pointed out that recent Commission precedent for electric distribution utilities specifically affirms the use of a customer-demand allocation methodology for classifying electric distribution system costs and refers to two recent PPL Electric Utilities Corporation rate cases (OSBA St. No. 1-R, p. 12).

PSU Witness Crist also opposed my use of the peak and average ACOS only in allocating costs in this proceeding stating that there are valid reasons that there are other ACOS methodologies that have a sound technical and economic basis to them (PSU St. No. 1-R, p. 14).

Q. PLEASE RESPOND TO THE COMPANY, OSBA, AND PSU OPPOSITION TO THE USE OF THE PEAK AND AVERAGE ACOS IN COST ALLOCATION.

A. In general, any system must be designed to handle peak usage and year-long usage. In addition, I continue to believe that although mains serve customers, the type of main investment is properly determined by the throughput.

Q. DID THE COMPANY SPECIFICALLY ADDRESS THE HISTORIC SUPPORT YOU REFERENCED IN YOUR DIRECT TESTIMONY?

A. Yes. Columbia witness Notestone rejects my reference to the 1994 National Fuel Gas Distribution Corporation ("NFG") Order on page 52 because in the 1994 NFG case, NFG only submitted studies based on the Peak & Average methodology and not multiple methodologies as the Company did in the current case (Columbia St. No. 11-R, p. 20).

Q. DO YOU AGREE THAT THE 1994 NFG CASE SHOULD BE DISCOUNTED?

A. No. In the 1994 NFG case, NFG submitted two different Peak & Average cost of service studies, and the Commission could have rejected the Peak & Average method and ruled that a different methodology was appropriate. The Commission did not do this. In fact, as I stated on page 18 of I&E Statement No. 3, the Commission instead specifically stated that the "Peak & Average method that allocates mains equally is a sound and reasonable method of cost allocation and should remain intact." (Pa. P.U.C. v. National Fuel Gas Distribution Co. 83 Pa. PUC 262 (1994)).

Q. DOES MR. KNECHT POINT OUT ANY OTHER RECENT COMMISSION PRECEDENT WHICH HE CLAIMS APPROVED THE CUSTOMER-DEMAND COST ALLOCATION METHOD?

A. Yes. Mr. Knecht pointed out that recent Commission precedent for electric distribution utilities specifically affirms the use of a customer-demand allocation methodology for classifying electric distribution system costs. Mr. Knecht refers to two recent PPL Electric Utilities Corporation rate cases and claims that the conceptual argument for customer-demand allocation for gas and electric distribution companies is identical (OSBA St. No. 1-R, p. 12). I disagree. There are often distinct differences between electric distribution companies and natural gas distribution companies. These differences include the fact that electric distribution cost of service studies use customer and demand allocators, while gas and water companies also use volumes as an allocator; additionally, there are differences as it relates to geographical and customer density characteristics. PPL is largely rural in nature and is required to run distribution lines along every public road and also provide service to virtually every residence and business within its service territory. The same is not true for natural gas distribution companies that do not have this same service requirement.

Q. DO YOU AGREE WITH PSU WITNESS CRIST THAT IT IS REASONABLE FOR THE COMMISSION TO EXAMINE ALTERNATIVE METHODS FOR COST ALLOCATION?

A. Yes. In this case, I have examined the Company's recommended alternative methods for cost allocation and, for the reasons stated in my direct testimony and above, I continue to recommend the Commission use the Peak and Average ACOS to allocate costs in the current proceeding.

Q. DID THE OCA RESPOND TO YOUR ACOS RECOMMENDATION?

A. Yes. While the OCA agreed that the Peak and Average cost allocation method should be accepted in this proceeding, Mr. Mierzwa did not agree that the Peak and Average ACOS study presented by the Company should be accepted for two reasons. First, Mr. Mierzwsa disagrees with the Company's assignation of distribution mains investment into three separate categories and allocates these costs to classes based on the original cost of its distribution mains investment. Second, Mr. Mierzwa claims that the Company's ACOS study fails to properly allocate the cost associated with major account representatives. (OCA St. No. 4-R, p. 2). Mr. Mierzwa referred back to his direct testimony to support his position.

Q. DO YOU AGREE WITH THE ADJUSTMENTS MADE BY MR. MIERZWA?

A. No. First, I believe Columbia's allocation of mains investment because the Company's allocation of depreciation reserve is matched to the allocation of plant in service to determine net plant, as described on page 25 of Columbia Statement No. 11-R, is reasonable. Second, I agree with Mr. Notestone on page 28 of Columbia St. No. 11-R that, if the major accounts representatives were assigned only to large customers then the specific representatives that are experts in residential marketing should only be assigned to residential customers. Therefore, I believe the Company's approach to allocating major accounts representatives is reasonable.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION REGARDING THE COMPANY'S ACOS?

A. No. I continue to recommend that the Commission use the peak and average ACOS study provided by the Company on Columbia Exhibit No. 111, Schedule 2 to allocate the final revenue increases among the different customer classes.

<u>CUSTOMER COST ANALYSIS</u>

Q. WHAT DID YOU RECOMMEND REGARDING THE COMPANY'S CUSTOMER COST ANALYSES?

A. I recommended the Company's customer cost analysis that includes the cost of mains should not be considered (I&E St. No. 3, p. 23).

Q. DID THE COMPANY RESPOND TO YOU RECOMMENDATION?

A. Yes. Ms. Bell stated on pages 14-15 of Columbia Statement No. 3-R that the Company continues to support its analysis based on the average of the customer demand and peak and average ACOS studies.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. For the reasons described above, I continue to recommend the Company's customer cost analysis that includes the cost of mains should not be considered.

CUSTOMER CHARGES

Q. DO YOU WISH YOU MAKE ANY CORRECTIONS TO THE CUSTOMER CHARGE TABLE IN YOUR DIRECT TESTIMONY?

A. Yes. I wish to make several adjustments to the table on page 23 of I&E Statement No. 3 that shows my recommended customer charges. Specifically, the Change and I&E Proposed Rate columns for all classes except the RS, RDS, RCC classes, were inadvertently inverted. It should also be noted that the change in the SGSS1, SCD1, SGDS1 classes was listed incorrectly as negative $14.00. I am proposing to decrease the customer charge for these classes by $4.00 from the Company's proposed $30.00 to $26.00. My customer charge recommendations are shown in the table below.

I&E Corrected Customer Charge Table				
Rate Schedule (Therms, annually)	Customer Cost Analysis	Company Proposed Rate	Change	I&E Proposed Rate
RS, RDS, RCC				
All Usage	$23.05	$23.00	$0.00	$23.00
SGSS1, SCD1, SGDS1				
≤6,440	$25.87	$30.00	($4.00)	$26.00
SGSS2, SCD2, SGDS2				
>6,440 to ≤64,440	$43.99	$60.00	($15.00)	$45.00
SDS/LGSS				
>64,400 to ≤110,000	$191.02	$290.00	($98.98)	$191.02
>110,000 to ≤540,000	$919.89	$940.00	($20.00)	$920.00

Q. DID ANY PARTIES RESPOND TO YOUR CUSTOMER CHARGE RECOMMENDATION?

A. Yes. First, Columbia witness Bell disagreed with my recommendation based on her support of the Company's customer charge analysis as discussed above. Second, OCA witness Mierzwa disagreed with my customer charge recommendations because he claimed the 40% increase violates the principle of gradualism and the Company's customer charge is already the highest in the Commonwealth (OCA St. No. 4-R, p. 2).

Q. DO YOU CONTINUE TO RECOMMEND THE CUSTOMER CHARGES BASED ON THE CUSTOMER COST ANALYSIS PROVIDED IN THE PEAK AND AVERAGE ACOS?

A. Yes. For the reasons described above, I continue to support the customer charges based on the customer cost analysis provided in the peak and average ACOS.

Q. DO YOU AGREE WITH MR. MIERZWA THAT A 40% INCREASE IN CUSTOMER CHARGE IS SIGNIFICANT?

A. Yes. However, I believe my recommendation does not violate the principle of gradualism because I recommended on page 25 of I&E Statement No. 3 the customer charges should be included in any scale back of rates.

Q. DO YOU BELIEVE THE COMPARISON OF CUSTOMER CHARGES OF THE OTHER PENNSYLVANIA NATURAL GAS DISTRIBUTION COMPANIES SHOULD BE A DETERMINING FACTOR IN COLUMBIA'S CUSTOMER CHARGES?

A. No. Each Pennsylvania NGDC has their own specific costs and allocation of these costs produces different results. Therefore, the rates of each company should be determined based on the facts and data specific to that company. The customer charges I recommend are based on the customer cost analysis using the data specific to this case.

Q. DO YOU WISH TO CHANGE YOUR CUSTOMER CHARGE RECOMMENDATION?

A. No. For the reasons discussed above, I continue to recommend the customer charges shown in the table above.

SCALE BACK OF RATES

Q. WHAT SCALE BACK METHODOLOGY DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. If the Commission grants less than the Company's requested increase, I recommended that all customer charges and usage rates that have been proposed an increase are scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.

Q. DID THE COMPANY OPPOSE YOUR PROPOSED SCALE BACK METHODOLOGY?

A. No. Ms. Bell, on page 15 of her rebuttal testimony, stated that the Company will utilize the approved ACOS to scale back proportionally all revenue requirements for revenue and rate design purposes.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

ETHAN H. CLINE

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE:

03/2009 - Present
Bureau of Investigation and Enforcement, Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania

Fixed Utility Valuation Engineer – Assists in the performance of studies and analyses of the engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design.

06/2008 – 09/2008
Akens Engineering, Inc. - Shiremanstown, Pennsylvania

Civil Engineer – Responsible, primarily, for assisting engineers and surveyors in the planning and design of residential development projects

10/2007 – 05/2008
J. Michael Brill and Associates - Mechanicsburg, Pennsylvania

Design Technician – Responsible, primarily, for assisting engineers in the permit application process for commercial development projects.

01/2006 – 10/2007
CABE Associates, Inc. - Dover, Delaware

Civil Engineer – Responsible, primarily, for assisting engineers in performing technical reviews of the sewer and sanitary sewer systems of Sussex County, Delaware residential development projects.

EDUCATION:

Pennsylvania State University, State College, Pennsylvania
Bachelor of Science; Major in Civil Engineering, 2005

- Attended NARUC Rate School, Clearwater, FL
- Attended Society of Depreciation Professionals Annual Conference and Training

TESTIMONY SUBMITTED:

I have testified and/or submitted testimony in the following proceedings:

1. Clean Treatment Sewage Company, Docket No. R-2009-2121928
2. Pennsylvania Utility Company – Water Division, Docket No. R-2009-2103937
3. Pennsylvania Utility Company – Sewer Division, Docket No. R-2009-2103980
4. UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
5. PAWC Clarion Wastewater Operations, Docket No. R-2010-2166208
6. PAWC Claysville Wastewater Operations, Docket No. R-2010-2166210
7. Citizens' Electric Company of Lewisburg, Pa, Docket No. R-2010-2172665
8. City of Lancaster – Bureau of Water, Docket No. R-2010-2179103
9. Peoples Natural Gas Company LLC, Docket No. R-2010-2201702
10. UGI Central Penn Gas, Inc., Docket No. R-2010-2214415
11. Pennsylvania-American Water Company, Docket No. R-2011-2232243
12. Pentex Pipeline Company, Docket No. A-2011-2230314
13. Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201
14. Philadelphia Gas Works 1307(f), Docket No. R-2012-2286447
15. Peoples Natural Gas Company LLC, Docket No. R-2012-2285985
16. Equitable Gas Company, Docket Nos. R-2012-2312577, G-2012-2312597
17. City of Lancaster – Sewer Fund, Docket No. R-2012-2310366
18. Peoples TWP, LLC 1307(f), Docket No. R-2013-2341604
19. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2013-2361763
20. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2013-2361764
21. Joint Application, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651
22. City of Dubois – Bureau of Water, Docket No. R-2013-2350509
23. The Columbia Water Company, Docket No. R-2013-2360798
24. Pennsylvania American Water Company, Docket No. R-2013-2355276
25. Generic Investigation Regarding Gas-on-Gas Competition, Docket Nos. P-2011-227868, I-2012-2320323
26. Philadelphia Gas Works 1307(f), Docket No. R-2014-2404355
27. Pike County Light and Power Company (Gas), Docket No. R-2013-2397353
28. Pike County Light and Power Company (Electric), Docket No. R-2013-2397237
29. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2014-2403939
30. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2014-2420273
31. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2014-2420276
32. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2014-2420279
33. Emporium Water Company, Docket No. R-2014-2402324
34. Borough of Hanover – Hanover Municipal Water, Docket No. R-2014-2428304
35. Philadelphia Gas Works 1307(f), Docket No. R-2015-2465656
36. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2015-2465172
37. Peoples Natural Gas Company – Equitable Division 1307(f), Docket No. R-2015-2465181
38. PPL Electric Utilities Corporation, Docket No. R-2015-2469275
39. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2015-2480934
40. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2015-2480937
41. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2015-2480950
42. UGI Utilities, Inc. – Gas Division, Docket No. R-2015-2518438
43. Joint Application of Pennsylvania American Water, et al., Docket No. A-2016-2537209

44. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2016-2543309
45. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2016-2543311
46. City of Dubois – Company, Docket No. R-2016-2554150
47. UGI Penn Natural Gas, Inc., Docket No. R-2016-2580030
48. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2017-2602627
49. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2017-2602633
50. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2017-2602638
51. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the City of McKeesport, Docket No. A-2017-2606103
52. Pennsylvania American Water Company, Docket No. R-2017-2595853
53. Pennsylvania American Water Company Lead Line Petition, Docket No. P-2017-2606100
54. UGI Utilities, Inc. – Electric Division, Docket No. R-2017-2640058
55. Peoples Natural Gas Company, LLC – Peoples and Equitable Division 1307(f), Docket Nos. R-2018-2645278 & R-2018-3000236
56. Peoples Gas Company, LLC 1307(f), Docket No. R-2018-2645296
57. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577
58. Duquesne Light Company, Docket No. R-2018-3000124
59. Suez Water Pennsylvania, Inc., Docket No. R-2018-3000834
60. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the Township of Sadsbury, Docket No. A-2018-3002437
61. The York Water Company, Docket No. R-2018-3000006
62. Application of SUEZ Water Pennsylvania, Inc. Acquisition of the Water and Wastewater Assets of Mahoning Township, Docket Nos. A-2018-3003517 and A-2018-3003519
63. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645 and R-2018-3002647
64. Joint Application of Aqua America, Inc. et al., Acquisition of Peoples Natural Gas Company LLC, et al., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063
65. Implementation of Chapter 32 of the Public Utility Code Regarding Pittsburgh Water and Sewer Authority, Docket Nos. M-2018-2640802 and M-2018-2640803
66. Philadelphia Gas Works 1307(f), Docket No. R-2019-3007636
67. People Natural Gas Company, LLC, Docket No. R-2018-3006818
68. Application of Pennsylvania American Water Company Acquisition of the Steelton Borough Authority, Docket No. A-2019-3006880
69. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the Township of Cheltenham, Docket No. A-2019-3006880
70. Philadelphia Gas Works, Docket No. R-2019-3009016
71. Wellsboro Electric Company, Docket No. R-2019-3008208
72. Valley Energy, Inc., Docket No. R-2019-3008209
73. Citizens' Electric Company of Lewisburg, Pa, Docket Non. R-2019-3008212
74. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the East Norriton Township, Docket No. A-2019-3009052
75. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2020-3017850
76. Peoples Gas Company, LLC 1307(f), Docket No. R-2020-3017846
77. Philadelphia Gas Works, Docket No. R-2020-3017206
78. Pittsburgh Water and Sewer Authority, Docket Nos. R-2020-3017951 et al.
79. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835

I&E Statement No. 4-SR
Witness: Lassine Niambele

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2020-3018835

Surrebuttal Testimony

of

Lassine Niambele

Bureau of Investigation & Enforcement

Concerning:

DISTRIBUTION INTEGRITY MANAGEMENT PLAN
PIPELINE REPLACEMENT
PIPELINE REPLACEMENT COSTS

TABLE OF CONTENTS

INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Lassine B. Niambele. I am a Fixed Utility Valuation Engineer in the Pipeline Safety Division of the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation and Enforcement ("I&E"). My business address is Pennsylvania Public Utility Commission, 400 North Street, Harrisburg, PA 17120.

Q. ARE YOU THE SAME LASSINE B. NIAMBELE WHO SUBMITTED I&E STATEMENT NO. 4 AND I&E EXHIBIT NO. 4 ON JULY 28, 2020?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my testimony is to address the rebuttal testimony of Columbia Gas of Pennsylvania, Inc. ("CPA," "Columbia" or "Company") witnesses Andrew S. Tubbs[1] and Robert M. Kitchell[2]. I will focus of the witnesses' responses regarding Columbia's Long-Term Infrastructure Improvement Plan ("LTIIP"), the removal of bare steel and cast-iron pipes, and pipeline costs.

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[1] CPA Statement No. 1-R.
[2] CPA Statement No. 14-R.

PIPELINE REPLACEMENT

Q. WHAT DID YOU RECOMMEND REGARDING COLUMBIA'S PIPELINE REPLACEMENT IN REGARD TO ITS LTIIP?

A. I recommended that the Company should increase its pipeline replacement in order to meet the replacement goal stated in its current LTIIP and reduce overall risk in the system.

Q. WHAT IS THE COMPANY'S CURRENT LTIIP GOAL TO REMOVE PRIORITY PIPE?

A. In the Company's current LTIIP, Columbia states that it will have all priority pipe replaced or retired from service by 2029.[3]

Q. WHO DETERMINED THE 2029 GOAL STATED IN THE LTIIP?

A. Columbia determined this 2029 target date.

Q. DOES YOUR DIRECT TESTIMONY ADDRESS THE COMPANY'S 2029 PIPELINE REPLACEMENT GOAL?

A. Yes. In my direct testimony I determined that Columbia needed to replace on average 112 miles of priority pipe from 2017 to 2029 to meet the replacement goal

[3] Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Major Modification to its Existing Long-Term Infrastructure Improvement Plan and Approval of its Second Long-Term Infrastructure Improvement Plan at Docket No. P-2017-2602917, p. 11-12.

stated in its current LTIIP.[4] However, based on the current remaining priority pipe, the Company would now need to retire approximately 118 miles per year for the years 2020 through 2029.[5] In direct testimony, Company witness Huwar presented a table illustrating that from 2007 to 2019 Columbia replaced less than 105 miles of priority pipe per year.[6] There are only two years in which Columbia replaced over 100 miles of pipe per year, 2008 and 2011. The concern raised in my direct testimony is that if Columbia maintains its current pipeline replacement pace, it will not meet the 2029 target date stated in its LTIIP.

Q. DID THE COMPANY RESPOND TO YOUR CLAIM THAT BASED ON CURRENT INFORMATION IT WILL NOT MEET THE 2029 PIPELINE REPLACEMENT GOAL?

A. Yes. According to Columbia witness Kitchell, Columbia's ability to meet its projections cannot be measured by a straight-line, average approach due to, among other things, the uniqueness of each project.[7] Witness Tubbs stated that if the 2029 completion target date was in jeopardy Columbia would file a modification to its LTIIP and further claimed that these issues are better addressed in the LTIIP proceeding rather than this base rate case.[8]

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4 I&E Statement No. 4, page 13, lines 10-13.
5 I&E Statement No. 4, page 13, lines 15-19.
6 CPA Statement No. 1, p. 13, figure 3.
7 CPA Statement No. 14-R, pages 3-4.
8 CPA Statement No. 1-R, pages 13-17.

Q. PLEASE ADDRESS MR. KITCHELL'S ARGUMENT THAT COLUMBIA'S ABILITY TO MEET THE LTIIP PROJECTIONS CANNOT BE MEASURED BY A STRAIGHT-LINE AVERAGE DUE TO THE UNIQUENESS OF EACH PROJECT.

A. My analysis was simply to illustrate how many miles of pipeline would need to be replaced in order to meet the goal stated in its LTIIP. As mentioned above, Columbia has to replace on average 118 miles per year to meet the Company's goal by 2029. Historically, the Company has only been able to replace over 100 miles of pipe twice between the years 2007 to 2019.[9] While I recognize that projects are unique, the fact remains that Columbia has not consistently replaced over 100 miles of pipe over the past thirteen years. Based on this information, I&E believes it is necessary to raise this concern and recommend that the Company increase its pipeline replacement to meet its LTIIP goal and to reduce overall risk in its system.

Q. PLEASE ADDRESS COLUMBIA WITNESS TUBBS CLAIM THAT THE LTIIP CAN BE MODIFIED IF THE 2029 TARGET DATE IS IN JEOPARDY.

A. Although the LTIIP can be modified, the fact remains that risky pipe must be replaced, not left in the ground. My testimony was to alert the Company that it

[9] CPA Statement No. 1, p. 13, figure 3.

needs to increase its pipeline replacement in order to meet the goal stated in its current LTIIP. Meeting this goal should be a priority for the Company rather than relying on extending the target date.

Q. DO YOU AGREE THAT THESE ISSUES SHOULD BE ADDRESSED IN THE LTIIP AND NOT THIS BASE RATE PROCEEDING?

A. No. I&E represents the public interest in rate proceeding and I&E Safety's goal through intervention in the rate cases is to bring to light safety impacts with the interconnection and related effects between risk calculations, assets replacement and mitigation, costs, LTIIPs and risk factor indicators, such as incidents and leaks. Increase in risk, like Mr. Apetoh has identified in his testimony, leads to further examination of all available information. This information can include a company's DIMP, annual reports filed with PHMSA, the company's LTIIP, and information gained during the course of this base rate proceeding. All of this information is analyzed, and appropriate recommendations can be made in a base rate proceeding.

Q. WHY DOES I&E REVIEW COMPANY'S DIMP DURING RATE CASE PROCEEDINGS?

A. Distribution pipeline operators are required to comply with all of the DIMP requirements at 49 CFR 192 Subpart P-Gas Distribution Pipeline Integrity Management. Included in this subpart are, among other requirements, the need to identify threats, evaluate and rank risk, identify and implement measures to address risk and measure performance, monitor results, and evaluate effectiveness. Lastly, the process must include a periodic evaluation and demonstrate improvement. I&E Safety Engineers are trained to evaluate compliance with these requirements. If risk scores are not reducing, if risk indicators are flat or increasing, or if mitigation measures or replacement numbers are lagging, this raises concerns from a safety standpoint. Assuming the company is adequately addressing the riskiest assets, the risk is expected to reduce over time. If risk is increasing, the I&E safety engineers would pose the following questions:

- Is risk being calculated in an effective manner?
- Is the company mitigating risk effectively for the proper asset?
- Is the company is mitigating the asset aggressively enough to reverse the non-decreasing level of risk?

Q. WHAT IS THE CONNECTION BETWEEN THE DIMP AND LTIIP?

A. As discussed above, DIMP is the driving factor for a Company's pipe replacement and safety programs while an LTIIP is a five-year plan that is provided to the Commission that shows what facilities a company plans to replace. The rate of replacement for risky pipelines (i.e., cast iron and bare steel pipelines) is monitored, measured and recorded. This replacement data is reviewed in DIMP inspections and during rate cases for those companies that claim a large capital expenditure for pipeline replacements. The LTIIP is a forward-looking plan based on the utility's analysis and projections for main replacements that is not particular to specific mains or assets, but as asset groups system wide. The LTIIP lists the mileage replacement projections per year and usually an overall timeline goal when all of that asset is to be removed from service. Pipe replacement is one of the best methods to drive down system risk because leaks and corrosion represent the primary threat to a distribution system. Therefore, as the pipeline replacements are made in accordance with the utility's LTIIP, the overall system risk should decrease.

Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO EXAMINE SYSTEM RISK IN THIS BASE RATE PROCEEDING.

A. I&E's role in this proceeding is to represent the public interest, which includes the safety and risk of the Company's system. I&E Safety raised concerns that Columbia's system risk is increasing as Mr. Apetoh identified in his direct testimony[10] and surrebuttal testimony[11] that despite Columbia's continued, accelerated pipe replacement goals, system risk is still increasing due to an increase in grade two and grade three leaks, an increase in non-reportable incidents, and an increase in damages due to records management.

Additionally, I reviewed the Company's LTIIP and its replacement projections for the next five years, which led to my concern that it may not meet its stated 2029

[10] I&E Statement No. 5, pages 3-12.
[11] I&E Statement No. 5-SR.

replacement goal. Contrary to Mr. Tubbs assertion, I&E believes it is important to alert Columbia to these concerns in this proceeding as part of its charge to represent the public interest and to make appropriate recommendations that would reduce overall system risk. Accordingly, I&E's recommendation that the Company increase its pipeline replacement efforts to meet the 2029 LTIIP goal should be approved.

REPLACEMENT COSTS

Q. DID YOU ADDRESS THE COMPANY'S REPLACEMENT COSTS IN DIRECT TESTIMONY?

A. Yes. I recommended the Company work on driving down all costs associated with pipeline replacement. I also recommended CPA draft a cost reduction plan to be submitted to I&E Pipeline Safety Division within 60 days of the final Order in this proceeding. I also recommended that CPA itemize expenses on pipeline replacement projects.[12] I believe that Columbia should be using every available resource to drive down replacement costs as much as possible to provide more funding for increased pipe replacement footage and reducing the burden on customer bills.

[12] I&E Statement No. 4, page 18, lines 18-20; page 19, lines 1-19.

Q. DID COLUMBIA AGREE WITH YOUR REPLACEMENT COST REDUCTION RECOMMENDATIONS?

A. No. Witness Kitchell stated in rebuttal testimony that my recommendations are already part of the Company's existing processes to plan and execute pipeline replacement projects. Columbia believes the cost reduction plan is unnecessary as the Company is already working to reduce restoration costs by carrying out the recommendations put forth by my direct testimony. Columbia disagrees that my recommendations would result in a decrease to restoration costs and disputes that it fails to spend prudently on restoration costs.[13]

Q. DO YOU AGREE WITH THESE ARGUMENTS THAT WERE RAISED IN THE COMPANY'S REBUTTAL TESTIMONY?

A. In part. I agree that the Company is making efforts to reduce replacement costs, but I remain concerned that those costs are increasing. Columbia states that my cost reduction plan is unnecessary; however, as discussed in my direct testimony, replacement costs have increased significantly. Specifically, the average cost for replaced priority pipes in 2008 was $81.25 per foot and it increased to $235.00 per foot in 2019.[14] Therefore, while I recognize that the Company objects to my recommendations, the fact is that these costs continue to be a concern despite CPA's ongoing efforts.

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[13] CPA Statement No. 14-R, pages 10-16.
[14] CPA Statement No. 14, page 4, lines 13-16.

Q. GIVEN COLUMBIA'S REBUTTAL TESTIMONY, DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. Yes. Columbia states that it is largely already complying with my recommendations to reduce restoration costs. Therefore, until the conclusion of the Company's next base rate proceeding, I recommend that Columbia and I&E's Pipeline Safety Division meet annually for a status update of those efforts. I&E Safety would like to discuss these strategy's and best practices the Company is using to reduce all costs. Any cost reductions the Company realizes can be used to replace more pipe and reduce system risk. As stated in my direct testimony, one of I&E's responsibilities in a base rate case is to ensure that the interests of ratepayers, the regulated utility, and the regulated community is protected.[15]

Q. PLEASE SUMMARIZE YOUR REMAINING RECOMMENDATIONS.

A. I still recommend Columbia do the following:

- Columbia increase its pipe replacement so that the 2029 priority pipe replacement goal will be met
- Meet with the Commission's I&E Safety Division to discuss cost reduction efforts and issues that the Company might be experiencing.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

[15] I&E Statement No. 4, page 2, lines 10-13.

I&E Statement No. 5-SR
Witness: Kokou M. Apetoh

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2020-3018835

Surrebuttal Testimony

of

Kokou M. Apetoh

Bureau of Investigation & Enforcement

Concerning:

Distribution Integrity Management Plan
Leaks/Risk Reduction

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Kokou M. Apetoh. My business address is 400 North Street, Harrisburg, Pennsylvania 17120.

Q. ARE YOU THE SAME KOKOU M. APETOH WHO SUBMITTED I&E STATEMENT NO. 5 AND I&E EXHIBIT NO. 5 ON JULY 28, 2020?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of Columbia Gas of Pennsylvania, Inc.'s ("Columbia" or "Company") witness Michael J. Davidson. Specifically, I will emphasize the appropriateness of my recommendations regarding Columbia's Distribution Improvement Management Program ("DIMP") and risk reduction associated with newly found leaks, excavation damages per thousand tickets, poor record related damages, non-reportable incidents due to poor records, and failures of field-assembled risers on Columbia-owned service lines.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. No, but I refer to my direct testimony and its accompanying exhibit.[1]

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[1] I&E Statement No. 5 and I&E Exhibit No. 5.

Q. DID YOU ADDRESS COLUMBIA'S DIMP AND RISK REDUCTION IN DIRECT TESTIMONY?

A. Yes. In my direct testimony I recommended that Columbia do the following:

- Follow its DIMP plan to meet federal and state mandates;[2]
- Focus on the risk factors or indicators that have risen from 2017 through 2019 including newly found leaks, excavation damages per thousand tickets, poor record related damages, non-reportable incidents due to poor records, and failures of field-assembled risers on Columbia-owned service lines;[3]
- Develop a process and procedure to normalize the two different risk ranking systems it uses so the effectiveness of the DIMP plan can be evaluated;[4]
- Conduct risk rankings with its historical data prior to 2016 to better evaluate trends and changes in risks to its system;[5]
- Update Section 7.1.2.2 of its DIMP Plan to reflect the inclusion of historical data in the evaluation of its risks;[6]
- Provide I&E Pipeline Safety with a root cause analysis by September 30, 2021;[7]
- Train locating personnel including third party contractors on same equipment used in the field;[8] and

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[2] I&E Statement No. 5, page 6, line 16.
[3] I&E Statement No. 5, page 6, lines 17-19.
[4] I&E Statement No. 5, page 6, lines 19-20 and page 7, line 1.
[5] I&E Statement No. 5, page 7, lines 3-5.
[6] I&E Statement No. 5, page 7, lines 5-7.
[7] I&E Statement No. 5, page 12, line 20, page 13, lines 1-5.
[8] I&E Statement No. 5, page 15, lines 5-7.

- Finish updating maps and records.[9]

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATIONS REGARDING THE RISK INDICATORS THAT HAVE RISEN FROM 2017 THROUGH 2019?

A. Yes. Company Witness Davidson contended that Columbia addresses the distribution system risk factors included in my direct testimony as part of its DIMP. According to Mr. Davidson, Columbia meets and exceeds the minimum requirements of the DIMP mandates.[10]

Q. WHAT IS YOUR RESPONSE TO COLUMBIA'S CLAIMS REGARDING THE RISK INDICATORS THAT HAVE RISEN FROM 2017 THROUGH 2019?

A. The DIMP regulations emphasize performance rather than the usual prescriptions of the Code of Federal Regulations ("CFR") indicating that the DIMP regulations focus more on measurable outcomes. The fact that the Company's other risk factors have risen from 2017 to 2019 while Columbia was supposedly addressing them implies that Columbia's current risk evaluation methods addressing the other risks may not be working. Consequently, the Company needs to reevaluate how it currently addresses those risk factors in order to improve the outcomes mentioned above. In my opinion, such reassessment will allow Columbia to determine what

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[9] I&E Statement No. 5, page 13 line 20, page 14, lines 1-7.

[10] Company Statement No. 7-R, page 7, lines 13-21, page 8, and page 9, lines 1-10.

necessary actions may be needed to ensure the safety of the distribution system and the people.

Q. DO YOU WISH TO COMMENT ON COLUMBIA'S ASSERTION THAT IT MEETS AND EXCEEDS THE MINIMUM REQUIREMENTS OF THE DIMP MANDATES?

A. Yes. I&E Pipeline Safety's last comprehensive inspection of Columbia's DIMP plan conducted in 2018 found the plan to be deficient. As a result, the Non-Compliance ("NC") letter discussed by I&E Witness Niambele in his direct testimony was issued to the Company. The issuance of the NC letter is an indication that the plan did not meet the regulations at the time of the inspection regardless of whether the Company agreed with the findings or not. Moreover, the DIMP related issues raised by I&E Pipeline Safety in this proceeding are another indication of the deficiencies in the Company's DIMP.

Q. WHAT WAS COLUMBIA'S RESPONSE TO YOUR RECOMMENDATION THAT IT DEVELOP A PROCESS AND PROCEDURE TO NORMALIZE THE TWO DIFFERENT RANKING SYSTEMS IT USES SO THE EFFECTIVENESS OF THE DIMP PLAN CAN BE EVALUATED?

A. Witness Davidson claimed in rebuttal testimony that Columbia does not use two different risk scores for DIMP risk ranking but rather two inputs to generate one DIMP risk score. According to Mr. Davidson, the two inputs comprise quantitative data on one hand and qualitative data from the Company's SMEs on the other hand. Further, Mr. Davidson claimed that Columbia uses the performance measures associated with the highest risks in its system to evaluate the effectiveness of its DIMP Plan.[11]

Q. DO YOU WISH TO AMEND YOUR RECOMMENDATION THAT COLUMBIA DEVELOP A PROCESS AND PROCEDURE TO NORMALIZE THE TWO DIFFERENT RANKING SYSTEMS IT USES SO THE EFFECTIVENESS OF THE DIMP PLAN CAN BE EVALUATED?

A. Yes. Columbia's current DIMP is unclear as to its method of using two inputs to generate one DIMP risk score as stated by witness Davidson. Based on the explanation from Mr. Davidson, I recommend that Columbia amend its DIMP to explain its method of using two inputs to generate one DIMP risk score and present proof of the update to I&E Pipeline Safety at the conclusion of this proceeding.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION THAT IT CONDUCT RISK RANKINGS WITH ITS HISTORICAL DATA PRIOR TO 2016 TO BETTER EVALUATE TRENDS AND CHANGES IN RISKS TO ITS SYSTEM?

A. Yes. Mr. Davidson opined that Columbia is unable to perform a fair comparison

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[11] Columbia Statement No. 7-R, page 9, lines 11-20 and page 10, lines 1-12.

of risk rankings for the current year's leakage data against leakage data prior to 2016. Witness Davidson explained that due to several process changes the Company made in 2016 regarding the collection of leakage data and the leakage data quality assurance/quality control processes that this would be difficult to achieve. Mr. Davidson added that Columbia utilizes post 2016 historical leakage data for trending analysis.[12]

Q. PLEASE COMMENT ON THE COMPANY'S INABILITY TO USE HISTORICAL LEACKAGE DATA PRIOR TO 2016.

A. The changes that occurred in 2016 that Mr. Davidson mentioned cover leakage data only. However, in addition to leakage, high risks to Columbia's system include third party damages, external corrosion, over pressure, cast iron, cross bores, and field assembled risers. I&E recommends that Columbia use all available historical data in these other categories to better evaluate trends and changes in risks to its system.

Q. DID COLUMBIA RESPOND TO YOUR RECOMMENDATION THAT THE COMPANY UPDATE SECTION 7.1.2.2 OF ITS DIMP TO REFLECT THE INCLUSION OF HISTORICAL DATA IN THE EVALUATION OF ITS RISKS?

A. Yes. Witness Davidson claimed that Columbia has already updated this Section

[12] Columbia Statement No. 7-R, page 10, lines 13-21, page 11, lines 1-3.

by expanding the use of incident data. Per Mr. Davidson, asset-threat combinations related to incidents over the previous five years now have a higher consequence of failure score.[13]

Q. DO YOU AGREE WITH THE COMPANY'S UPDATE TO SECTION 7.1.2.2 OF ITS DIMP TO REFLECT THE INCLUSION OF HISTORICAL DATA IN THE EVALUATION OF RISKS?

A. Yes. The Company's revision to its DIMP to expand the use of incident data and place a higher consequence of failure score on incidents in the last five years is acceptable if the Company intends to include all available historical data on leakage history, third party damages, external corrosion, over pressure, cast iron, cross bores, and field assembled risers.

Q. DID YOU ADDRESS COLUMBIA'S LEAKS IN DIRECT TESTIMONY?

A. Yes. I recommended that Columbia perform a root cause analysis to determine why the number of leaks found does not correlate with the amount of pipeline replacement for the past four years. Additionally, I recommended that Columbia present the results of the said analysis to I&E Pipeline Safety, to include any corrective actions the Company takes, no later than September 30, 2021. I also recommended Columbia continue its leakage reduction program.[14]

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[13] Columbia Statement No. 7-R, page 11, lines 4-10.

[14] I&E Statement No. 5, page 12, lines 15-20, and page 13, lines 1-2.

Q. WHAT EXACTLY DO YOU MEAN BY A ROOT CAUSE ANALYSIS?

A. The objective of a root cause analysis is to determine the most fundamental reason for an incident or condition, which if removed will prevent recurrence or minimize the risk of the incident or condition. Additionally, there are several root cause analysis techniques. A systematic root cause analysis, which is the one I am referring to in this case, is an analytical technique or method used to perform two primary functions. These functions include organizing data into patterns to help determine root causes and generating questions for inquiry. There are six key attributes we look for in a root cause analysis including:

- Thoroughness,
- Fairness,
- Efficiency,
- People, plant, and procedures,
- Safety precedence sequence, and
- Overt management support.

Q. DID THE COMPANY RESPOND TO YOUR LEAKAGE RECOMMENDATIONS?

A. Yes. Witness Davidson stated that the Company did experience a slight increase over the three year period of 2017 to 2019, which can be attributed to a couple of key factors.[15] Mr. Davidson agrees that as a prudent operator, a root cause analysis

[15] Columbia Statement No. 7-R, pages 11-12.

is essential to understanding and evaluating pipelines system risks and stated that Columbia performs its own analysis through its DIMP under 49 CFR Part 192.1001-192.1015, Subpart P of the Code of Federal Regulations and through operations work planning processes.[16] Finally, Columbia does not believe a formal root cause analysis is necessary at this time as it already evaluates leakage data in its current DIMP and operations work planning processes.[17]

Q. DID THE COMPANY PROVIDE A REASON FOR THE INCREASE IN LEAKS FOUND FROM 2017 TO 2019?

A. Yes. According to Mr. Davidson, the increase in leaks is the result of two factors: (1) aggressive replacement of aging infrastructure through its accelerated infrastructure replacement program where the impact of these efforts is expected to be gradual as the remaining pipeline to be replaced continues to degrade at an accelerated pace and (2) an increase in surveyed pipeline.[18]

Q. DOES THIS EXPLANATION CAUSE YOU TO CHANGE YOUR RECOMMENDATION?

A. No. In general, utilities conduct studies or analyses to determine which segments of their systems they should target first during a replacement project. Based on the result of those studies, riskiest pipes or segments are replaced first. Columbia

[16] Columbia Statement No. 7-R, page 13.
[17] Columbia Statement No. 7-R, pages 13-14.
[18] Columbia Statement No. 7-R, pages 11-12.

uses a computer software program, Optimain, to determine its riskiest pipes.[19] Despite the Company's explanation, the upward trend in leaks from 2017 to 2019 is concerning to I&E. In order to determine whether the Company is targeting the right segments during replacement project, I recommended that the Company provide I&E Pipeline Safety with a root cause analysis by September 30, 2021. As explained above, a root cause analysis will provide a specific cause as to the increase in leaks in Columbia's system using the six key attributes. I acknowledge that Columbia performs its own risk assessment in accordance with DIMP, however, a root cause analysis is generally accepted in the industry and provides a great amount of detail necessary to pinpoint the exact cause or causes of leakage increases.

Q. DID THE COMPANY ADDRESS YOUR ANALYSIS ON LEAKS PER MILES OF PRIORITY PIPES?

A. Yes. Mr. Davidson noted that my analysis overstates the percent change of leaks associated with priority pipes.[20] According to Mr. Davidson, the data I based my analysis on, which Columbia provided in response to I&E-GS-3,[21] are not limited to priority pipes but also include probable leaks source as well as facility damage leaks. Additionally, Mr. Davidson stated that my analysis should have included pipe material.[22]

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19 Columbia Statement No. 7-R, page 5, lines 20-21.
20 Columbia Statement No. 7-R, page 13.
21 I&E Exhibit No. 5, Schedule No. 1.
22 Columbia Statement No. 7-R, page 13.

Q. DO YOU AGREE WITH THE COMPANY ON YOUR ANALYSIS ON LEAKS PER MILES OF PRIORITY PIPES?

A. I agree with Mr. Davidson on the principle. However, I respectfully disagree with the Company on the outcome. Generally, most leaks occur on "bad pipes", which Columbia refers to as priority pipes. Considering the previous fact, we can extrapolate and affirm that priority pipes will be the source of most of the leaks in the raw data provided by Columbia in response to I&E-GS-3. Therefore, the outcome of my analysis will fall within a reasonable range of confidence.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. Both I&E Pipeline Safety and the Company agree that overall leaks found have increased on Columbia's system from 2017 to 2019. Additionally, Columbia and I&E Pipeline Safety concur on the importance of conducting a root cause analysis. I continue to recommend that the Company perform a root cause analysis and submit the results to I&E Pipeline Safety no later than September 30, 2021.

Q. DID YOU ADDRESS COLUMBIA'S FACILITY DAMAGES IN DIRECT TESTIMONY?

A. Yes. I recommended Columbia finish updating its maps and records by the end of 2021 if the Commission approves its request for an additional O&M cost of $491,000. I also recommended the Company provide documentation of the completion of the update to I&E Pipeline Safety no later than June 30, 2022.

Additionally, I recommended Columbia use its senior operators and damage prevention staff to tailor training programs that better suit Columbia's needs. Furthermore, I recommended Columbia train its locating personnel, including third-party contractors, on the same locating equipment used in the field.[23]

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION THAT IT FINISH UPDATING ITS MAPS AND RECORDS BY THE END OF 2021 IF THE COMMISSION APPROVES ITS REQUEST FOR AN ADDITIONAL O&M COST OF $491,000 AND PRESENT DOCUMENTATION OF THE COMPLETION TO I&E PIPELINE SAFETY BY JUNE 30, 2022?

A. Yes. Mr. Davidson stated that Columbia cannot guarantee completion of its maps and records by the end of 2021. However, the Company agreed not only to provide documentation to I&E Pipeline Safety as soon as it is available but to keep I&E apprised of its progress.[24]

Q. DO YOU AGREE WITH THE COMPANY'S RESPONSE REGARDING MAPS AND RECORDS?

A. Yes. Given the recommendations are conditioned upon the approval of the Company's request by the Commission, I&E Pipeline Safety finds the response reasonable.

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23 I&E Statement No. 5, page 13, lines 15-20, and page 14, lines 1-4.

24 Columbia Statement No. 7-R, page 15, lines 1-5.

Q. WHAT WAS COLUMBIA'S RESPONSE TO YOUR RECOMMENDATION THAT THE COMPANY TRAIN ITS LOCATING PERSONNEL, INCLUDING THIRD-PARTY CONTRACTORS, ON THE SAME LOCATING EQUIPMENT USED IN THE FIELD?

A. The Company claimed it uses its training Center in Monaca, Pennsylvania to train its locating personnel. Additionally, Mr. Davidson stated that Columbia trains its locating employees on the same equipment used in the field.[25] Furthermore, Mr. Davidson claimed that Columbia stopped using third-party locators in 2012 except for outside contractors, who use their own staff for locating purposes on capital projects.[26]

Q. WHO IS RESPONSIBLE FOR ENSURING THAT OUTSIDE CONTRACTORS USED BY THE COMPANY ON ITS CAPITAL PROJECTS ARE TRAINED?

A. Per the regulations, Columbia is responsible for ensuring that outside contractors it utilizes are qualified.[27] Therefore, I continue to recommend that these contractors be trained on the same equipment that is used in the field.

Q. DID YOU ADDRESS THE COMPANY'S FIELD-ASSEMBLED RISERS IN DIRECT TESTIMONY?

A. Yes. I recommended that the Company complete updating its records, which will

[25] Columbia Statement No. 7-R, page 17, lines 3-9.
[26] Columbia Statement No. 7-R, page 16, lines 13-18.
[27] 49 CFR 192, Subpart N.

allow Columbia to identify the locations of all field-assembled risers including those on customer-owned service lines. I also recommended that Columbia complete the inspection of all field-assembled risers in the Company's system as soon as possible. Finally, I recommended Columbia develop a plan to replace all the field-assembled risers in its system, including those on customer-owned service lines.[28]

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATIONS REGARDING COLUMBIA'S FIELD-ASSEMBLED RISERS?

A. Yes. Witness Davidson stated that the Company has already taken proactive actions to address my recommendations.[29]

Q. PLEASE SUMMARIZE YOUR REMAINING RECOMMENDATIONS.

A. I still recommend Columbia do the following:

- Follow its DIMP plan to meet federal and state mandates;
- Focus on the risk factors or indicators that have risen from 2017 through 2019 including newly found leaks, excavation damages per thousand tickets, poor record related damages, non-reportable incidents due to poor records, and failures of field-assembled risers on Columbia-owned service lines;

[28] I&E Statement No. 5, page 12, lines 6-13.
[29] Columbia Statement No. 7-R, page 19, lines 12-16.

- Amend its DIMP to explain its method of using two inputs to generate one DIMP risk score and present proof of the update to I&E Pipeline Safety at the conclusion of this proceeding;
- Conduct risk rankings with all its available historical data prior to 2016 to better evaluate trends and changes in risks to its system;
- Update Section 7.1.2.2 of its DIMP Plan to reflect the inclusion of all historical data in the evaluation of its risks;
- Provide I&E Pipeline Safety with a root cause analysis by September 30, 2021;
- Train its contractors on the same equipment that is used in the field; and
- Finish updating maps and records.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.