

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC)	
UTILITY COMMISSION)	
)	
v.)	Docket No. R-2018-2647577
)	
COLUMBIA GAS OF)	
PENNSYLVANIA, INC.)	

REBUTTAL TESTIMONY OF
JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 3, 2018

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

9 A. Yes. My direct testimony was submitted as OCA Statement No. 3.

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

11 A. The primary purpose of my rebuttal testimony is to respond to certain issues addressed
12 in the direct testimony of Office of Small Business Advocate (“OSBA”) witness Robert
13 D. Knecht; Direct Energy witness Orlando Magnani; and Penn State University witness
14 James L. Crist.

15
16 **II. OSBA WITNESS ROBERT D. KNECHT**

17 Q. PLEASE DESCRIBE MR. KNECHT’S PROPOSED DISTRIBUTION OF
18 THE REVENUE INCREASE AUTHORIZED BY THE COMMISSION IN
19 THIS PROCEEDING.

20 A. Mr. Knecht’s proposed distribution of the revenue increase authorized in this
21 proceeding is guided by weighting the results of the Company’s Peak & Average
22 Allocated Cost of Service (“ACOS”) study at 75 percent and weighting of the results
23 of the Company’s Customer/Demand ACOS study at 25 percent. In addition, Mr.
24 Knecht limited the rate increase to each rate class to no more than 2.0 times the system

1 average increase. Mr. Knecht's 75/25 percent weighted ACOS study results are
2 presented in Table IEC-7.

3 Q. IS MR. KNECHT'S PROPOSED DISTRIBUTION OF THE REVENUE
4 INCREASE AUTHORIZED IN THIS PROCEEDING REASONABLE?

5 A. No, it is not. Both of the Company's ACOS studies assign distribution mains
6 investment into three separate categories and allocate these costs to a class based on
7 the original cost of its distribution mains investment. As I explain in my direct
8 testimony, this allocation is unreasonable because rates in this proceeding will be set
9 based on net investment, not original costs. In addition, the Company's
10 Customer/Demand ACOS study allocates distribution mains investment to class
11 partially based on the number of customers. As explained in my direct testimony, the
12 allocation of distribution mains investment based on the number of customers is
13 inconsistent with cost causation and Commission precedent. Since Mr. Knecht's
14 revenue distribution is based on a weighting of two ACOS, both of which are
15 unreasonable, Mr. Knecht's proposed revenue distribution is unreasonable. The
16 distribution of the revenue increase authorized by the Commission in this proceeding
17 should be guided by the results of the OCA's Peak & Average ACOS study.

18

19 **III. DIRECT ENERGY WITNESS ORLANDO MAGNANI**

20 Q. WHAT ISSUE DOES MR. MAGNANI ADDRESS IN HIS DIRECT
21 TESTIMONY?

22 A. Mr. Magnani claims that the Company has failed to install the equipment necessary to
23 transmit daily customer usage data to suppliers as agreed upon in the Settlement
24 approved in CPA's last base rate proceeding (Docket No. R-2016-2529660). He claims
25 that this information is needed by suppliers to respond to Operational Flow Orders

1 (“OFOs”) and Operational Matching Orders (“OMOs”). Until the necessary equipment
2 is installed and CPA can demonstrate that accurate data is transmitted on a timely basis,
3 Mr. Magnani recommends that suppliers not be penalized for violating OFOs and
4 OMOs.

5 Q. WHAT IS YOUR RESPONSE TO MR. MAGNANI’S
6 RECOMMENDATION?

7 A. I take no position as to whether CPA has complied with the provisions of the Settlement
8 approved in its last base rate proceeding concerning the installation of equipment to
9 transmit daily customer usage data to suppliers. However, if suppliers are not penalized
10 for violating OFOs and OMOs, it is less likely that suppliers will respond to the OFOs
11 and OMOs issued by CPA. If suppliers do not respond to OFOs and OMOs, system
12 reliability may be threatened and CPA may be required to pursue actions that increase
13 its purchased gas costs such as buying high-cost gas supplies during peak periods. If
14 the Commission finds that CPA did not comply with the provisions of the Settlement
15 in its last base rate case and accepts Mr. Magnani’s recommendation, any incremental
16 purchased gas costs incurred by CPA because suppliers did not respond to OFOs and
17 OMOs should be the responsibility of the Company and not PGC sales customers. This
18 would be appropriate under circumstances where additional purchased gas costs are
19 incurred as a result of tariff provisions that are adopted due to the Company’s non-
20 compliance with the Settlement in Docket No. R-2016-2529660.

21

22 **IV. PENN STATE WITNESS JAMES L. CRIST**

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

1 A. I will address certain aspects of Mr. Crist's proposals concerning CPA's issuance of
2 OFOs and OMOs.

3 Q. MR. CRIST CLAIMS THAT CPA'S PENALTY FOR OMO NON-
4 COMPLIANCE OF THREE TIMES THE APPLICABLE DAILY MARKET
5 INDEX PRICE FOR GAS IS UNREASONABLE AND A MORE
6 REASONABLE PENALTY WOULD BE A 20 PERCENT PREMIUM
7 OVER WHAT IT COSTS THE COMPANY TO REMEDY AN OMO
8 VIOLATION. WHAT IS YOUR RESPONSE?

9 A. OMO penalties are designed to discourage imbalances that could threaten system
10 reliability. The costs incurred by CPA to remedy an OMO violation may be less than
11 the daily market index price used to compute the penalty. If the costs incurred by CPA
12 are less than the daily market index price, an economically rational supplier would
13 likely incur the penalty proposed by Mr. Crist rather than comply with the OMO.
14 Therefore, if the current penalty is to be reduced, the penalty should reflect a premium
15 on the higher of either CPA's costs or the daily market index price. To encourage
16 compliance with an OMO, a 100 percent premium would be more reasonable than the
17 20 percent proposed by Mr. Crist. This is half the current 200 percent premium
18 assessed by CPA for OMO violations.

19 Q. MR. CRIST RECOMMENDS THAT ANY PENALTIES COLLECTED BY
20 CPA FOR OFO AND OMO VIOLATIONS BE APPLIED TO PROVIDING
21 ADDITIONAL BALANCING SERVICE AND STORAGE TO SUPPLIERS.
22 DO YOU AGREE?

23 A. No. CPA's system of OFOs and OMOs is designed to encourage compliance with the
24 Company's balancing requirements. Returning those penalties to suppliers through the
25 provision of additional balancing and storage would discourage compliance. In

1 addition, CPA may incur incremental gas costs to remedy the imbalances of suppliers
2 that violate OFOs and OMOs. These incremental costs are currently recovered through
3 PGC rates. Therefore, it would be appropriate to continue to credit PGC customers for
4 all penalties assessed for OFO and OMO violations.

5 Q. MR. CRIST HAS PROPOSED THAT WHEN CPA ISSUES AN OMO FOR
6 MULTIPLE DAYS DURING ANY PORTION OF THE LAST TWO
7 WEEKS OF A DELIVERY MONTH, A SUPPLIER BE GIVEN THE
8 OPTION TO MAKE UP ANY DELIVERY DEFICIENCY THE
9 FOLLOWING MONTH. IS THIS REASONABLE?

10 A. No, and Mr. Crist provides no rationale for his proposal. Mr. Crist's proposal allows
11 suppliers to violate an OMO with no consequences, and will likely result in incremental
12 gas costs being incurred by CPA, which would be assigned to PGC customers.

13 Q. MR. CRIST CLAIMS THAT THE COMPANY'S PROPOSED INCREASE
14 TO THE LDS CLASS IS UNREASONABLE BECAUSE IT FAILS TO
15 RECOGNIZE THAT 50 PERCENT OF LDS VOLUMES ARE PRICED AT
16 DISCOUNTED RATES THAT CANNOT BE INCREASED, AND THIS
17 RESULTS IN AN EXCESSIVELY LARGE INCREASE FOR NON-
18 DISCOUNTED RATE LDS CUSTOMERS. DO YOU AGREE?

19 A. No. The Company has proposed a 9.95 percent increase for the LDS class. Because
20 50 percent of the LDS volumes are priced at discounted rates, the effective increase for
21 non-discounted LDS customers is approximately 20 percent. Such an increase is not
22 excessive given that CPA's overall proposed system increase is 12.4 percent.

23 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

24 A. Yes, it does.

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-2018-2647577
Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, JEROME D. MIERZWA, hereby state that the facts set forth in my Rebuttal Testimony, OCA Statement No. 3R, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

July 2, 2018
Date

Signed: Jerome D. Mierzwa
Jerome D. Mierzwa