PAPUC

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

March 18, 2021

<u>Via Electronic Filing</u>
Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Pike County Light & Power Company (Gas)
Docket No: R-2020-3022134
I&E Pre-Served Testimony

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the following **Pre-Served Testimony and Exhibits** of the Bureau of Investigation and Enforcement's (I&E) witnesses in the above-captioned proceeding, per ALJ Long's Interim Order dated March 15, 2021.

John Zalesky	I&E Statement No. 1	I&E Exhibit No. 1 (PROPRIETARY)
Anthony Spadaccio	I&E Statement No. 2	I&E Exhibit No. 2
Esyan A. Sakaya	I&E Statement No. 3	I&E Exhibit No. 3
Lara M. Lapinski, P.E.	I&E Statement No. 4	I&E Exhibit No. 4
John Zalesky	I&E Statement No. 1-SR	
Anthony Spadaccio	I&E Statement No. 2-SR	
Esyan A. Sakaya	I&E Statement No. 3-SR	I&E Exhibit No. 3-SR

Copies are being served on parties per the attached Certificate of Service. *Due to the temporary closing of the PUC's offices, I&E is only providing electronic service*. Should you have any questions, please do not hesitate to contact me.

Sincerely,

Erika L. McLain

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Prosecutor
Bureau of Investigation and Enforcement
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ELM/jfm
Enclosures

cc: Hon. Mary D. Long, *(ALJ, PUC Pittsburgh – via e-mail)*
Per Certificate of Service *(Cover Letter & Certificate of Service via e-mail)*

I&E Statement No. 1
Witness: John Zalesky

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT AND POWER COMPANY (GAS)

Docket No. R-2020-3022134

Direct Testimony

of

John Zalesky

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES
RATE BASE
INCOME TAXES

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INTRODUCTION

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

A. My name is John Zalesky. I am a Fixed Utility Financial Analyst in the Technical Division of the Pennsylvania Public Utility Commission's (Commission or PUC) Bureau of Investigation and Enforcement (I&E). My business address is Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. My education and professional background are set forth in Appendix A, which is attached.

Q. DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in rate proceedings. I&E's analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to review the base rate filing of Pike County Light & Power Company (Gas), referred to in this testimony as Pike Gas or Company, and make recommended adjustments to the Company's proposed operating and maintenance (O&M) expenses, income taxes, and rate base for the future test year (FTY) ending June 30, 2021.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

Q. SUMMARIZE THE COMPANY'S OVERALL CLAIMED REVENUE REQUIREMENT.

A. The Company's base rate case filing was submitted on October 26, 2020 requesting an increase of $262,200 to claimed present rate revenues of $1,642,500 resulting in a total overall revenue requirement of $1,904,700.

Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.

A. The following table summarizes my recommended adjustments:

	Company Claim	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses and Amortizations:			
Rate Case Expense	$5,600	$4,500	($1,100)
Amortization of Excess ADIT	$0	($8,303)	($8,303)
Total O&M Expense and Adjustments			**(9,403)**
Rate Base Adjustments:			
Deferred Debits	$22,500	$0	($22,500)
Deferred Credits – TCJA	($20,300)	($20,266)	$34
Total Rate Base Adjustments			**($22,466)**
Income Taxes:			
State Income Taxes	$15,057	$1,965	($13,092)
Federal Income Taxes	$25,976	$0	($25,976)
Total Income Tax Adjustments			**($39,068)**

SUMMARY OF I&E OVERALL POSITION

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

A. I&E's total recommended revenue requirement for the Company is $1,843,670. This recommended revenue requirement represents an increase of $201,170 to the Company's claimed present rate revenues of $1,642,500. This total recommended allowable increase incorporates my adjustments made in this testimony and those made in the testimony of I&E witnesses Anthony Spadaccio and Esyan Sakaya.[1]

A calculation of the I&E recommended revenue requirement is shown below:

Pike County Light & Power Company - Gas		TABLE I			
R-2020-3022134		INCOME	SUMMARY		
	6/30/21	INVESTIGATION & ENFORCEMENT			
	Proforma	[--			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	1,642,500	0	1,642,500	201,170	1,843,670
Deductions:					
O&M Expenses	1,389,900	-9,403	1,380,497	3,078	1,383,575
Depreciation	125,000	-4,500	120,500		120,500
Taxes, Other	19,200	0	19,200	0	19,200
Income Taxes:					
Current State	-10,743	834	-9,909	11,874	1,965
Current Federal	-22,824	1,496	-21,328	21,328	0
Deferred Taxes	36,886	0	36,886		36,886
ITC	0	0	0		0
Total Deductions	1,537,419	-11,573	1,525,846	36,280	1,562,126
Income Available	105,081	11,573	116,654	164,890	281,544
Rate Base	4,071,900	-183,166	3,888,734	0	3,888,734
Rate of Return	2.58%		3.00%		7.24%

[1] I&E Statement No. 2 and I&E Statement No. 3.

<u>RATE CASE EXPENSE</u>

Q. BRIEFLY EXPLAIN THE NATURE AND TYPES OF EXPENDITURES TYPICALLY ALLOWED AS A PART OF A REGULATED UTILITY'S OVERALL RATE CASE EXPENSE.

A. The nature and types of individual expenditures that comprise a utility's allowable claim for rate case expense are those directly incurred to compile, present, and defend a utility's request for a base rate increase before the Commission. The actual expenditures and estimated costs typically found in an allowable rate case expense claim include legal fees for outside counsel, outside consultants, and the cost of printing, document assembly, and postage.

Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE CASE EXPENSE FOR RATEMAKING PURPOSES?

A. The Commission has historically stated that it considers prudently incurred rate case expense as an ongoing expense, occurring at irregular intervals, related to the rendering of utility service. The Commission has also cited the importance of considering the involved utility's history regarding the frequency of rate case filings as an essential element in determining the normalized level of rate case expense for ratemaking purposes.

Q. HOW IS THE FREQUENCY OF RATE CASE FILINGS DETERMINED?

A. The frequency is determined by computing the average number of months between the filing dates of the utility's previous rate cases.

Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?

A. The Company's projected total rate case expense of $22,500 is amortized over 48 months, resulting in an annual rate case expense claim of $5,600.[2]

Q. WHAT IS THE BASIS OF THE COMPANY'S CLAIM?

A. The Company's claim is based on estimated expenses for this case that reflects costs to be incurred for its consulting fees to prepare the exhibits and testimony in support of the revenue requirement, cost of service study, rate design, and outside legal fees.[3] Pike Gas proposes to amortize the entire rate case expense over 48 months because the Company has the ability to file a Distribution System Improvement Charge (DSIC) which will allow the Company to recover the costs of infrastructure investments on a timely basis and reduce the need for more frequent base rate filings.[4]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR RATE CASE EXPENSE?

A. I recommend an allowance of $4,500 (($22,500 ÷ 60 months) x 12 months), or a reduction of $1,100 ($5,600 - $4,500) to the Company's claim.

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2 Pike Gas Exhibit G-4, Schedule 5.
3 Pike Gas Statement No. 2, pp. 37-38.
4 I&E Exhibit No. 1, Schedule 1.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. I have two areas of disagreement with the Company's rate case expense claim. First, I do not agree with the Company's request to amortize, rather than normalize, rate case expense. Second, I recommend that the Company's rate case expense be normalized over a period of 60 months resulting in an annual expense of $4,500 (($22,500 ÷ 60 months) x 12 months).

Q. YOUR FIRST ISSUE PERTAINS TO WHETHER RATE CASE EXPENSE SHOULD BE NORMALIZED OR AMORTIZED. BRIEFLY DISCUSS THE CONCEPT OF NORMALIZATION.

A. Normalization is a ratemaking concept that describes the transformation of an operating expense that recurs at irregular intervals into a normal annual test year expense allowance. Normalization specifically addresses the prospective recovery of an ongoing expense that recurs sporadically. Allowed normalized rate case expenses are no different than any other O&M expense in that the company is given the opportunity to achieve full recovery.

Q. PLEASE EXPLAIN THE CONCEPT OF AMORTIZATION.

A. Amortization is an accounting procedure that extinguishes an atypical, nonrecurring expense over a pre-determined number of years by charging to operations, a pro rata share based on the selected amortization period. Although a claim for an un-recovered normalized expense would be disallowed if requested in a subsequent rate case, an amortization expense allowance could be claimed in succeeding rate cases as long as there is a remaining unamortized balance.

Q. IS THE COMPANY'S PROPOSED AMORTIZATION OF RATE CASE EXPENSE APPROPRIATE?

A. No. The Company's rate case expense claim should be normalized instead of amortized because it is an ongoing expense that recurs at irregular intervals, which is the precise circumstance under which normalization treatment of expense should occur.

Q. YOUR SECOND ISSUE RELATES TO THE RECOMMENDED FILING FREQUENCY. PLEASE EXPLAIN WHY YOU DISAGREE WITH THE COMPANY'S CLAIMED 48-MONTH FILING INTERVAL?

A. I disagree with the Company's claimed 48-month recovery period which is not supported by the Company's historic filing frequency. The proposed recovery period fails to properly rely upon historic data. As such, the proposed period should be rejected.

In contrast to the Company's claimed 48-month recovery period, I recommend a 60-month normalization period. A normalization period of 60 months is a reasonable interval given the Company's actual base rate filing history over the most recent three base rate cases. Based on the following data, the Company has an average historic base rate case filing frequency of every 74 months when considering base rate cases filed since 2008:[5]

Docket No.	Date Filed	Filing Interval
R-2020-3022134	October 26, 2020	81 months
R-2013-2397353	January 17, 2014	66 months
R-2008-2046520	July 17, 2008	

[5] I&E Exhibit No. 1, Schedule 2.

Using the Company's three most recent base rate case filing dates, the average interval is 74 months ((81 mo. + 66 mo.) ÷ 2 intervals). The Company's requested 48-month recovery period is unsupported. Thus, this claimed period should be rejected, as it would result in an unreasonable increase in rates. A 60-month normalization period is more appropriate because it moderates the impact of the longer historic filing frequency.

Q. HAVE OTHER UTILITIES BEEN GRANTED A NORMALIZATION PERIOD BASED ON SPECULATION OF FUTURE FILINGS, AND IF SO, WHAT WAS THE RESULT?

A. Yes. In 2012, the Commission granted PPL Electric Utilities Corporation (PPL) permission to normalize its rate case expense over a 24-month period based on the expected timing of future base rate case filings.[6] That particular base rate case was filed on March 30, 2012; however, PPL did not file its next rate case until March 31, 2015, which was 36 months after the 2012 rate case filing. It should be noted that I&E's recommended normalization period in the 2012 proceeding was a 32-month interval based on that company's historic filing frequency.[7] The I&E recommendation in that instance produced a much more accurate result than relying on PPL's stated future intention to file a rate case.

[6] PA. PUC v. PPL Electric Utilities Corporation, Docket No. R-2012-2290597, pp. 47-48 (Order Entered December 28, 2012).

[7] I&E Statement No. 2, pp. 13-14 at Docket No. R-2012-2290597.

Q. ARE THERE ANY COMMISSION DECISIONS THAT SUPPORT YOUR RECOMMENDATION FOR A RATE CASE FILING INTERVAL BASED ON HISTORIC FILING FREQUENCY?

A. Yes. In a base rate case filed by Emporium Water Company, the Commission adopted the I&E-recommended historic filing frequency.[8] Additionally, in a more recent decision, the City of DuBois, the Commission agreed with I&E's recommendation to use a historic filing frequency.[9]

In the Emporium Water Company case, the Commission found in favor of I&E's recommended five-year normalization period based on a historic average filing frequency that was rounded down from 64 months. Additionally, in the City of DuBois case, the Commission found in favor of I&E's recommended 64-month normalization period, which matched the actual historic filing frequency.[10]

Q. IS THERE ANY OTHER ISSUE CONCERNING RATE CASE EXPENSE?

A. Yes. The Company has claimed the unamortized portion of rate case expense in rate base. I will address this issue in the deferred debits section of my testimony below.

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8 PA PUC v. Emporium Water Company, Docket No. R-2014-2402324, p. 50 (Order Entered January 28, 2015).

9 PA PUC v. City of DuBois - Bureau of Water, Docket No. R-2016-2554150, pp. 65-66 (Order Entered March 28, 2017); PA PUC v. City of DuBois - Bureau of Water, Docket No. R-2016-2554150, p. 13 (Order Entered May 18, 2017).

10 PA PUC v. City of DuBois - Bureau of Water, Docket No. R-2016-2554150, p. 65 (Order Entered March 28, 2017).

DEFERRED DEBITS

Q. WHAT ARE DEFERRED DEBITS?

A. The Company claimed estimated unamortized rate case expense in a rate base line item called deferred debits.[11]

Q. WHAT IS THE COMPANY'S CLAIM FOR DEFERRED DEBITS?

A. The Company's claim for deferred debits before income taxes is $22,500 for estimated rate case costs.[12]

Q. WHAT IS THE COMPANY'S BASIS FOR THE INCLUDING DEFERRED DEBITS IN RATE BASE?

A. The Company estimates that it will incur $150,000 of outside legal and consulting costs related to its gas and electric filings, and $22,500 of these costs were allocated to gas operations based on a net plant split.[13]

Q. DID THE COMPANY SPECIFICALLY STATE WHY IT INCLUDED A CLAIM FOR DEFERRED DEBITS IN RATE BASE?

A. No. However, it stands to reason it is because Pike Gas is proposing to amortize rate case expense rather than normalize it.

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11 Pike Gas Exhibit G-3, Schedule 6.
12 Pike Gas Exhibit G-3, Schedule 6.
13 Pike Gas Statement No. 2, pp. 29-30.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM FOR DEFERRED DEBITS?

A. No.

Q. WHAT IS YOUR RECOMMENDATION FOR DEFERRED DEBITS?

A. I recommend disallowance of the Company's entire claim for deferred debits in rate base.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Company has a need to track such remaining balances on its books and records for accounting purposes. However, it is not appropriate to include these items in rate base.

Q. PLEASE EXPLAIN WHY IT IS INAPPROPRIATE TO INCLUDE DEFERRED RATE CASE COSTS IN RATE BASE.

A. The Company has accounted for its FTY rate case expense claim of $5,600 as shown on Pike Gas Exhibit G-4, Schedule 5. In determining that amount the Company recommended amortization of this expense as opposed to normalization as discussed previously in this testimony. The Company's deferred debit claim for rate case costs is the total rate case expense claim of $22,500. If the Company were allowed to include deferred rate case costs in rate base along with capturing an amount on the expense side, it would earn a return on and a return of rate case expense which is not an acceptable ratemaking practice. Also, as stated previously, with respect to rate case expense, normalization rather than amortization is the appropriate ratemaking treatment, and normalization does not include a remaining balance nor allow for a remaining balance to be captured in rate base.

<u>STATE INCOME TAXES</u>

Q. WHAT ARE STATE INCOME TAXES?

A. State income taxes are taxes imposed on net income of a company that does business within the Commonwealth of Pennsylvania as a corporation.

Q. WHAT IS THE COMPANY'S CLAIM FOR STATE INCOME TAXES?

A. The Company is claiming $15,057 for FTY current state income taxes not reflecting deferred state income taxes.[14]

Q. WHAT IS THE BASIS FOR THE COMPANY'S STATE INCOME TAX CLAIM?

A. The Company based its claim on a state tax rate of 9.99%.[15] It must be noted that the Company has slight variations on its amount of state income taxes.[16]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend an allowance of $1,965, or a reduction of $13,092 ($15,057 - $1,965) to the Company's claim.

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[14] Pike Gas Exhibit G-4, Schedule 10, p. 1.
[15] Pike Gas Exhibit G-4, Schedule 10, p. 1.
[16] Pike Gas Exhibit G-4 Summary, p. 1 and G-4, Schedule 10, p. 1.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. My recommendation reflects the fact that the Company has net operating losses (NOLs) in excess of its net income. Companies with NOLs available must use them in calculating Pennsylvania Corporate Net Income Tax (PA CNI Tax). For tax years 2019 and thereafter, companies are limited to an NOL deduction of the lesser of NOLs available or 40% of income.[17] The Company's response to I&E-RE-41-D indicates that there is significant NOL available.[18]

In short, I assumed the Company will fully utilize its NOL which would cause an effective CNI tax rate of 5.994% (9.99% x (1.0 – 0.4)). This tax rate has been incorporated into the I&E overall revenue requirement computation.

Q. IS YOUR RECOMMENDED STATE INCOME TAX ALLOWANCE A FINAL RECOMMENDATION?

A. No. All adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claim.

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[17] PA Corporate Net Income Tax 2019 REV-1200 CT-1 Instructions, p. 18, accessed January 5, 2021. https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/CorporationTax/Documents/2019/2019_rev-1200.pdf.

[18] I&E Exhibit No. 1, Schedule 3 PROPRIETARY.

FEDERAL INCOME TAXES

Q. WHAT ARE FEDERAL INCOME TAXES?

A. Federal income taxes are taxes imposed by the Internal Revenue Service on annual earnings of individuals, corporations, trusts, and other legal entities.

Q. WHAT IS THE COMPANY'S CLAIM FOR FEDERAL INCOME TAXES?

A. The Company is claiming $25,976 for the current portion of FTY federal income taxes.[19]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company calculated its current federal income tax using a federal tax rate of 21%. It must be noted that the Company has slight variations on its amount of federal income taxes.[20]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend disallowance of the claim in its entirety.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. My recommendation reflects usage of prior year NOLs. Applying prior year NOLs eliminates the Company's federal income tax claim in its entirety. The Company is

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[19] Pike Gas Exhibit G-4, Schedule 10, p. 2.
[20] Pike Gas Exhibit G-4, Schedule 10, p. 2.

entitled to and needs to use its NOLs. The Company's response to I&E-RE-42-D indicates that there is significant NOL.[21] Thus, an income tax allowance of zero dollars is appropriate.

In order to reflect a tax allowance of $0 for the current portion of FTY federal income taxes, I reflected a federal income tax rate of 11.4535% in the I&E revenue requirement computation to bring the present rate claim up to my recommended allowance of $0.

Q. IS YOUR RECOMMENDED FEDERAL INCOME TAX ALLOWANCE A FINAL RECOMMENDATION?

A. No. Similar to my point above in the state income tax section, all adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claim.

<u>DEFERRED CREDITS - TAX CUTS AND JOBS ACT (TCJA)</u>

Q. WHAT HAS THE COMPANY INCLUDED IN DEFERRED CREDITS?

A. The Company has included the balance attributable to excess accumulated deferred income tax (ADIT) due to the change in federal tax rates as a result of the TCJA in its claim for deferred credits.

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[21] I&E Exhibit No. 1, Schedule 4 PROPRIETARY.

Q. WHAT HAS CAUSED THE NEED FOR COMPANIES TO IDENTIFY AND RECLASSIFY A PORTION OF ADIT?

A. Due to the changes made by the TCJA, as of January 1, 2018, regulated utilities hold an amount of ADIT that was calculated based on the prior federal income tax rate of 35%. Since the tax rate is now reduced to 21%, the attributable dollar amount needed to be reclassified to a deferred liability account. This deferred liability account is necessary to track the remaining balance of excess taxes recorded in prior years due to the higher 35% federal income tax rate that was in effect before January 1, 2018. This amount needs to be returned to ratepayers over a period of time equal to the remaining life of the affected assets per IRS regulation. Each year, the balance in the excess ADIT account will be ratably reduced until the entire amount is refunded to ratepayers.

Q. HAS THE COMPANY IDENTIFIED ITS EXCESS ADIT?

A. Yes. The Company has identified a total of $28,569 as of June 30, 2021.[22] This amount is broken down between Depreciation 253912 of $14,387 and Other 253922 of ($42,955).[23] It must be noted that the signs for these amounts are reversed compared to the Company filing.[24]

Q. HOW HAS THE COMPANY REFLECTED EXCESS ADIT IN THE FILING?

A. The Company has not offered to return any of this excess ADIT amount to ratepayers; however, it has deducted the balance net of tax from rate base.

[22] Pike Gas Exhibit G-3, Schedule 7.
[23] I&E Exhibit No. 1, Schedule 5, p. 3.
[24] Pike Gas Exhibit G-3 Summary and G-3, Schedule 7.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No. I agree that the remaining excess ADIT balance should be deducted from rate base but disagree with the Company not amortizing these balances and returning a proportionate amount to ratepayers per year.

Q. WHAT DO YOU RECOMMEND?

A. I recommend a total amortization amount of ($8,303) and a corresponding increase to deferred credits of ($8,303). These amounts are reflected in the I&E revenue requirement computation as a reduction to total O&M expenses.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. My annual amortization amounts are based on a fifty-year amortization of the total balance of $14,387 for Depreciation 253912, or $288, and a five-year amortization of the total balance of ($42,955) for Other 253922, or ($8,591). Thus, the total amortization amount is ($8,303) or ($288 + ($8,591)). I am accepting the Company's suggestion that it could amortize the Depreciation 253912 amount over fifty years, and I am recommending that the Company be required to amortize the Other 253922 balance over five years which is in line with my recommended rate case expense filing interval explained above.

Q. ARE THERE ANY OTHER CORRESPONDING ADJUSTMENTS NEEDED FOR EXCESS ADIT?

A. Yes. Assuming the Commission accepts my recommendation to amortize these excess ADIT amounts, corresponding adjustment are also necessary to the rate base reductions for the remaining excess ADIT balance.

Q. WHAT IS THE COMPANY'S CLAIM FOR EXCESS ADIT ASSOCIATED WITH DEPRECIATION 253912 AND OTHER 253922?

A. The Company is claiming ($28,569) or ($14,387 + ($42,955)).[25] The Company's after-tax adjustment results in a claim of ($20,300) for deferred credits (net of tax).

Q. WHAT IS YOUR RECOMMENDATION FOR THE EXCESS ADIT BALANCE?

A. I recommend a total excess ADIT allowance of ($20,266), or a reduction of ($8,303) computed as follows (($28,569) – ($20,266)), to the Company's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. Ratepayers originally funded the income taxes at higher tax rates. If the excess ADIT balance is not properly amortized and returned to ratepayers, this would allow taxes to remain on the Company's books on a higher amount than it will ultimately pay. Therefore, the excess ADIT amount should be appropriately amortized, returned to ratepayers, and the remaining excess ADIT balance should continue to reduce over

[25] I&E Exhibit No. 1, Schedule 5, p. 3.

subsequent years, remaining as a reduction to rate base until the full amount is returned to ratepayers.

Q. SUMMARIZE YOUR RECOMMENDATION FOR DEFERRED CREDIT – TCJA.

A. I recommend an allowance of ($20,266), or an increase of $34 which I calculated as follows: (($20,266) – ($20,300)) to the Company's deferred credits (net of tax) claim.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. I accept the Company's claim of $(28,569) as a starting point. I disregarded the tax effects as the I&E overall position encapsulates tax changes. Then, I added the amortization amounts of $288 associated with Depreciation 253912 and ($8,591) associated with Other 253922. Finally, I calculated the amount for Deferred Credit – TCJA of $(20,266) as follows (($28,569) – [$288 + ($8,591)]).

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

JOHN E. ZALESKY

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

Pennsylvania Public Utility Commission — **Harrisburg, PA**
Fixed Utility Financial Analyst — *December 2017-Present*

Pennsylvania Office of the Budget, Comptroller Operations — **Harrisburg, PA**
Executive Accounting Specialist — *2017*

Mount 2000 High School Retreat — **Emmitsburg, MD**
Finance Coordinator — *2016*

Pennsylvania Department of Revenue, Corporation Taxes — **Harrisburg, PA**
Taxing Officer — *2012-2014*

David K Mitchell Financial — **Nanticoke, PA**
Intern — *2011*

EDUCATION & TRAINING

National Association of Regulatory Utility Commissioners — **Clearwater Beach, FL**
46th Eastern NARUC Utility Rate School — October 2018

Mount St. Mary's University — **Emmitsburg, MD**
Master of Arts in Philosophical Studies — *Class of 2017*
Thesis: Whether Social Media are Beneficial for Human Friendship

Harrisburg Area Community College — **Harrisburg, PA**
Accounting — *Class of 2013*
Associate in Arts in Business Studies, Highest Honors

The Pennsylvania State University — **University Park, PA**
Smeal College of Business, Schreyer Honors College — *Class of 2012*
Bachelor of Science in Finance, With Highest Distinction
Minors in Spanish, International Studies, and International Business
Thesis: Present Value Analysis of Pennsylvania Tuition Subsidies

EXPERIENCE

Submitted testimony or provided assistance in the following proceedings:

- Docket No. P-2020-3021191 – Peoples Natural Gas Tax Repair Election*
- Docket No. R-2020-3020919 – Audubon Water Company*
- Docket No. R-2020-3018835 – Columbia Gas of Pennsylvania, Inc.*
- Docket No. R-2019-3015162 – UGI Utilities, Inc. – Gas Division*
- Docket No. P-2020-3019290 – PECO Default Service Plan
- Docket No. A-2019-3012241 – Veolia Acquisition
- Docket No. R-2019-3010958 – Twin Lakes Utilities, Inc.*
- Docket No. R-2019-3009559 – Eaton Sewer and Water – Wastewater
- Docket No. R-2019-3009567 – Eaton Sewer and Water – Water
- Docket No. R-2019-3009624 – PECO Energy 1307(f)
- Docket No. R-2019-3006904 – Newtown Artesian Water Company*
- Docket No. A-2018-3006061, A-2018-3006062, and A-2018-3006063 – Aqua-Peoples Acquisition*
- Docket No. R-2018-3003558 – Aqua Pennsylvania, Inc.
- Docket No. R-2018-3003561 – Aqua Pennsylvania Wastewater, Inc.
- Docket No. R-2018-3001306 – Hidden Valley Utility Services – Water Division*
- Docket No. R-2018-3001307 – Hidden Valley Utility Services – Wastewater Division*
- Docket No. R-2018-3000164 – PECO Energy – Electric*
- Docket No. R-2018-3001568 – PECO Energy – Gas (1307(f))
- Docket No. R-2017-2640058 – UGI Utilities, Inc. – Electric Division

*Testimony Submitted

I&E Exhibit No. 1
Witness: John Zalesky
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT AND POWER COMPANY (GAS)

Docket No. R-2020-3022134

Exhibit to Accompany

the

Direct Testimony

of

John Zalesky

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES
RATE BASE
INCOME TAXES

PIKE COUNTY LIGHT & POWER COMPANY (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUESTS, SET RE-1-D TO RE-43-D

I&E-RE-5-D Reference Pike Gas Statement No. 2, pp. 37-38 and Exhibit No. G-4, Schedule 5, concerning rate case expense, provide the following:

A. Detailed breakdown by category of the Company's actual rate case expenses from its prior rate case filing along with the claimed amounts by category;

B. Detailed breakdown of the claimed rate case expense of $150,000 for the current filing;

C. Copies of all current outside service contract agreements for rate case-related services for the current filing;

D. Receipts/invoices for rate case expenses incurred to date for the current filing and provide periodic updates during the duration of this proceeding;

E. Explanation of the rationale for using a 2013 "applicable to gas" rate of 15% in Pike Gas's calculation of rate case expense;

F. Justification for the Company's proposed amortization period of four years;

G. Explanation why the Company is amortizing as opposed to normalizing rate case expense;

H. State any claimed unamortized balance that the Company has reflected in rate base and explain the basis for any such inclusion; and

I. Estimate rate case expense for the current proceeding for the following stages of the proceeding:

1. All-Party Settlement prior to submission of other parties' direct testimony; and

2. All-Party Settlement following evidentiary hearings but prior to submission of briefs.

RESPONSE:

A. Pike was acquired by Corning Natural Gas Holding Company (CNGH) from Orange and Rockland Utilities, Inc. (ORU) in September 2016. Pike's last gas rate case was in 2014 (Docket No. R-2013-2397353). A detailed breakdown of the actual incremental rate case costs incurred in the prior rate case filing is not available. The total amount requested in the last case by Pike was $100,000, of which 12.41% was allocated to gas operations. The incremental rate case costs for the prior case would not be

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comparable to this filing. ORU's parent company Con Edison, Inc. provided its own internal full time legal, regulatory, accounting forecasting, and rate staffs to put together and file the last case. Incremental costs of that filing were limited to charges for Pennsylvania legal counsel to file documents, an outside return on equity witness, and for printing and mailing of notices.

B. The Company estimated the rate case expense to be $150,000, of which 15% or $22,500 was allocated to gas operations. Outside consulting cost were estimated to be $50,000 for outside Legal Services, $50,000 for outside Accounting / Revenue Requirement Services, and $40,000 for outside Cost of Service / Rate Design Services. Printing and legal notices were estimated to be $10,000. The estimate is based on an assumption that the Company will be able to settle the Case with parties. The Company believes that the estimated costs will be higher if the case must be litigated. The Company has limited internal resources and must rely on services provided by outside legal counsel and consultants.

C. Please refer to the attachment entitled "**HIGHLY CONFIDENTIAL MAC – Kane Rate Case Services.pdf"** for copies of the outside service contract agreements for rate case-related services for the current filing.

D. Please refer to the attachment entitled **"HIGHLY CONFIDENTIAL MAC – Kane Billings Sept. – Dec. 2020.pdf"** for copies of the invoices for rate case expenses incurred to date for the current filing.

E. The reference to a "2013 Percent Applicable to Gas" show in Exhibit G-4, Schedule 5 was a typographical error. The rate of 15% is the current allocation factor for common administrative costs allocated between Pike gas and electric services.

F. Pike believes a four year amortization period is appropriate for the amortization of all deferred costs and credits in this case. The Company has the ability to file a Distribution System Improvement Charge ("DSIC"). The DSIC will allow the Company to recover the cost of major infrastructure investments on a timely basis and reduce the need for more frequent base rate filings. Absent the DSIC, the Company believes that it would need to file for new base rate increases more frequently than on a four year cycle.

G. The Company is requesting to amortize rather to normalize rate case expense for two reasons:
   a. First, amortization will allow Pike the ability to defer this cost and match the expense with the recovery of associated revenues,

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eliminating out of period revenues and expenses. Normalizing rate case expense would require the Company to expense this cost in the current period and recognize revenues in subsequent years with no offsetting expense, distorting earnings in each period.

b. Second, if the Company files a new base rate case and receives new rates earlier or later than the requested four-year amortization period the amortization would preserve the amounts under / over recovered, so they could be collected or passed back as part of the next rate proceeding. Normalization does not address the under / over recovery of rate case costs; the Company could either benefit from an over-collection or be required to absorb a shortfall.

H. The Company has included the forecast balances of rate case costs to be deferred at June 30, 2021, (see Exhibit E-3, Schedule 6) and the projected regulatory liability for the 2018 Tax Cuts and Jobs Act "TCJA" tax rate changes (shown on Exhibit E-3, Schedule 7). The Company is requesting rate base treatment for these unamortized balances, net of associated deferred income taxes, in order to recover the associated financing costs of carrying these deferrals until the costs are recovered from customers.

I. 1. Please see the Company's response to part B. above for the estimated rate case cost of $150,000, if this proceeding can be settled without litigation.

2. The estimated cost to litigate this case could be twice as much (i.e., $300,000) as the amount included in the Company's filing. The higher cost would be due to the additional amount of time required by the Company's outside legal and consulting firms to prepare for and conduct Hearings. If the case is fully litigated through completion of the entire rate case process, the additional cost to review Transcripts, develop Briefs, Reply Briefs, and Briefs on Exception are estimated to add an additional $150,000 for a total rate case expenditure of $450,000.

PROVIDED BY: Charles Lenns, Richard A. Kane (Accounting Panel)

DATE: December 15, 2020

I&E Exhibit No. 1
Schedule 2
Page 1 of 1

**PIKE COUNTY LIGHT & POWER COMPANY (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
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I&E-RE-6-D Reference Pike Gas Statement No. 2, pp. 37-38 and Exhibit No. G-4, Schedule 5, concerning rate case expense, provide the following for the last three base rate case proceedings:

A. The docket number, date of filing, and the method of resolution (e.g., settlement or litigation);

B. The requested increase in rates and the amount approved; and

C. Requested rate case expense and the actual rate case expense incurred.

RESPONSE:

A. Pike was acquired by Corning Natural Gas Holding Company from Orange and Rockland Utilities (ORU) in September 2016. As result, information regarding the prior base rate proceedings for Pike is limited. The rates that Pike is currently operating under are based on a base rate filing made in January 17, 2014, Docket No. R-2013-23972353. The Company filed for a base rate increase of $151,000. The case was settled and Pike was authorized to increase base rates by $100,000, effective September 1, 2014. Based on an Appendix included in the Settlement Agreement for the last Case, a reference was made to a rate filing in 2008 (Docket No. R-2008-2046520).

B. See the response to part A. above.

C. See the response to part A. above.

PROVIDED BY: Charles Lenns, Richard A. Kane (Accounting Panel)

DATE: December 15, 2020

**PIKE COUNTY LIGHT & POWER COMPANY (GAS)
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I&E-RE-21-D Reference Pike Gas Exhibit No. G-3, Summary p. 1 and Exhibit No. G-3, Schedule 9 concerning accumulated deferred income taxes (ADIT):

A. Provide the amount of excess ADIT as of January 1, 2018 stemming from the Tax Cuts and Jobs Act of 2017 (TCJA) corporate federal tax rate change from 35% to 21%. Provide supporting documentation for excess ADIT as follows:

1. Breakdown amounts for ARAM and South Georgia Method and further breakdown for protected and unprotected classes;

2. Include amortization schedule showing (a) when amortization began for each class; (2) with a column showing yearly amortization amounts until fully amortized; (3) also indicating specifically the number of years for each amortization;

3. State the account(s) where this amortization is reflected in the rate filing;

4. Confirm that unamortized balance of excess ADIT is included as a reduction to rate base and state where on Exhibit G-3 Summary, p. 1 this amount if reflected;

5. Confirm that the Company is willing to reduce rate base by the unamortized balance of excess ADIT until fully amortized;

B. Provide a breakdown with supporting documentation such as tax reports, depreciation reports, and any other available supporting documentation for ADIT for the fiscal years ended June 30, 2018, June 30, 2019, the HTY of $147,400, and the FTY of $196,400. If excess ADIT is included in these amounts separate out excess ADIT as requested in Part A above.

RESPONSE:

A. Please see the excel attachment entitled "**Pike - TCJA Regulatory Deferrals.xlsx**" for the gas regulatory asset / (liability) balances from inception related to TCJA.

1. The balance is Company Account 253912 of $14,387 is for protected assets. The balance in Company Account 253922 of $42,955 is for unprotected deferrals.

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2. The Company has not started to amortize any of the balances in the aforementioned accounts. This is an item should be addressed as part of this base rate filing. As shown in Exhibit G-4, Schedule 8, Page 1 the Composite Book Depreciation rate for gas plant is 2.023%. It therefore be appropriate to amortize the balance in Account 253922 over 50 years (i.e., 1 divided by 2.023% = 49.4 years). The unprotected balance should be amortized over the same period as rate case costs in this case (i.e., four years).

3. As indicated in section 2 above, the Company has not started to amortize the TCJA deferred balances.

4. The unamortized balance of ADIT related TCJA, net of income taxes, is included as a net increase to rate base n Exhibit G-3 Summary, p. 1 in the amount of $20,700. Please see Schedule 7 of the Exhibit G-3 for the detail.

5. The Company believes it is appropriate to include the Regulatory Liability resulting from TCJA in Rate Base.

B. The Accumulated Deferred Income Tax Balances at June 30, 2018, 2019 and 2020 are the actual amounts recorded on Pike's Books and Records in FERC account 282. The calculations shown on Exhibit G-3, Schedule 9 to project the FTY Accumulated Deferred tax were based on the current monthly tax depreciation accrual that Pike booking (i.e., $18,934.50 x 12 = $227,214). The book depreciation amounts come from Exhibit G-3, Schedules 1 and 2 (i.e., $69.000 + [$272,700 x 15%] = $109,905) for the twelve month ended June 30, 2021. The following six month stub period was calculated in the same manor. The excess Accumulated Deferred Income Taxes is not included in the balance For Exhibit G-3, Schedule 9; it is shown separately in Exhibit G-3, Schedule 7.

PROVIDED BY: Charles Lenns, Richard A. Kane (Accounting Panel)

DATE: December 15, 2020

Pike County Light And Power Company
Summary of Gas Deferred TCJA Tax Benefits
2018 - 2021

I&E Exhibit No. 1
Schedule 5
Page 3 of 3

Gas Deferred Debit / (Credit) Balances	Regulatory Liability for TCJA FIT Tax Benefits Depreciation 253912	Other 253922	253912 &, 253922	After Tax * Balance	Rounded
Opening Balance as of January 1, 2018	$ -	$ -	$ -	$ -	$ -
Accruals / Changes in Deferred (Credits) 1/1/2018 - 6/30/2018	(4,372)	22,694	18,323	13,029	13,000
Deferred Debit / (Credit) Balance as of June 30, 2018	(4,372)	22,694	18,323	13,029	13,000
Accruals / Changes Deferred Balances 7/1/2018 - 12/31/2018	(10,015)	20,261	10,246	7,286	7,300
Deferred Debit / (Credit) Balance as of December 31, 2018	(14,387)	42,955	28,569	20,315	20,300
Accruals / Changes in Deferred Balances 1/1/2019 - 6/30/2019	-	-	-	-	-
Deferred Debit / (Credit) Balance as of June 30, 2019	(14,387)	42,955	28,569	20,315	20,300
Accruals / Changes in Deferred Balances 7/1/2019 - 6/30/2020	-	-	-	-	-
Deferred Debit / (Credit) Balance as of June 30, 2020	(14,387)	42,955	28,569	20,315	20,300
Accruals / Changes in Deferred Balances 7/1/2020 - 6/30/2021 (Forecast)	-	-	-	-	-
Deferred Debit / (Credit) Balance as of June 30, 2021 (Forecast)	$ (14,387)	$ 42,955	$ 28,569	$ 20,315	$ 20,300

Calculation of After Tax Factor: *

SIT Rate =		9.9900%
FIT Rate =	+	21.0000%
SIT Rate Net of FIT Rate [9.99% x (1-21%)] =	+	7.8921%
Effective Net FIT / SIT Rate =	=	28.8921%
Net of SIT & FIT Multiplier (1/1-28.8921%)		71.1079%

I&E Statement No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Direct Testimony

of

Anthony Spadaccio, CRRA

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 Anthony Spadaccio. 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. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE?

A. My educational and professional experience is set forth in Appendix A, which is attached.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for representing the public interest in rate and other proceedings before the Commission. I&E's analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of ratepayers, the utility company, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to address the rate of return, including capital structure, cost of long-term debt, the cost of equity, and the overall fair rate of return for Pike County Light & Power Company (Gas) (Pike Gas or Company).

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 2 contains schedules relating to my testimony.

BACKGROUND

Q. WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE CONTEXT OF A RATE CASE?

A. Rate of return is one of the components of the revenue requirement formula. Rate of return is the amount of revenue an investment generates in the form of net income and is usually expressed as a percentage of the amount of capital invested over a given period of time.

Q. WHAT IS THE REVENUE REQUIREMENT FORMULA?

A. The revenue requirement formula used in base rate cases is as follows:

$$RR = E + D + T + (RB \times ROR)$$

Where:

RR = Revenue Requirement

E = Operating Expenses

D = Depreciation Expense

T = Taxes

RB = Rate Base

ROR = Overall Rate of Return

In the above formula, the rate of return is expressed as a percentage. The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes. As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of a company's rate base.

Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE OF RETURN?

A. A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.

The *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 262 U.S. 679, 692-93 (1923), and the *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) cases set forth the principles that are generally accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return:

1. A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;
2. A utility is entitled to a return level reasonably sufficient to assure financial soundness;
3. A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital;
4. A fair return can change (increase or decrease) along with economic conditions and capital markets.

Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS TRADITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.

A. In base rate proceedings, the overall rate of return is traditionally calculated using the weighted average cost of capital method. To calculate the weighted average cost of capital, a company's capital structure must first be determined by comparing the percentage of each capitalization component, which has financed rate base, to total capital. Next, the effective cost rate of each capital structure component must be determined. The historical component of the cost rate of debt can be computed accurately, and any future debt issuances are based on estimates. The cost rate of common equity is not fixed and is more difficult to measure.

Because of this difficulty, a proxy group is used as discussed later in this testimony. Next, each capital structure component percentage is multiplied by its corresponding effective cost rate to determine the weighted capital component cost rate. The I&E table in the *"I&E Position"* section below demonstrates the interaction of each capital structure component and its corresponding effective cost rate. Finally, the sum of the weighted cost rates produces the overall rate of return. This overall rate of return is multiplied by the rate base to determine the return portion of a company's revenue requirement.

PIKE GAS' RATE OF RETURN CLAIM

Q. WHO ARE THE COMPANY'S RATE OF RETURN WITNESSES?

A. Mr. Chuck Lenns, Vice President and Chief Financial Officer of Corning Natural Gas Corporation (CNG) and Mr. Richard A. Kane, a rate case consultant, provide combined testimony under the title "Accounting Panel." Throughout its direct testimony (Pike Gas Statement No. 2), the Accounting Panel provides its recommendations for the claimed capital structure, cost of debt, and cost of common equity for the Company.

Q. PLEASE SUMMARIZE PIKE GAS' RATE OF RETURN CLAIM.

A. The Accounting Panel makes the following recommendation for the overall rate of return based on a Future Test Year (FTY) ending June 30, 2021:[1]

Company
Summary of Cost of Capital

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost**
	Pike Gas		
Long-Term Debt	46.54%	4.77%	2.22%
Short-Term Debt	5.14%	3.10%	0.16%
Common Equity	48.32%	9.75%	4.71%
Total	100.00%		7.09%

Q. WHAT IS THE BASIS FOR THE COMPANY'S RATE OF RETURN CLAIM?

A. The Accounting Panel did not attempt to perform a detailed cost of equity analysis specific to the Company or to reflect current market conditions. Instead, it based the 9.75% cost of equity recommendation on "the return embedded in the Company's rate case settlement in Docket No. R-2013-2397353" and on the approved returns on equity (ROEs) for distribution system improvement charges (DSIC) found in the second quarter of the Commission's Quarterly Earnings Summary Report.[2]

[1] Pike Gas Statement No. 2, p. 17, ln. 21 through p. 18, ln. 2 and Pike Gas Exhibit G-2, Schedule 3.
[2] I&E Exhibit No. 2, Schedule 1.

I&E POSITION

Q. PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION FOR THE COMPANY.

A. My rate of return recommendation for the Company is shown in the table below:[3]

I&E
Summary of Cost of Capital

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost**
	Pike Gas		
Long-Term Debt	46.54%	4.77%	2.22%
Short-Term Debt	5.14%	3.10%	0.16%
Common Equity	48.32%	10.05%	4.86%
Total	100.00%		7.24%

PROXY GROUP

Q. WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?

A. A proxy group is a group of companies that acts as a benchmark for determining the subject utility's rate of return in a base rate case.

Q. WHAT ARE THE REASONS FOR USING A PROXY GROUP?

A. A proxy group's cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of enterprises with corresponding risks and uncertainties.

[3] I&E Exhibit No. 2, Schedule 2.

A proxy group is typically utilized since the use of data exclusively from one company may be less reliable. The lower reliability occurs because the data for one company may be subject to events that can cause short-term anomalies in the marketplace. The rate of return on common equity for a single company could become distorted in these circumstances and would therefore not be representative of similarly situated companies. Therefore, a proxy group has the effect of smoothing out potential anomalies associated with a single company.

Q. WHAT CRITERIA DID YOU USE IN SELECTING YOUR PROXY GROUP?

A. The criteria for my proxy group was designed to select companies that are representative of Pike Gas. I applied the following criteria to Value Line's Natural Gas Utility group:

1. Fifty percent or more of the company's revenues must be generated from the regulated gas utility industry;
2. The company's stock must be publicly traded;
3. Investment information for the company must be available from more than one source, which includes Value Line;
4. The company must not be currently involved in an announced merger or the target of an acquisition;
5. The company must have four consecutive years of historic earnings data; and

6. The company must be operating in a state that has a deregulated gas utility market.

Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?

A. I included the following seven companies in my proxy group:

Atmos Energy Corporation	ATO
Chesapeake Utilities	CPK
NiSource Inc.	NI
Northwest Natural	NWN
ONE Gas Inc.	OGS
South Jersey Industries Inc.	SJI
Spire Inc.	SR

Q. DID THE ACCOUNTING PANEL USE A PROXY GROUP IN ITS ANALYSIS?

A. No. The Accounting Panel did not utilize a proxy group nor has it provided an analysis specific to the Company or current market conditions to determine its cost of equity recommendation. As mentioned above, the Accounting Panel relied on the return embedded in the Company's 2013 rate case settlement and on the approved ROEs for DSIC purposes found in the second quarter of the Commission's Quarterly Earnings Summary Report.

CAPITAL STRUCTURE

Q. WHAT IS A CAPITAL STRUCTURE?

A. A capital structure represents how a firm has financed its rate base with different sources of funds. The primary funding sources are long-term debt and common equity. A capital structure may also include preferred stock and/or short-term debt.

Q. WHAT IS THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. The Company's claimed capital structure for the future test year is summarized in the table below:[4]

Pike Gas – June 30, 2021	
Long-Term Debt	46.54%
Short-Term Debt	5.14%
Common Equity	48.32%
	100.00%

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. The Accounting Panel explains that the claimed "capital structure reflects the

[4] Pike Gas Statement No. 2, p. 15, ln. 18 through p. 16, ln. 4.

proportions of the actual capital being used in the utility's business plus a projected debt financing".[5]

Q. WHAT IS YOUR RECOMMENDATION FOR THE COMPANY'S CAPITAL STRUCTURE?

A. Based upon my analysis, I recommend using the Company's claimed capital structure.

Q. WHAT IS THE BASIS FOR YOUR ACCEPTANCE OF THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. The Accounting Panel asserts that Pike County Light & Power Company is an integrated gas and electric utility and does not maintain separate capital structures for its gas and electric operations. Accordingly, it claims that since all financing is done to support both electric and gas infrastructure investments, it is not possible to separate debt balances and associated costs between the two.[6] Therefore, since any attempt to fabricate separate capital structures would be nothing more than speculation, I recommend using the Company's claimed capital structure as it is reasonable and falls within the range of my proxy group's capital structures. This five-year range contains capital structure ratios from 24.81% to 54.32% long-term

[5] Pike Gas Statement No. 2, p. 16, lines 14-16.
[6] I&E Exhibit No. 2, Schedule 3.

debt and 34.94% to 56.95% common equity, with a five-year average of 40.29% long-term debt, 12.10% short-term debt, and 47.60% common equity.[7]

COST OF LONG-TERM DEBT

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S COST RATE OF LONG-TERM DEBT?

A. I recommend using the Company's claimed long-term debt cost rate of 4.77% for the future test year.[8]

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO USE THE COMPANY'S CLAIMED COST RATE OF LONG-TERM DEBT?

A. The Company's claimed cost rate of long-term debt is reasonable, as it is representative of the industry. It falls within my proxy group's 2019 implied long-term debt cost range of 3.14% to 5.82%, with an average implied long-term debt cost of 4.91%.[9] Additionally, the cost of debt for the Company is trending downward, which is beneficial to both the Company and ratepayers. Therefore, I recommend the claimed cost rate of long-term debt be used.

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[7] I&E Exhibit No. 2, Schedule 4.
[8] Pike Gas Exhibit G-2, Schedule 2, p. 2.
[9] I&E Exhibit No. 2, Schedule 5.

COST OF SHORT-TERM DEBT

Q. WHAT IS THE COMPANY'S CLAIM FOR THE COST RATE OF SHORT-TERM DEBT?

A. The Company's proposed cost rate of short-term debt is 3.10%.[10]

Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED COST RATE OF SHORT-TERM DEBT?

A. The Accounting Panel claims this cost rate is based on the line of credit rate currently in effect.[11]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S COST RATE OF SHORT-TERM DEBT?

A. I recommend using the Company's claimed short-term debt cost rate of 3.10% for this proceeding as it appears reasonable and is based on the current actual line of credit rate.

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[10] Pike Gas Statement No. 2, p. 17, lines 2-3.
[11] Pike Gas Exhibit G-2, Schedule 3, Footnote (a).

<u>COST OF COMMON EQUITY</u>

<u>COMMON METHODS</u>

Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN DETERMINING THE COST OF COMMON EQUITY?

A. Four methods commonly presented to estimate the cost of common equity are the Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk Premium (RP) Method, and the Comparable Earnings (CE) Method.

Q. WHAT METHODS HAS THE COMPANY EMPLOYED TO DETERMINE AN APPROPRIATE COST OF COMMON EQUITY?

A. None. As stated above, the Accounting Panel declined to provide a detailed cost of equity analysis for the Company.

Q. WHAT METHOD DO YOU RECOMMEND USING TO DETERMINE AN APPROPRIATE COST OF COMMON EQUITY FOR THE COMPANY?

A. I recommend using the DCF method as the primary method to determine the cost of common equity. Additionally, I recommend using the results of the CAPM as a comparison to the DCF results. This is consistent with the methodology historically used by the Commission in base rate proceedings, but also as recently as 2017, 2018, and 2020.[12]

Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?

A. The DCF method is the "dividend discount model" of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows. The DCF method assumes that investors evaluate stocks in the classical economic framework, which maintains that the value of a financial asset is determined by its earning power, or its ability to generate future cash flows.

Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?

A. The CAPM describes the relationship of a stock's investment risk and its market rate of return. It identifies the rate of return investors expect so that it is comparable with returns of other stocks of similar risk. This method hypothesizes that the investor-required return on a company's stock is equal to the return on a "risk free" asset plus an equity premium reflecting the company's investment risk. In the CAPM, two types of risk are associated with a stock: (1) firm-specific risk

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[12] *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, pp. 96-98 (Order Entered March 28, 2017) (Disposition of Cost Rate Models); *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058, p. 119 (Order Entered October 25, 2018) (Disposition of Cost of Common Equity); *Pa. PUC v. Wellsboro Electric Company*, Docket No. R-2019-3008208, pp. 80-82 (Order Entered April 29, 2020) (Disposition of Primary Methodology to Determine ROE); *Pa. PUC v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212, pp. 91-93 (Order Entered April 27, 2020) (Disposition of Cost of Common Equity); *Pa. PUC v. Valley Energy, Inc.*; Docket No. R-2019-3008209, pp. 102-104 (Order Entered April 27, 2020) (Disposition of Methods for Determining the Cost of Common Equity).

(unsystematic risk); and (2) market risk (systematic risk), which is measured by a firm's beta. The CAPM allows for investors to receive a return only for bearing systematic risk. Unsystematic risk is assumed to be diversified away, and therefore, does not earn a return.

Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE THE DCF IN YOUR ANALYSIS.

A. I have used the DCF as the primary method for a variety of reasons. The DCF is appealing to investors since it is based upon the concept that the receipt of dividends in addition to expected appreciation is the total return requirement determined by the market.[13] The use of a growth rate and expected dividend yield are also strengths of the DCF, as this recognizes the time value of money and is forward-looking. The use of the utility's own, or in this case, the proxy group's stock prices and growth rates directly in the calculation also causes the DCF to be industry and company specific. The DCF method is the superior method for determining the rate of return for the current economic market because it measures the cost of equity directly.

[13] David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 151.

Q. PLEASE EXPLAIN WHY YOU ALSO CHOSE TO USE THE CAPM IN YOUR ANALYSIS.

A. I have included a CAPM analysis as a comparison because the CAPM and the DCF include inputs that allow the results to be specific to the utility industry, although the CAPM is far less responsive to changes in the industry than the DCF. The CAPM is based on the performance of U.S. Treasury bonds and the performance of the market as measured through the S&P 500 and is company-specific only through the use of beta. Beta reflects a stock's volatility relative to the overall market, thereby incorporating an industry-specific aspect to the CAPM, but only as a measure of how reactive the industry is compared to the market as a whole. Although changes in the utility industry are more likely to be accurately reflected in the DCF, which uses the companies' actual prices, dividends, and growth rates, I have included the results of my CAPM analysis because changes in the market, whether as a whole or specific to the utility industry, affect the outcome of each method in different ways. Although I have chosen to use the CAPM as a secondary method, it does have several disadvantages and should not be used as a primary method.

Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.

A. The CAPM results indicate to an investor what the equity cost rate should be if current economic and regulatory conditions are the same as those present during the historical period in which the risk premiums were determined. This is because beta, which is the only company-specific variable in the CAPM model, measures the *historical* volatility of a stock compared to the *historical* overall market return. Reliance on historical values is especially problematic now given the recent impact of the coronavirus on economic conditions. Although the CAPM results can be useful to investors in making rational buy and sell decisions within their portfolios, the DCF method is the superior method for determining the rate of return for the current economic market and measuring the cost of equity directly. The CAPM is a less reliable indicator because it measures the cost of equity indirectly and risk premiums vary depending on the debt and equity being compared.

Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE CREDIBILITY OF THE CAPM MODEL?

A. Yes. An article, "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory," which appeared in the *New York Times* on February 18, 1992, summarized a CAPM study conducted by professors Eugene F. Fama and Kenneth R. French.[14] Their study examined the importance of beta, CAPM's risk factor, in explaining returns on common stock. In CAPM theory a stock with a higher beta should have a higher expected return. They found that the model did

[14] Berg, Eric N. "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory" *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

not do well in predicting actual returns and suggested the use of more elaborate multi-factor models.

A more recent article, "The Capital Asset Pricing Model: Theory and Evidence," which appeared in the *Journal of Economic Perspectives,* states that "the attraction of the CAPM is that it offers powerful and intuitively pleasing predictions about how to measure risk and the relation between expected return and risk. Unfortunately, the empirical record of the model is poor-poor enough to invalidate the way it is used in applications."[15] As a result, I conclude that the CAPM's relevance to the investment decision making process does not carry over into the regulatory rate setting process.

SUMMARY OF THE COMPANY'S RESULTS

Q. WHAT ARE THE RESULTS OF THE COMPANY'S COST OF EQUITY ANALYSES?

A. To reiterate, the Accounting Panel declined to provide a detailed cost of equity analysis for the Company. Instead, it simply recommends a 9.75% cost of equity which it attempts to rationalize by explaining that it matches the return embedded in the Company's 2013 rate settlement. The Accounting Panel further opines that the approved ROEs for DSIC purposes found in the Commission's Quarterly Earnings Summary Report are appropriate for Pike Gas' ROE in this proceeding.

[15] Fama, Eugene F. and French, Kenneth R., "The Capital Asset Pricing Model: Theory and Evidence." *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

<u>I&E RECOMMENDATION</u>

Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR THE COMPANY?

A. Based upon my analysis, I recommend a cost of common equity of 10.05% for Pike Gas, which is 30 basis points higher than its request of 9.75%.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. I arrived at this equity return using the DCF method. As explained above, I used my CAPM result only to present to the Commission a comparison to my DCF results. My DCF analysis employed a spot dividend yield, a 52-week dividend yield, and earnings growth forecasts.

<u>DISCOUNTED CASH FLOW</u>

Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.

A. My analysis employs the constant growth DCF model as portrayed in the following formula:

$$K = D_1/P_0 + g$$

Where:

K = Cost of equity

D_1 = Dividend expected during the year

P_0 = Current price of the stock

g = Expected growth rate

When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by one half of the expected growth rate to account for changes in the dividend paid in period one. As forecasts for each company in my proxy group were available from Value Line, no dividends were adjusted for the purpose of my analysis.

Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS USED IN YOUR DCF ANALYSIS.

A. A representative dividend yield must be calculated over a time frame that avoids the problems of both short-term anomalies and stale data series. For my DCF analysis, the dividend yield calculation places equal emphasis on the most recent spot and the 52-week average dividend yields. The following table summarizes my dividend yield computations for the proxy group:

Seven-Company Proxy Group	**Dividend Yield**[16]
Spot	3.83%
52-week average	3.28%
Average	3.55%

[16] I&E Exhibit No. 2, Schedule 6.

Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR EXPECTED GROWTH RATE?

A. I have used five-year projected growth rate estimates from Value Line, Yahoo! Finance, Zacks, and Morningstar.

Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS GROWTH RATES?

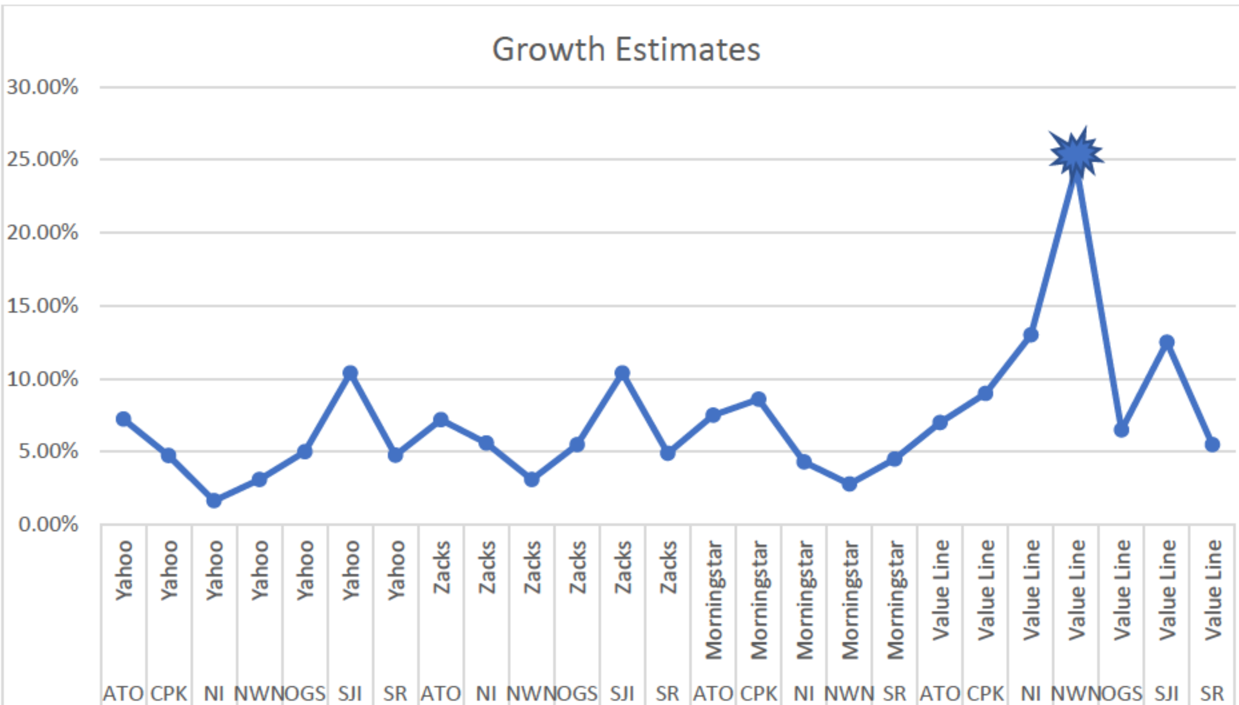
A. The expected average growth rates for the seven-company proxy group ranged from 4.92% to 11.10% with an overall average of 7.27%. For the purpose of determining the growth estimate, I subsequently eliminated Value Line's Northwest Natural growth estimate of 24.50% to determine a new adjusted average of 6.50%.[17]

Q. EXPLAIN WHY YOU ELIMINATED VALUE LINE'S PROJECTED GROWTH RATE FOR NORTHWEST NATURAL FROM YOUR ANALYSIS.

A. While I believe that the use of a proxy group largely smooths out various anomalies, I feel that Value Line's growth projection for Northwest Natural is extremely inconsistent and would have an unnecessary and unwarranted impact on my DCF analysis, which would adversely affect my recommendation for the

[17] I&E Exhibit No. 2, Schedule 7.

Company's cost of common equity. Value Line's estimate of 24.50% is more than 3.37 times higher and almost four standard deviations over the originally calculated 7.27% overall average. The following chart illustrates just how much of an outlier this result is:



Q. WHAT IS THE RESULT OF YOUR DCF ANALYSIS BASED ON YOUR RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?

A. The results of my DCF analysis are calculated as follows:[18]

K	=	D_1/P_0	+	g
10.05%	=	3.55%	+	6.50%

[18] I&E Exhibit No. 2, Schedule 8.

CAPITAL ASSET PRICING MODEL

Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.

A. My analysis employs the traditional CAPM as portrayed in the following formula:

$$K = R_f + \beta(R_m - R_f)$$

Where:

K	=	Cost of equity
R_f	=	Risk-free rate of return
R_m	=	Expected rate of return on the overall stock market
β	=	Beta measures the systematic risk of an asset

Q. WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?

A. Beta is a measure of the systematic risk of a stock in relation to the rest of the stock market. A stock's beta is estimated by calculating the linear regression of a stock's return against the return on the overall stock market. The beta of a stock with a price pattern identical to that of the overall stock market will equal one. A stock with a price movement that is greater than the overall stock market will have a beta that is greater than one and would be described as having more investment risk than the market. Conversely, a stock with a price movement that is less than the overall stock market will have a beta of less than one and would be described as having less investment risk than the market.

Q. WHAT BETA DID YOU CHOOSE FOR YOUR CAPM ANALYSIS?

A. In estimating an equity cost rate for my proxy group, I used the average of the betas for the companies as provided in the Value Line Investment Survey. The average beta for my proxy group is 0.83.[19]

Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU CHOSEN FOR YOUR FORECASTED CAPM ANALYSIS?

A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on 10-year Treasury Notes. While the yield on the short-term T-Bill is a more theoretically correct parameter to represent a risk-free rate of return, it can be extremely volatile. The volatility of short-term T-Bills is directly influenced by Federal Reserve policy. At the other extreme, the 30-year Treasury Bond exhibits more stability but is not risk-free. Long-term Treasury Bonds have substantial maturity risk associated with market risk and the risk of unexpected inflation. Long-term treasuries normally offer higher yields to compensate investors for these risks. As a result, I chose to use the yield on the 10-year Treasury Note because it mitigates the shortcomings of the other two alternatives. Additionally, 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.[20] The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip Financial

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[19] I&E Exhibit No. 2, Schedule 9.

[20] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 99 (Disposition of Capital Asset Pricing Model (CAPM)).

Forecasts, is expected to range between 0.80% and 1.10% from the first quarter of 2021 through the first quarter of 2022, and it is forecasted to be 2.30% from 2022-2026. For my forecasted CAPM analysis, I chose 1.15%, which is the average of all the yield forecasts I observed.[21]

Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL STOCK MARKET EMPLOYED IN YOUR FORECASTED CAPM ANALYSIS?

A. To arrive at a representative expected return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500. Value Line expects its universe of 1700 stocks to have an average yearly return of 12.87% over the next three to five years, based on a forecasted dividend yield of 2.20% and a yearly index appreciation of 50%. The S&P 500 Index is expected to have an average yearly return of 11.07% over the next five years, based upon Barron's forecasted dividend yield of 1.79% and Morningstar's expected increase in the S&P 500 Index of 9.20%.[22]

Q. WHAT IS THE EXPECTED RETURN ON THE OVERALL STOCK MARKET BASED ON YOUR FORECASTED ANALYSIS?

A. The expected return on the overall market is 11.97% for my forecasted analysis.[23]

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21 I&E Exhibit No. 2, Schedule 10.
22 I&E Exhibit No. 2, Schedule 11.
23 I&E Exhibit No. 2, Schedule 11.

Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM ANALYSIS?

A. The result of my analysis is as follows:[24]

$$K = R_f + \beta(R_m - R_f)$$

$$10.12\% = 1.15\% + 0.83\ (11.97\% - 1.15\%)$$

<u>CRITIQUE OF THE ACCOUNTING PANEL'S PROPOSED COST OF EQUITY</u>

Q. DO YOU AGREE WITH THE ACCOUNTING PANEL'S PROPOSED COST OF EQUITY?

A. No. Although my recommended cost of equity is 30 basis points higher than the Company's claim, it is important to recognize that the Accounting Panel did not attempt to perform a detailed cost of equity analysis specific to the Company or to reflect current market conditions. Again, the Accounting Panel relied on the return embedded in the Company's 2013 rate settlement and on the approved ROEs for DSIC purposes found in the second quarter of the Commission's Quarterly Earnings Summary.

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[24] I&E Exhibit No. 2, Schedule 12.

Q. IN THIS PROCEEDING, SHOULD THE COMMISSION BASE ITS DECISION ON WHAT CONSTITUTES AN APPROPRIATE COST OF EQUITY BY THE RETURN "EMBEDDED" IN THE COMPANY'S PREVIOUS RATE SETTLEMENT FROM 2013?

A. No. Any cost of equity request should be based on an analysis of the subject company's operating and financial risk factors, current and forecasted market conditions, and any other issues specific to the subject company or a proxy group of representative companies. Relying on information and decisions that were deemed suitable seven years ago is inappropriate for this current proceeding.

Q. SHOULD THE COMMISSION CONSIDER THE AUTHORIZED DSIC RATE ON THE QUARTERLY EARNINGS SUMMARY REPORT AS THE APPROPRIATE COST OF EQUITY IN THIS PROCEEDING?

A. No. It is my understanding that the Commission's authorized return on equity for DSIC purposes is set higher than the Commission staff-calculated return on equity as an incentive for companies to invest in improving or replace deteriorating infrastructure while reducing regulatory lag. Further, DSIC spending requires preapproval of eligible plant via a Long-Term Infrastructure Improvement Plan.

OVERALL RATE OF RETURN RECOMMENDATION

Q. WHAT IS THE COMPANY'S PROPOSED OVERALL RATE OF RETURN?

A. The Company's proposed overall rate of return is 7.09%.[25]

Q. WHAT IS I&E'S RECOMMENDED OVERALL RATE OF RETURN FOR PIKE GAS?

A. I&E Exhibit No. 2, Schedule 2, shows the calculation of an appropriate overall rate of return for the Company to be 7.24%.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

25 Pike Gas Statement No. 2, p. 17, ln. 21 through p. 18, ln. 2 and Pike Gas Exhibit G-2, Schedule 3.

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

Fixed Utility Financial Analyst 2014 – Present	PA Public Utility Commission Bureau of Investigation & Enforcement
Auditor 2012 – 2014	Public School Employee's Retirement System Bureau of Benefits Administration
Tax Technician 2010 – 2012	PA Department of Labor and Industry Unemployment Compensation Tax Services
Staff Accountant 2006 – 2009	Boyer & Ritter Certified Public Accountants

EDUCATION & TRAINING

EDUCATION/CERTIFICATIONS:

Society of Utility and Regulatory Financial Analysts (SURFA) – 2018
Certified Rate of Return Analyst (CRRA)

Indiana University of Pennsylvania, A.A. Accounting - 2006

The Pennsylvania State University, B.S. Labor and Industrial Relations – 2003

The Pennsylvania State University - The Smeal College of Business - 2003
Certificates of Completion:
Business Management - 20 credits of instruction
General Business - 20 credits of instruction

UTILITY SPECIFIC TRAINING/CONFERENCES:

SURFA Annual Financial Forum – New Orleans, LA – 2018

SURFA Annual Financial Forum – Indianapolis, IN - 2016

Western NARUC Utility Rate School – San Diego, CA - 2015

Pennsylvania Public Utility Commission Rate School – Harrisburg, PA – 2014

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE

I have submitted testimony or provided assistance in the following proceedings:

- Docket No. R-2020-3020919 – Audubon Water Company*
- Docket No. R-2020-3020256 – City of Bethlehem – Bureau of Water*
- Docket Nos. R-2020-3019369 & R-2020-3019371 - Pennsylvania-American Water Company*
- Docket Nos. R-2020-3017951, R-2020-3017970 & P-2020-3019019 – Pittsburgh Water & Sewer Authority*
- Docket No. R-2020-3017206 – Philadelphia Gas Works*
- Docket No. R-2020-3017850 - Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2020-3017846 - Peoples Gas Company, LLC 1307(f)*
- Docket No. R-2019-3010955 – City of Lancaster – Sewer Fund*
- Docket No. R-2019-3008208 - Wellsboro Electric Company*
- Docket No. R-2019-3008212 - Citizens' Electric Company of Lewisburg, PA*
- Docket No. R-2019-3008948 – Community Utilities of PA, Inc. – Wastewater Division*
- Docket No. R-2019-3008947 – Community Utilities of PA, Inc. – Water Division*
- Docket No. A-2019-3006880 – Pennsylvania-American Water Company – Acquisition of the Water Treatment and Distribution System Assets of Steelton Borough Authority (§1329)*
- Docket No. R-2018-3006814 – UGI Utilities, Inc. – Gas Division*
- Docket Nos. M-2018-2640802 & 2640803 – Pittsburgh Water & Sewer Authority (Compliance Plan)*
- Docket Nos. R-2018-3002645 & 3002647 - Pittsburgh Water & Sewer Authority*
- Docket Nos. A-2018-3003517 & 3003519 - SUEZ Water Pennsylvania, Inc. – Acquisition of the Water and Wastewater Assets of Mahoning Township (§1329)*
- Docket No. R-2018-3000124 - Duquesne Light Company*
- Docket No. R-2018-3000164 - PECO Energy Company – Electric Division*
- Docket No. R-2018-2645296 - Peoples Gas Company LLC 1307(f)*
- Docket No. R-2018-3000236 - Peoples Natural Gas – Equitable Division 1307(f)*
- Docket No. R-2018-2645278 - Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2017-2640058 - UGI Utilities, Inc. – Electric Division*
- Docket No. R-2017-2595853 - Pennsylvania-American Water Company*

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

- Docket No. A-2017-2606103 - Pennsylvania-American Water Company – Acquisition of Assets of the Municipal Authority of the City of McKeesport (§1329)*
- Docket No. A-2016-2580061 - Aqua PA Wastewater, Inc. – Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority (§1329)
- Docket No. R-2016-2531551 - Wellsboro Electric Company*
- Docket No. R-2016-2531550 - Citizens' Electric Company of Lewisburg, PA*
- Docket No. R-2016-2542923 - PNG, LLC – Equitable Division (Rate MLX)*
- Docket No. R-2016-2542918 - Peoples Natural Gas Company, LLC (Rate MLX)*
- Docket No. P-2016-2543140 - Duquesne Light Company (DSP VIII)*
- Docket No. R-2016-2529660 - Columbia Gas of PA, Inc.*
- Docket No. R-2016-2538660 - Community Utilities of PA, Inc.
- Docket No. P-2016-2521993 - Columbia Gas of PA, Inc. (DSIC)*
- Docket No. R-2015-2506337 - Twin Lakes Utilities, Inc.
- Docket No. R-2015-2479955 - Allied Utility Services, Inc.
- Docket No. R-2015-2479962 - Corner Water Supply & Service Corp.
- Docket No. R-2015-2470184 - Borough of Schuylkill Haven – Water Dept.
- Docket No. R-2014-2452705 - Delaware Sewer Company*
- Docket No. R-2014-2430945 - Plumer Water Company
- Docket No. R-2014-2427189 - B.E. Rhodes Sewer Company
- Docket No. R-2014-2427035 - Venango Water Company
- Docket No. R-2014-2428745 - Metropolitan Edison Company
- Docket No. R-2014-2428744 - Pennsylvania Power Company
- Docket No. R-2014-2428743 - Pennsylvania Electric Company
- Docket No. R-2014-2428742 - West Penn Power Company

*Testimony Submitted

I&E Exhibit No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Exhibit to Accompany

the

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

I&E Exhibit No 2
Schedule 1

PIKE COUNTY LIGHT & POWER COMPANY (GAS) RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUESTS, SET RR-1-D TO RR-5-D

I&E-RR-4-D Reference Pike Gas Exhibit G-2, Schedule 3. Provide a detailed calculation and justification for the 9.75% claimed cost of equity.

RESPONSE: Pike did not perform any calculations or studies to arrive at the 9.75% return on equity that it is requesting. The 9.75% was based on the Commission current guidelines and the return embedded in the Company's rate settlement in Docket No. R-2013-2397353. In the PAPUC's Report on ROE's for the 2nd Quarter of 2020, the only Approved ROE that is listed on page 14 was for UGI Electric of 9.85%. On page 15, The PAPUC lists the ROE's that were approved for DSIC's that ranged from 9.45% - 9.85% for electric utilities and was 10.15% for gas utilities.

PROVIDED BY: Charles A. Lenns, Richard A. Kane (Accounting Panel)

DATE: November 24, 2020

I&E Exhibit No 2
Schedule 2

I&E
Summary of Cost of Capital

Type of Capital	Ratio	Cost Rate	Weighted Cost
	Pike Gas		
Long-Term Debt	46.54%	4.77%	2.22%
Short-Term Debt	5.14%	3.10%	0.16%
Common Equity	48.32%	10.05%	4.86%
Total	100.00%		7.24%

**PIKE COUNTY LIGHT & POWER COMPANY (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RR-1-D TO RR-5-D**

I&E-RR-2-D Reference Pike Gas Exhibit G-2, Schedule 1. Provide the actual capital structures for Pike Gas operations only, independent from the combined gas and electric operations of Pike County Light and Power Company for years ended 6/30/2018 and 6/30/2019.

RESPONSE: Pike is an integrated electric and gas utility. As a result, it is not possible to separate its Capital Structure between electric and gas operations. There were no electric or gas specific financings done. Below is the Capital Structure for Pike County Light & Power Company, Inc. at June 30, 2018 and June 30, 2019.

	As of June 30, 2018		As of June 30, 2019	
Capitalization with Short Term Debt	$ Amount	Percent	$ Amount	Percent
Long Term Debt:	$11,000,000	56.32%	$10,851,073	47.31%
Short-Term Debt (incl. Long-Term Notes Due within One Year	-	-	2,487,945	10.85%
Proprietary Capital				
Common Stock	-		-	
Paid In Capital	7,500,000		7,500,000	
Retained Earnings	1,029,522		2,096,608	
Total Proprietary Capital:	8,529,522	43.68%	9,596,608	41.84%
Total Capitalization	$19,529,522	100.00%	$22,935,626	100.00%

PROVIDED BY: Charles A. Lenns, Richard A. Kane (Accounting Panel)

DATE: November 24, 2020

PIKE COUNTY LIGHT & POWER COMPANY (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S DATA REQUESTS, SET RR-1-D TO RR-5-D

I&E-RR-3-D Reference Pike Gas Exhibit G-2, Schedule 2, pp. 1-2. Identify the outstanding long-term debt balances and associated costs that are applicable to Pike Gas operations only, independent from the combined gas and electric operations of Pike County Light and Power Company.

RESPONSE: Pike is an integrated electric and gas utility. All financing has been done to support both electric and gas infrastructure investments. As a result, it is not possible to separate long-term debt balances and associated costs between electric and gas operations.

PROVIDED BY: Charles A. Lenns, Richard A. Kane (Accounting Panel)

DATE: November 24, 2020

I&E Exhibit No 2
Schedule 4

Proxy Group Capital Structure

	2019		2018		2017		2016		2015		Average
Atmos Energy Corp.											
Long-term Debt	$ 3,529.452	36.22%	$ 2,493.665	31.81%	$ 3,067.045	41.37%	$ 2,188.779	33.77%	$ 2,455.388	40.20%	36.67%
Short-term Debt	464.915	4.77%	575.780	7.34%	447.745	6.04%	829.811	12.80%	457.927	7.50%	7.69%
Common Equity	5,750.223	59.01%	4,769.951	60.85%	3,898.666	52.59%	3,463.059	53.43%	3,194.797	52.30%	55.64%
	9,744.590	100.00%	7,839.396	100.00%	7,413.456	100.00%	6,481.649	100.00%	6,108.112	100.00%	100.00%
Chesapeake Utilities											
Long-term Debt	450.064	35.75%	316.020	27.99%	197.395	21.12%	136.954	17.27%	149.340	21.93%	24.81%
Short-term Debt	247.371	19.65%	294.458	26.08%	250.969	26.85%	209.871	26.47%	173.397	25.47%	24.90%
Common Equity	561.577	44.60%	518.439	45.92%	486.294	52.03%	446.086	56.26%	358.138	52.60%	50.28%
	1,259.012	100.00%	1,128.917	100.00%	934.658	100.00%	792.911	100.00%	680.875	100.00%	100.00%
Nisource Inc.											
Long-term Debt	7,907.800	53.48%	7,105.400	50.92%	7,512.200	57.62%	6,058.200	52.15%	5,948.500	57.42%	54.32%
Short-term Debt	1,773.200	11.99%	1,977.200	14.17%	1,205.700	9.25%	1,488.000	12.81%	567.400	5.48%	10.74%
Common Equity	5,106.700	34.53%	4,870.900	34.91%	4,320.100	33.13%	4,071.200	35.04%	3,843.500	37.10%	34.94%
	14,787.700	100.00%	13,953.500	100.00%	13,038.000	100.00%	11,617.400	100.00%	10,359.400	100.00%	100.00%
Northwest Natural											
Long-term Debt	806.796	44.28%	706.247	41.88%	683.184	46.16%	679.334	42.91%	576.700	35.43%	42.13%
Short-term Debt	149.100	8.18%	217.620	12.90%	54.200	3.66%	53.300	3.37%	270.035	16.59%	8.94%
Common Equity	865.999	47.53%	762.634	45.22%	742.776	50.18%	850.497	53.72%	780.972	47.98%	48.93%
	1,821.895	100.00%	1,686.501	100.00%	1,480.160	100.00%	1,583.131	100.00%	1,627.707	100.00%	100.00%
ONE Gas Inc.											
Long-term Debt	1,314.064	33.18%	1,285.483	35.44%	1,193.257	33.99%	1,192.446	36.97%	1,201.305	39.32%	35.78%
Short-term Debt	516.500	13.04%	299.500	8.26%	357.215	10.18%	145.000	4.50%	12.500	0.41%	7.28%
Common Equity	2,129.390	53.77%	2,042.656	56.31%	1,960.209	55.84%	1,888.280	58.54%	1,841.555	60.27%	56.95%
	3,959.954	100.00%	3,627.639	100.00%	3,510.681	100.00%	3,225.726	100.00%	3,055.360	100.00%	100.00%
South Jersey Industries Inc.											
Long-term Debt	2,070.767	47.68%	2,106.863	57.81%	1,122.999	42.19%	808.005	33.76%	1,006.394	40.65%	44.42%
Short-term Debt	848.700	19.54%	270.500	7.42%	346.400	13.01%	296.100	12.37%	431.700	17.44%	13.96%
Common Equity	1,423.785	32.78%	1,267.022	34.77%	1,192.409	44.80%	1,289.240	53.87%	1,037.539	41.91%	41.62%
	4,343.252	100.00%	3,644.385	100.00%	2,661.808	100.00%	2,393.345	100.00%	2,475.633	100.00%	100.00%
Spire Inc.											
Long-term Debt	2,082.600	40.62%	1,900.100	40.35%	1,995.000	44.69%	1,833.700	45.84%	1,771.500	48.10%	43.92%
Short-term Debt	743.200	14.50%	553.600	11.76%	477.300	10.69%	398.700	9.97%	338.000	9.18%	11.22%
Common Equity	2,301.000	44.88%	2,255.400	47.89%	1,991.300	44.61%	1,768.200	44.20%	1,573.600	42.72%	44.86%
	5,126.800	100.00%	4,709.100	100.00%	4,463.600	100.00%	4,000.600	100.00%	3,683.100	100.00%	100.00%

Five-Year Average Capital Structure	
Long-term Debt	40.29%
Short-term Debt	12.10%
Common Equity	47.60%
	100.00%

Source: Compustat (data in millions)

I&E Exhibit No 2
Schedule 5

	2019		
	Interest Charges	**Long-term Debt**	**Debt Cost**
Atmos Energy Corp.	110.80	3,529.45	3.14%
Chesapeake Utilities	22.92	450.06	5.09%
Nisource Inc.	386.40	7,907.80	4.89%
Northwest Natural	42.69	806.80	5.29%
ONE Gas Inc.	67.28	1,314.06	5.12%
South Jersey Industries Inc.	120.48	2,070.77	5.82%
Spire Inc.	104.40	2,082.60	5.01%
	Range:	**Low**	**3.14%**
		High	**5.82%**
		Average	**4.91%**

Source: Compustat

I&E Exhibit No 2
Schedule 6

Dividend Yields of the Proxy Group

Company	Atmos Energy Corp.	Chesapeake Utilities	Nisource Inc.	Northwest Natural	ONE Gas Inc.	South Jersey Industries Inc.	Spire Inc.
Symbol	*ATO*	*CPK*	*NI*	*NWN*	*OGS*	*SJI*	*SR*
Div	2.46	1.83	0.92	1.92	2.32	1.25	2.61
52-wk low	77.92	69.47	19.56	42.33	63.67	18.43	50.58
52-wk high	121.08	104.57	30.46	77.26	96.97	33.43	87.96
Spot Price	95.59	99.63	23.65	44.18	72.52	19.45	57.92
Spot Div Yield	2.57%	1.84%	3.89%	4.35%	3.20%	6.43%	4.51%
52-wk Div Yield	2.47%	2.10%	3.68%	3.21%	2.89%	4.82%	3.77%
Average	**2.52%**	**1.97%**	**3.78%**	**3.78%**	**3.04%**	**5.62%**	**4.14%**

	Average
Spot Div Yield	**3.83%**
52-wk Div Yield	**3.28%**
Average	**3.55%**

Source:	Barrons	November 5, 2020
	Value Line	August 28, 2020

I&E Exhibit No 2
Schedule 7

Five-Year Growth Estimate Forecast for the Proxy Group (Actual)

Company	Symbol	Yahoo	Zacks	Morningstar	Value Line	Average
		Source				
Atmos Energy Corp.	ATO	7.25%	7.20%	7.50%	7.00%	7.24%
Chesapeake Utilities	CPK	4.74%	NA	8.60%	9.00%	7.45%
Nisource Inc.	NI	1.65%	5.60%	4.30%	13.00%	6.14%
Northwest Natural	NWN	3.10%	3.10%	2.80%	24.50%	8.38%
ONE Gas Inc.	OGS	5.00%	5.50%	NA	6.50%	5.67%
South Jersey Industries Inc.	SJI	10.40%	10.40%	NA	12.50%	11.10%
Spire Inc.	SR	4.78%	4.90%	4.50%	5.50%	4.92%
Average						**7.27%**

Source:
(From Internet)
November 5, 2020

Five-Year Growth Estimate Forecast for the Proxy Group (Adjusted)

Company	Symbol	Yahoo	Zacks	Morningstar	Value Line	Average
		Source				
Atmos Energy Corp.	ATO	7.25%	7.20%	7.50%	7.00%	7.24%
Chesapeake Utilities	CPK	4.74%	NA	8.60%	9.00%	7.45%
Nisource Inc.	NI	1.65%	5.60%	4.30%	13.00%	6.14%
Northwest Natural	NWN	3.10%	3.10%	2.80%	NA	3.00%
ONE Gas Inc.	OGS	5.00%	5.50%	NA	6.50%	5.67%
South Jersey Industries Inc.	SJI	10.40%	10.40%	NA	12.50%	11.10%
Spire Inc.	SR	4.78%	4.90%	4.50%	5.50%	4.92%
Average						**6.50%**

Source:
(From Internet)
November 5, 2020

I&E Exhibit No 2
Schedule 8

Expected Market Cost Rate of Equity

Using Data for the Proxy Group of Seven Natural Gas Companies

5-Year Forecasted Growth Rates

	Time Period		Adjusted Dividend Yield (1)	Growth Rate (2)	Expected Return on Equity (3=1+2)
(1)	**52-Week Average**		3.28%	6.50%	9.78%
	Ending:	November 5, 2020			
(2)	**Spot Price**		3.83%	6.50%	10.33%
	Ending:	November 5, 2020			
(3)	**Average:**		**3.55%**	**6.50%**	**10.05%**

Sources: Value Line August 28, 2020
Barrons November 5, 2020

I&E Exhibit No 2
Schedule 9

Company	Beta
Atmos Energy Corp.	0.80
Chesapeake Utilities	0.75
Nisource Inc.	0.85
Northwest Natural	0.80
ONE Gas Inc.	0.80
South Jersey Industries Inc.	1.00
Spire Inc.	0.80
Average beta for CAPM	**0.83**

Source:
Value Line

August 28, 2020

I&E Exhibit No 2
Schedule 10

Risk-Free Rate

10-Year Treasury Note	**Yield**
1Q 2021	0.80
2Q 2021	0.90
3Q 2021	1.00
4Q 2021	1.10
1Q 2022	0.80
2022-2026	2.30
Average	**1.15**

Source:
Blue Chip
June 1, 2020 & October 1, 2020

Required Rate of Return on Market as a Whole - Forecasted

	Dividend Yield	+	Growth Rate	=	Expected Market Return
Value Line Estimate	2.20%		10.67%	(a)	12.87%
S&P 500	1.87%	(b)	9.20%		11.07%
Average Expected Market Return				=	**11.97%**

(a) ((1+50%)^.25) -1) Value Line forecast for the 3 to 5 year index appreciation is 50%
(b) S&P 500 multiplied by half the growth rate

Sources:

Value Line	10/30/2020
S&P 500 Dividend Yield (Barrons)	10/30/2020
S&P 500 Growth Rate (Yahoo!)	11/5/2020

CAPM with Forecasted Return

Re	Required return on individual equity security
Rf	Risk-free rate
Rm	Required return on the market as a whole
Be	Beta on individual equity security

Re = Rf+Be(Rm-Rf)

Rf =	1.15
Rm =	11.97
Be =	0.83
Re =	**10.12**

Sources:	Value Line	August 28, 2020
	Blue Chip	June 1, 2020 & October 1, 2020

I&E Statement No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Background
Plant in Service
Accrued Depreciation
Plant in Service - Common
Accrued Depreciation – Common
Total Rate Base
Annual Depreciation Expense
Other Operating Revenue - Forfeited Discounts
Cost of Service
Proposed Increase
Customer Cost Analysis-Customer Charges
Revenue Allocation
Scale Back of Rates

TABLE OF CONTENTS

INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Esyan A. Sakaya. My business address is 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 in the Bureau of Investigation and Enforcement ("I&E") as a Fixed Utility Valuation Engineer.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. My education and professional background are set forth in Appendix A, which is attached.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. The I&E analysis in the proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present I&E's recommendations concerning Pike County Light & Power Company's (Gas) ("Pike" or "Company") proposed rate increase of $262,200 per year, or a 15.9% increase over present rates. My testimony will address the Company's plant in service, accrued depreciation, plant in service - common, accrued depreciation - common, rate base, annual depreciation expense, other operating revenue, cost of service, proposed revenue, customer cost analysis, customer charges, revenue allocation, and a scale back if the Commission grants less than the full increase requested.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 3 accompanies this direct testimony.

<u>BACKGROUND</u>

Q. WHAT IS A FUTURE TEST YEAR AND HOW IS IT USED BY A COMPANY IN A RATE PROCEEDING?

A. A future test year ("FTY") is a twelve-month period selected by a utility for ratemaking purposes to utilize both historic and projected annualized and normalized financial information. An FTY is used in order to allow for the time it takes to adjudicate a rate proceeding by permitting a utility to select a future time period upon which to base its financial information. This is necessary so that the rates set by the Commission reflect up-to-date and synchronized financial information. By using an FTY, a utility makes a projected, annualized, and normalized estimate of future revenues and expenses and a corresponding measure of value at the end of the future test year.

Q. WHAT TEST YEAR HAS PIKE SELECTED FOR USE IN THIS PROCEEDING?

A. Pike has selected an FTY ending June 30, 2021.

Q. WHAT IS RATE BASE?

A. Rate base is the depreciated original cost of a utility's investment in plant determined to be used and useful in the public service at the end of the test year plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers.

Q. HOW IS THE DEPRECIATED ORIGINAL COST PLANT IN SERVICE AT THE END OF THE FUTURE TEST YEAR DETERMINED?

A. The depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense and other items such as salvage value, from the original cost of the plant in service that is used and useful at the end of the future test year. The depreciated original cost of the plant in service is determined by taking a "snapshot" look at the depreciated original cost value of used and useful utility plant in service at a specific point in time. That point in time for this base rate case is the end of the future test year.

Q. WHAT OTHER ADDITIONS AND/OR DEDUCTIONS TO THE DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE APPROPRIATE WHEN DETERMINING THE ALLOWABLE RATE BASE OF A UTILITY?

A. Additions to the depreciated original cost of a utility's investment in utility plant used and useful in the public service include materials and supplies and cash working capital. Deductions include deferred tax credits, customer deposits, contributions in aid of construction, and customer advances. Some additions are applicable only to a specific utility or utility type.

Q. WHAT IS THE DEPRECIATED ORIGINAL COST INVESTMENT CLAIM IN THIS FILING?

A. The depreciated original cost claimed by the Company is $4,023,800 as shown on Pike Ex. G-3, Summary p. 1. The additions to the Company's claimed depreciated original cost are as follows:

1. Cash Working Capital;
2. Materials and Supplies;
3. Prepayments; and
4. Deferred Debits (Net of Tax).

The deductions to its claimed depreciated original cost are:

1. Deferred Credits (Net of Tax);
2. Deferred Income Taxes; and
3. Customer Deposits.

Q. HOW IS RATE BASE USED WITHIN THE RATEMAKING FORMULA?

A. Rate base is one part of the financial equation used by the Commission, along with allowable expenses and rate of return to determine the level of income a utility is granted an opportunity to earn and the revenue level needed to achieve that return. The equation used to determine the proper revenue requirement level is:

Revenue Requirement = (Rate Base x Rate of Return) + Allowable Expenses.

Each item in the revenue requirement equation is synchronized to the test year period. If the date of any of the items in this equation is changed, all the other necessary data that a utility must file in a rate proceeding including the test year income statement, actual and projected customer levels and usage, cost of service study to determine expense responsibility among the various customer classes, and other financial information used to determine the utility's rate of return, must also be changed.

<u>PLANT IN SERVICE</u>

Q. WHAT IS THE TOTAL PLANT IN SERVICE CLAIMED BY THE COMPANY?

A. The Company is claiming $3,955,700 of total gas plant in rate base (Pike Ex. G-3, Summary p. 1 and I&E Ex. No. 3, Sch. 1, Column E, line 1).

Q. DOES THE $3,955,700 INCLUDE PLANT ADDITIONS PROJECTED TO TAKE PLACE DURING AND BEYOND THE FTY ENDING JUNE 30, 2021?

A. Yes. The Company's claimed plant in service additions of $954,000 includes projected plant additions less retirements through December 31, 2021. This $954,000 includes $250,000 of plant additions and $27,900 of retirements from July 1, 2021 through December 31, 2021 (Pike Ex. G-3, Sch. 1, p. 1).

Q. WHAT DO YOU RECOMMEND REGARDING THE PLANT ADDITIONS PROJECTED TO OCCUR BETWEEN JULY 1, 2021 AND DECEMBER 31, 2021?

A. I recommend that $250,000 of Post Future Test Year Plant Additions ("PFTYPA") together with the corresponding $27,900 of Post Future Test Year Retirements ("PFTYR") be removed from the $954,000 of projected net plant additions for the FTY.

Q. WHY DO YOU RECOMMEND THAT $250,000 OF PFTYPA AND CORRESPONDING $27,900 OF PFTYR BE REMOVED FROM THE $954,000 NET PLANT ADDITIONS?

A. As described above the $250,000 of plant additions will not be placed into service until after the end of the FTY (Pike Ex. G-3, Sch. 1, p. 1). For utility plant to be recovered in rates, it must be "used and useful" by the end of the test year selected by the Company to establish rates. Because this utility plant will not be placed into service until after June 30, 2021, it necessarily cannot meet the requirement of being used and useful. Therefore, to allow this plant in rate base will create a mismatch between plant in service and other rate making components such as revenue and expenses that are based upon the FTY.

Q. WHAT IS THE NET EFFECT OF REMOVING $250,000 OF PFTYPA AND ADDING BACK $27,900 OF PFTYR?

A. The net effect is a $222,100 ($250,000 - $27,900) reduction to net plant in service (I&E Ex. No. 3, Sch. 1, Column F, line 5).

ACCRUED DEPRECIATION

Q. IF THE COMMISSION ACCEPTS YOUR RECOMMENDATION TO REMOVE $250,000 OF PFTYPA NET OF $27,900 OF PFTYR, SHOULD THERE BE A CORRESPONDING REDUCTION TO ACCRUED DEPRECIATION?

A. Yes. I recommend that accrued depreciation be reduced by $38,900 (I&E Ex. No. 3, Sch. 1, Column F, line 7).

Q. HOW DID YOU DETERMINE THE $38,900 ADJUSTMENT TO ACCRUED DEPRECIATION?

A. Similar to PFTYPA that are beyond the end of the FTY, the Company is claiming $38,900 of accrued depreciation that will be recorded in the six months beyond the end of the FTY. The $38,900 increase in accrued depreciation was calculated by the Company to reduce rate base through December 31, 2020, which is six months beyond the end of the FTY (Pike Ex. G-4, Sch. 8, p. 1). The $38,900 is approximately 50% of one year's worth of annual depreciation expense for this six-month period. Therefore, like the PFTYPA, it is appropriate to remove $39,800 of the additional accrued depreciation. I show the $38,900 accrued adjustment on I&E Ex. No. 3, Sch. 1, Column F, line 7.

<u>PLANT IN SERVICE – COMMON</u>

Q. DOES THE COMPANY HAVE PLANT USED BY BOTH ELECTRIC AND GAS OPERATIONS?

A. Yes. The Company has common plant that it allocated 85% to electric operations and 15% to gas operations (Pike Ex. G-3, Schedule 1, p. 2).

Q. WHAT TOTAL COMMON PLANT IS THE COMPANY CLAIMING AND HOW MUCH IS THE COMPANY REFLECTING IN RATE BASE?

A. The Company is claiming approximately $2,362,965 of common plant of which approximately $354,400 ($2,362,965 x 0.15) is reflected in rate base for gas operations (Pike Ex. G-3, Sch. 1, p. 2).

Q. DOES THE $2,362,9654 INCLUDE PLANT ADDITION PROJECTED TO TAKE PLACE DURING AND AFTER THE END OF THE FTY JUNE 30, 2021?

A. Yes. The Company's claimed common plant of $2,362,965 includes projected plant additions less retirements through December 31, 2021. This $2,362,965 includes $300,000 of plant additions and $300,000 of retirements from July 1, 2021 through December 31, 2021 (Pike Ex. G-3, Sch. 1, p. 2).

Q. WHAT DO YOU RECOMMEND REGARDING THE $300,000 OF PLANT ADDITIONS PROJECTED TO OCCUR BETWEEN JULY 1, 2021 AND DECEMBER 31, 2021?

A. I recommend that $300,000 of PFTYPA together with the corresponding $300,000 of PFTYR be removed from the $2,362,964 of projected net common plant additions for the FTY.

Q. WHY DO YOU RECOMMEND THAT $300,000 OF PFTYPA AND CORRESPONDING $300,000 OF PFTYR BE REMOVED FROM THE $2,362,964 NET COMMON PLANT ADDITIONS?

A. As described above, the $300,000 of plant additions will not be placed into service until after the end of the June 30, 2021 FTY (Pike Ex. G-3, Sch. 1, p. 2).

Q. WHAT IS THE NET EFFECT OF REMOVING $300,000 OF PFTYPA AND ADDING BACK $300,000 OF PFTYR?

A. The net effect to total plant in service is zero ($300,000 - $300,000 = $0).

<u>ACCRUED DEPRECIATION – COMMON</u>

Q. IF THE COMMISSION ACCEPTS YOUR RECOMMENDATION TO REMOVE $300,000 OF PFTYPA NET OF $300,000 OF PFTYR, SHOULD THERE BE A CORRESPONDING REDUCTION TO ACCRUED DEPRECIATION?

A. Yes. I recommend that accrued depreciation be reduced by $150,000.

Q. HOW DID YOU DETERMINE THE $150,000 ADJUSTMENT TO ACCRUED DEPRECIATION?

A. Similar to PFTYPA that are beyond the end of the FTY, the Company is claiming $150,000 of accrued depreciation that will be recorded in the six months beyond the end of the FTY. The $150,000 increase in common plant accrued depreciation was calculated by the Company to reduce rate base through December 31, 2021, six months beyond the end of the FTY (Pike Ex. G-4, Sch. 8, p. 1). The $150,000 is approximately 50% of one year's worth of common plant annual depreciation expense. Therefore, if the Commission removes the $300,000 of common PFTYPA, it is reasonable not to include $150,000 of this additional common accrued depreciation.

Q. HOW MUCH OF THE $150,000 OF COMPANY PLANT ACCRUED DEPRECIATION SHOULD BE ALLOCATED TO GAS OPERATIONS?

A. Based upon the 15% allocation factor described above, $22,500 ($150,000 X 0.15) should be allocated to Gas operations, reducing accrued depreciation by $22,500 (I&E Ex No 3, Sch. 1, Column F, line 8).

<u>TOTAL RATE BASE</u>

Q. WHAT TOTAL RATE BASE IS THE COMPANY CLAIMING IN THIS PROCEEDING?

A. The Company is claiming $4,071,900 of rate base (Pike Ex. G-3, Summary p. 1, I&E Ex. No. 3, Sch. 1, Column E, line 21).

Q. WHAT RATE BASE DO YOU RECOMMEND?

A. I recommend a rate base of $3,866,200. This $3,866,200 is $160,700 less than the $4,071,900 claimed by the Company (I&E Ex. No. 3, Sch. 1, Column G, line 21).

Q. WHAT IS THE BASIS FOR THE $160,700 ADJUSTMENT TO RATE BASE?

A. The basis for the $160,700 adjustment is removing PFTYPA net of PFTYR and adjustments to accrued depreciation. Specifically, the $160,700 is comprised of a $222,100 adjustment to net plant in service and decreases of $38,900 and $22,500 in accrued depreciation described above (I&E Ex. No. 3, Sch. 1, Column F, lines 7-8).

ANNUAL DEPRECIATION EXPENSE

Q. WHAT IS ANNUAL DEPRECIATION EXPENSE?

A. Annual depreciation expense is an operating expense that represents the loss of service value of plant over the life of the plant.

Q. WHAT ANNUAL DEPRECIATION EXPENSE IS THE COMPANY CLAIMING?

A. The Company is claiming approximately $125,030 of annual depreciation expense (Pike Ex. G-4 Summary p. 1).

Q. HOW DID THE COMPANY DETERMINE THE $125,030 OF ANNUAL DEPRECIATION EXPENSE?

A. The Company compiled a spreadsheet starting with plant in service as of June 30, 2020 and then determined amounts it claimed should be added and subtracted to arrive at $4,276,817 of total plant. Then the Company applied the corresponding annual depreciation accrual rates to the gas plant and common plant separately to arrive at the $125,000 of annual depreciation expense (Pike Ex. G-4, Sch. 8).

Q. WHAT ADJUSTMENT TO THE COMPANY'S $125,030 CLAIM FOR ANNUAL DEPRECIATION EXPENSE DO YOU RECOMMEND?

A. I recommend that $4,493 of annual depreciation expense associated with the

$222,100 of net PFTYPA be removed from the $125,030 of annual depreciation expense claimed by the Company.

Q. HOW DID YOU DETERMINE THE $4,493 ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE?

A. I began with $222,100 described above and multiplied it by the 2.0232% composite depreciation rate applicable to gas plant to arrive at approximately $4,493 ($222,100 X 0.02023).

Q. WHY DO YOU RECOMMEND THE $4,493 ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE?

A. If the Commission accepts my recommendation to remove $222,100 of net gas plant to be installed after the end of the FTY, the corresponding $4,493 of annual depreciation expense should be removed from total annual depreciation expense.

Q. PLEASE SUMMARIZE YOUR ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE.

A. I recommend that annual depreciation expense be reduced to $120,537. This $120,537 is $4,493 less than the proposed $125,030 for annual depreciation expense (I&E Ex. No. 3, Sch. 2, Column J, line 11).

<u>OTHER OPERATING REVENUE – FORFEITED DISCOUNTS</u>

Q. WHAT IS OTHER OPERATING REVENUE?

A. Other operating revenue refers to revenue received by the Company from sources other than the customer charges, distribution rates and the purchased gas cost rate. Sources of other operating revenue are forfeited discounts, rent from gas property, federal income tax refunds, and miscellaneous service revenues.

Q. HOW MUCH OTHER OPERATING REVENUE IS THE COMPANY PROJECTING IT WILL RECEIVE UNDER PRESENT AND PROPOSED RATES IN THE FTY?

A. In this filing, the Company reflected approximately $2,800 of other operating revenue under both present and proposed rates for FTY ending June 30, 2021 (Pike Ex. G-4, Sch. 1, page 2).

Q. WHAT DO YOU RECOMMEND CONCERNING THE $2,800 IN OTHER OPERATING REVENUE UNDER PRESENT RATES?

A. I recommend that other operating revenue be increased to properly reflect revenue likely to be received from forfeited discounts under proposed rates.

Q. WHAT ARE FORFEITED DISCOUNTS?

A. A public utility can assess a separate charge to customers who do not pay their bill on time. The term forfeited discounts revenue, also referred to as late payment charges, refers to the revenue received by the utility as a result of this charge.

Q. HOW MUCH REVENUE FROM FORFEITED DISCOUNTS DID THE COMPANY ACTUALLY RECEIVE IN THE HISTORIC TEST YEAR ENDING JUNE 30, 2020 UNDER PRESENT RATES?

A. The Company received $2,498 in forfeited discounts revenue for the year ended June 30, 2020 (Pike Ex. G-4, Sch. 1, page 2).

Q. HOW MUCH REVENUE FROM FORFEITED DISCOUNTS DID THE COMPANY PROJECT IT WILL RECEIVE IN THE FTY YEAR UNDER PRESENT RATES?

A. The Company is projecting it will receive $2,769 in forfeited discounts revenue which is an increase of $271 for the year ending June 30, 2021 (Pike Ex. G-4, Sch. 1, page 2).

Q. WHAT LEVEL OF FORFEITED DISCOUNTS IS THE COMPANY CLAIMING AT PROPOSED RATES FOR THE FTY?

A. Pike is projecting $2,800 under proposed rates, which is $31 greater than the forfeited discounts claimed under present rates for the FTY (Pike G -4, Summary page 1).

Q. WHAT DO YOU RECOMMEND REGARDING THE FORFEITED DISCOUNTS REVENUE THE COMPANY WILL RECEIVE UNDER PROPOSED RATES FOR THE FTY?

A. I recommend that the revenue from forfeited discounts be increased by approximately $961, from $2,769 to $3,730, under proposed rates for the FTY ending June 30, 2021.

Q. HOW DID YOU DETERMINE THE $961 INCREASE IN FORFEITED DISCOUNT REVENUE UNDER PROPOSED RATES?

A. The Company is requesting an increase in tariff rates of 34.71% ($260,313 / $749,900). The $961 ($2,769 X 0.3471) equates to 34.71% increase in present rate forfeited discount revenue (I&E Ex, No 3, Sch. 5, page 1, Column C, line 5).

Q. WHY DO YOU RECOMMEND THAT THE REVENUE FROM FORFEITED DISCOUNTS UNDER PROPOSED RATES WILL INCREASE $961 UNDER PROPOSED RATES?

A. I believe it is reasonable to expect that forfeited discounts revenues will increase when a utility's base rates are increased as a result of a base rate proceeding. Since forfeited discounts are generally a percentage of a customer's bill, increasing gas service revenue through a rate increase will cause revenues from forfeited discounts to increase over time.

Q. SHOULD THE $961 INCREASE IN FORFEITED DISCOUNT REVENUE THAT YOU RECOMMEND UNDER PROPOSED RATES BE REDUCED IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. Yes. I recommend that the Company reflect the same percentage increase in forfeited discounts that the Commission permits the Company to receive.

COST OF SERVICE

Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY ("COSS")?

A. The purpose of a COSS is to allocate or assign the costs of operating a system to various classes of customers and functions. It is used to determine if the revenue from each class is recovering the cost of providing service to that class.

Q. WHAT IS THE RATE OF RETURN AND RELATIVE RATE OF RETURN?

A. The rate of return is the profit, typically expressed as a percent of rate base that the Commission allows a utility the opportunity to earn in a base rate proceeding. The rate of return each individual class is producing can be determined in the COSS. A relative rate of return indicates how the rate of return of each customer class compares to the system average rate of return. If the relative rate of return of a class is below 1.00, the revenue from that class is not covering the cost of providing service to that class. If the relative rate of return is above 1.00, the revenue is over-recovering the cost of providing service to that class. If the relative rate return is equal to 1.00, the revenue from that class is equal to its cost of providing service to that class.

Q. DID THE COMPANY PROVIDE A COSS IN THIS PROCEEDING?

A. Yes. The Company provided a COSS on Pike Gas Exhibits G-6 and G-7. The COSS is based upon data from the FTY ending June 30, 2021.

Q. DID THE COMPANY UPDATE ITS COSS WHILE RESPONDING TO DATA REQUESTS?

A. Yes. The Company provided an electronic version of its updated COSS.

Q. WHAT CHANGES ARE REFLECTED IN THIS UPDATED COSS?

A. This updated COSS reflects data for the FTY ending June 30, 2021. Since the rest of the filing is based upon the FTY, I will use this updated COSS to make my recommendations.

Q. DOES THE COSS INCLUDE A SCHEDULE THAT SHOWS THE RATE OF RETURN AND RELATIVE RATE OF RETURN UNDER PRESENT RATES?

A. Yes. The updated COSS included a schedule showing the rate of return and relative rate of return by class under present rates. (I&E Ex. No. 3, Sch. 3) for the FTY ending June 30, 2021. Since the Company charges the same rates for all Residential customers, I combined the Residential heating, Residential domestic, and Residential other classes into one Residential class. Similarly, since the Company charges the same rates for all Commercial customers, I combined the Commercial classes into one column.

Q. DID THE COMPANY PROVIDE A SCHEDULE SHOWING THE RATE OF RETURN AND RELATIVE RATE OF RETURN UNDER PROPOSED RATES IN THE FILING?

A. Yes. In the original filing, the Company provided a schedule under proposed rates under the scenario of all customer classes paying the same rate of return. This schedule fails to help determine the rate of return under proposed rates and does not support what the Company is claiming under proposed rates because it doesn't show the actual data, only the target rate of return. When asked to provide a schedule that shows the proposed revenue, expenses, taxes, net income, and rate base by class that supports each rate of return and relative rate of return, the Company did not provide the requested response. Instead, the Company provided a schedule that shows the uniform rate of return by class for the FTY as described above (Pike Gas Exhibit G-6, Sch. GRP 4-G, p. 2). As previously mentioned, this analysis is not useful in determining if the revenue from each class is sufficient to recover the cost of providing service to that class.

Q. DID YOU PERFORM AN ANALYSIS OF RELATIVE RATE OF RETURN UNDER PROPOSED RATES?

A. Yes. I developed a schedule that shows the calculation of relative rates of return based on proposed revenue, expenses, taxes, net income, and rate base by class as best as I could with the information provided. I provided a summary of this analysis as I&E Ex. No. 3, Sch. 4, page 1. To simplify my analysis, I calculated the Federal and State Income tax expense by applying the effective income tax rate of 21.323% to each class based upon each class's net income (I&E Ex. No. 3, Sch. 4, page 1, Column B, line 10, page 1).

Q. HOW DID YOU DETERMINE THE FEDERAL AND STATE TAX RATE OF 21.323%?

A. The 21.323% income tax rate was determined by dividing the revised Federal and State income tax claim of approximately $77,747 by the net income before income taxes of $364,616 ($77,747 / $364,616 = 0.21323). The $364,616 ($1,013,013 - $504,132 - $125,012 - $19,253) was determined by beginning with proposed revenue of $1,013,013 of total revenue and subtracting $504,132 of O&M expenses, $125,012 of depreciation expense and $19,253 of taxes other than income shown on I&E Ex. No. 3, Sch. 4, page 1, Column C, line 6-9, page 1.

Q. WHAT DOES YOUR ANALYSIS SHOW WHEN THE COMPANY'S COSS IS SUMMARIZED UNDER THE COMPANY'S PROPOSED RATES?

A. Using the Company provided COSS, the relative rate of return for the Residential class is 0.95 indicating that that revenue proposed from the Residential class is less than the cost of providing service to the Residential class I&E Ex. No. 3, Sch. 4, page 1, line 19, Column D. The analysis also shows that the relative rate of return for the Commercial class is 1.30 indicating that the proposed revenue from the Commercial class is more than needed to provide service to the Commercial class (I&E Ex. No. 3, Sch. 4, page 1, Column E, line 19).

Q. WHAT DO YOU RECOMMEND THE COMPANY PROVIDE IN FUTURE BASE RATE CASES?

A. I recommend that the Company provide a schedule similar to I&E Ex. No. 3, Sch. 4, page 1 that shows forecasted revenue, expenses, taxes, net income, rate base, rate of return, and relative rate of return under actual proposed rates by class in future base rate cases.

Q. WHY DO YOU RECOMMEND THE COMPANY PROVIDE A FORECASTED SCHEDULE SHOWING THE REVENUE, EXPENSES, TAXES, NET INCOME, RATE BASE, RATE OF RETURN, AND RELATIVE RATE OF RETURN UNDER ACTUAL PROPOSED RATES BY CLASS IN FUTURE BASE RATE CASES?

A. As described above, the relative rate of return indicates if the revenue from a class is sufficient to cover the cost of providing service to that class. Therefore, such an analysis will guide the Commission in establishing proposed rates.

Q. SHOULD THE COMMISSION BASE RATES UPON THE RELATIVE RATES OF RETURN FOR THE RESIDENTIAL AND COMMERCIAL CLASS DESCRIBED ABOVE?

A. No. As described below, the Company improperly allocated the cost of Mains – Account 376 in the COSS. This improper allocation shifts more costs to the Residential class than is reasonable.

Q. HOW MUCH TOTAL MAIN COST DID THE COMPANY CLAIM AND HOW DID IT ALLOCATE THIS COST IN THE COSS?

A. The Company claimed $2,365,104 of Main costs in the COSS. Then the Company allocated $1,089,572 (46.0687% of $2,365,104) to the various class based upon the demand each class places on the system and the remaining $1,275,532

(53.9313% of $2,365,104) was allocated based upon the number of customers in each class (I&E Ex. No. 3, Sch.4, p. 2, Column C, lines 1-5, page 2).

Q. HAS THIS TYPE OF ALLOCATION BEEN REJECTED BY THE COMMISSION IN THE PAST?

A. Yes. The Commission previously rejected the customer-demand methodology, which classifies distribution mains as partially customer related and partially demand related.

Q. HOW DO YOU RECOMMEND THAT $2,365,104 OF MAINS BE ALLOCATED TO THE VARIOUS CUSTOMER CLASSES?

A. I recommend that 50% of the $2,365,104 cost of Mains in the COSS be allocated on the peak demand each class places on the system and 50% of the $2,365,104 cost of mains be allocated on the average demand of each class. The net effect of these two changes reduces the amount allocated to Residential class by $221,298 and increases the amount allocated to the Commercial by $221,298 (I&E Ex. No. 3, Sch. 5, page 2, Columns D-E, line 5-7).

Q. WHY DO YOU RECOMMEND THAT THE COST OF MAINS BE ALLOCATED 50% ON THE AVERAGE DEMAND AND 50% ON THE DEMAND EACH CLASS PLACES ON THE SYSTEM?

A. Natural gas systems are built to deliver gas throughout the year. Therefore, since mains deliver gas, it is reasonable to allocate the cost of mains on the basis of gas delivery. This peak and average methodology equally allocates distribution mains to classes based upon the peak day demand and on annual consumption (average demand). As described below, a 50/50 allocation and methodology has been accepted by the Commission in previous cases.

Q. HAS THE COMMISSION APPROVED THE USE OF THE PEAK AND AVERAGE COSS IN A RATE PROCEEDING?

A. Yes. The Commission has previously recognized that distribution mains are built on the basis of year-round demands as well as peak demands. In the National Fuel Gas Distribution Company ("NFGD") 1994 base rate proceeding, the Commission accepted the Peak & Average methodology, stating:

> [t]he Peak and 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. HAS THE COMMISSION PREVIOUSLY REJECTED INCLUDING THE COST OF DISTRIBUTION MAINS AS A CUSTOMER COST?

A. Yes. The Commission has previously rejected including the cost of distribution mains as a customer cost in the Philadelphia Gas Works 2007 base rate proceeding at Docket No. R-00061931. Specifically, the Commission stated that "PGW's proposal to allocate a percentage of the cost of the distribution mains as a customer cost not to be acceptable" and that "[r]eviewing the record, we find that the allocation of distribution mains investment costs should be done using both annual and peak demands." (Docket No. R-00061931 (Order entered September 28, 2007 p. 83).

Q. ARE YOU AWARE OF ANY CASES IN WHICH THE COMMISSION HAS ACCEPTED THE USE OF THE CUSTOMER-DEMAND METHODOLOGY FOR DEVELOPING A COSS?

A. No. I am not aware of any case in which the Commission has accepted the use of the customer-demand methodology for developing a COSS.

Q. IF THE COMMISSION ACCEPTS YOUR RECOMMENDATION TO REALLOCATE $2,365,105 OF MAINS, SHOULD THERE BE A CORRESPONDING REALLOCATION OF ACCRUED DEPRECIATION?

A. Yes. If the Commission accepts my reallocation recommendation, the accrued depreciation allocated to the Residential classes should be reduced by $9,302 and the accrued depreciation allocated to the Commercial classes should be increased by $9,302. I utilized the same allocation factor used to allocate the cost of mains to reallocate the corresponding accrued depreciation associated with mains (I&E Ex. No. 3, Sch. 5, page 2, Column D, lines 9-11).

Q. IF THE COMMISSION ACCEPTS YOUR RECOMMENDATION TO REALLOCATE $2,365,105 OF MAINS, SHOULD THERE BE A CORRESPONDING REALLOCATION OF ANNUAL DEPRECIATION EXPENSE?

A. Yes. If the Commission accepts my reallocation recommendation, annual depreciation expense allocated to the Residential classes should be reduced by $2,985 and the annual depreciation expense allocated to the Commercial classes should be increased by $2,985. I utilized the same allocation factor used to allocate the cost of mains to reallocate the corresponding annual depreciation expense associated with mains (I&E Ex. No. 3, Sch. 5, page 2, lines 12-14).

<u>PROPOSED INCREASE</u>

Q. WHAT INCREASE DID THE COMPANY REFLECT IN THE FILING?

A. The Company showed different increases in various parts of the filing and in response to discovery. Some of the differences are due rounding, but some of the differences result due to inconsistency in the data provided in the income statement and the original COSS, or the revised COSS (I&E Ex.No.3, Sch. 7). For example, on the income statement in the original filing, the Company reflected an increase of $262,200 (Pike Gas Ex. G-4 Summary p. 1). Later, on Pike Ex. No. Ex G-3, page 13, the Company reflected an increase of $260,034. In the COS provided in the original filing, the Company reflected an increase of $296,571 (Pike Gas Ex. G-6, GRP G-3 p. 1, line 19).

Q. BASED UPON YOUR ANALYSIS, WHAT IS THE APPROPRIATE PROPOSED REVENUE INCREASE?

A. I believe the Company's proposed increase should be $260,313 (I&E Ex. No. 3, Sch. 5, page 1, Column C, line 4, page 1 and Pike Gas Ex. G-6, GRP 4-G, p. 1, line 19). I based this $260,313 on the best information available including the proof of revenue shown on Pike Ex. G-8, page 3, where I used the proposed revenue billing determinates to determine the actual increase in revenue (I&E Ex. No. 3. Sch. 4, page 3, Column E, line 21). The proof of revenue is generally the best source of total revenue since it summarizes the projected and or annualized number of customers, surcharges, and rates the customers will pay.

Q. WHY IS IT NECESSARY TO DETERMINE PROPOSED RATE REVENUE AND THE CORRESPONDING INCREASE IN REVENUE?

A. The Commission should be aware of the actual increase the Company is expected to receive when making its determination of the appropriate revenue requirement for this Company. In addition, I will use this $260,313 increase by class to recommend an appropriate scale back later in my testimony.

CUSTOMER COST ANALYSIS—CUSTOMER CHARGES

Q. WHAT IS A CUSTOMER COST ANALYSIS AND HOW IS IT USED?

A. A customer cost analysis is a part of a COSS that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It includes customer costs only.

Q. WHY IS IT NECESSARY TO PERFORM A CUSTOMER COST ANALYSIS?

A. A fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage.

Q. WHAT IS A DIRECT CUSTOMER COST?

A. A direct customer cost is a cost that changes with the increase or decrease of a single customer. These costs include the return dollars, taxes and depreciation expense for plant used to serve individual customers including service lines, meters, and regulators. The analysis can include specific customer expenses including meter reading and billing costs.

Q. WHAT IS AN INDIRECT CUSTOMER COST?

A. An indirect customer cost is a customer related cost that does not change with the increase or decrease of a single customer. The Commission has allowed, in past instances, certain indirect customer costs to be included in a customer cost analysis and thus recovered in a customer charge. As an example, in previous cases, the Commission has allowed the indirect cost of Employee Pension and Benefits. However, these costs must be specifically identified in the COSS to be properly included in the customer cost analysis.

Q. DID PIKE PROVIDE A SCHEDULE SHOWING WHAT IT BELIEVES TO BE A CUSTOMER COST ANALYSIS TO SUPPORT THE PROPOSED CUSTOMER CHARGE INCREASES IN THIS PROCEEDING?

A. Yes. Pike claimed it presented a customer cost analysis in Pike Ex. G-6, Sch. GRP-5 G, Summary p. 1. The Company provided no testimony supporting the components of its customer cost analysis.

Q. WHAT IS THE RESULT OF THE COMPANY'S CUSTOMER COST ANALYSIS FOR RESIDENTIAL CUSTOMERS?

A. The result of its customer cost analysis for residential customers projects that the monthly customer cost is approximately $80 per month for residential customers and approximately $361 per month for Commercial customers (Pike Ex. G-6, Sch. GRP-5-G, Summary p. 1 line 31, columns a-e).

Q. DID THE COMPANY PROVIDE A PROPER CUSTOMER COST ANALYSIS?

A. No. First, it is not clear from the filing what the Company included or excluded from its customer cost analysis. As shown on Pike Ex. G-6, GRP-5-G, Summary p. 1, lines 6-22, the Company failed to separate the costs that it claims are customer costs and improperly included the cost of mains in its customer cost analysis. For example, the $150,712 claim for "Customer Accounting" expense does not break down what is included in this expense. If it includes any distribution main costs, these costs should not be included in the customer cost analysis since mains deliver gas and the cost of mains do not vary with the addition and/or loss of a customer, and, therefore, the cost of mains should not be considered a customer cost. Finally, the Company identified no specific indirect costs in its customer cost analysis.

Q. DID YOU COMPILE A PROPER CUSTOMER COST ANALYSIS?

A. Yes. I compiled a customer cost analysis that shows the direct customer costs the Company incurs that should be recovered in a customer charge. I included the return dollars taxes and depreciation expense for services, meters, house installations, and regulators plus the cost to maintain service, the cost of meter reading, and customer records and collection expense. The total customer costs using this methodology is $398,327 (I&E Ex. No. 3, Sch. 6, Column C, line 26).

Q. WHAT IS THE MONTHLY CUSTOMER COST FOR THE RESIDENTIAL AND COMMERCIAL CUSTOMERS BASED UPON YOUR CUSTOMER COST ANALYSIS?

A. Based upon the allocation of the above items, I determined the Residential customer cost to be $18.46 per month and the Commercial customer cost to be $38.00 per month (I&E Ex. No. 3, Sch. 6, line 28).

Q. ARE YOU RECOMMENDING ANY CHANGES TO THE COMPANY'S PROPOSED RESIDENTIAL CUSTOMER CHARGE?

A. No. I agree that the present Residential customer charge of $7.50 per month be increased to $10.61 per month as proposed by the Company.

Q. WHY DO YOU RECOMMEND THAT THE PRESENT RESIDENTIAL CUSTOMER CHARGE BE INCREASED?

A. As described above, the Company incurs $18.46 in monthly customer costs for the Residential class. Since the present Residential customer charge is $7.50 per month, it would be reasonable to increase the residential customer charge to the $10.61 per month charge proposed by the Company.

Q. ARE YOU RECOMMENDING ANY CHANGES TO THE COMPANY'S PROPOSED SMALL COMMERCIAL CUSTOMER CHARGE?

A. Not at this time. The Company has proposed a $13.31 per month Commercial customer charge. As explained above, my analysis shows the Commercial customer cost to be $38.00 per month. Therefore, I believe the Company's proposed Commercial customer charge is supported by the customer cost analysis.

<u>REVENUE ALLOCATION</u>

Q. WHAT INCREASE IN RATES DID THE COMPANY PROPOSE?

A. Based upon my analysis, the Company is claiming a total increase of approximately $260,313. The $260,313 increase and the percentage increases by class are shown on I&E Ex. No. 3, Sch. 4, page 3, Column E, line 21.

Q. WHAT IS THE COMPANY'S BASIS FOR ALLOCATING THESE INCREASES TO THE VARIOUS CLASSES?

A. The Company's relied on the results of its COSS (Pike Gas St. 1, pp. 19-21).

Q. DO YOU WISH TO MODIFY THE RATE STRUCTURE PROPOSED BY THE COMPANY?

A. No. Based upon the results of my revised COSS, in my opinion, the Company did a reasonable job of allocating the $260,313 increase to the various classes. This is evident by the relative rate or return for each class moving towards 1.00 (I&E Ex. No. 3, Sch. 5, page 1, Column C, line 19).

<u>SCALE BACK OF RATES</u>

Q. HOW SHOULD RATES BE SCALED BACK IF THE COMMISSION REDUCES THE $260,313 INCREASE REQUESTED BY THE COMPANY?

A. I recommend that the Residential and Commercial customer charges and usage rates under I&E Ex. No.3, Sch. 4, page 3 be reduced proportionally to the increase originally proposed if the Commission grants less than the $260,313 increase.

Q. WHY DO YOU RECOMMEND A PROPORTIONAL SCALE BACK OF THE CUSTOMER CHARGES AND USAGE RATES?

A. Since under proposed rates, the relative rates of return are moving towards 1.00, and given the small increase in the Commercial usage rates, a proportional scale back of all usage rates is reasonable.

Q. IS YOUR RECOMMENDATION TO SCALE BACK CUSTOMER CHARGES SUPPORTED BY A RECENT COMMISSION ORDER?

A. Yes. The Commission recently determined as a matter of fairness that customer charges should be included in the scale back of the UGI Electric revenue (UGI Electric R-2017-2640058, Order entered October 25, 2018, p. 182).

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Esyan A. Sakaya

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION
400 North Street
HARRISBURG, PA 17120

Education:

National Association of Regulatory Utility Commissioners, Clearwater, FL
Utility Rate School; Utility Rate Making Basics, October 2019

Society of Depreciation Professionals, Philadelphia, PA
Introduction to Depreciation; Depreciation Fundamentals, September 2019

Temple University, Philadelphia, PA
Bachelor of Science; Major in Engineering Technology, 2015

Community College of Philadelphia, Philadelphia, PA
Associate of Applied Science; Major in Construction Management Technology, 2011

Island School of Building Arts, Gabriola Island, BC-Canada
Certificate Graduate: Heavy Timber Construction Aug 2002-Nov 2002

Solar Energy International, Carbondale, CO
Certificate Graduate: Basic and Advanced Photovoltaic Design, April 2002-May 2002

Experience:

12/2018-Present

Pennsylvania Public Utility Commission-Harrisburg, PA

Fixed Utility Valuation Engineer- Assist in engineering related studies related to valuation, depreciation, cost of service, quality of service as they apply to regulated utilities. Contribute in evaluating, contrasting and conducting performance analyses in distinctive sections of valuation engineering and rate structure involving valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design. Provide expert testimony in rate related utility cases.

4/2018-12/2018

Pennsylvania Department of Transportation-Harrisburg, PA

Photogrammetry Technician I- Created three-dimensional mapping layouts of natural and man-made features from stereoscopic images on a computer workstation. Assisted in the field placement of ground based surveyed control-points prior to aerial photography acquisition. Provided field support in the use of laser scans for comprehensive digital surveying data. Operated global positioning satellite surveying equipment to obtain accurate geodetic coordinates of pre-established benchmarks.

8/2017-4/2018

Pennoni and Associates. Consulting Engineers-King of Prussia, PA

Construction Inspector-Provided quality assurance in the onsite material testing of concrete, soils, and asphalt. Read and interpreted construction drawings and specifications of materials and components. Completed daily reports regarding project progress to engineers, project managers/superintendents, contractors and clients.

TESTIMONY SUBMITTED:

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

NO.	Case
1.	UGI Gas Utilities - Gas Division, Docket Number: R-2018-3006814
2.	Newtown Artesian Water Company, Docket Number: R-2018-3006904
3.	Pittsburgh Wastewater, Docket Number: M-2018-2640803
4.	PAWC Purchase of Steelton, Docket Number: A-2019-3006814
5.	Philadelphia Gas Works, Docket Number: R-2019-3009016 - 3007636
6.	Community Utilities Water, Docket Number: R-2019-3008947
7.	Aqua Purchase of Cheltenham, Docket Number: A-2019-3008491
8.	UGI NORTH, Docket Number: R-2019-3009647
9.	UGI CENTRAL, Docket Number: R-2019-3009647
10.	UGI SOUTH, Docket Number: R-2019-3009647
11.	Twin Lakes Utilities, Docket Number: R-2019-3010958
12.	Penn Power Company, Docket: P-2019-3012628
13.	UGI Gas Utilities, Docket Number: R-2019-3015162
14.	National Fuel and Gas Distribution, Docket Number: R-2020-3015251

15. Columbia Gas of Pennsylvania, Docket: R-2020-3018993 -3018835
16. Duquesne Light Company, Docket Number: P-2020-301995
17. PA American Water Company, Docket R-2020-3019369 – 310937
18. Bethlehem Water Company, Docket R-2020-3020256
19. Audubon Water Company, Docket: R-2020-3020919
20. Twin Lakes Utilities, Docket: P-2020-3020914

I&E Exhibit No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Exhibit to Accompany

The

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Background
Plant in Service
Accrued Depreciation
Plant in Service - Common
Accrued Depreciation – Common
Total Rate Base
Annual Depreciation Expense
Other Operating Revenue - Forfeited Discounts
Cost of Service
Proposed Increase
Customer Cost Analysis-Customer Charges
Revenue Allocation
Scale Back of Rates

Pike County Light And Power Company
Gas Rate Base
At June 30, 2020 And 2021

	Description	Actual Per Books at 6/30/2020	Difference Between Historical and Future Years Reference	Amount	Company Future Year at 6/30/2021	I&E Adjustment	I&E Future Year at 6/30/2021
	(A)	(B)	(C)	(D)	(E)=(B)+(C)	(F)	(G)=(E)+(F)
	Utility Plant:						
1	Gas Plant in Service	$3,001,700	(1a)	$954,000	$3,955,700	-$222,100	$3,733,600
2	Common Plant in Service (Allocated)	$293,600	(1b)	$60,900	$354,500	$0	$354,500
3	Interco plant allocated from Corning Gas (Net)	$0	(1c)	$29,500	$29,500	$0	$29,500
4	CWIP not taking interest	$103,500	(1d)	-$103,500	$0	$0	$0
5	Total Utility Plant	$3,398,800		$940,900	$4,339,700	-$222,100	$4,117,600
	Utility Plant Reserves:						
6	Accumulated Provision For Depreciation						
7	of Gas Plant in Service	$167,000	(2a)	$24,200	$191,200	-$38,900	$152,300
8	of Common Plant in Service (Allocated)	$107,800	(2b)	$16,900	$124,700	-$22,500	$147,200
9	Total Utility Plant Reserves	$274,800		$41,100	$315,900	-$61,400	$299,500
10	Net Plant	$3,124,000		$899,800	$4,023,800	-$160,700	$3,818,100
	Additions to Net Plant						
11	Working Capital Requirements:						
12	Cash Working Capital	$56,900	(3)	$15,600	$72,500	$0	$72,500
13	Materials and Supplies	$147,200	(4)	$6,700	$153,900	$0	$153,900
14	Prepayments	$4,200	(5)	$0	$4,200	$0	$4,200
15	Deferred Debits (Net of Tax)	$0	(6)	$16,000	$16,000	$0	$16,000
16	Total Additions	$208,300		$38,300	$246,600	$0	$246,600
	Deductions to Net Plant:						
17	Deferred Credits (Net of Tax)	-$20,300	(7)	$0	-$20,300	$0	-$20,300
18	Customer Deposits	$21,700	(8)	$700	$22,400	$0	$22,400
19	Accumulated Deferred Income Taxes	$147,400	(9)	$49,000	$196,400	$0	$196,400
20	Total Deductions	$148,800		$49,700	$198,500	$0	$198,500
21	**Gas Rate Base**	**$3,183,500**		**$888,400**	**$4,071,900**	**-$160,700**	**$3,866,200**

Pike County Light And Power Company - Gas
Annual Depreciation Expense
At June 30, 2021

	Description	Gas Plant Future Year at 6/30/2021	Common Plant 100%	Common Plant 15%	Company Gas Plant	I&E Adjustment	Gas Plant Future Year at 6/30/2021	Common Plant 100%	Common Plant 15%	I&E Gas Plant
	(A)	(B)	(C)	(D =C X 0.15)	(E)=(B)+(D)	(F)	(G)	(H)	(I =H X 0.15)	(J)=(G)+(I)
	Utility Plant:									
1	Gas Plant in Service	$3,001,661	$1,957,164	$293,575	$3,295,236	$0	$3,001,661	$1,957,164	$293,575	$3,295,236
2	Non Depreciable Plant	$0	-$311,000	-$46,650	-$46,650	$0	$0	-$311,000	-$46,650	-$46,650
3	Total Utility Plant 2020	$3,001,661	$1,646,164	$246,925	$3,248,586	$0	$3,001,661	$1,646,164	$246,925	$3,248,586
4	June 2020-2021 CWIP Completed	$87,668	$105,084	$15,763	$103,431	$0	$87,668	$105,084	$15,763	$103,431
5	June 2020-2021 General Additions	$700,000	$400,000	$60,000	$760,000	$0	$700,000	$400,000	$60,000	$760,000
6	July 2021 - December 2021	$250,000	$300,000	$45,000	$295,000	-$295,000	$0	$0	$0	$0
7	June 2020-2021 Retirements	-$55,800	-$10,000	-$1,500	-$57,300	$0	-$55,800	-$10,000	-$1,500	-$57,300
8	July 2021 - Retirements	-$27,900	-$300,000	-$45,000	-$72,900	$72,900	$0	$0	$0	$0
9	Total Utility Plant	$3,955,629	$2,141,248	$321,187	$4,276,816	-$222,100	$3,733,529	$2,141,248	$321,187	$4,054,717
10	Composite Depreciation Rate	2.023%		14.01%			2.023%		14.01%	
11	Annual Depreciation Expense	$80,022		$45,008	$125,030	-$4,493	$75,529		$45,008	$120,537
12	Rounded	**$80,022**		**$45,008**	**$125,030**	**-$4,493**	**$75,529**		**$45,008**	**$120,537**

I&E Exhibit No. 3
Schedule 2

Pike County Light & Power Company
Gas Class Cost of Service Study
12 Months Ended June 30, 2021
SUMMARY AT PRESENT RATES

LINE NO.	DESCRIPTION	ALLOCATION BASIS		TOTAL GAS COMPANY	Total Residential SC1	Total Commercial SC2
	(A)	(B)		(C)	(D)	(E)
1	**OPERATING REVENUE**					
2	Sales of Gas Revenue - Base	CALCULATED		749,900	617,100	132,800
3	Other Operating Revenue	CALCULATED		2,800	2,225	575
4	TOTAL OPERATING REVENUE			752,700	619,325	133,375
	OPERATING EXPENSES					
5	Operation and Maintenance Expense	CALCULATED		500,132	442,545	57,587
6	Depreciation and Amortization Expense	CALCULATED		125,012	107,955	17,057
7	Taxes Other Than Income Taxes	CALCULATED		19,253	17,004	2,249
8	State and Federal Income Taxes		31.8782%	3,358	(9,305)	12,663
9	TOTAL OPERATING EXPENSES			647,755	558,199	89,556
	OPERATING INCOME (RETURN)			104,945	61,126	43,819
10						
	DEVELOPMENT OF RATE BASE					
11	Gas Utility Plant in Service	CALCULATED		4,339,635	3,765,183	574,452
	Less: Utility Accumulated Depreciation	CALCULATED		315,913	274,087	41,826
	Plus: Rate Base Additions	CALCULATED		236,817	206,750	30,067
12	Less: Rate Base Deductions	CALCULATED		198,515	173,864	24,651
13	**TOTAL RATE BASE**	CALCULATED		4,062,024	3,523,982	538,042
14						
15	**RATE OF RETURN EXCL PURCHASED GAS (PRESENT)**			2.58%	1.73%	8.14%
16	**INDEX RATE OF RETURN EXCL PURCHASED GAS (PRESENT)**			1.00	0.67	3.15

I&E Exhibit No. 3
Schedule 3

Pike County Light & Power Company
Gas Class Cost of Service Study
12 Months Ended June 30, 2021
SUMMARY AT PROPOSED RATES

LINE NO.	DESCRIPTION (A)	ALLOCATION BASIS (B)		TOTAL GAS COMPANY (C)	Total Residential SC1 (D)	Total Commercial SC2 (E)
1	**OPERATING REVENUE**					
2	Sales of Gas Revenue - Base	CALCULATED		$749,900	$617,100	$132,800
3	Other Operating Revenue			$2,800	$2,225	$575
4	**INCREASE**			**$260,313**	**$253,983**	**$6,330**
5	**Other Revenue Increase**	**CALCULATED**		**$0**	**$0**	**$0**
6	TOTAL OPERATING REVENUE			$1,013,013	$873,308	$139,705
	OPERATING EXPENSES					
7	Operation and Maintenance Expense	CALCULATED		$504,132	$446,668	$57,464
8	Depreciation and Amortization Expense	CALCULATED		$125,012	$107,955	$17,057
9	Taxes Other Than Income Taxes	CALCULATED		$19,253	$17,004	$2,249
10	State and Federal Income Taxes		21.323%	$77,747	$64,327	$13,420
11	TOTAL OPERATING EXPENSES			$726,144	$635,954	$90,190
12	**OPERATING INCOME (RETURN)**			$286,869	$237,354	$49,515
	DEVELOPMENT OF RATE BASE					
13	Gas Utility Plant in Service	CALCULATED		$4,339,635	$3,765,183	$574,452
14	Less: Utility Accumulated Depreciation	CALCULATED		$315,913	$274,087	$41,826
15	Plus: Rate Base Additions	CALCULATED		$236,817	$206,750	$30,067
16	Less: Rate Base Deductions	CALCULATED		$198,515	$173,864	$24,651
17	**TOTAL RATE BASE**	CALCULATED		$4,062,024	$3,523,982	$538,042
18	**RATE OF RETURN EXCL PURCHASED GAS (PROPOSED)**			7.06%	6.74%	9.20%
19	**INDEX RATE OF RETURN EXCL PURCHASED GAS (PROPOSED)**			1.00	0.95	1.30

I&E Exhibit No. 3
Schedule 4
Page 1 of 3

Pike County Light & Power Company
Gas Class Cost of Service Study
12 Months Ended June 30, 2021
SUMMARY OF COMPANY ALLOCATION OF MAINS

LINE NO.	DESCRIPTION (A)	ALLOCATION BASIS (B)	TOTAL GAS COMPANY (C)	Total Residential SC1 (D)	Total Commercial SC2 (E)
	DISTRIBUTION PLANT				
1	DEMAND FACTOR		100.00%	79.218%	20.782%
2	CUSTOMER FACTOR		100.00%	93.328%	6.673%
	376-Mains				
3	Demand	DDIST	1,089,572	863,135	226,437
4	Customers	CUSTDIST	1,275,532	1,190,421	85,111
5	Total Account 376		2,365,104	2,053,556	311,548
6	COMPANY MAINS Allocation Factor		100.000%	86.827%	13.173%
	DISTRIBUTION PLANT ACCUMULATED DEPRECIATION	PLT_376			
7	Company Claim		99,401	86,308	13,093
	ANNUAL DEPRECIATION EXPENSE				
8	Company Claim	PLT_376	31,907	27,704	4,203

I&E Exhibit No. 3
Schedule 4
Page 2 of 3

Exhibit G-8 - Impact of the Proposed Rate Change on Total Bill Revenues
for the Twelve Months Ended June 30, 2021

PIKE COUNTY LIGHT AND POWER COMPANY - GAS

Present and Proposed Rates

	Present SC1				Increase	Percent Increase	Proposed SC1			
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
		Units	Rates	Revenue	Increase	% Inc.		Units	Rates	Revenue
1	**Customer Charge**	14,016	$7.50	$105,120	$43,590	41.5%	Customer Charge	14,016	$10.61	$148,710
2										
3	Delivery Rate	1,098,087	$0.46630	$512,038	$210,393	41.1%	Delivery Rate	1,098,087	$0.65790	$722,431
4	Cost of Gas		$0.61210				Cost of Gas		$0.61210	
5	**All CCF @**		$1.07840				**All CCF @**		$1.27000	
6	Plus: State Tax Adjustment		-0.1000%				Plus: State Tax Adjustment		-0.1000%	
7	Plus: GCR		$0.00000				Plus: GCR		$0.00000	
8	TOTAL Residential			$617,158	$253,983	41.15%	Minimum Charge:		$10.61	$871,141
	Present SC2						Proposed SC2			
		Units	Rates	Revenue				Units	Rates	Revenue
9	**Customer Charge**	960	$9.40	$9,024	$3,754	41.6%	Customer Charge	960	$13.31	$12,778
10	**First 300 CCF**						**First 300 CCF**			
11	Delivery Rate	105,031	$0.46030	$48,346	$998	2.1%	Delivery Rate	105,031	$0.46980	$49,344
12	Cost of Gas		$0.61210 / CCF				Cost of Gas		$0.61210 / CCF	
13	First 300 CCF @		$1.07240 / CCF				First 300 CCF @		$1.08190 / CCF	
14	**Over 300 CCF**						**Over 300 CCF**			
15	Delivery Rate	250,573	$0.30510	$76,450	$1,579	2.1%	Delivery Rate	250,573	$0.31140	$78,028
16	Cost of Gas		$0.61210 / CCF				Cost of Gas		$0.61210	
17	Over 300 CCF @		$0.91720 / CCF				Over 300 CCF @		$0.92350 / CCF	
18	Plus: State Tax Adjustment		-0.1000%				Plus: STAS		-0.1000%	
19	Plus: GCR		$0.00000 / CCF				Plus: GCR		$0.00000 / CCF	
20	TOTAL			$133,820	$6,330	4.73%	Minimum Charge:			$140,150
21	**TOTALS**			**$750,978**	**$260,313**	**34.7%**				**$1,011,291**

I&E Exhibit No. 3
Schedule 4
Page 3 of 3

Pike County Light & Power Company
Gas Class Cost of Service Study
12 Months Ended June 30, 2021
SUMMARY AT PROPOSED RATES

LINE NO.	DESCRIPTION (A)	ALLOCATION BASIS (B)	TOTAL GAS COMPANY (C)	Total Residential SC1 (D)	Total Commercial SC2 (E)
1	**OPERATING REVENUE**				
2	Sales of Gas Revenue - Base	CALCULATED	$749,900	$617,100	$132,800
3	Other Operating Revenue		$2,800	$2,225	$575
4	**INCREASE**	34.7%	**$260,313**	**$253,983**	**$6,330**
5	**Other Revenue Increase**	34.7%	**$961**	**$762**	**$199**
6	TOTAL OPERATING REVENUE		$1,013,974	$874,070	$139,904
	OPERATING EXPENSES				
7	Operation and Maintenance Expense	CALCULATED	$504,132	$446,668	$57,464
8	Depreciation and Amortization Expense	CALCULATED	$125,012	$104,970	$20,042
9	Taxes Other Than Income Taxes	CALCULATED	$19,253	$17,004	$2,249
10	State and Federal Income Taxes	21.3230%	$77,952	$65,127	$12,825
11	TOTAL OPERATING EXPENSES		$726,349	$633,768	$92,581
12	**OPERATING INCOME (RETURN)**		$287,625	$240,302	$47,323
	DEVELOPMENT OF RATE BASE				
13	Gas Utility Plant in Service	CALCULATED	$4,339,635	$3,543,885	$795,750
14	Less: Utility Accumulated Depreciation	CALCULATED	$315,913	$264,785	$51,128
15	Plus: Rate Base Additions	CALCULATED	$236,817	$206,750	$30,067
16	Less: Rate Base Deductions	CALCULATED	$198,515	$173,864	$24,651
17	**TOTAL RATE BASE**	CALCULATED	$4,062,024	$3,311,986	$750,038
18	**RATE OF RETURN EXCL PURCHASED GAS (PROPOSED)**		7.08%	7.26%	6.31%
19	**RELATIVE RATE OF RETURN(PROPOSED)**		1.00	1.02	0.89

I&E Exhibit No. 3
Schedule 5
Page 1 of 2

Pike County Light & Power Company
Gas - Reallocation of Main Costs and Annual Depreciation Expense
12 Months Ended June 30, 2021

LINE NO.	DESCRIPTION	ALLOCATION BASIS	TOTAL GAS COMPANY	Total Residential SC1	Total Commercial SC2
	(A)	(B)	(C)	(D)	(E)
	DISTRIBUTION PLANT				
1	DEMAND FACTOR		100.00000%	79.218%	20.782%
2	VOLUME FACTOR		100.00008%	75.723%	24.277%
	376-Mains				
3	Demand	DDIST	$1,182,552	$936,791	$245,761
4	Volume	VOLUME	$1,182,552	$895,468	$287,085
5	Total Account 376		$2,365,104	$1,832,258	$532,846
6	Company Claim		$2,365,104	$2,053,556	$311,548
7	**I&E ADJUSTMENT TO DISTRIBUTION PLANT**		**$0**	**-$221,298**	**$221,298**
8	I&E MAINS Allocation Factor (Line 5 /Total Line 5)		100.000%	77.471%	22.529%
	DISTRIBUTION PLANT ACCUMULATED DEPRECIATION				
9	376-Mains	I&E	$99,401	$77,006	$22,395
		PLT_376			
10	Company Claim		$99,401	$86,308	$13,093
11	**I&E ADJUSTMENT TO ACCRUED DEPRECIATION**		**$0**	**-$9,302**	**$9,302**
	ANNUAL DEPRECIATION EXPENSE				
12	376-Mains	I&E	$31,907	$24,719	$7,188
13	Company Claim	PLT_376	$31,907	$27,704	$4,203
14	**I&E ADJUSTMENT TO DEPRECIATION EXPENSE**		**$0**	**-$2,985**	**$2,985**

I&E Exhibit No. 3
Schedule 5
Page 2 of 2

Pike County Light And Power Company
I&E Customer Cost Analysis
At June 30, 2021

	Description	Return & Tax Rates	Gas System	Residential Customers	Commercial Customers
	(A)	(B)	(C)	(D)	(E)
	Utility Plant:				
1	380-Services		$993,397	$867,539	$125,858
2	381-Meters		$92,144	$65,428	$26,716
3	382-Meter Installations		$279,703	$249,179	$30,524
4	384-House Regulator Installations		$12,097	$11,184	$913
5	385-Industrial Regulators		$42,447	$39,242	$3,205
6	Total Customer Related Plant		$1,419,788	$1,232,572	$187,216
	Utility Plant Reserves:				
7	380-Services		$45,813	$40,010	$5,803
8	381-Meters		$14,304	$10,157	$4,147
9	382-Meter Installations		$5,952	$5,302	$650
10	384-House Regulator Installations		$895	$827	$68
11	385-Industrial Regulators		$4,033	$3,728	$305
12	Total Accrued Depreciation		$70,997	$60,024	$10,973
13	**Total Rate Base**		**$1,348,791**	**$1,172,548**	**$176,243**
14	Return on Rate Base	7.09%	$95,629	$83,134	$12,496
15	Income Taxes	21.3230%	$20,391	$17,727	$2,664
	Annual Depreciation Expense				
16	380-Services		$12,874	$11,243	$1,631
17	381-Meters		$5,433	$3,858	$1,575
18	382-Meter Installations		$6,284	$5,598	$686
19	384-House Regulator Installations		$279	$224	$55
20	385-Industrial Regulators		$1,261	$1,166	$95
21	Total Annual Depreciation Exp.		$26,131	$22,089	$4,042
	DISTRIBUTION EXPENSES				
22	892-Maintenance of Services		$103,088	$90,030	$13,058
	CUSTOMER ACCOUNTS EXPENSES				
23	902-Meter Reading		$44,200	$40,364	$3,836
24	903-Customer Records and Coll. Exp.		$5,800	$5,415	$385
25	Total Expenses		$153,088	$135,809	$17,279
26	Total Cost of Services		$398,327	$258,758	$36,481
27	Number of Bills			14,016	960
28	**Monthly Customer Cost**			**$18.46**	**$38.00**

I&E Statement No. 4
Witness: Lara M. Lapinski, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT AND POWER COMPANY (GAS)

Docket No. R-2020-3022134

Direct Testimony

of

Lara M. Lapinski, P.E.

Bureau of Investigation & Enforcement

Concerning:

Distribution Integrity Management Plan (DIMP)
Leaks/Risk Reduction
Pipeline Replacement Program

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

A. My name is Lara M. Lapinski. 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. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT EXPERIENCE?

A. I attended the Pennsylvania State University and earned a Bachelor of Science Degree in Structural Design and Construction Engineering Technology in 2002. I earned my Professional Engineer license in 2008. I joined the Pennsylvania Public Utility Commission's Pipeline Safety Division in June of 2017.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to address Pike County Light & Power - Gas Division's (Pike or Company) Distribution Integrity Management Plan (DIMP) risk reduction, leak history, and pipeline replacement program as it relates to the instant base rate case filing.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. The I&E analysis in a rate proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 4 accompanies my direct testimony.

Q. WHAT FEDERAL REGULATIONS ARE CONTROLLING, REGARDING PIKE'S PIPELINE REPLACEMENT?

A. Pike is mandated to implement a DIMP under Chapter 49 CFR 192 Subpart P – Gas Distribution Pipeline Integrity Management (IM) of the Code of Federal Regulations.

Q. WHY MUST A NATURAL GAS DISTRIBUTION COMPANY COMPLY WITH THE DIMP REGULATIONS?

A. The Pipeline and Hazardous Material Safety Administration (PHMSA) created DIMP regulations to reduce the number of U.S. Department of Transportation (U.S. DOT) Reportable Incidents.[1] DIMP is a performance based regulatory program required of gas distribution operators driven by risk management.

Q. WHAT ARE THE REQUIREMENTS OF A DIMP?

A. DIMP requires gas distribution pipeline operators to:

1. Demonstrate knowledge of the gas distribution system;

[1] A PHMSA Reportable Incident is defined by the following events: (1) An event that involves a release of gas from a pipeline, or of liquefied natural gas, liquefied petroleum gas, refrigerant gas, or gas from an LNG facility, and that results in one or more the following consequences:(i) A death, or personal injury necessitating in-patient hospitalization;(ii) Estimated property damage of $50,000 or more, including loss to the operator and others, or both, but excluding cost of gas lost;(iii) Unintentional estimated gas loss of three million cubic feet or more;(2) An event that results in an emergency shutdown of an LNG facility. Activation of an emergency shutdown system for reasons other than an actual emergency does not constitute an incident; (3) An event that is significant in the judgment of the operator, even though it did not meet the criteria of paragraphs (1) or (2) of this definition.

2. Identify threats;

3. Evaluate and rank risks;

4. Identify and implement measures to address risk;

5. Measure performance, monitor results and evaluate effectiveness;

6. Evaluate and improve the DIMP;

7. Report results.

DIMP regulations require, among other things, the identification of threats to pipeline facilities and require operators to create plans to mitigate and reduce the risks caused by those threats.

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF PIKE WITNESS MR. GRANDINALI AND MR. GRANDINALI'S REPSONSES TO DATA REQUESTS, AS THEY RELATE TO PIKE'S PLAN TO REPLACE CAST IRON AND BARE STEEL PIPELINES?

A. Yes. I have reviewed Mr. Grandinali's direct testimony (Pike Gas Statement No. 3). Mr. Grandinali provides an overview of Pike's gas system serving the Matamoras and Westfall areas and discusses Pike's gas main replacement program and planned pressure upgrades as presented in the Company's Distribution Gas Long Term Infrastructure Improvement Plan (LTIIP) submitted to the Commission in 2019 at Docket No. P-2019-3007304. The Pike system consists of 19.6 miles of medium and low pressure distribution main. The medium pressure system consists of approximately 5.84 miles of plastic main, 0.5 miles of cathodically protected steel gas main, and about 0.2 miles of bare steel main. The low pressure system consists of 6.9

miles of cast iron main, 3.4 miles of bare steel main, 2 miles of cathodically protected steel main and approximately 1 mile of plastic main.

According to Mr. Grandinali, “Pike performed a Cast Iron study in 2018 which included all main types and resulted in the gas main replacement program. The criteria applied was type, size, age, leaks and field conditions such as flooding areas, which prioritized project areas higher up the list.”[2]

Q. BASED ON THE INFORMATION PROVIDED IN REPSONSE TO YOUR INTERROGATORIES, CAN YOU DETERMINE HOW PIKE DEVELOPED THE 2018 CAST IRON STUDY?

A. No. Based on the following statements, it is not apparent how the 2018 Cast Iron Study was conducted. According to Mr. Grandinali, “Pike performed a Cast Iron study in 2018, which included all main types, and resulted in the gas main replacement program. The criteria applied was type, size, age, leaks and field conditions such as flooding areas.”[3] Mr. Grandinali also states that Pike “was purchased by Corning Natural Gas Holding Company (CNGHC) from Orange and Rockland Utilities, Inc (ORU) in 2016. ORU continued to operate and maintain the Pike system through September of 2017. As a result a breakdown of mains by material prior to 2018 is not available.”[4] and Mr. Grandinali states “detailed information regarding the leaks prior to 2018 is not available. The Company is currently compiling the system wide leak information by Type 1, 2 and 2A, and 3 for

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[2] I&E Exhibit No. 4, Schedule 1.
[3] I&E Exhibit No. 4, Schedule 1.
[4] I&E Exhibit No. 4, Schedule 3.

calendar years 2019 and 2020 and will supplement this data request as soon as it available."[5] A table was provided by the Company showing the latest calendar 2019 PHMSA report with the breakdown of mains by material.[6] Leak information was not supplied by the Company. Reviewing the 2018 Cast Iron study would be the only way to know how the study was developed.

Q. WHAT DO YOU RECOMMEND REGARDING THE 2018 CAST IRON STUDY?

A. I recommend the Company provide a copy of the 2018 Cast Iron Study to the Commission as part of this proceeding.

Q. HAVE YOU REVIEWED MR. GRANDINALI'S REPSONSES TO YOUR INTERROGATORIES RELATED TO DIMP AND PIKE'S PIPELINE REPLACEMENT PROGRAM?

A. Yes.

Q. DID YOU IDENTIFY ANY ISSUES WITH PIKE'S DIMP?

A. Yes. DIMP requires gas distribution pipeline operators to, among other things, evaluate and rank risks. Mr. Grandinali states "the risk scoring was not performed."[7] If Pike has not performed a risk scoring they have not met the requirements of DIMP.

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5 I&E Exhibit No.4, Schedule 4.
6 I&E Exhibit No. 4, Schedule 3
7 I&E Exhibit No. 4, Schedule 2.

Q. WERE YOU ABLE TO DETERMINE IF PIKE'S OVERALL RISK SCORE HAS BEEN DECREASING BASED ON DISTRIBUTION SYSTEM RISK MITIGATION EFFORTS?

A. No. Because Pike does not currently have risk scores or a risk ranking, there is no way to compare an increase or decrease in risk following pipeline replacements or other mitigation strategies and efforts.

Q. HOW HAS PIKE BEEN EVALUATING LEAK TRENDS FROM 2016 TO 2020?

A. It is unclear whether Pike has been evaluating leak trends. As explained above, ORU continued to operate and maintain the PCLP system through September 2017, and, therefore, detailed information regarding the leaks prior to 2018 are not available. The Company is currently compiling the system-wide leak information for 2019 and 2020 and has indicated it will supply this information when it becomes available.[8]

Q. HAVE YOU REVIEWED MR. GRANDINALI'S STATEMENT ABOUT THE LTIIP IN HIS DIRECT TESTIMONY?

A**.** Yes. According to Mr. Grandinali, "In 2019, Pike submitted its LTIIP to maintain reliability and improve the conditions as those assets reach their expected useful life."[9] Mr. Grandinali continued "Pike selected and prioritized three programs over

[8] I&E Exhibit 4, Schedule 4.
[9] Pike Gas Statement No. 3, Page 4.

the 11-year time frame to include a main replacement program, regulator station replacement/overhaul, and the metering upgrade program."[10]

The LTIIP covers an 11-year time frame, from 2019 through 2030. Over the course of this timeframe, Pike plans to replace approximately 29,000 feet of cast iron mains, 4,600 feet of wrought iron main, approximately 32,000 feet of bare steel, and the services associated with these lengths of gas main. The program will replace all the cast iron and bare steel on the Pike system.[11]

Mr. Grandinali states "The three programs address Pike's areas of aging infrastructure, which is approaching useful life, improving system safety and mitigating over time the risk of leaks and higher maintenance."[12] An LTIIP is not meant to be a stand-alone asset prioritization and replacement plan. A company first needs, through DIMP, to identify threats, evaluate and rank risk, identify and implement measures to address risk, measure performance, monitor results, and evaluate effectiveness of the mitigation efforts. As I explained above, a requirement for DIMP is a risk ranking, which Pike has not conducted. Applying DIMP appropriately would allow Pike to rank their riskiest assets and prioritize asset replacement.

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10 Pike Gas Statement No. 3, Page 4.

11 Pike County Light and Power's Gas Long Term Infrastructure Improvement Plan, Docket No. P-2019-3007304, Section D. Estimate of Quantity of Eligible Property, Paragraph 18, Page 10.

12 Pike Gas Statement No.3, page 4.

Q. WHAT STATE REGULATIONS APPLY TO PIKE'S PIPELINE REPLACEMENT?

A. Pike can seek a Distribution System Improvement Charge (DSIC) in conjunction with an approved LTIIP pursuant to 52 Pa Code §121.1 and §121.3.

Q. WHAT ARE THE POTENTIAL BENEFITS OF PIKE ESTABLISHING A DSIC?

A. A DSIC[13] may provide ratepayers with improved service quality, greater rate stability, fewer main breaks, fewer service interruptions; increased safety, and lower levels of unaccounted for energy. Additionally, it may reduce the frequency and the associated costs of base rate cases while maintaining a high level of customer protections.

Q. WHAT IS YOUR FINAL CONCLUSION REGARDING PIKE'S ASSESSMENT IN RANKING OF RISKS IN ITS DIMP PLAN?

A. Pike is not properly utilizing DIMP to score and rank the riskiest assets in its system which would allow it to develop a prioritized asset replacement program. DIMP regulations require the company to identify threats, evaluate and rank risk, identify and implement measures to address risk, measure performance, monitor results, and evaluate the effectiveness of mitigation efforts. Applying DIMP would allow Pike to

[13] On February 14, 2012, former Governor Corbett signed into law Act 11 of 2012("Act 11"). Act 11 amended the Public Utility Code in several respects, including the addition of Subchapter B (66 Pa. C.S. §§1350 - 1360), which authorizes the Commission to approve a distribution system improvement charge ("DSIC") upon petition by an electric distribution company, a natural gas distribution company, a water utility or a wastewater utility. In addition, Subchapter B sets forth various requirements that must be satisfied by a qualifying utility in order to establish a DSIC and to recover the reasonable and prudent costs to repair, improve or replace eligible property.

rank their riskiest assets and prioritize asset replacement. The Company must use current and past data to create a DIMP plan that accurately measures system risk.

The Company should be considering other risk mitigation efforts such as increased frequency of leak surveys on the vintage mains, public awareness efforts, and public education on leak reporting and safety. The Company should establish an emergency action plan for flooding situations that could affect the gas supply or system integrity.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE ESTABLISHMENT OF A DSIC?

A. I recommend that the Company consider establishing a DSIC mechanism to recover costs of system improvements. The use of this cost recovery mechanism could accelerate the implementation of risk reduction measures.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes

I&E Exhibit No. 4
Witness: Lara M. Lapinski, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

Pike County Light & Power – GAS DIVISION

Docket No. R-2020-3022134

Exhibit to Accompany

The

Direct Testimony

of

Lara M. Lapinski, P.E.

Bureau of Investigation & Enforcement

Concerning:

Distribution Integrity Management Plan (DIMP)
Leaks/Risk Reduction
Pipeline Replacement Program

Question No. I&E-PS-3
Respondent: S. Grandinali
Page 1 of 1

PIKE COUNTY LIGHT AND POWER COMPANY

R-2020-3222134

Data Requests

Bureau of Investigation & Enforcement – Set PS

Question No I&E-PS-3:

What method does Pike County use to determine which pipeline segments are replaced?

Response:

Pike performed a Cast Iron study in 2018, which included all main types, and resulted in the gas main replacement program. The criteria applied was type, size, age, leaks and field conditions such as flooding areas, which prioritized project areas higher up the list.

PIKE COUNTY LIGHT AND POWER COMPANY

R-2020-3222134

Data Requests

Bureau of Investigation & Enforcement – Set PS

Question No I&E-PS-6:

Provide total risk score, calculated in DIMP for each year 2016 through 2020.

Response:

The risk scoring was not performed. The current scheduling of projects is based on the criteria applied in the 2018 Cast Iron study.

PIKE COUNTY LIGHT AND POWER COMPANY

R-2020-3222134

Data Requests

Bureau of Investigation & Enforcement – Set PS

Question No I&E-PS-10:

Provide a breakdown of mains by material for years 2016-2020 (i.e. cast iron, bare steel cathodically protected.unprotected, wrought iron, plastic, etc).

Response:

PCLP was purchased by Corning Natural Gas Holding Company from Orange and Rockland Utilities, Inc. (ORU) in September 2016. ORU continued to operate and maintain the PCLP system through September 2017. As result a breakdown of mains by material prior to 2018 is not available. The table below contains the latest calendar 2019 PHMSA report with the breakdown ow mains by material.

PIKE COUNTY LIGHT AND POWER COMPANY

R-2020-3222134

Data Requests

Bureau of Investigation & Enforcement – Set PS

MATERIAL	UNKNOWN	2" OR LESS	OVER 2" THRU 4"	OVER 4" THRU 8"	OVER 8" THRU 12"	OVER 12"	SYSTEM TOTALS
STEEL	0.1	0.5	3.6	1.67	0	0	5.87
DUCTILE IRON	0	0	0	0	0	0	0
COPPER	0	0	0	0	0	0	0
CAST/WROUGHT IRON	0	0 9	3.8	2.2	0	0	6.9
PLASTIC PVC	0	0	0	0	0	0	0
PLASTIC PE	0	3.74	2.5	0.6	0	0	0
PLASTIC ABS	0	0	0	0	0	0	6.84
PLASTIC OTHER	0	0	0	0	0	0	0
OTHER	0	0	0	0	0	0	0
RECONDITIONED CAST IRON	0	0	0	0	0	0	0
TOTAL	0.1	5.14	9.9	4.47	0	0	0
DESCRIBE OTHER MATERIAL:							

Question No. I&E-PS-11
Respondent: S. Grandinali
Page 1 of 1

PIKE COUNTY LIGHT AND POWER COMPANY

R-2020-3222134

Data Requests

Bureau of Investigation & Enforcement – Set PS

Question No I&E-PS-11:

Provide system wide leaks by Type 1, 2 and 2A, and 3, separately, by material of main types for year 2016-2020.

Response:

PCLP was purchased by Corning Natural Gas Holding Company from Orange and Rockland Utilities, Inc. (ORU) in September 2016. ORU continued to operate and maintain the PCLP system through September 2017. As result detailed information regarding the leaks prior to 2018 is not available.

The Company is currently compiling the system wide leak information by Type 1, 2 and 2A, and 3 for calendar years 2019 and 2020 and will supplement this data request as soon as it is available.

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

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT AND POWER COMPANY (GAS)

Docket No. R-2020-3022134

Surrebuttal Testimony

of

John Zalesky

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES
RATE BASE
INCOME TAXES

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<u>INTRODUCTION</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John Zalesky. My business address is Pennsylvania Public Utility Commission (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 in the Bureau of Investigation and Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME JOHN ZALESKY WHO SUBMITTED 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 the Accounting Panel (Charles Lenns and Richard A. Kane), Pike County Light & Power Company (Gas) (referred to herein as Pike Gas or Company) Statement No. 2-R.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN ACCOMPANYING EXHIBIT?

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

Q. SUMMARIZE THE COMPANY'S OVERALL CLAIMED REVENUE REQUIREMENT.

A. The Company's base rate case filing was submitted on October 26, 2020 requesting an increase of $262,200 to claimed present rate revenues of $1,642,500 resulting in a total overall revenue requirement of $1,904,700. In rebuttal testimony, the Company has updated its requested increase to $274,000 and its present rate revenues to $1,632,000 resulting in an updated total overall revenue requirement of $1,906,000.[2]

Q. IS IT APPROPRIATE FOR THE COMPANY TO INCREASE THE REVENUE REQUEST IN REBUTTAL TESTIMONY?

A. No. I have been advised by counsel that the maximum revenue increase cannot exceed the original claim that was noticed to customers. As this is a legal issue, it will be addressed by counsel in brief.

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1 I&E Statement No. 1 and I&E Exhibit No. 1.

2 Pike Gas Exhibit G-4 Feb 2021 Update, Summary, p. 1.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS AS REFLECTED IN THIS SURREBUTTAL TESTIMONY.

A. The following table summarizes my recommended adjustments:

	Company Claim	**I&E Recommended Allowance**	**I&E Adjustment**
Revenues:			
Other Operating Revenues - TCJA	($7,700)	$2,800	$10,500
Total Revenue Adjustments			**$10,500**
O&M Expenses and Amortizations:			
Rate Case Expense	$5,600	$4,500	($1,100)
Amortization of Excess ADIT	$0	$8,303	$8,303
Total O&M Expense and Adjustments			**$7,203**
Rate Base:			
Deferred Credits – TCJA	($12,900)	($20,266)	($7,366)
Total Rate Base Adjustments			**($7,366)**

Q. HAS THE COMPANY ACCEPTED ANY OF YOUR RECOMMENDED ADJUSTMENTS FROM DIRECT TESTIMONY?

A. Yes. The Company has accepted my recommended adjustment for deferred debits (for deferred rate case expense).[3] The Company has also agreed with my recommendations for items related to the Tax Cuts and Jobs Act (TCJA) with some modifications as explained below.

[3] Pike Gas Statement No. 2-R, pp. 8-9.

SUMMARY OF I&E OVERALL 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 $1,903,139. This recommended revenue requirement represents an increase of $260,639 to I&E's adjusted present rate revenues of $1,642,500. This total recommended increase incorporates my adjustments made in this testimony and those made in the testimony of I&E witnesses Anthony Spadaccio and Esyan Sakaya.[4]

A calculation of the I&E recommended revenue requirement is shown below:

Pike County Light & Power Company - Gas		TABLE I			
R-2020-3022134		INCOME	SUMMARY		
	6/30/21	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------	----------	----------	----------]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	1,632,000	10,500	1,642,500	260,639	1,903,139
Deductions:					
O&M Expenses	1,389,900	7,203	1,397,103	3,988	1,401,091
Depreciation	126,100	-4,553	121,547		121,547
Taxes, Other	19,200	0	19,200	0	19,200
Income Taxes:					
Current State	-11,506	1,145	-10,361	25,639	15,278
Current Federal	-24,245	2,166	-22,079	48,513	26,434
Deferred Taxes	36,545	0	36,545		36,545
ITC	0	0	0		0
Total Deductions	1,535,994	5,961	1,541,955	78,140	1,620,095
Income Available	96,006	4,539	100,545	182,499	283,044
Rate Base	4,061,000	-151,559	3,909,441	0	3,909,441
Rate of Return	2.36%		2.57%		7.24%

[4] I&E Statement No. 2-SR and I&E Statement No. 3-SR.

RATE CASE EXPENSE

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

A. In direct testimony, I recommended that the Company's rate case expense be normalized over a period of 60 months resulting in an annual expense of $4,500 (($22,500 ÷ 60 months) x 12 months), or a reduction of $1,100 ($5,600 - $4,500) to the Company's claim.[5] I also disagreed with the Company's attempt to amortize rather than normalize its rate case expense at any amount, and the Company's claimed four-year period which is not supported by the Company's historic filing frequency.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION FOR RATE CASE EXPENSE?

A. Yes. The Accounting Panel argued that my calculation of historic filing frequency is not an indication of future filing frequency. The Accounting Panel highlighted the fact that Pike Gas is under new ownership and now makes up a more significant portion of its new parent's portfolio. The Accounting Panel also discussed the two-year stay-out provisions and how it is adjusting to new management as reasons for the long gap between this current rate case and the last one. Additionally, the Accounting Panel claimed that normalization would require

[5] I&E Statement No. 1, pp. 4-9.

a write-off of all rate case costs in the current period which would have a large impact on earnings. The Company thereby continued to request a four-year amortization of rate case expense.[6]

Q. WHAT IS YOUR RESPONSE TO THE COMPANY'S CONTINUED CLAIM OF A FOUR-YEAR ACCOUNTING PERIOD?

A. I disagree with the Company basing its accounting period on its expectation to file more frequent base rate cases in the future. As stated in my direct testimony, the Commission has historically stated that it considers prudently incurred rate case expense as an ongoing expense, occurring at irregular intervals, related to the rendering of utility service. The Commission has also cited the importance of considering the involved utility's history regarding the frequency of rate case filings as an essential element in determining the normalized level of rate case expense for ratemaking purposes.[7] The Company's reasons for a large gap between the prior rate case and the current rate case are not sufficient grounds for overriding historic filing frequency. It is speculative that the Company will file its next base rate case in four years.

[6] Pike Gas Statement No. 2-R, pp. 27-30.
[7] I&E Statement No. 1, p. 4.

Q. ARE THERE ANY RECENT DECISIONS THAT SUPPORT THE USE OF HISTORIC FILING FREQUENCY IN DETERMINING A NORMALIZATION PERIOD FOR RATE CASE EXPENSE?

A. Yes. In addition to the cases mentioned in my direct testimony (PPL Electric, Emporium Water, and the City of DuBois.),[8] the Commission also recently issued a decision in the Columbia Gas base rate case indicating that the normalization period should align with the historic data rather than the Company's intent to file its next rate case.[9]

Q. PLEASE RESPOND TO THE ACCOUNTING PANEL'S ASSERTION THAT AMORTIZATION OF RATE CASE COSTS IS MORE APPROPRIATE THAN NORMALIZATION.

A. As stated in my direct testimony, normalization specifically addresses the prospective recovery of an ongoing expense that recurs sporadically. Therefore, the Company's rate case expense claim should be normalized instead of amortized.[10] It must be noted that normalization of rate case expense is the standard for ratemaking purposes in Pennsylvania. The Company's claim that normalization would require a write-off of all rate case costs in the current period which would cause a large impact on its earnings[11] is not persuasive. Rate case

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[8] I&E Statement No. 1, pp. 8-9.

[9] *Pa. PUC v. Columbia Gas*, Docket No. R-2020-3018835, Opinion and Order, pp. 78-79 (Order entered February 19, 2021).

[10] I&E Statement No. 1, p. 6.

[11] Pike Gas Statement No 2-R, p. 30.

expense is not an unanticipated or extraordinary expense subject to deferral and amortization. Further, it is not uncommon for there to be a difference between book accounting and ratemaking amounts for rate case expense, and this is possible for all regulated utilities. This should encourage companies in general to minimize rate case expense amounts incurred to the extent possible. The Company has accepted my recommendation to remove the unamortized cost from rate base,[12] which further supports my recommendation for normalization treatment.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. I continue to recommend that the Company's rate case expense be normalized over a period of 60 months resulting in an annual expense of $4,500 (($22,500 ÷ 60 months) x 12 months), or a reduction of $1,100 ($5,600 - $4,500) to the Company's claim.

<u>STATE INCOME TAXES</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR STATE INCOME TAXES.

A. In direct testimony, I recommended an allowance of $1,965, or a reduction of $13,092 ($15,057 - $1,965) to the Company's claim. My recommendation

[12] Pike Gas Statement No. 2-R, pp. 8-9.

reflected the fact that the Company has net operating losses (NOLs) in excess of its net income limited to an NOL deduction of the lesser of NOLs available or 40% of income.[13] In short, I assumed that the Company will fully utilize its NOL, causing an effective state income tax rate of 5.994% (9.99% x (1.0 - 0.4)). This tax rate was incorporated into my I&E overall revenue requirement calculation.[14]

Q. DID THE ACCOUNTING PANEL RESPOND TO YOUR RECOMMENDED ADJUSTMENT TO STATE INCOME TAXES?

A. Yes. The Accounting Panel disagreed with my recommendation.[15]

Q. SUMMARIZE THE ACCOUNTING PANEL'S RESPONSE.

A. The Accounting Panel argued that my calculations only reflect the cash or current impact of applying carry forward net operating losses (NOL) on the Company's state income tax calculations and neglect the associated deferred state income taxes. The Accounting Panel contends that the Company must maintain its records on an accrual basis. Further, customers are given a rate base reduction for the deferred state income taxes.

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[13] PA Corporate Net Income Tax 2019 REV-1200 CT-1 Instructions, p. 18, accessed January 5, 2021. https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/CorporationTax/Documents/2019/2019_rev-1200.pdf.

[14] I&E Statement No. 1, pp. 12-13.

[15] Pike Gas Statement No. 2-R, pp. 48-50.

Q. WHAT IS YOUR RESPONSE THE ACCOUNTING PANEL'S COMMENTS SUBMITTED IN REBUTTAL TESTIMONY?

A. Upon further review, I accept that the Company has accounted for NOLs in its state income tax calculation by virtue of deferred income taxes and the corresponding rate base reduction due to the Company's use of accelerated depreciation for tax purposes (a more aggressive method of depreciation than what is used for ratemaking purposes). Therefore, I am withdrawing my recommended adjustment to state income taxes.

<u>FEDERAL INCOME TAXES</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR FEDERAL INCOME TAXES.

A. In direct testimony, I recommended disallowance of the Company's claim in its entirety. My recommendation reflected usage of prior year NOLs. Applying prior year NOLs eliminated the Company's entire federal income tax claim.

In order to reflect a tax allowance of $0 for the current portion of future test year federal income taxes, I used a federal income tax rate of 11.4535% in the I&E revenue requirement computation to bring the present rate claim up from ($22,824) to my recommended allowance of $0.[16]

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[16] I&E Statement No. 1, pp. 14-15.

Q. DID THE ACCOUNTING PANEL RESPOND TO YOUR RECOMMENDATION?

A. Yes. The Accounting Panel disagreed with my recommendation.[17]

Q. SUMMARIZE THE ACCOUNTING PANEL'S RESPONSE.

A. The Accounting Panel stated that I zeroed out federal income tax expense because the Company would use NOLs to reduce its current income tax expense. The Accounting Panel further claimed that flowing NOLs to customers that resulted from tax depreciation would be a normalization violation of the Internal Revenue Code and would result in the inability to depreciate plant assets on an accelerated basis. This, in turn, would increase current income taxes paid and reduce or eliminate the accumulated deferred income tax because only straight-line depreciation would be allowed.

Q. DO YOU AGREE WITH THE ACCOUNTING PANEL'S RESPONSE?

A. No. I disagree with the Accounting Panel's assertion that my recommendation would result in a normalization violation. Accounting for ratemaking purposes and accounting for tax purposes are not the same. Nevertheless, it appears that the Company has accounted for NOLs in its federal income tax calculation for the

[17] Pike Gas Statement No. 2-R, pp. 50-52.

same reasons discussed above in the State Income Taxes section. Therefore, I am withdrawing my recommended adjustment to federal income taxes.

DEFERRED CREDITS - TAX CUTS AND JOBS ACT (TCJA)

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR DEFERRED CREDITS – TCJA.

A. In direct testimony, I recommended the Company amortize the total Account 253912 balance of $14,387 over 50 years associated with the protected portion of excess accumulated deferred income taxes (excess ADIT). This resulted in the reduction of $288 to deferred credits through amortization.[18]

I recommended the Company amortize the total Account 253922 balance of ($42,955) over five years associated with the unprotected portion of excess ADIT. This resulted in an increase of $8,591 to deferred credits through amortization.

The net effects of the above adjustments resulted in a decrease of amortization of excess ADIT of $8,303 ($288 + ($8,591)) from $0 and an increase to deferred credits of $34 or [(($28,569) - ($288 - $8,591)) – ($20,300)].

Q. DID THE COMPANY ACCEPT YOUR RECOMMENDATIONS?

A. Yes, but with modifications. For Account 253912 concerning amortization of protected TCJA credits, the Company accepted my recommendation to amortize

[18] I&E Statement No. 1, p. 17.

the total amount of $14,387 over 50 years for an annual amortization of $288. For Account 253922 concerning amortization of unprotected TCJA credits, the Company modified my recommendation to amortize the total amount of $42,955 over four years instead of five years resulting in an annual amortization of $10,739.[19]

Accordingly, the Company has updated its Deferred Credits (Net of Tax) (rate base) amount to approximately ($12,900).[20] The Company has also modified Other Operating Revenues to reflect amortization of Account 253912 for protected assets and Account 253922 for unprotected assets of $10,500.[21]

Q. SUMMARIZE THE REMAINDER OF THE ACCOUNTING PANEL'S REBUTTAL TESTIMONY CONCERNING DEFERRED CREDITS.

A. The Company disagreed with how I calculated deferred credits. The Company disagreed with my starting point of the pre-tax balance for deferred credits claiming that the TCJA Deferred Tax Accounts have been "grossed up" for income taxes to a revenue requirement level and are factored up to the level that would be passed back or collected from customers because all amounts passed back or collected from customers have a corresponding income tax deduction or expense. The Company also disagreed with my recommended amortization period of five years for unprotected assets in Account 253922 in favor of a four-year

19 Pike Gas Statement No. 2-R, pp. 9-10 and 23-25.
20 Pike Gas Exhibit G-3 Feb 2021 Update, Summary and Schedule 7.
21 Pike Gas Exhibit G-4 Feb 2021 Update, Summary, p. 1 and Schedule 1.

amortization. Finally, the Company claimed that I erred with the negative amortization amount and should have had a positive amortization.[22]

Q. WHAT IS YOUR RESPONSE TO THE ACCOUNTING PANEL'S REBUTTAL TESTIMONY?

A. I continue to recommend that the negative balance of $42,955 from Account 253922 be amortized over five years at ($8,591) instead of the Company's proposed four-year amortization. The Company's expectation to file a rate case in four years is speculative and should not be relied upon. Nevertheless, I accept the Company's explanation regarding the debit balance for deferred credits and have made a corresponding adjustment to amortization expense.

Further, I continue to recommend using the pre-tax balance as a basis for the deferred credit amount, because the I&E overall position encapsulates such tax adjustments separately.

Q. DO YOU HAVE ANY UPDATES TO YOUR RECOMMENDATIONS?

A. Yes. I recommend an increase to other operating revenues of $10,500 (($7,700) - $2,800) associated with the amortization of Accounts 253912 and 253922 (excess ADIT) for protected and unprotected assets, respectively, because amortization of these accounts should not be included in the revenues section of the revenue

[22] Pike Gas Statement No. 2-R, pp. 23-27.

requirement. Therefore, I am including this amortization in the O&M Expenses and Amortizations section of my adjustments table above. However, I recommend a total amortization of ($8,303) due to my recommended fifty-year amortization of Account 253912 at $288 and my recommended five-year amortization of Account 253922 at ($8,591) for unprotected assets which corresponds with my rate case expense recommendation (filing frequency interval). Also, I have updated my amortization from a negative amount to a positive amount.

Finally, my updated recommendation for deferred credits (the remaining balance to be reflected as a reduction to rate base until the full amount is refunded to ratepayers) is ($20,266), or a decrease of $7,366 [($20,266) – ($12,900)] to the Company's updated claim of ($12,900). The total amount of ($20,266) consists of Account 253912 less one year of amortization of $14,099 or ($14,387 – $288) and Account 253922 less one year of amortization of ($34,364) or (($42,955) – ($8,591)), calculated as follows: $14,099 + ($34,364) (rounded).

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Statement No. 2-SR
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Surrebuttal Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Anthony Spadaccio. 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 ANTHONY SPADACCIO 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 the Pike County Light & Power Company (Gas) (Pike Gas or Company) witnesses Charles Lenns and Richard A. Kane, referred to as the "Accounting Panel" in their rebuttal testimony (Pike Gas Statement No. 2-R) 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.

<u>SUMMARY OF THE ACCOUNTING PANEL'S REBUTTAL TESTIMONY REGARDING RATE OF RETURN</u>

Q. SUMMARIZE THE ACCOUNTING PANEL'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RECOMMENDATIONS.

A. The Accounting Panel correctly opines that I relied upon the Discounted Cash Flow (DCF) Model in formulating my recommended cost of equity for the Company and performed a Capital Asset Pricing Model (CAPM) analysis to present to the Commission only as a comparison to the DCF. The only criticism the Accounting Panel offers regarding my cost of equity recommendation is that it believes the results of my CAPM analysis should have been weighted to some degree into my recommendation, although it acknowledges the results of my DCF and CAPM for Pike Gas are very similar. My CAPM result is 10.12%, a mere 7 basis points higher than my DCF result of 10.05%.[1]

Ultimately, the Accounting Panel agrees that my recommended ROE should be adopted by the Commission.[2]

[1] Gas Statement No. 2-R, p. 55, ln. 4 through p. 58, ln. 13.
[2] Pike Gas Statement No. 2-R, p. 59, lines 7-9.

<u>I&E'S RESPONSE TO THE ACCOUNTING PANEL'S REBUTTAL TESTIMONY</u>

Q. WHAT INITIAL COMMENTS DO YOU HAVE REGARDING THE ACCOUNTING PANEL'S REBUTTAL TESTIMONY?

A. As discussed in my direct testimony,[3] it is important to recognize that the Accounting Panel has not performed a cost of equity analysis specific to the Company or to reflect current market conditions. Instead, it based the 9.75% cost of equity recommendation on the return embedded in the Company's rate case settlement at Docket No. R-2013-2397353 and on the approved returns on equity (ROEs) for distribution system improvement charges (DSIC) found in the second quarter of the Commission's Quarterly Earnings Summary Report.[4]

In direct testimony, I thoroughly explained why it is inappropriate for the Commission to determine a fair cost of equity based on the Company's embedded return in its 2013 base rate case and the Commission's authorized return on equity for DSIC purposes.[5]

[3] I&E Statement No. 2, p. 6, lines 6-14.
[4] I&E Exhibit No. 2, Schedule 1.
[5] I&E Statement No. 2, p. 28, lines 1-18.

Q. WHAT WAS YOUR OVERALL RECOMMENDATION IN DIRECT TESTIMONY?

A. I recommended the following rate of return for the Company:[6]

I&E
Summary of Cost of Capital

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost**
	Pike Gas		
Long-Term Debt	46.54%	4.77%	2.22%
Short-Term Debt	5.14%	3.10%	0.16%
Common Equity	48.32%	10.05%	4.86%
Total	100.00%		7.24%

Q. PLEASE RESPOND TO THE ACCOUNTING PANEL'S ASSERTION THAT YOUR CAPM RESULTS SHOULD HAVE BEEN FACTORED INTO YOUR ROE RECOMMENDATION.

A. In direct testimony, I listed the common methods used to calculate the cost of common equity and explained in detail why I chose to base my recommendation on the results of the DCF method and provide the CAPM as a comparison.[7] In short, the DCF employs a company's, or in this case, my proxy group companies' own growth forecasts and stock prices which cause the results to be company and industry specific, unlike the CAPM.

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[6] I&E Statement No. 2, p. 5, lines 1-5 and I&E Exhibit No. 2, Schedule 2.
[7] I&E Statement No. 2, p. 14, ln. 7 through p. 19 line 10.

Additionally, in direct testimony, I pointed out that the methodology of relying on the DCF as the primary method to determine the cost of equity, while providing the results of the CAPM for comparison is historically used by the Commission in base rate proceedings, but also as recently as 2017, 2018, 2020, and 2021.[8]

OVERALL RATE OF RETURN

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

A. No. I continue to support each of the recommendations made in my direct testimony.

Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING YOUR RATE OF RETURN RECOMMENDATION FOR PIKE GAS?

A. Yes. It is noteworthy that my recommended cost of equity for the Company of 10.05% is both higher than the Company's recommendation of 9.75% and the very recent Commission authorized cost of equity for Columbia Gas of Pennsylvania,

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8 *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, pp. 96-98 (Order Entered March 28, 2017) (Disposition of Cost Rate Models); *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058, p. 119 (Order Entered October 25, 2018) (Disposition of Cost of Common Equity); *Pa. PUC v. Wellsboro Electric Company*, Docket No. R-2019-3008208, pp. 80-82 (Order Entered April 29, 2020) (Disposition of Primary Methodology to Determine ROE); *Pa. PUC v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212, pp. 91-93 (Order Entered April 27, 2020) (Disposition of Cost of Common Equity); *Pa. PUC v. Valley Energy, Inc.*; Docket No. R-2019-3008209, pp. 102-104 (Order Entered April 27, 2020) (Disposition of Methods for Determining the Cost of Common Equity); *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, p. 131 (Order Entered February 19, 2021) (Disposition of Methods for Determining the Cost of Common Equity).

Inc. of 9.86%.[9] Therefore, I believe my recommended cost of equity as well as my overall rate of return recommendation is more than fair to Pike Gas. Additionally, to reiterate, it is my understanding that the DSIC rate is an incentive for companies to invest in improving or replacing deteriorating infrastructure while reducing regulatory lag, not a rate to define the appropriate return on equity in a base rate proceeding.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

[9] *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, p. 141 (Order Entered February 19, 2021) (Disposition of Rate of Return on Common Equity).

I&E Statement No. 3-SR
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

PLANT IN SERVICE – NET PLANT
ACCUMULATED DEFERRED INCOME TAXES
TOTAL RATE BASE
ANNUAL DEPRECIATION EXPENSE
OTHER OPERATING REVENUE - FORFEITED DISCOUNTS
COST OF SERVICE
PROPOSED INCREASE
CUSTOMER COST ANALYSIS-CUSTOMER CHARGES
SCALE BACK OF RATES

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INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Esyan A. Sakaya. My business address is 400 North Street, Harrisburg, PA 17120.

Q. ARE YOU THE SAME ESYAN A. SAKAYA THAT SUBMITTED DIRECT TESTIMONY ON FEBRUARY 2, 2021?

A. Yes. I submitted I&E Statement No. 3 and I&E Exhibit No. 3 on February 2, 2021.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of the Gas Accounting Panel identified as Pike County Light and Power Company Statement No. 1-R (Gas) submitted by witnesses Paul Normand and Debbie Gajewski, and Statement No. 2-R (Gas) which was submitted on behalf of Pike County Light and Power Company (Gas) (Pike Gas or Company) witnesses Charles Lenns and Richard Kane. Finally, I will be addressing the rebuttal testimony of Robert D. Knecht - St. 1-R filed on behalf of the Office of Small Business Advocate (OSBA). My surrebuttal testimony will address issues related to plant in service, accrued depreciation, rate base, annual depreciation expense, customer cost analysis, customer charges, rate design, and scale back of rates.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. But I will also refer to my direct testimony and exhibit in this surrebuttal testimony.

<u>PLANT IN SERVICE – NET PLANT</u>

Q. WHAT IS NET PLANT?

A. Net plant refers to the total plant in service less accrued depreciation, and less retirements. For Pike, net plant includes gas plant and common plant and general plant allocated from Corning Glass (Pike Ex. E-3, Summary p. 1).

Q. WHAT NET PLANT DID THE COMPANY CLAIM IN THE ORIGINAL FILING?

A. The Company claimed $4,023,800 of net plant in rate base as of December 31, 2021 (Pike Ex. G-3, Summary p. 1).

Q. DID THE COMPANY REVISE THE $4,023,800 OF NET PLANT IN ITS REBUTTAL TESTIMONY?

A. Yes. The Company increased the $4,023,800 to $4,035,800. This $12,000 increase is the result of the Company correcting the level of common gas plant reflected in rate base (Pike Feb 2021 Updated Ex. G-3, Summary p. 1).

Q. DID THE $4,035,800 INCLUDE PLANT ADDITIONS PROJECTED TO TAKE PLACE DURING AND BEYOND THE FTY ENDING JUNE 30, 2021?

A. Yes. The Company claimed plant in service additions of $954,000 which included projected plant additions less retirements through December 31, 2021. This $954,000 included $250,000 of plant additions and $27,900 of retirements from July 1, 2021 through December 31, 2021 (Pike Ex. G-3, Sch. 1, p. 1).

Q. WHAT DID YOU RECOMMEND REGARDING PLANT ADDITIONS PROJECTED TO OCCUR BETWEEN JULY 1, 2021 AND DECEMBER 31, 2021 IN YOUR DIRECT TESTIMONY?

A. I recommended that $160,700 of net Post Future Test Year Plant Additions ("PFTYPA") be removed from the $4,023,800 of net plant claimed in the original filing (I&E St. No. 3, p. 12, and I&E Ex. No. 3, Sch.1, Column F, line 10).

Q. DO YOU WISH TO REVISE YOUR $160,700 ADJUSTMENT TO NET PLANT AS A RESULT OF THE COMPANY'S REBUTTAL TESTIMONY?

A. Yes. I wish to reduce my original adjustment of $160,700 of net PFTYPA to $159,300 (I&E Ex. No. 3-SR, Sch. 1, line 10, column F).

Q. WHY IS IT NECESSARY TO REDUCE YOUR NET PLANT ADJUSTMENT BY $1,400 ($160,700 - $159,300)?

A. The Company increased the composite accrual rate for all plant slightly after correcting the level of common plant described above. This increase in the composite accrual rate from 2.023% to 2.050% increased the projected accrued depreciation by $1,400 thus decreasing net plant by $1,400. (To see accrual rate modification, compare Pike Ex. G-4, Sch. 8, p. 2 against Pike Feb 2021 Updated Ex. G-4, Sch.8, p. 2.)

Q. WHY DID YOU RECOMMEND THAT $160,700 OF NET PFTYPA AND PFTYA BE REMOVED FROM THE $954,000 NET PLANT ADDITIONS?

A. As described in my direct testimony, the $250,000 of plant additions will not be placed into service until after the end of the FTY (Pike Ex. G-3, Sch. 1, p. 1). For utility plant to be recovered in rates, it must be "used and useful" by the end of the test year selected by the Company to establish rates, which in this case was the FTY ending June 30, 2021. Because this utility plant will not be placed into service until after June 30, 2021, it necessarily cannot meet the requirement of being used and useful. Therefore, to allow this plant in rate base will create a mismatch between plant in service and other rate making components such as revenue and expenses that are based upon the FTY.

Q. HOW DID THE COMPANY RESPOND TO YOUR RECOMMENDATION REGARDING PLANT ADDITIONS PROJECTED TO OCCUR BETWEEN JULY 1, 2021 AND DECEMBER 31, 2021?

A. The Company stated that its' understanding is that it is permitted to include plant additions in rate base that occur up to six months beyond the end of the FTY (Pike St. No. 2-R, pp. 18-20).

Q. DO YOU AGREE WITH THE COMPANY REGARDING THESE

A. No. The Company failed to justify including any PFTYPA in this case. The Company failed to cite any authority to support its belief that it is entitled to recover the cost of plant not yet in service.

Q. PLEASE EXPLAIN THE CIRCUMSTANCES WHEN A COMPANY MAY BE PERMITTED TO INCLUDE PLANT ADDITIONS IN RATE BASE THAT OCCUR UP TO SIX MONTHS BEYOND THE END OF THE FTY.

A. Construction work in progress (CWIP) refers to construction projects "in progress," that may be included in rate base if they will be completed within six months of the end of the FTY. However, in this instance it does not appear these plant additions could be considered CWIP. These plant additions are not in progress and are routine plant additions that would not be considered CWIP; therefore, they should not be included in rate base.

ACCUMULATED DEFERRED INCOME TAXES

Q. WHAT ARE ACCUMULATED DEFERRED INCOME TAXES?

A. Accumulated Deferred Income Taxes are a reduction to rate base as a result of the differences in income tax depreciation rates and ratemaking depreciation rates for plant in service.

Q. DID THE COMPANY RAISE AN ISSUE CONCERNING YOUR NET PLANT IN SERVICE RECOMMENDATION RELATED TO ACCUMULATED DEFERRED INCOME TAXES?

A. Yes. The Company stated that I should have reflected a $15,107 reduction to Accumulated Deferred Income Taxes claimed in rate base that corresponds with my PFTYPA recommendation (Pike St. No. 2-R, p. 21).

Q. DO YOU AGREE THAT YOU SHOULD HAVE REFLECTED A REDUCTION IN ACCUMULATED DEFERRED INCOME TAXES IN RATE BASE?

A. Yes. I have updated my recommendation to reflect a reduction of $15,107 in rate base that corresponds with my PFTYPA recommended adjustment (I&E Ex. No. 3-SR, Sch. 1, line 19, col. F).

TOTAL RATE BASE

Q. WHAT TOTAL RATE BASE DID THE COMPANY INITIALLY CLAIM IN THIS PROCEEDING?

A. The Company claimed a $4,071,900 rate base (Pike Ex. G-3, Summary p. 1, I&E Ex. No. 3, Sch. 1, Column E, line 21).

Q. DID THE COMPANY REVISE ITS RATE BASE CLAIM IN REBUTTAL TESTIMONY?

A. Yes. The Company is now claiming $4,061,000 of rate base (Pike Ex. G-3, Feb 2021 Updated, Summary p. 1, and I&E Ex. No. 3-SR, Sch. 1, Column. E, line 21).

Q. WHAT RATE BASE AMOUNT DID YOU RECOMMEND?

A. In my direct testimony, I recommended a rate base of $3,866,200. However, the correct amount should have been $3,911,900 ($4,071,900 - $160,700). The error was the result of not correctly subtracting the accrued adjustment (I&E Ex. No. 3, Sch. 1, Column G, line 21 corrected).

Q. WHAT RATE BASE DO YOU RECOMMEND IN SURREBUTTAL TESTIMONY?

A. I recommend a rate base of $3,916,807. This is a reduction of $144,193 from the $4,061,000 claimed by the Company in rebuttal. The $144,193 total reduction is comprised of adjustments to gas plant in service, accumulation provisions for depreciation of gas plant in service along with common plant, and finally reduces deferred credits for net taxes (I&E Ex. No. 3-SR, Sch. 1, Column. F, line 21).

Q. WHAT IS THE BASIS FOR YOUR $144,193 ADJUSTMENT TO RATE BASE?

A. The $144,193 is simply the $159,300 described above and in my direct testimony related to PFTYPA less the $15,107 related to accumulated deferred income taxes described above (I&E Ex. No. 3-SR, Sch. 1, Column. F, lines 10 and 17).

ANNUAL DEPRECIATION EXPENSE

Q. WHAT ANNUAL DEPRECIATION EXPENSE DID THE COMPANY INITIALLY CLAIM?

A. The Company claimed an annual depreciation expense of approximately $125,000 (Pike Ex. G-4 Summary p. 1).

Q. DID THE COMPANY REVISE THE $120,000 CLAIM FOR ANNUAL DEPRECIATION EXPENSE IN ITS REBUTTAL TESTIMONY?

A. Yes. The Company is now claiming $125,098 of annual depreciation expense (Pike Ex. G-4, Feb 2021 Updated, Summary p. 1). The approximately $1,100 increase is the result of the Company increasing the composite accrual rate for all plant slightly after correcting the level of common plant described above. This increase in the composite depreciation rate from 2.023% to 2.050% increased the projected annual depreciation expense by $1,068 (Pike Ex. G-4, Feb 2021 Updated, Sch. 8, p. 2).

Q. WHAT ADJUSTMENT TO THE COMPANY'S $125,000CLAIM FOR ANNUAL DEPRECIATION EXPENSE DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY?

A. I recommended that $4,493 of annual depreciation expense associated with the $160,700 of net PFTYPA be removed from the $125,000 of annual depreciation expense claimed by the Company (I&E St. No. 3, pp. 13-14, and I&E Ex. No. 3, Sch. 2, Column. F, line 12)

Q. DO YOU WISH TO REVISE YOUR $4,493 ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE?

A. Yes. I now recommend an adjustment of $4,553 related to the PFTYPA (I&E Ex. No. 3-SR, Sch. 3, column F, line 11). This results in an annual depreciation expense recommendation of $121,545 ($126,098 - $4,553). The $4,553 is $60 more than the $4,493 I originally recommended. The $60 increase in my adjustment is the result of the change in the composite depreciation rate described above (I&E Ex. No. 3-SR, Sch. 3, Column. F, line 11).

Q. WHY DID YOU RECOMMEND THIS $4,553 ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE?

A. If the Commission accepts my recommendation to remove $159,300 of net gas plant, the corresponding $4,553 of annual depreciation expense should be removed from total annual depreciation expense.

Q. HOW DID THE COMPANY RESPOND TO THE CORRECTION THAT YOU PROPOSED CONCERNING ANNUAL DEPRECIATION EXPENSE?

A. The Company did not directly address annual depreciation expense recommendation, but as described above, the Company recommended that my PFTYPA recommendation be rejected.

Q. SHOULD YOUR $4,553 ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE BE APPROVED?

A. Yes. For the same reasons that my PFTYPA adjustment to net plan described above should be approved.

OTHER OPERATING REVENUE – FORFEITED DISCOUNTS

Q. HOW MUCH OTHER OPERATING REVENUE IS THE COMPANY PROJECTING IT WOULDRECEIVE UNDER PRESENT AND PROPOSED RATES IN THE FTY?

A. In the filing, the Company reflected approximately $2,800 of other operating revenue under both present and proposed rates for the FTY ending June 30, 2021 (Pike Ex. G-4, Sch. 1, page 2).

Q. WHAT DID YOU RECOMMEND CONCERNING THE $2,800 IN OTHER OPERATING REVENUE UNDER PROPOSED RATES?

A. I recommended that other operating revenue be increased by $961 to properly reflect revenue likely to be received from forfeited discounts under proposed rates (I&E St. No. 3, pp. 16-17). This recommendation increases the $2,769 claimed by the Company by $961 to $3,730, under proposed rates for the FTY ending June 30, 2021.

Q. HOW DID YOU DETERMINE THE $961 INCREASE IN FORFEITED DISCOUNT REVENUE UNDER PROPOSED RATES?

A. The Company is requesting an increase in tariff rates of 34.71% ($260,313 / $749,900). The $961 ($2,769 X 0.3471) recommended in my testimony equates to a 34.71% increase in present rate forfeited discount revenue (I&E Ex, No 3, Sch. 5, page 1, Column C, line 5).

Q. WHY DID YOU RECOMMEND THAT THE REVENUE FROM FORFEITED DISCOUNTS UNDER PROPOSED RATES SHOULD INCREASE $961 UNDER PROPOSED RATES?

A. I believe it is reasonable to expect that forfeited discounts revenues will increase when a utility's base rates are increased as a result of a base rate proceeding. Since forfeited discounts are generally a percentage of a customer's bill, increasing gas service revenue through a rate increase will cause revenues from forfeited discounts to increase over time.

Q. DID THE COMPANY ADDRESS YOUR FORFEITED DISCOUNT REVENUE RECOMMENDATION IN REBUTTAL TESTIMONY?

A. Yes. The Company's testimony and schedules indicate that they agree to increase forfeited discounts by $500. The Company states that the $500 is based upon 0.17% of the increase in base revenue. (Pike St. 2-R, pp. 13-14).

Q. DO YOU ACCEPT THE COMPANY'S CALCULATION AND INCLUSION OF $500 OF LATE PAYMENT REVENUE UNDER PROPOSED RATES?

A. Yes. The $500 is reasonable. I accept the Company's methodology that calculates the increase under proposed rates using only base rate revenue.

COST OF SERVICE

Q. DID THE COMPANY PROVIDE A COSS IN THIS PROCEEDING?

A. Yes. The Company provided a COSS on Pike Gas Exhibits G-6 and G-7. The COSS is based upon data from the FTY ending June 30, 2021.

Q. DID THE COMPANY UPDATE ITS COSS WHILE RESPONDING TO DATA REQUESTS?

A. Yes. The updated electronic COSS reflects data for the FTY ending June 30, 2021.

Q. IN YOUR DIRECT TESTIMONY DID YOU PERFORM AN ANALYSIS OF RELATIVE RATE OF RETURN UNDER PROPOSED RATES?

A. Yes. I developed a schedule that shows the calculation of relative rates of return based on proposed revenue, expenses, taxes, net income, and rate base by class as best as I could with the information provided (I&E Ex. No. 3, Sch. 5, p. 1, Column B, line 5).

Q. WHAT DID YOU RECOMMEND THE COMPANY PROVIDE IN FUTURE BASE RATE CASES?

A. I recommended that the Company provide a schedule similar to I&E Ex. No. 3, Sch. 5, page 1 that shows forecasted revenue, expenses, taxes, net income, rate base, rate of return, and relative rate of return under actual proposed rates by class in future base rate cases.

Q. DID THE COMPANY ADDRESS YOUR COSS RECOMMENDATION TO PROVIDE AN APPROPRIATE PROPOSED RATE SUMMARY?

A. No. The Company failed to provide such a summary. Therefore, I recommend the Commission order the Company to provide a schedule that shows forecasted revenue, expenses, taxes, net income, rate base, rate of return, and relative rate of return under actual proposed rates by class in future base rate cases.

Q. WHAT DID YOU RECOMMEND CONCERNING THE ALLOCATION OF COST OF MAINS IN YOUR DIRECT TESTIMONY?

A. I recommend that 50% of the $2,365,104 cost of Mains in the COSS be allocated on the peak demand each class places on the system and 50% of the $2,365,104 cost of mains be allocated on the average demand of each class. The net effect of these two changes reduces the amount allocated to Residential class by $221,298 and increases the amount allocated to the Commercial by $221,298 (I&E St. No. 3, p. 23 and I&E Ex. No. 3, Sch. 5, page 2, Columns D-E, line 5-7).

Q. WHY DID YOU RECOMMEND THE COST OF MAINS BE ALLOCATED USING AVERAGE DEMAND AND PEAK DEMAND?

A. Natural gas systems are built to deliver gas throughout the year. Therefore, since mains deliver gas, it is reasonable to allocate the cost of mains on the basis of gas delivery. This peak and average methodology equally allocates distribution mains to classes based upon the peak day demand and on annual consumption (average demand). As described below, a 50/50 allocation and methodology has been accepted by the Commission in previous cases and other methodologies utilizing the number of customers has been rejected by the Commission. The most recent case where the Commission approved utilizing the peak and average method for allocating the cost of mains was in the Columbia Gas case at docket R-2020-3018835, page 211, Order entered February 19, 2021.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION TO REALLOCATE THE COST OF MAINS BASED UPON AVERAGE USAGE AND PEAK USAGE?

A. Yes. The Company believes that the uniqueness of gas utilities where winter throughput can be 10 times greater than average demand highlights the inappropriateness of allocating mains on a 50% peak demand and 50% average demand basis. The Company claims that the 50/50 allocation is "nothing more than an after the fact allocation with no rationale engineering support for installing main investment" (Pike St. No. 1-R, pp. 10-11).

Q. PLEASE ADDRESS THE COMPANY'S CLAIM THAT WINTER THROUGHPUT THAT CAN BE TEN TIMES GREATER THAN AVERAGE DEMAND SHOWS THE INAPPROPRIATENESS OF ALLOCATING MAINS PARTIALLY ON AVERAGE USAGE.

A. First, the Company's hypothetical concerning winter usage being 10 times greater than average usage is not based upon the usage pattern of Pike Gas. Second, the Company's statement does not support its claim. The allocation I propose captures the peak factor regardless of the factor above average. This leaves the remaining allocation factor to be either the number of customers or average usage.

As described above, since mains are designed to carry gas, the most reasonable allocation factor is based upon gas delivery. Therefore, it is reasonable to utilize average usage for the other allocation factor. By using an equal weight of peak demand and average demand these two factors are used to spread the cost of mains to the various customers over an average year.

Q. IS THE 50/50 ALLOCATION METHODOLOGY YOU USED ARBITRARY AND AN AFTER THE FACT ALLOCATION AS SUGGESTED BY THE COMPANY?

A. No. Natural gas systems are built to deliver gas throughout the year. Therefore, since mains deliver gas, it is reasonable to allocate the cost of mains on the basis of gas delivery. This peak and average methodology equally allocates distribution mains to classes based upon the peak day demand and on annual consumption (average demand). As described below, a 50/50 allocation and methodology has been accepted by the Commission in previous cases.

Q. DID THE OFFICE OF SMALL BUSINESS ADVOCATE (OSBA) ADDRESS YOUR 50/50 ALLOCATION METHODOLOGY?

A. Yes. First, the OSBA suggests that my recommendation is flawed because I applied FTY costs to HTY allocation factors. Second, the OSBA also believes that average usage is not causally related to main costs. Third, the OSBA believes the other costs, specifically in accounts 374, 378 and 887 should have also been adjusted. Finally, the OSBA believes I should have considered the various updates provided in my analysis (OSBA St. No. 1-R, pp. 2-5)

Q. DID THE ALLOCATION FACTORS FOR MAINS CHANGE BETWEEN THE HTY AND FTY AS SUGGESTED BY THE OSBA?

A. For mains, the allocation factors did not change between the HTY and FTY. In the original filing, the Company allocated 46% of the cost of mains based on Demand and 53% of the cost of mains based upon the number of customers (Pike Gas Ex. G-6, Sch. GRP-4G, p. 3, line 13-15). These same allocation factors were used to allocate the higher level of mains in the FTY (I&E St, No. 3, pp. 22-23 and I&E Ex. No. 3, Sch.4, p. 2, Column C, lines 1-5, page 2).

Q. WOULD YOU OBJECT TO ADJUSTING A FEW OF THE OTHER ACCOUNTS AS SUGGESTED BY THE OSBA?

A. No. However, adjusting account 374, which has an original cost $715, and account 887, which has a total expense of $6,347, would be de minimis on the cost allocated to Residential and Commercial customers (Pike Gas Ex. G-6, Sch. GRP 4-G, p. 3, Col. C, line10 and Pike Gas Ex. G-6, Sch. GRP 4-G, Col. C, p. 18, line 168).

Q. WHY DIDN'T YOU INCORPORATE THE POTENTIAL CORRECTIONS AND POSSIBLE UPDATES IN YOUR COSS?

A. I only wanted to reflect changing the allocation factors for mains with all other things in the original filing being the same to show the impact of my recommendation in the FTY. This is done because there will likely be changes by the Company, OCA, and OSBA as the case progresses, some of which continue to occur.

<u>PROPOSED INCREASE</u>

Q. WHAT INCREASE DID THE COMPANY REFLECT IN ITS INITIAL FILING AND SUBSEQUENT DISCOVERY?

A. The Company showed different increases in various parts of the filing and in response to discovery. Some of the differences are due rounding, but some of the differences result due to inconsistency in the data provided in the income statement and the original COSS, or the revised COSS (I&E Ex. No. 3, Sch. 7). For example, on the income statement in the original filing, the Company reflected an increase of $262,200 (Pike Gas Ex. G-4 Summary p. 2). Later, on Pike Ex. No. G-8, page 13, the Company reflected an increase of $260,034. In the COSS provided in the original filing, the Company reflected an increase of $296,571 (Pike Gas Ex. G-6, GRP-3-G p. 1, line 19).

Q. BASED UPON YOUR ANALYSIS, WHAT AMOUNT OF PROPOSED REVENUE INCREASE DID YOU INITIALLY STATE AS BEING SUFFICIENT?

A. I stated that the Company's proposed increase should be $260,313 (I&E Ex. No. 3, Sch. 5, page 1, Column C, line 4, page 1 and Pike Gas Ex. G-6, GRP 4-G, p. 1, line 19). I based this $260,313 on the best information available including the proof of revenue shown on Pike Ex. G-8, page 3, where I used the proposed revenue billing determinates to determine the actual increase in revenue (I&E Ex. No. 3. Sch. 4, page 3, Column E, line 21). The proof of revenue is generally the best source of total revenue since it summarizes the projected and or annualized number of customers, surcharges, and rates the customers will pay.

Q. PLEASE REITERATE WHY IS IT NECESSARY TO DETERMINE PROPOSED RATE REVENUE AND THE CORRESPONDING INCREASE IN REVENUE?

A. The Commission should be aware of the actual increase the Company is expected to receive when making its determination of the appropriate revenue requirement for this Company. In addition, I will use this $260,313 increase by class to recommend an appropriate scale back later in my testimony.

Q. DID THE COMPANY RESPOND TO YOUR DIRECT TESTIMONY REGARDING THE FINAL PROPOSED AMOUNT OF THE RATE INCREASE?

A. No. Therefore, I recommend that Commission order the Company to reflect consistent proposed increase figures in future base rate case filings to reduce confusion (I&E St. No. 3, pp. 26-28).

<u>CUSTOMER COST ANALYSIS—CUSTOMER CHARGES</u>

Q. WHAT WERE THE RESULT OF THE COMPANY'S CUSTOMER COST ANALYSIS FOR RESIDENTIAL AND COMMERCIAL CUSTOMERS?

A. The result of the Company's customer cost analysis for residential customers projects that the monthly customer cost is approximately $80 per month for residential customers and approximately $361 per month for Commercial customers (Pike Ex. G-6, Sch. GRP-5-G, Summary p. 1, Cols. A-E, line 31).

Q. DID THE COMPANY PROVIDE A PROPER CUSTOMER COST ANALYSIS?

A. No. It is not clear from the filing what the Company included or excluded from its customer cost analysis (Pike Ex. G-6, GRP-5-G, Summary p. 1, lines 6-22).

Q. DID YOU COMPILE A CUSTOMER COST ANALYSIS TO DETERMINE THE APPROPRIATE CUSTOMER CHARGES?

A. Yes. I compiled a customer cost analysis that shows the direct customer costs the Company incurs that should be recovered in a customer charge. I included the return dollars taxes and depreciation expense for services, meters, house installations, and regulators plus the cost to maintain service, the cost of meter reading, and customer records and collection expense. The total customer costs using this methodology is $398,327 (I&E Ex. No. 3, Sch. 6, Col. C, line 26).

Q. BASED UPON YOUR CUSTOMER COST ANALYSIS, WHAT WAS THE MONTHLY CUSTOMER COST FOR THE RESIDENTIAL AND COMMERCIAL CUSTOMERS?

A. Based upon the allocation of the above items, I determined the Residential customer cost to be $18.46 per month and the Commercial customer cost to be $38.00 per month (I&E Ex. No. 3, Sch. 6, Cols. D-E, line 28).

Q. ARE YOU RECOMMENDING ANY CHANGES TO THE COMPANY'S PROPOSED RESIDENTIAL CUSTOMER CHARGE?

A. No. I agree that the present Residential customer charge of $7.50 per month be increased to $10.61 per month as proposed by the Company (Pike Ex, No. 8, p. 3).

Q. WHY DID YOU RECOMMEND THE PRESENT RESIDENTIAL CUSTOMER CHARGE BE INCREASED?

A. As described above, the Company incurs $18.46 in monthly customer costs for the Residential class. Since the present Residential customer charge is $7.50 per month, it would be reasonable to increase the residential customer charge to the $10.61 per month charge proposed by the Company (I&E Ex. No. 3, Sch. 6, Col. D, line 28 and Pike Ex, No. 8, p. 3).

Q. DID YOU RECOMMEND ANY CHANGES TO THE COMPANY'S PROPOSED SMALL COMMERCIAL CUSTOMER CHARGE?

A. No. The Company has proposed a $13.31 per month Commercial customer charge. As explained above, my analysis shows the Commercial customer cost to be $38.00 per month. Therefore, I believe the Company's proposed Commercial customer charge is supported by the customer cost analysis (Pike Ex. G-8, p. 4 and I&E Ex. No. 3, Sch. 6, Col. E, line 28).

Q. HOW DID THE COMPANY RESPOND TO YOUR CUSTOMER COST ANALYSIS ASSESSMENT?

A. First, the Company claims it provided a breakdown of customer costs in a data response to OSBA-1-2. The data response directs the reader to Exhibit G-6, Schedule GRP-5-G, pp. 3-4. (Pike St. No. 1-R, pp. 10-11), which does not provide a breakdown of customer costs. Second, the Company claims that the customer charge should recover the cost of meters and services (Pike St. No. 1-R, p. 10).

Q. DOES THE COMPANY'S REBUTTAL TESTIMONY AND SCHEDULES SUPPORT THE INCLUSION OF THE ITEMS AND CORRESPONDING COSTS IN THE CUSTOMER COST ANALYSIS?

A. No. The Company breakdown of the customer costs in Pike Electric Ex. G-6 Rev., Sch. GRP-5-G, pp. 3-4 shows the same lack of detail that the Company provided in the original filing. There is no support for dollar amounts on Pike Gas Ex. G-6 Rev., Sch. GRP-5-G, p. 4. As described in my direct testimony, there is no way to determine which individual components were included or excluded in the Company's customer cost analysis.

Q. DO YOU AGREE THAT SOME ITEMS LISTED IN THE COMPANY'S REBUTTAL TESTIMONY ARE DIRECT CUSTOMER COSTS?

A. Yes. The Company appears to imply that my customer cost analysis excluded meters and services. However, I included the return dollars and depreciation expense for meters and services since these are proper items that should be included in the customer cost analysis. As stated in my direct testimony, the Company failed to provide a further breakdown of its analysis to consider what else should be included. Therefore, the Commission should reject the Company's overly inclusive customer cost analysis.

<u>SCALE BACK OF RATES</u>

Q. HOW DID YOU INITIALLY STATE RATES BE SCALED BACK IF THE COMMISSION REDUCES THE INCREASE REQUESTED BY THE COMPANY?

A. I recommended that the Residential and Commercial customer charges and usage rates under I&E Ex. No. 3, Sch. 4, p. 3, Col. E, line 21 be reduced proportionally to the increase originally proposed if the Commission grants less than the Company's request.

Q. WHY DID YOU RECOMMEND A PROPORTIONAL SCALE BACK OF THE CUSTOMER CHARGES AND USAGE RATES?

A. Since under proposed rates, the relative rates of return are moving towards 1.00, and given the small increase in the Commercial usage rates, a proportional scale back of all usage rates is reasonable.

Q. HOW DID THE COMPANY RESPOND TO YOUR SCALE BACK OF RATES PROPOSAL?

A. The Company did not address my scale back recommendation. Therefore, my scale back recommendation should be approved for the reasons set forth in my direct testimony.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Exhibit No. 3-SR
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PIKE COUNTY LIGHT & POWER COMPANY (GAS)

Docket No. R-2020-3022134

Exhibit to Accompany

the

Surrebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

PLANT IN SERVICE – NET PLANT
ACCUMULATED DEFERRED INCOME TAXES
TOTAL RATE BASE
ANNUAL DEPRECIATION EXPENSE
OTHER OPERATING REVENUE - FORFEITED DISCOUNTS
COST OF SERVICE
PROPOSED INCREASE
CUSTOMER COST ANALYSIS-CUSTOMER CHARGES
SCALE BACK OF RATES

Pike County Light And Power Company
Gas Rate Base
At June 30, 2020 And 2021

	Description	Actual Per Books at 6/30/2020	Difference Between Historical and Future Years: Reference	Difference Between Historical and Future Years: Amount	Company Future Year at 6/30/2021	I&E Adjustment	I&E Future Year at 6/30/2021
	(A)	(B)	(C)	(D)	(E)=(B)+(C)	(F)	(G)=(E)+(F)
	Utility Plant:						
1	Gas Plant in Service	$3,001,700	(1a)	$954,000	$3,955,700	-$222,100	$3,733,600
2	Common Plant in Service (Allocated)	$293,600	(1b)	$74,300	$367,900	$0	$367,900
3	Interco plant allocated from Corning Gas (Net)	$0	(1c)	$29,500	$29,500	$0	$29,500
4	CWIP not taking interest	$103,500	(1d)	-$103,500	$0	$0	$0
5	Total Utility Plant	$3,398,800		$954,300	$4,353,100	-$222,100	$4,131,000
	Utility Plant Reserves:						
6	Accumulated Provision For Depreciation						
7	of Gas Plant in Service	$167,000	(2a)	$25,600	$192,600	-$39,400	$153,200
8	of Common Plant in Service (Allocated)	$107,800	(2b)	$16,900	$124,700	-$23,400	$101,300
9	Total Utility Plant Reserves	$274,800		$42,500	$317,300	-$62,800	$254,500
10	Net Plant	$3,124,000		$911,800	$4,035,800	-$159,300	$3,876,500
	Additions to Net Plant						
11	Working Capital Requirements:						
12	Cash Working Capital	$56,900	(3)	$15,600	$72,500	$0	$72,500
13	Materials and Supplies	$147,200	(4)	$6,700	$153,900	$0	$153,900
14	Prepayments	$4,200	(5)	$0	$4,200	$0	$4,200
15	Deferred Debits (Net of Tax)	$0	(6)	$16,000	$0	$0	$0
16	Total Additions	$208,300		$38,300	$230,600	$0	$230,600
	Deductions to Net Plant:						
17	Deferred Credits (Net of Tax)	-$20,300	(7)	$7,400	-$12,900	-$15,107	-$28,007
18	Customer Deposits	$21,700	(8)	$700	$22,400	$0	$22,400
19	Accumulated Deferred Income Taxes	$147,400	(9)	$48,500	$195,900	$0	$195,900
20	Total Deductions	$148,800		$56,600	$205,400	-$15,107	$190,293
21	**Gas Rate Base**	**$3,183,500**		**$893,500**	**$4,061,000**	**-$144,193**	**$3,916,807**

I&E Exhibit No. 3-SR
Schedule 1

I&E Exhibit No. 3-SR
Schedule 2

Pike County Light And Power Company - Gas
Accrued Depreciation
To Gas Plant in Service
For the Twelve Months Ended June 30, 2021

Source: Exhibit G-4, Schedule 8, Page 1

	Increase in Annual Depreciation Reserve Calculation	Gas	100% Common	Gas Common 15%	Total Gas	I&E Adjustment	Gas	100% Common	Gas Common 15%	Total Gas
	(A)	(B)	(C)	(D)	((E) = B+D)	(F)	(G)	(H)	(I)	((J) = G+ I)
1	June 30, 2020 Plant	$3,089,329	$1,840,548	$276,082	$3,365,412	$0	$3,089,329	$1,840,548	$276,082	$3,365,412
2	Plus 50% of Additions / Retirements 7/20 - 6/21	$322,100	$195,000	$29,250	$351,350	$0	$322,100	$195,000	$29,250	$351,350
3	Depreciable Plant	$3,411,429	$2,035,548	$305,332	$3,716,762	$0	$3,411,429	$2,035,548	$305,332	$3,716,762
4	x Composite Depreciation Rate	2.050%	14.013%	14.013%			2.050%	14.013%	14.013%	
5	July 1 2020 - June 30, 2021 Depreciation Accrual	$69,934	$285,241	$42,786	$112,721	$0	$69,934	$285,241	$42,786	$112,721
6	**Rounded**	**$69,900**	**$285,200**	**$42,800**	**$112,700**	**$0**	**$69,900**	**$285,200**	**$42,800**	**$112,700**
7	June 30, 2020 Plant	$3,089,329	$1,840,548	$276,082	$3,365,412	-$3,365,412	$0	$0	$0	$0
8	Plus 100% of Additions / Retirements 7/20 - 6/21	$644,200	$390,000	$58,500	$702,700	-$702,700	$0	$0	$0	$0
9	50% of Additions / Retirements 7/21 - 12/21	$111,050	$0	$0	$111,050	-$111,050	$0	$0	$0	$0
10	Depreciable Plant	$3,844,579	$2,230,548	$334,582	$4,179,162		$0	$0	$0	$0
11	x Composite Depreciation Rate	2.050%	$0	14.013%			2.050%	$0	14.013%	
12	July 1 2021 - June 30, 2022 Depreciation Accrual	$78,814	$312,567	$46,885	$125,699	-$125,699	$0	$0	$0	$0
13	Half A Year	50%	50%	50%	50%		50%	50%	50%	50%
14	July 1 2021 - December 31, 2021 Depreciation Accrual	$39,407	$156,283	$23,443	$62,849	-$62,849	$0	$0	$0	$0
15	**Rounded**	**$39,400**	**$156,300**	**$23,400**	**$62,800**	**-$62,800**	**$0**	**$0**	**$0**	**$0**

I&E Exhibit No. 3-SR
Schedule 2

Pike County Light And Power Company - Gas
Annual Depreciation Expense
At June 30, 2021

	Description	Gas Plant Future Year at 6/30/2021	Common Plant 100%	Common Plant 15%	Company Gas Plant	I&E Adjustment	Gas Plant Future Year at 6/30/2021	Common Plant 100%	Common Plant 15%	I&E Gas Plant
	(A)	(B)	(C)	(D =C X 0.15)	(E)=(B)+(D)	(F)	(G)	(H)	(I =H X 0.15)	(J)=(G)+(I)
	Utility Plant:									
1	Gas Plant in Service	$3,001,661	$1,957,164	$293,575	$3,295,236	$0	$3,001,661	$1,957,164	$293,575	$3,295,236
2	Non Depreciable Plant	$0	-$311,000	-$46,650	-$46,650	$0	$0	-$311,000	-$46,650	-$46,650
3	Total Utility Plant 2020	$3,001,661	$1,646,164	$246,925	$3,248,586	$0	$3,001,661	$1,646,164	$246,925	$3,248,586
4	June 2020-2021 CWIP Completed	$87,668	$105,084	$15,763	$103,431	$0	$87,668	$105,084	$15,763	$103,431
5	June 2020-2021 General Additions	$700,000	$400,000	$60,000	$760,000	$0	$700,000	$400,000	$60,000	$760,000
6	July 2021 - December 2021	$250,000	$300,000	$45,000	$295,000	-$250,000	$0	$300,000	$45,000	$45,000
7	June 2020-2021 Retirements	-$55,800	-$10,000	-$1,500	-$57,300	$0	-$55,800	-$10,000	-$1,500	-$57,300
8	July 2021 - Retirements	-$27,900	-$300,000	-$45,000	-$72,900	$27,900	$0	-$300,000	-$45,000	-$45,000
9	Total Utility Plant	$3,955,629	$2,141,248	$321,187	$4,276,816	-$222,100	$3,733,529	$2,141,248	$321,187	$4,054,717
10	Composite Depreciation Rate	2.050%		14.01%			2.050%		14.01%	
11	**Annual Depreciation Expense**	**$81,090**		**$45,008**	**$126,098**	**-$4,553**	**$76,537**		**$45,008**	**$121,545**

I&E Exhibit No. 3-SR
Schedule 3

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No: R-2020-3022134
	:	
Pike County Light & Power Company (Gas)	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony and Exhibits** dated March 18, 2021, in the manner and upon the person listed below.

Served via Electronic Mail Only

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