

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

SURREBUTTAL TESTIMONY OF
JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 17, 2018

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

TABLE OF CONTENTS

	<u>Page</u>
I. Introduction	1
II. Columbia Gas of Pennsylvania Witness: Mark P. Balmert.....	1
III. Columbia Gas of Pennsylvania Witness: Paula A. Strauss.....	10
IV. Office Of Small Business Advocate Witness: Robert D. Knecht.....	13
V. Pennsylvania State University Witness: James L. Crist.....	16

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, and my rebuttal
10 testimony was submitted as OCA Statement No. 3-R.

11 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A. The purpose of my surrebuttal testimony is to respond to certain issues addressed in
13 the rebuttal testimonies of Columbia Gas of Pennsylvania ("Columbia") witnesses
14 Mark P. Balmert and Paula A. Strauss; Office of Small Business Advocate ("OSBA")
15 witness Robert D. Knecht; and Pennsylvania State University witness James L. Crist.
16 In directly responding to these witnesses, I also indirectly respond to similar
17 testimony sponsored by Columbia Industrial Intervenor witness Frank Plank.

18
19 **II. COLUMBIA GAS OF PENNSYLVANIA**

20 Witness: Mark P. Balmert

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

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

5 Q. IN THIS PROCEEDING, COLUMBIA HAS PRESENTED THREE COST
6 OF SERVICE STUDIES AND MR. BALMERT CLAIMS THAT ITS
7 AFFILIATES IN KENTUCKY, VIRGINIA, AND MARYLAND ALSO
8 SUBMITTED THREE STUDIES IN THEIR MOST RECENT BASE RATE
9 CASE PROCEEDINGS. WHAT IS YOUR RESPONSE?

10 A. Columbia's affiliate in Massachusetts, Columbia Gas of Massachusetts ("CMA")
11 recently filed an application for a base rate increase in D.P.U. 18-45. In that
12 application, CMA filed one cost of service study utilizing the Proportionate
13 Responsibility ("PR") method. The PR method is described in my direct testimony
14 and my direct testimony includes a cost of service study for Columbia utilizing the
15 PR method. The PR method produces cost of service study results that are consistent
16 with the Peak & Average method.

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

20 A. Mr. Balmert claims "customer throughput has absolutely no impact on the
21 determinations of the size, length, or cost of the distribution main serving the
22 customer" (page 8, lines 7 through 9).

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

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

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

14 Q. MR. BALMERT CLAIMS THAT THE PEAK & AVERAGE METHOD
15 OVER ALLOCATES MAINS COSTS TO LARGE CUSTOMERS. DO
16 YOU AGREE?

17 A. No. Presented below in Table 1-S is the distribution main investment assigned to
18 each customer class on a per unit of throughput basis under the Peak & Average cost
19 of service method presented in my direct testimony. As shown there, Residential
20 (RSS/RDS) customers are allocated approximately 50 percent more distribution
21 mains investment than Columbia's larger customers (LDS/LGSS).

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

Class	Allocation
RSS/RDS	\$23.93
SGSS1/SCD1/SGDS1	22.73
SGSS2/SCD2/SGDS2	22.63
SDS/LGSS	20.54
LDS/LGSS	<u>16.11</u>
Total	\$21.29

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2 Q. WHAT IS MR. BALMERT'S RESPONSE TO THE FACT THAT THE
3 COMMISSION APPROVED THE PEAK & AVERAGE METHOD IN A
4 1994 NATIONAL FUEL GAS DISTRIBUTION CORPORATION
5 ("NFGD") PROCEEDING?

6 A. Mr. Balmert claims that in approving the Peak & Average method in the 1994 NFGD
7 base rate proceeding at Docket No R-00942991, NFGD only presented cost of service
8 studies using the Peak & Average method and, therefore, the Commission was in no
9 way making a statement about the applicability of a study which allocates mains
10 investment partially on the basis of the number of customers.

11 Q. WHAT IS YOUR RESPONSE TO MR. BALMERT?

12 A. In Philadelphia Gas Works, Docket No. R-0006931, 2007 Pa. PUC Lexis 46 (2007),
13 the Commission found that mains allocations based on the number of customers were
14 not acceptable. Moreover, Mr. Balmert overlooks that, in its Order in the NFGD
15 proceeding, the Commission found:

16 The Peak and Average method that allocates mains
17 equally is a sound and reasonable method of cost
18 allocation which should remain intact.

1 Q. IN YOUR DIRECT TESTIMONY, YOU CITE COMMISSION ORDERS IN
2 INDIANA AND ILLINOIS THAT SUPPORT THE USE OF THE PEAK &
3 AVERAGE METHOD TO ALLOCATE DISTRIBUTION MAINS. WHAT
4 IS MR. BALMERT'S RESPONSE TO THESE ORDERS?

5 A. Mr. Balmert notes that in each of the cases that the commission in that jurisdiction
6 was not presented with a Customer/Demand cost study similar to what Columbia has
7 presented in this proceeding and, therefore, could not consider the merits of such a
8 study.

9 Q. WHAT IS YOUR RESPONSE TO MR. BALMERT'S CLAIM?

10 A. Importantly, what Mr. Balmert fails to consider is why Customer/Demand studies
11 were not presented in those proceedings. While I cannot speak for the parties to those
12 proceedings, I would expect that Customer/Demand studies were not presented
13 because they were inconsistent with commission precedent or the analysts felt they
14 were unreasonable.

15 Q. PLEASE SUMMARIZE YOUR OBSERVATIONS IN YOUR DIRECT
16 TESTIMONY THAT COLUMBIA'S CUSTOMER/DEMAND STUDY DID
17 NOT PROPERLY CONSIDER CUSTOMER DEMANDS THAT CAN BE
18 MET FROM A 2-INCH MAIN WHEN DETERMINING THE
19 ALLOCATION OF THE DEMAND-RELATED PORTION OF
20 DISTRIBUTION MAINS.

21 A. Columbia's Customer/Demand study utilized a minimum-sized system approach to
22 determine the customer component of distribution mains investment. More
23 specifically, Columbia's minimum-sized system was based on the hypothetical costs
24 associated with a 2-inch distribution main system, and it is these costs which were
25 allocated based on the number of customers. Under this approach, as shown on Table

1 of my Direct Testimony, Columbia's minimum system represents approximately 50
2 percent of total mains investment. In my direct testimony, I noted that all (or nearly
3 all) Residential customers' design day demands could be met through the 2-inch
4 minimum system. This being the case, I noted that there would be little to no unmet
5 Residential gas service requirements that would be dependent upon demand-related
6 pipe costs. That is, the minimum system portion of distribution mains would be
7 sufficient to meet the design day demands of Residential customers and, therefore, it
8 would be inappropriate to allocate any additional portion of distribution mains that is
9 allocated based on design day demands to Residential customers.

10 Q. WHAT IS MR. BALMERT'S RESPONSE TO YOUR CLAIM?

11 A. Mr. Balmert agrees that all (or nearly all) Residential customers could be provided
12 service through the minimum system. However, he notes that most Residential
13 customers are not served entirely by 2-inch mains, and suggests that the Residential
14 class' proportionate share of the capacity of the 2-inch minimum system is no
15 different from that class' proportionate share of the entire distribution system.

16 Q. WHAT IS YOUR RESPONSE TO WITNESS BALMERT?

17 A. In Columbia's 2015 base rate proceeding at Docket No. R-2015-2468056, Mr.
18 Balmert performed an analysis that found that the 2-inch minimum system would be
19 capable of serving all Residential customers with an annual demand of 1,165.4 Mcf
20 per year or less. He noted that virtually all Residential customers use less than
21 1,165.4 Mcf per year. Therefore, Mr. Balmert concluded that all Residential
22 customers could be served by the minimum system. The average residential customer
23 uses 87 Mcf per year, and certainly the share of Residential customers using less than
24 1,165.4 Mcf per year is greater than the share in other rate classes. For example, the
25 average usage per customer for the LDS/LGSS rate class is 229,466 Mcf per year and

1 for the SDS/LGSS rate class average usage is 16,283 Mcf per year. Therefore, the
2 proportionate share of demands being met by the minimum system for Residential is
3 much greater than that of other rate classes.

4 Q. MR. BALMERT CLAIMS THAT EACH TIME THE COMPANY
5 EXTENDS A GAS MAIN FOR A NEW CUSTOMER, AT A MINIMUM, A
6 PORTION OF THE MAINS COSTS EQUAL TO THE COST OF A
7 MINIMUM SIZE PIPE SHOULD BE RECOVERED FROM EACH
8 CUSTOMER, REGARDLESS OF THE CUSTOMER'S DEMAND. WHAT
9 IS YOUR RESPONSE?

10 A. If the Company's revenue calculations were accurate under the main extension policy
11 in place when service was extended to the majority of Columbia's customers, all of
12 the costs associated with extending service to a customer will be recovered from that
13 customer.

14 Q. MR. BALMERT CLAIMS THAT THE COMPANY'S ASSIGNMENT OF
15 DISTRIBUTION MAINS TO SEPARATE PRESSURE GROUPS SHOULD
16 NOT BE REJECTED AS YOU RECOMMEND IN YOUR DIRECT
17 TESTIMONY. WHAT IS YOUR RESPONSE?

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

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

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

9 Q. MR. BALMERT DISAGREES WITH YOUR PROPOSED ALLOCATION
10 OF THE COSTS ASSOCIATED WITH MAJOR ACCOUNT
11 REPRESENTATIVES THAT MANAGE LARGE INDUSTRIAL AND
12 COMMERCIAL CUSTOMER ACCOUNTS. WHAT IS YOUR
13 RESPONSE?

14 A. In my direct testimony, I recommended that the costs associated with Major Account
15 Representatives be allocated to the Company's larger customer classes. Mr. Balmert
16 claims that if Major Account Representative costs were only assigned to larger
17 customers, it would be fair to then credit large customers to recognize that they do not
18 use the Company's call center for bill inquiries as Residential customers do. Mr.
19 Balmert fails to acknowledge, however, that the Company has assigned the
20 Residential class more than 90 percent of the Major Account Representative costs,
21 compared to the assigning of only 0.12 percent to the larger customer classes for the
22 costs associated with the Company's call center. As I stated in my direct testimony,
23 this discrepancy is a result of the Company allocating these costs based on the
24 number of customers. This method of allocation unreasonably places the
25 overwhelming majority of these costs on the Residential class. Further, while large

1 customers have account representatives, these customers may use the call center and
2 emergency numbers for other purposes such as odors and leaks.

3 Q. MR. BALMERT CLAIMS THAT THE RESIDENTIAL CUSTOMER
4 CHARGE CALCULATION PRESENTED IN YOUR DIRECT
5 TESTIMONY DID NOT PROPERLY ADJUST THE INCOME TAXES
6 AND RETURN OF THE RESIDENTIAL CLASS. HAVE YOU REVISED
7 YOUR CUSTOMER CHARGE CALCULATION TO CORRECT YOUR
8 CUSTOMER CHARGE CALCULATION?

9 A. Yes. A revised Residential customer charge calculation is presented in Schedule
10 JDM-5 Revised which is attached to my testimony. As shown on Schedule JDM-5
11 Revised, the calculated charge is unchanged from the \$17.67 included in my direct
12 testimony. Columbia's current monthly Residential customer charge is already the
13 highest in the Commonwealth. Additional adjustments to Columbia's revenue
14 requirement claim are likely to be approved by the Commission which will further
15 reduce the calculated charge. Therefore, I continue to recommend that the existing
16 \$16.75 monthly charge be maintained, unless the increase authorized by the
17 Commission is sufficient to justify a higher charge based on the OCA's cost-based
18 approach.

19 Q. MR. BALMERT INDICATES THAT COLUMBIA CONTINUES TO
20 BELIEVE THAT ALL OF THE COSTS THAT ARE INCLUDED IN ITS
21 CUSTOMER CHARGE STUDY SHOULD BE RECOVERED THROUGH
22 THE CUSTOMER CHARGE. HE ALSO CLAIMS THAT
23 UNCOLLECTIBLE ACCOUNTS SHOULD BE INCLUDED IN THE
24 CUSTOMER CHARGE. WHAT IS YOUR RESPONSE?

1 A. The customer charge calculation presented in my direct testimony is generally based
2 on the method approved by the Commission in a PPL Gas Utilities Corp. rate case.
3 Pa. PUC v. PPL Gas Utilities Corp., 2007 Pa. PUC LEXIS 2 (2007). In that
4 proceeding, uncollectible accounts were excluded from the calculation of the
5 customer charge approved by the Commission.

6
7 **III. COLUMBIA GAS OF PENNSYLVANIA**

8 Witness: Paula A. Strauss

9 Q. MS. STRAUSS CONTENDS THAT YOUR RECOMMENDED REVENUE
10 DISTRIBUTION DOES NOT ABIDE BY ALL THE PRINCIPLES OF A
11 SOUND RATE DESIGN THAT YOU PRESENTED IN YOUR DIRECT
12 TESTIMONY. WHAT IS YOUR RESPONSE?

13 A. Ms. Strauss contends that my recommended revenue distribution is flawed because it
14 results in an increase of 24.4 percent for the SDS/LGSS customer class and that this
15 violates the principle of gradualism. This increase is slightly less than 2 times the
16 system average increase of 12.4 percent and, therefore, I believe consistent with the
17 principal of gradualism. In addition, the 24.4 percent is based on the Company's
18 requested increase. The increase authorized by the Commission will certainly be less
19 than the Company's requested increase and, therefore, the increase for the SDS/LGSS
20 customer class would be less than 24.4 percent.

21 Q. MS. STRAUSS DISAGREES WITH YOUR PROPOSAL TO INCREASE
22 THE RATES OF THE MLDS CLASS BASED ON THE FACT THAT THIS
23 CLASS HAS NOT RECEIVED AN INCREASE IN A NUMBER OF
24 YEARS. WHAT IS YOUR RESPONSE?

1 A. Ms. Strauss claims my proposal should be rejected because the MLDS rate class is
2 already paying significantly in excess of the allocated cost of service. As explained
3 in my direct testimony, a sound revenue allocation should use class cost of service as
4 a guide. A sound revenue allocation should also promote gradualism. Assigning an
5 increase to the MLDS rate class will promote gradualism. Under my proposal, at the
6 Company's requested revenue increase, the MLDS rate class would experience an
7 increase of \$0.0321 per Mcf.

8 Q. THE COMPANY OPPOSES YOUR RECOMMENDATION TO
9 MAINTAIN THE 5 PERCENT WEATHER NORMALIZATION
10 ADJUSTMENT ("WNA") DEADBAND. WHAT IS THE BASIS FOR THIS
11 OPPOSITION?

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

15 Q. WHAT IS YOUR RESPONSE TO MS. STRAUSS' CLAIM?

16 A. The WNA does not eliminate the impact of weather on the Company's revenues. The
17 WNA attempts to eliminate the revenue impact of temperatures that are warmer or
18 colder than normal. Other weather variables can influence customer usage levels
19 such as windspeed and the percentage of sunshine on a particular day. In addition,
20 factors such as day of the week influence customer usage levels. The current WNA
21 does not account for variations in usage due to these other factors. Maintaining the 5
22 percent deadband assists in limiting revenue adjustments solely attributable to
23 differences between actual and normal temperatures.

24 Q. MS. STRAUSS DISAGREES WITH YOUR CLAIM IN YOUR DIRECT
25 TESTIMONY THAT THE COMPANY'S PROPOSED REVENUE

1 NORMALIZATION ADJUSTMENT (“RNA”) SHOULD NOT BE
2 ASSESSED TO CUSTOMERS WITH CONSTANT USAGE. WHAT IS
3 YOUR RESPONSE?

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

10 Q. MS. STRAUSS ALSO DISAGREES WITH YOU THAT THE RNA IS
11 EQUAL TO A “TAKE-OR-PAY” ARRANGEMENT. WHAT IS YOUR
12 RESPONSE?

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

18 Q. FINALLY, MS. STRAUSS DISAGREES WITH YOUR ASSERTION THAT
19 COLUMBIA’S CURRENT SYSTEM OF RATES AND CHARGES
20 ALREADY PROVIDE FOR REVENUE STABILITY. WHAT IS YOUR
21 RESPONSE?

22 A. Ms. Strauss presents no evidence or analysis to demonstrate that Columbia’s current
23 system of rates and charges do not provide sufficient revenue stability. Therefore, her
24 claim should be dismissed.

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

2 Witness: Robert D. Knecht

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

8 A. In my direct testimony I explained that, excluding the MLS/MLDS rate class,
9 Columbia assigned the original cost of distribution mains investment to three
10 categories: (1) Low Pressure; (2) Regulated Non-Low Pressure; and (3) Remaining
11 Regulated Pressure. Each of these categories was then separately allocated to rate
12 class under the Company's Customer/Demand, Peak and Average, and Average
13 ACOS Studies. I recommended that Columbia's sub-functionalization of distribution
14 mains investment be rejected because it failed to consider the net investment of each
15 distribution mains category, and rates in this proceeding will be set based on net
16 investment, not original costs. That is, it failed to assign older, more depreciated
17 mains costs to the specific rate classes served by those mains. Mr. Knecht claims that
18 my Peak & Average cost of service study fails to account for differences in the
19 depreciated value of the mains serving each customer class.

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

23 A. In its cost of service studies, the Company did not account for differences in the
24 depreciated value of the mains serving each customer class because that information

1 was not available. Since this information is not available, I could not account for
2 these differences in my cost study.

3 Q. MR. KNECHT CLAIMS THAT THE ALLOCATION OF MAINS COSTS
4 50 PERCENT BASED ON PEAK DEMANDS AND 50 PERCENT BASED
5 ON AVERAGE ANNUAL THROUGHPUT UNDER THE PEAK &
6 AVERAGE METHOD IS UNREALISTIC. WHAT IS YOUR RESPONSE?

7 A. As I indicated in my direct testimony, the costs incurred by Columbia to meet
8 demands that are in excess of average demands are less than half the costs associated
9 with meeting average demands. Therefore, a 50 percent allocation of mains costs
10 based on peak demands and 50 percent allocation based on average demands is not
11 unrealistic as Mr. Knecht contends.

12 Q. MR. KNECHT NOTES THAT THE COMMISSION HAS PREVIOUSLY
13 APPROVED THE USE OF THE MINIMUM SYSTEM APPROACH WITH
14 A CUSTOMER COMPONENT FOR ELECTRIC DISTRIBUTION
15 COMPANIES ("EDC"). WHAT IS YOUR RESPONSE?

16 A. Mr. Knecht has failed to recognize that the mains extension policies of NGDCs like
17 Columbia have historically been different from the line extension policies of EDCs.
18 Until recently, under Columbia's line extension policy, Columbia was under no
19 obligation to extend its distribution mains unless the annual revenues expected to be
20 realized from the extension exceed the amount of the related investment over a
21 specified period of time. Therefore, there was no customer component of distribution
22 mains for Columbia and annual volumes were the primary cost-causation factor to be
23 considered. PPL Electric Utilities Corporation ("PPL"), an EDC cited by Mr. Knecht,
24 is required to extend its distribution lines to a customer located up to 500 feet from
25 PPL's current distribution lines at no cost, and annual volumes are not a primary

1 cost-causation factor.¹ Therefore, cost causation for extensions for NGDCs and
2 EDCs are not similar as Mr. Knecht contends.

3 Q. WHAT IS WITNESS KNECHT'S RESPONSE TO YOUR CLAIM THAT
4 NON-RESIDENTIAL CUSTOMERS ARE "TYPICALLY LOCATED
5 FARTHER APART THAN RESIDENTIAL CUSTOMERS."

6 A. Witness Knecht does not disagree with my claim but indicates that I offer no specific
7 evidence. He then claims that small and medium sized businesses may be located in
8 concentrated commercial areas such that the density for those customers is actually
9 higher than that for Residential customers. However, he presents no evidence of the
10 extent to which the concentrated commercial areas exist in Columbia's service
11 territory or the density for those customers.

12 Q. MR. KNECHT RECOMMENDS THAT SEVERAL ADJUSTMENTS BE
13 MADE TO YOUR PROPOSED REVENUE DISTRIBUTION IF THE
14 COMMISSION ADOPTS YOUR PEAK & AVERAGE COST OF SERVICE
15 STUDY. DO YOU AGREE WITH THOSE ADJUSTMENTS?

16 A. Yes. Mr. Knecht recommends that if the Commission adopts my Peak & Average
17 study, the revenue allocation to the LDS/LGSS non-flex customers should be
18 increased, and that the increases for the SGS1 and SGS2 classes should be adjusted to
19 better reflect the cost of service. Presented below in Table 8-Revised is a revised
20 proposed revenue distribution that reflects these adjustments included with my
21 testimony is Schedule JDM-4 Revised, which provides additional detail concerning
22 the revised revenue distribution.

¹ PPL Electric Tariff, 10th Revised page no. 8.

Table 8 – Revised OCA Proposed Revenue Distribution				
Class	Present Rates	Proposed Rates	Increase	Percent
RSS/RDS	\$271,367,083	\$300,940,248	\$29,573,165	10.9%
SGSS1/SCD1/SGDS1	34,668,145	39,407,755	4,739,610	13.7
SGSS2/SCD2/SGDS2	34,273,349	38,955,091	4,681,742	13.7
SDS/LGSS	17,687,766	22,002,163	4,314,397	24.4
LDS/LGSS	17,899,205	21,276,277	3,377,072	18.9
MLDS	1,204,052	1,353,600	149,548	12.4
Total:	\$377,099,600	\$423,935,134	\$46,835,534	12.4%

1 **V. PENNSYLVANIA STATE UNIVERSITY**

2 Witness: James L. Crist

3 Q. IN YOUR DIRECT TESTIMONY YOU PRESENT TABLE 2 WHICH
 4 SHOWS THE DISTANCE IN FEET COLUMBIA WAS REQUIRED TO
 5 EXTEND ITS DISTRIBUTION MAINS TO SERVE LARGER
 6 CUSTOMERS, AND THESE DISTANCES SIGNIFICANTLY EXCEEDED
 7 THE FEET OF MAIN ASSIGNED TO THESE CUSTOMERS UNDER THE
 8 COMPANY'S CUSTOMER-DEMAND STUDY. WHAT IS MR. CRIST'S
 9 RESPONSE?

10 A. Mr. Crist claims that Columbia serves customers in less dense areas and that this
 11 supports an allocation of distribution mains costs based on the number of customers.
 12 He concludes that this refutes my claims concerning the number of feet required to
 13 extend service to larger customers.

14 Q. DO YOU AGREE?

15 A. No. Mr. Crist's claims are based on hypothetical assumptions. Table 2 presents
 16 actual information concerning the extent to which Columbia was required to extend
 17 its mains to serve larger customers. On average, Columbia's Customer/Demand

1 Study assigns 90 feet of mains to every customer. As shown on Table 2, Columbia
2 was required to extend its system by much more than 90 feet to serve its largest
3 customers.

4 Q. IN YOUR DIRECT TESTIMONY YOU INCLUDE A CITATION FROM
5 PROFESSOR BONBRIGHT UTILIZING AN EXAMPLE FROM THE
6 ELECTRIC INDUSTRY TO SUPPORT YOUR POSITION THAT THERE
7 IS ONLY A WEAK CORRELATION BETWEEN THE MILEAGE OF A
8 DISTRIBUTION SYSTEM AND THE NUMBER OF CUSTOMERS
9 SERVED BY A SYSTEM. MR. CRIST CLAIMS THAT YOU FAILED TO
10 EXPLAIN WHY THIS ALSO WOULD APPLY TO COLUMBIA'S GAS
11 DISTRIBUTION SYSTEM. WHAT IS YOUR RESPONSE?

12 A. I believe it is reasonable to assume all of Columbia's customers also receive electric
13 distribution service. Therefore, it is reasonable to assume that the weak correlation
14 also exists for Columbia's gas distribution system.

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

19 A. No. Mr. Crist has mis-read my testimony. I did not recommend that that distribution
20 mains be allocated entirely based on average demand. I recommended that
21 distribution mains should be partially allocated based on peak demand and partially
22 based on average demand. In the cost of service study I present in my direct
23 testimony, distribution mains are allocated 50 percent based on peak demand and
24 50% based on average demand.

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

6 A. My review of the Order referenced by Mr. Crist indicates that the MDPSC was not
7 presented with a cost of service study utilizing the Peak & Average method in BGE’s
8 rate case. I would note that in the most recently litigated base rate proceeding of
9 Washington Gas Light Company (“WGL”), the MDPSC found “...that the CCOSS
10 and accompanying demand study were sufficient for purposes of rate design and that
11 the Proposed Order fairly assigned costs to each customer class, including non-
12 residential customer classes.” (Order No. 86013, Case No. 9322, Issued November
13 22, 2013). In that proceeding WGL’s cost of service study utilized the same Peak &
14 Average approach to the allocation of distribution mains I am proposing in this
15 proceeding. I would further note that WGL has just recently filed a base rate
16 application with the MDPSC (Case No. 9481). The cost of service study filed by
17 WGL in that application also utilizes the Peak & Average method.

18 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

19 A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

SCHEDULES ACCOMPANYING THE
SURREBUTTAL TESTIMONY OF
JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 17, 2018

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

Columbia Gas of Pennsylvania, Inc.
 Allocation of Proposed Annual Revenues by Rate Schedule Based on Revenue Requirement
 For the 12 Months Ended December 31, 2019

Line No.	Description	RS/RD/GS						MDS/SS
		Total (1)	RD/GS/RCC (2)	SGSS/ISCD/ISGDS1 (3)	SGSS/ISCD2/ISGDS2 (3)	SDS/ILGS (4)	LDL/ILGS (5)	
1	Determination of Revenue Distribution							
2	Rate Base (Exhibit 111, Schedule 1, Page 2, Line 12)	\$1,915,986,457	\$1,138,439,439	\$170,192,468	\$187,589,359	\$129,969,486	\$288,909,992	\$885,703
3	Utilized Return @ Current Rates (Exhibit 111, Schedule 1, Page 2, Line 14)	1,00000	1,28070	1,13900	1,15814	0,57664	(0,17645)	13,50857
4	Proposed Unutilized Return	0,00000	1,24007	1,13900	1,12600	0,75000	(0,03111)	12,04300
5	Change in Utilized Return		(0,05063)	(0,00000)	(0,03014)	0,17336	0,14534	(1,46557)
6	Rate of Return Requested	8,100%	10,045%	9,220%	9,121%	6,075%	-0,252%	97,548%
7	Net Operating Income @ Requested Return (Line 2 x Line 7)	\$155,185,713	\$114,351,244	\$15,701,697	\$17,110,938	\$7,896,647	(\$728,063)	\$963,986
8	Net Operating Income @ Current Rates (Exhibit 111, Sch. 1, Page 2, Line 11)	\$120,752,883	\$92,603,149	\$12,216,449	\$13,667,987	\$4,722,041	(\$3,211,561)	\$754,008
9	Income Deficiency (Line 8 - Line 9)	\$34,442,830	\$21,748,095	\$3,485,508	\$3,442,951	\$3,172,806	\$2,483,498	\$109,978
10	Gross Conversion Factor	1,36275815	1,36275815	1,36275815	1,36275815	1,36275815	1,36275815	1,36275815
11	Revenue Required Increase (Exhibit 102 Sch. 3 Page 3)	46,937,254	29,637,393	4,749,904	4,691,910	4,323,767	3,984,407	149,873
12	Percent Distribution to Rate Classes	100,00%	57,31%	10,12%	15,83%	9,21%	7,21%	0,32%
13	Proposed Change in STAS (Page 1 Line 1 through Line 17)	0	0	0	0	0	0	0
14	Less: Proposed Change Other Gas Department Revenue (Page 1 Line 17)	101,720	64,228	10,294	10,168	9,370	7,305	325
15	Less: Proposed Change in Risk CC (Page 2 Line 16 through Line 34)	0	0	0	0	0	0	0
16	Proposed Change in Gas Procurement Revenue (Page 2 Line 5 through Line 17)	0	0	0	0	0	0	0
17	Proposed Increase to Base Revenue	\$46,835,534	\$28,573,165	\$4,739,610	\$4,681,742	\$4,314,397	\$3,377,072	\$149,548
18	Percent Distribution to Rate Classes	100,00%	63,14%	10,12%	10,00%	9,21%	7,21%	0,32%
19	Current Base Revenue	\$377,099,600	\$271,367,083	\$34,668,145	\$34,273,349	\$17,687,766	\$17,895,205	\$1,204,052
20	Current Percent Distribution of Rate Classes	100,00%	71,86%	9,19%	9,09%	4,68%	4,75%	0,32%
21	Proposed Base Revenue	\$423,935,134	\$300,940,248	\$39,407,755	\$38,955,091	\$22,002,163	\$21,276,277	\$1,353,600
22	Proposed Percent Distribution of Rate Classes	100,00%	70,99%	9,19%	9,19%	5,19%	5,02%	0,32%
23	Proposed Percent Increase	12,42%	10,90%	13,67%	13,66%	24,39%	18,87%	12,42%

COLUMBIA GAS OF PENNSYLVANIA, INC.

Analysis of Residential Customer Costs (1)

PER COMPANY REQUESTED INCREASE

Annual Customer Base Costs per Company	\$	94,925,576
OCA Adjustments:		
Uncollectibles	\$	(4,257,355)
Miscellaneous	\$	(3,607)
Demonstration	\$	(552,428)
Advertising	\$	<u>(250,772)</u>
Total OCA Adjustments	\$	(5,064,162)
Annual Customer Base Costs per OCA	\$	89,861,414
Average Annual Customer Bills		4,828,182
Monthly Customer Charge	\$	<u>18.61</u>

ADJUSTMENT TO REFLECT OCA RETURN RECOMMENDATION

Annual Customer Base Costs per OCA	\$	89,861,414
Per Company		
Customer Cost Rate Base	\$	380,847,020
Return @ 8.1%	\$	30,848,609
Income Taxes	\$	<u>8,868,694</u>
Total Return and Taxes		\$ 39,717,303
Per OCA		
Customer Cost Rate Base	\$	380,847,020
Return @ 7.17%	\$	27,307,927
Income Taxes	\$	<u>7,850,780</u>
Total Return and Taxes		<u>\$ 35,158,707</u>
OCA Return and Income Tax Adjustment	\$	(4,558,596)
Adjusted Customer Costs	\$	85,302,818
Monthly Customer Charge	\$	<u>17.67</u>

Note: (1) Costs from Exhibit No. 111, Schedule 1, pages 23 - 25.

BEFORE THE
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 Surrebuttal Testimony, OCA Statement No. 3-SR, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

July 17, 2018
Date

Signed: Jerome D. Mierzwa
Jerome D. Mierzwa