

**I&E Statement No. 1-SR  
Witness: D. C. Patel  
NON-PROPRIETARY**

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**v.**

**COLUMBIA GAS OF PENNSYLVANIA, INC.**

**Docket Nos. R-2018-2647577**

**Surrebuttal Testimony**

**of**

**D. C. Patel**

**Bureau of Investigation and Enforcement**

**Concerning:**

**OPERATING AND MAINTENANCE EXPENSES**

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**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is D. C. Patel, and my business address is Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

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

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

**Q. ARE YOU THE SAME D. C. PATEL WHO SUBMITTED THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 1 AND I&E EXHIBIT NO. 1?**

A. Yes.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Columbia Gas of Pennsylvania, Inc. (“Columbia” or “Company”) witnesses and Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”) witness listed below:

- Kelley K. Miller (Columbia Statement No. 4-R) regarding the Company's updated revenue requirement, labor annualization, rate case expense, and injuries and damages;
- Nancy J. D. Krajovic (Columbia Statement No. 10-R) regarding labor expense, other employee benefits, incentive compensation, corporate insurance, PUC, OCA, OSBA fees, pension deferral amortization, and federal income taxes;
- Kimberly K. Cartella (Columbia Statement No. 15-R) regarding profit sharing, stock awards, and NCSC shared services;
- Panpilas W. Fischer (Columbia Statement No. 9-R) regarding payroll tax expense; and
- Deborah A. Davis (Columbia Statement No. 14-R) and Mitchell Miller (CAUSE-PA Statement 1-R) regarding the Hardship Fund.

**Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

A. Yes. I will also refer to my direct testimony and accompanying exhibit (I&E Statement No. 1 and I&E Exhibit No. 1) as appropriate.

**SUMMARY OF I&E UPDATED O&M EXPENSE ADJUSTMENTS**

**Q. PLEASE SUMMARIZE YOUR UPDATED OPERATING AND MAINTENANCE (O&M) EXPENSE ADJUSTMENTS.**

A. The following table summarizes my updated recommended allowance and adjustments for the O&M expenses.

	<b>Company Revised Claim</b>	<b>I&amp;E Updated Recommended Allowance</b>	<b>I&amp;E Updated Adjustment</b>
<b>O&amp;M Expenses:</b>			
Rate Case Expense	\$1,060,000	\$795,000	(\$265,000)
Labor Expense	\$32,925,635	\$31,597,881	(\$1,327,754)
Other Employee Benefits	\$6,951,000	\$6,678,770	(\$272,230)
Incentive Compensation	\$2,214,000	\$1,897,675	(\$316,325)
Payroll/FICA Taxes	\$2,598,027	\$2,477,064	(\$120,963)
NCSC - Shared Services	\$39,380,343	\$37,663,567	(\$1,716,776)
NCSC - Shared Operations	\$27,311,762	\$27,234,202	(\$77,560)
Injuries & Damages	\$352,959	\$327,797	(\$25,162)
PUC, OCA, OSBA Fees	\$2,260,000	\$2,248,344	(\$11,656)
Pension Deferral Amortization	\$2,816,591	\$0	(\$2,816,591)
<b>Total O&amp;M Expense Adjustments</b>			<b><u>(\$6,950,017)</u></b>

### **SUMMARY OF I&E OVERALL UPDATED POSITION**

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

A. I&E's updated total recommended revenue requirement for the Company is \$581,698,082. This recommended revenue requirement represents an increase of \$9,667,704 to the I&E's adjusted present rate revenues of \$572,030,378. This total recommended allowable increase incorporates my updated adjustments made

in this testimony and those made in the surrebuttal testimonies of I&E witnesses Christopher M. Henkel (I&E Statement No. 2-SR) and Ethan Cline (I&E Statement No. 3-SR).

The following table summarizes the calculation of the I&E surrebuttal position for the updated total recommended revenue requirement:

Columbia Gas of PA Inc R-2018-2647577		<b>TABLE I</b>			
		<b>INCOME</b>		<b>SUMMARY</b>	
12/31/19		INVESTIGATION & ENFORCEMENT			
Proforma		[-----]			
Present Rates	Adjustments	Present Rates	Allowances	Proposed	
\$	\$	\$	\$	\$	
Operating Revenue	575,362,879	-3,332,501	572,030,378	9,667,704	581,698,082
Deductions:					
O&M Expenses	354,241,828	-8,062,248	346,179,580	115,098	346,294,678
Depreciation	77,301,908	-3,790,634	73,511,274		73,511,274
Taxes, Other	3,457,422	-120,963	3,336,459	0	3,336,459
Income Taxes:					
Current State	113,981	668,673	782,654	572,201	1,354,855
Current Federal	19,667,267	2,203,841	21,871,108	1,885,885	23,756,993
Deferred Taxes	10,162	0	10,162		10,162
ITC	-299,568	0	-299,568		-299,568
Total Deductions	454,493,000	-9,101,331	445,391,669	2,573,184	447,964,853
Income Available	120,869,879	5,768,830	126,638,709	7,094,520	133,733,229
Measure of Value	1,899,075,978	-106,405,349	1,792,670,629	0	1,792,670,629
Rate of Return	6.36%		7.06%		7.46%

## **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 16 months resulting in an annual expense of \$795,000 ( $(\$1,060,000 \div 16 \text{ months}) \times 12 \text{ months}$ ), or a reduction of \$265,000 ( $\$1,060,000 - \$795,000$ ) to the Company's annual rate case expense claim. I disagreed with the Company's claimed one-year normalization period, which is not supported by the Company's historic filing frequency (I&E Statement No. 1, p. 7).

### **Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

A. Yes. Company witness Kelley K. Miller responded to my recommendation and stated that rate case expense should be normalized over a 12-month period. Ms. Miller expressed disagreement with my recommendation opining that the Company anticipates a need to file rate cases in the near future and, during recent years, the Company has filed annual rate cases with only a few exceptions. She expresses her opinion that the Company's most recent historic filing record is the best indicator of a future filing frequency, and, therefore, a 12-month normalization period is appropriate (Columbia Statement No. 4-R, pp. 4-5).

**Q. DO YOU AGREE WITH MS. MILLER’S RESPONSE?**

A. No. As stated in my direct testimony, the Commission has 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 (I&E Statement No. 1, pp. 7-8). Further, Ms. Miller admits that the Company’s most recent historic filing record is the best indicator of future filing frequency. However, the Company’s historical filing frequency record does not support the claimed 12-month normalization period. While the Commission allows utilities to normalize this expense, it is not appropriate to do so over a time period that is based on speculation of a need to file annual rate cases in near future.

**Q. WERE THERE ANY UTILITY COMPANIES THAT HAVE BEEN GRANTED A NORMALIZATION PERIOD BASED ON FUTURE 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.<sup>1</sup> 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 thirty-six months after the 2012 rate case filing.

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<sup>1</sup> Docket No. R-2012-2290597, PA Public Utility Commission Opinion and Order, p. 48.

Hence, the discrepancy between PPL's *intention to file* and its actual filing date of another rate case shows that historic filing frequencies are more reliable than future projections when determining an appropriate normalization period for rate case expense.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR RATE CASE EXPENSE?**

A. No. I continue to recommend that rate case expenses be normalized over 16 months, as the Company's historic filing frequency does not support the 12-month normalization period claimed by the Company (I&E Statement No. 2, pp. 7-8).

**LABOR EXPENSE**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING LABOR EXPENSE.**

A. In direct testimony, I recommended an allowance of \$31,589,502 for labor expense, or a reduction of \$1,327,754 (\$32,917,256 - \$31,589,502) to the Company's claim. This recommendation is based on three adjustments: (1) a pay increase annualization adjustment; (2) stock awards; and (3) an employee vacancy adjustment that are part of the labor expense claim (I&E Statement No. 1, p. 10).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR LABOR EXPENSE?**

A. Yes. The Company's following witnesses responded to my recommendation for the labor expense.

Kimberly K. Cartella responded to my recommendation for the stock awards adjustment (Columbia Statement No. 15-R, pp. 2-5); Kelley K. Miller responded to my recommendation for the annualization adjustment (Columbia Statement No. 4-R, p. 4); and Nancy J. D. Krajovic responded to my recommendation for the employee vacancy adjustment (Columbia Statement No. 10-R, pp. 9-10).

I will address each of the above witnesses separately.

**Stock Awards**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING STOCK AWARDS.**

A. In direct testimony, I recommended disallowance of the Company's entire claim of \$97,639 for the allocated stock awards expense that is included in the fully projected future test year ("FPFTY") labor expense claim (I&E Statement No. 1, p. 11).

**Q. WHAT WAS COMPANY WITNESS CARTELLA'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RECOMMENDATION FOR STOCK AWARDS?**

A. Ms. Cartella states that stock awards are a common element of compensation at a certain level of organizations throughout the U.S. She opines that these awards allow Columbia and NiSource to attract and retain individuals at executive levels, which would be difficult to accomplish without this element of compensation (Columbia Statement No. 15-R, p. 7). Ms. Cartella further states that retaining key leaders and attracting new talented individuals is critical to maintaining a high quality of service, efficiency, and safety, and therefore, offering stock awards is an appropriate cost of providing reliable services to customers (Columbia Statement No. 15-R, p. 8). Ms. Cartella asserts that if the company did not provide stock awards, it would be at high risk of losing talent to competitors and it would create a loss of valuable skills that would have a significant financial impact in the form of employee turnover-related costs (Columbia Statement No. 15-R, p. 8).

**Q. DO YOU AGREE WITH MS. CARTELLA'S RESPONSE?**

A. I agree in part that stock awards are an element of the total compensation package. However, I do not agree with the statements made by Ms. Cartella that without stock awards, it would be difficult to attract and retain individuals at executive levels and the Company would be at *high risk* of losing talent to competitors. This statement is an exaggeration of fact not supported by any data. As stated in my direct testimony typically stock awards are tied to earnings targets and interests of the Company's stockholders and are not directly tied to the provision of safe and

reliable service. Ratepayers should not be responsible for paying a benefit available only to certain high-level executive-type positions that is based on earning targets rather than goals that benefit ratepayers (I&E Statement No. 1, p. 11). I am not opposed to the Company offering stock awards to its key employees, but the cost of stock awards should not be passed on the ratepayers.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR STOCK AWARDS?**

A. No. I continue to recommend disallowance of stock awards expense included in the labor expense.

**Annualization Adjustment**

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

A. In direct testimony, I recommended disallowance of the Company's entire as-filed claim of \$446,256 for the pay increase annualization adjustment included in the FPFTY labor expense claim (I&E Statement No. 1, p. 12).

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

A. Yes. Company witness Kelley Miller states that the Company is revising its annualization adjustment of \$446,256 to \$454,635, for an increase of \$8,379 that was provided during the discovery process (Columbia Statement No. 4-R, p. 4).

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

A. Ms. Miller disagrees with my recommendation to disallow the pay increase annualization and states that the Company has annualized this expense to match the overall claim in the case of annualized revenue, rate base, and annualized expenses. Ms. Miller further states that this adjustment is consistent with historic practice of annualizing test year adjustments and, therefore, it is appropriate (Columbia Statement No. 4-R, p. 4).

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

A. No. I do not agree with Ms. Miller's response. As stated in my direct testimony, by annualizing pay increases, the Company is claiming the full labor expense on day one of the beginning of the FPFTY that includes pay increases of a 12-month period that would occur variably throughout the FPFTY (I&E Statement No. 1, pp. 12-13). A revenue requirement calculated on this basis would recover, dollar-for-dollar, an expense level for labor expense that will never be reached in the FPFTY. Therefore, the revised pay increase annualization adjustment of \$454,635 is an

unfair and unreasonable burden on ratepayers by establishing an expense recovery in the Company's revenue requirement that is not reflective of actual FPFTY expenses.

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

A. No. I continue to recommend disallowance of pay increase annualization with a revised amount of \$454,635 that is included in the Company's updated labor expense claim.

**Employee Vacancy Adjustment**

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

A. In direct testimony, I recommended an adjustment to payroll expense of \$1,327,754 calculated after adjusting the claimed labor expense for stock awards and pay increase annualization adjustments (I&E Statement No. 1, p. 15 and I&E Exhibit No. 1, Schedule 5).

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

A. Ms. Krajovic disagrees with my recommendation for the employee vacancy adjustment in the labor expense claim. She states that normal vacancies associated with employee turnover, job movement, and retirement are already incorporated in the ultimate budget for 2019. She further opines that to the extent the vacancies

impact available full-time employee equivalents, the work will be accomplished via overtime and contract labor recorded in outside service. Therefore, she concludes that it is not necessary to account for an average vacancy rate in the labor expense (Columbia Statement No. 9-R, p. 9-10).

**Q. DO YOU AGREE WITH MS. KRAJOVIC'S RESPONSE THAT THE VACANCY RATE DOES NOT IMPACT THE TOTAL AMOUNT OF LABOR EXPENSE?**

A. No. I do not agree with Ms. Krajovic's response. Ms. Krajovic stated in her response that the normal vacancies are already incorporated into the ultimate budget for 2019. However, in the Company's filing, Standard Data Request No. GAS-RR-021 (Respondents Ms. Miller and Ms. Krajovic), it was clearly mentioned that routine or normal position vacancies were not considered in the budgeted labor projections. For budget purposes, positions left open through retirements and/or terminations are assumed to be filled with employees at wages equal to the wages of the exiting employees. Thus, Ms. Krajovic makes a contradictory statement in her rebuttal testimony to justify her rejection of my recommendation for an employee vacancy adjustment.

Based on the Company's data, a certain level of ongoing vacancies due to normal retirements, resignations, transfers, layoffs, etc., exist on a day-to-day operating basis (I&E Exhibit No. 1, Schedule 4, p. 6). It is, therefore,

unreasonable to assume that the Company will maintain 100% full staffing in the PFPTY. Further, there will always be search and placement time involved in filling employee vacancies as per the Company's vacancy-filling or hiring procedures (I&E Exhibit No. 1, Schedule 4, p. 5).

The Company failed to reflect a reduction in its budgeted amounts due to ongoing vacancies in the labor cost. It has not been clearly demonstrated how the use of contractors or overtime when such means were necessary to meet the Company's needs has already been reflected in the Company's claim amounts.

Ms. Krajovic's argument that any vacancy adjustment would result in a corresponding increase in outside services and overtime claims presumes that the Company addresses all employee resignations or retirements by immediately contracting temporary employees or immediately starting overtime for current employees. Immediately putting outside contractors in place for any normal vacancy turnover or immediately implementing overtime is exceptionally unlikely. Additionally, it is unlikely and unsupported that the cost of replacing an employee through overtime or outside contractors would cost the same as replacing the employee.

Furthermore, the Company's argument that vacant positions automatically increase outside contract work is an argument for which its witnesses have not provided supporting details to show how this difference is reflected in the Company's overtime and/or outside services for ratemaking claims.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR THE EMPLOYEE VACANCY ADJUSTMENT?**

A. No. I continue to recommend an employee vacancy adjustment.

**Q. IN REBUTTAL TESTIMONY, DID MS. MILLER MAKE ANY CHANGES TO THE COMPANY'S AS-FILED LABOR EXPENSE CLAIM?**

A. Yes. In rebuttal testimony, Ms. Miller revised the pay increase annualization adjustment from \$446,256 to \$454,635 (as discussed above) that automatically results in an increase in the Company's labor expense claim from \$32,917,256 to \$32,925,635, which is reflected in the calculation of an updated revenue requirement of \$620,272,949 (Columbia Exhibit KKM-1-R-Revised, p. 1 (Revised - Exhibit 102, Schedule 3, p. 3)).

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

A. Yes. I continue to recommend a reduction to the Company's labor expense claim. My claim is revised due to the Company's updated labor expense claim.

**Q. SUMMARIZE YOUR UPDATED RECOMMENDATION FOR THE LABOR EXPENSE.**

I recommend an updated allowance for labor expense of \$31,597,881 or a reduction of \$1,327,754 (\$32,925,635 - \$31,597,881) to the Company's revised claim. The following table shows my updated calculation of adjusted labor expense:

FPFTY Labor Expense Claim – Updated	\$32,925,635
Less Stock Awards	-\$97,639
Less Annualization Adjustment - Updated	<u>-\$454,635</u>
Adjusted FPFTY Labor Expense - Updated	<u>\$32,373,361</u>

There is no change in my recommended vacancy adjustment of \$1,327,754, which is shown in the table below to show my calculation of updated adjusted payroll expense:

	<b>CALCULATION</b>	<b>RESULT</b>
<b>VACANCY RATE:</b>		
Average Vacancy Rate for 2015, 2016 and 2017		4.13%
FPFTY Employee Count		682
Projected Employee Vacancies	682 x 0.0413	28
O & M Expense Percentage for Payroll		56.30%
O & M Expense Percentage for Benefits		57.00%
<b>PAYROLL EXPENSE:</b>		
FPFTY Adjusted Payroll Expense	\$32,925,635 - \$543,895	\$32,373,361
FPFTY Adjusted Capitalized Payroll	\$25,422,526 - \$353,120	\$25,069,406
FPFTY Adjusted Total Payroll		\$57,442,767
Average per Employee Payroll Cost	\$57,442,767 / 682	\$84,227
Total Payroll Claim Reduction for Vacancies	\$84,227 x 28	\$2,358,356

O & M Payroll Expense Reduction	$\$2,358,356 \times 0.5630$	<b>\$1,327,754</b>
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**OTHER EMPLOYEE BENEFITS**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING OTHER EMPLOYEE BENEFITS.**

A. In direct testimony, I recommended an allowance \$6,678,770 for other employee benefits expense, or a reduction of \$272,230 (\$6,951,000 - \$6,678,770) to the Company's claim. My recommendation is based on two adjustments relating to profit sharing and the employee vacancy adjustment (I&E Statement No. 1, p. 16 and I&E Exhibit No. 1, Schedule 5).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR OTHER EMPLOYEE BENEFITS?**

A. Yes. The Company's following witnesses responded to my recommendation for other employee benefits.

Kimberley K. Cartella responded to my recommendation for profit sharing, a component of other employee benefits (Columbia Statement No. 15-R, pp. 2-6); and Nancy J. D. Krajovic responded to my recommendation for the employee vacancy adjustment to other employee benefits expense (Columbia Statement No. 10-R, p. 10).

**Profit Sharing**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING PROFIT SHARING.**

A. In direct testimony, I recommended disallowance of the Company's entire claim of \$320,139 for the profit sharing expense that is included in the FPFTY other employee benefits expense claim (I&E Statement No. 1, p. 17).

**Q. WHAT WAS THE COMPANY WITNESS MS. CARTELLA'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RECOMMENDATION FOR PROFIT SHARING?**

A. Ms. Cartella states that profit sharing, stock awards, and incentive compensation are part of the Company's total rewards program to remain competitive with other employers to retain employees, and further drive requirements to provide safe, reliable, and cost-effective service to its customers (Columbia Statement No. 15-R, p. 5). She further, states that profit the sharing component supports employees' retirement savings plan accounts, and therefore, as an element of a balanced competitive benefits program, profit sharing contributions should be allowed (Columbia Statement No. 15-R, p. 6).

**Q. DO YOU AGREE WITH MS. CARTELLA'S RESPONSE?**

A. No. I do not agree with the response of Ms. Cartella. I reiterate that this type of benefit is typically tied to earnings targets and interests of the Company's stockholders and is unrelated to the provision of safe and reliable services.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR PROFIT SHARING?**

A. No. I continue to recommend disallowance of profit sharing expense as a component of other employee benefits.

**Vacancy Adjustment**

**Q. WHAT WAS COMPANY WITNESS MS. KRAJOVIC'S RESPONSE TO YOUR RECOMMENDATION FOR THE VACANCY ADJUSTMENT COMPONENT OF OTHER EMPLOYEE BENEFITS EXPENSE?**

A. Ms. Krajovic states that employees benefits expense for the years 2015-2017 shows actual benefits expense has exceeded the budget numbers and the budgeted expense assumes employee vacancies as discussed above for labor expense (Columbia Statement No. 10-R, p. 10).

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

A. No. As discussed above regarding the rationale for my recommended employee vacancy adjustment for labor expense, my argument applies equally to the employee benefits expense to reflect an accurate expense amount for ratemaking purposes.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR EMPLOYEE BENEFITS EXPENSE CONSEQUENT TO THE VACANCY ADJUSTMENT?**

A. No. I continue to recommend an adjustment for employee benefits expense.

**INCENTIVE COMPENSATION**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING INCENTIVE COMPENSATION.**

A. In direct testimony, I recommended an allowance of \$1,897,675 for incentive compensation, or a reduction of \$316,325 (\$2,214,000 - \$1,897,675) to the Company's claim (I&E Statement No. 1, p. 20). My recommendation was based on a three-year average of historic payments due to the variability in incentive payouts on a yearly basis and since there is no guarantee of the highest percentage payout in any given year.

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR INCENTIVE COMPENSATION?**

A. Yes. Ms. Krajovic responded to my recommendation for incentive compensation (Columbia Statement No. 10-R, pp. 10-11).

**Q. WHAT WAS MS. KRAJOVIC'S RESPONSE TO YOUR RECOMMENDATION FOR INCENTIVE COMPENSATION?**

A. First, she states that the use of historic averages ignores the fact that the claim in this case is based on a FPFTY, and the Company has projected the incentive compensation on anticipated outcomes in the FPFTY. Second, the incentive compensation is paid as a percentage of base pay and the use of a historic three-year average is several years out of sync with payroll growth. Therefore, she rejects my recommended adjustments to the three incentive compensation components of O&M expense (Columbia Statement No. 10-R, p. 11).

**Q. WHAT ARE THE THREE COMPONENTS OF INCENTIVE COMPENSATION OF O&M EXPENSE REJECTED BY MS. KRJOVIC?**

A. Ms. Krajovic rejected my recommended adjustments for incentive compensation to the Company's employees of (\$316,325), the allocated portion of NCSC-shared services employees of \$189,484, and the allocated portion of NCSC-shared

operations employees of (\$77,560). (Note: My NCSC-shared services adjustment of \$189,484 is reflected in NCSC - Shared Services line as a component of that total adjustment on my summary of O&M Recommended Adjustments at the beginning of this testimony).

**Q. DO YOU AGREE WITH MS. KRAJOVIC’S RESPONSE?**

A. No. I do not agree with the response of Ms. Krajovic concerning incentive compensation for the Company employees, NCSC-shared services employees, and NCSC-shared operations employees.

**Q. WHY DO YOU DISAGREE WITH MS. KRAJOVIC’S RESPONSE?**

A. Ms. Krajovic’s reliance on projected incentive compensation on an anticipated outcome in the FPFTY is not supported by the Company’s historic payments of last three years’ incentive compensation, which shows high and low numbers. Therefore, I used an average of the last three years’ incentive compensation to even out the variability of this expense as discussed in my direct testimony (I&E Statement No. 1, p. 21, ln. 1-7, pp. 26-27, ln. 15-22 and ln. 1-3 respectively, and p. 29, ln. 10-20). I disagree with Ms. Krajovic’s statement that my recommendation is out of sync with payroll growth because the labor expense of last three years shows an increasing trend, however, the incentive compensation doesn’t show similar trend per Company data provided in response to I&E-RE-1-D as shown in the table below (I&E Exhibit No. 1-SR, Schedule 1, p. 2):

	<b>11/30/2015</b>	<b>11/30/2016</b>	<b>11/30/2017</b>
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			<b>Normalized</b>
Total Number of Employees	632	664	653
Labor Expense	\$27,414,523	\$28,897,559	\$30,790,490
Incentive Compensation	\$2,017,163	\$1,786,646	\$1,889,215

The above data shows a mismatch of labor expense increases with the corresponding incentive compensation amount. Further, the incentive compensation payment is discretionary and contingent upon achieving specific financial, customer care, or safety measures performance triggers. Also, per the incentive plan, no incentive compensation is paid, including the customer care and safety measures, if the financial goals are not met (I&E Statement No. 1, p. 21, ln. 8-21).

While addressing OCA witness Dante Mrugace on this topic, Company witness Kimberly K. Cartella in her rebuttal statement reiterates that availability of the incentive pool depends upon the financial health of the overall corporation in the operating year and it is necessary that financial goals be achieved to provide funding for employee incentive payments (Columbia Statement No. 15-R, p. 10, ln. 4-8).

Thus, the Company's projected incentive compensation for the anticipated outcome of FPFTY is not reliable and not in sync with the historic payments because incentive compensation payments are primarily contingent upon achieving financial performance goals and are discretionary payouts. Under these circumstances, an average of last three years' historic payments is the best tool for the FPFTY projected amount.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR INCENTIVE COMPENSATION?**

A. No. I continue to recommend adjustments to incentive compensation amounts for the Company's employees, NCSC-shared services employees, and NCSC-shared operations employees.

**FICA TAXES**

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

A. In direct testimony, I recommended a FICA tax expense allowance of \$2,476,444 or a reduction of \$121,583 (\$2,598,027 - \$2,476,444) to the Company's claim (I&E Statement No. 1, p. 23). This recommendation was the result of applying the Company's HTY FICA rate of 7.3952% (Columbia Exhibit No. 106, Schedule 2, p. 3).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR PAYROLL TAXES?**

A. Yes. Company witness Panpilas W. Fischer responded to my recommendation for payroll tax expense (Columbia Statement No. 9-R, p. 4).

**Q. WHAT WAS MS. FISCHER'S RESPONSE TO YOUR RECOMMENDATION FOR PAYROLL TAXES?**

A. Ms. Fischer disagrees with my recommended payroll tax adjustment based on Ms. Krajovic and Ms. Miller's rejection of my adjustment to the labor expense (Columbia Statement No. 9-R, p. 4).

**Q. DO YOU AGREE WITH MS. FISCHER'S RESPONSE?**

A. No. Since I disagree with Ms. Krajovic and Ms. Miller's responses to the labor expense and incentive compensation, I continue to recommend an adjustment for payroll taxes.

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

A. Yes. Consequent to an increase in the Company's labor expense claim of \$8,379 (Updated claim of \$32,925,635 minus the as-filed claim of \$32,917,256) (Columbia Statement No. 4-R, p. 3), I am revising my recommendation. Thus, I recommend a revised FICA tax expense allowance of \$2,477,064 or a reduction of \$120,963 (\$2,598,027 - \$2,477,064) to reflect an additional FICA tax expense allowance of \$620 ( $\$8,379 \times 0.073952$ ) using the Company's HTY FICA tax rate of 7.3952% as was done in my direct testimony.

**NCSC - SHARED SERVICES**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING NCSC-SHARED SERVICES.**

A. In direct testimony, I recommended an allowance of \$37,663,567 for NCSC - shared services, or a reduction of \$1,716,776 (\$39,380,343 - \$37,663,567) to the Company's claim (I&E Statement No. 1, p. 25). My recommendation consists of three parts: (1) disallowance of \$230,858 for allocated profit sharing expense; (2) disallowance of \$1,675,403 for allocated stock rewards expense; and (3) allowance of an additional amount of \$189,485 for allocated incentive compensation expense.

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR NCSC-SHARED SERVICES?**

A. Yes. Company witness Kimberly K. Cartella responded by disagreeing with my recommendation and opines that profit sharing is an element of the Company's retirement savings plan and if the Company did not make these contributions, it would need to make other adjustments to its total rewards package, such as increases to base pay or 401(k) contributions to remain competitive in the market for quality employees (Columbia Statement No. 15-R, p. 6, ln. 8-10, and ln. 14-17).

Ms. Cartella further opines that stock awards are a common element of compensation at certain levels of organizations throughout the U.S. and should be allowed to attract and retain individuals at executive levels, which would be difficult to accomplish without this element of compensation, and therefore, it should be rejected (Columbia Statement No. 15-R, p. 7, ln. 4-8).

In response to my recommendation for an additional allowance of \$189,485 for allocated incentive compensation expense, the Ms. Krajovic expressed appreciation for my recommendation to apply equitable application of the three-year average approach even when it produced an increase in the allowance (Columbia Statement No. 10-R, p. 11, ln. 3-4). However, she rejected my recommended upward adjustment (Columbia Statement No. 10-R, p. 11, ln. 9-10).

**Q. DO YOU AGREE WITH MS. CARTELLA’S RESPONSE THAT THE COMPANY WOULD NEED TO MAKE OTHER ADJUSTMENTS TO ITS TOTAL REWARDS PACKAGE?**

A. No. I am not recommending that the Company eliminate the benefits. I am recommending that ratepayers not be required to fund them. As stated in my direct testimony, profit sharing is based on NiSource meeting its net operating earning per share (NOEPS) goal and is made independent of quality of service, efficiency, or safety goals of Columbia Gas (I&E Statement No. 1, p. 26, ln. 2-4).

**Q. DO YOU AGREE WITH MS. CARTELLA’S RESPONSE THAT STOCK AWARDS ARE A COMMON ELEMENT OF COMPENSATION AT CERTAIN LEVELS OF ORGANIZATIONS THROUGHOUT THE U.S. AND SHOULD BE ALLOWED?**

A. No. As I stated in my direct testimony, stock awards are only available to top level NiSource employees and its affiliates and ratepayers should not be obligated to pay for an expense that is unrelated to providing safe and reliable service (I&E Statement No. 1, p. 26, ln. 4-9). Furthermore, in the Company’s response to Standard Data Request GAS-RR-027, Attachment A, page 3, describes the 2010 NiSource Inc. Omnibus Incentive Plan which states that “the Plan is designed to promote the achievement of both short-term and long-term objectives of the Company by aligning compensation of participants with the *interests of Company stockholders*” (emphasis added). Also, stock awards are commonly offered to certain eligible executives per the Committee’s discretion (GAS-RR-027, Attachment A, page 10). Therefore, stock awards should be paid for by shareholders and not by ratepayers since stock awards are in the best interest of shareholders.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR NCSC-SHARED SERVICES?**

A. No. I have no changes to my recommendation for NCSC-shared services expense.

**NCSC - SHARED OPERATIONS**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR EMPLOYEES' STOCK AWARDS.**

A. In direct testimony, I recommended an allowance of \$27,234,202 or a reduction of \$77,560 (\$27,311,762 - \$27,234,202) to the Company's claim for NCSC - Shared Operations (I&E Statement No. 1, p. 29). My recommendation related to an adjustment to incentive compensation of \$1,470,000 claimed as a part of NCSC-shared operations expense due to the same reasons discussed in the incentive compensation section above.

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR INCENTIVE EXPENSE INCLUDED AS A PART OF NCSC-SHARED OPERATIONS EXPENSE?**

A. Yes. Company witness Nancy J. D. Krajovic responded to my recommendation for incentive compensation (Columbia Statement No. 10-R, pp. 10-11).

**Q. WHAT IS MS. KRAJOVIC'S RESPONSE TO YOUR RECOMMENDATION FOR INCENTIVE COMPENSATION?**

A. Ms. Krajovic states that use of historic averages ignores the fact that the claim in this case is based on a FPFTY and the Company has projected the incentive compensation on anticipated outcomes in the FPFTY.

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

A. No. I disagree for the same reasons stated in the incentive compensation expense section above. Furthermore, I maintain that the adjustment is necessary to even out historic high and low variations in the incentive compensation payouts over the last three years, and therefore, my recommendation based on an average of the last three years' incentive compensation is reasonable and appropriate.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR NCSC-SHARED OPERATIONS EXPENSE?**

A. No. I have no changes to my recommendation for NCSC - shared operations expense.

**INJURIES AND DAMAGES EXPENSE**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING INJURIES AND DAMAGES EXPENSE.**

A. In direct testimony, I recommended an allowance of \$327,797 for injuries and damages expense, or a reduction of \$25,162 (\$352,959 - \$327,797) to the Company's claim (I&E Statement No. 2, p. 31). This recommendation was based on a five-year historic average to even out historic highs and lows of actual payments producing a normalized allowance amount. I also recommended disallowance of the Company's claimed inflation indices due to the fluctuating historic amounts actually experienced.

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR INJURIES AND DAMAGES EXPENSE?**

A. Yes. Company witness Kelley K. Miller responded to my recommended reduction to the Company's claim for injuries and damages. Ms. Miller disagrees with my recommendation stating that an allowance based on a historical five-year average unadjusted for inflation will not provide an appropriate projection for 2019 costs. She further states that cost incurred to repair damaged property five years ago will cost more today due to inflation and these costs include materials and supplies, contractor labor, legal services, medical services, etc., which are subject to inflation (Columbia Statement No. 4-R, pp 5-6).

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

A. No. I continue to recommend an allowance that will even out historic highs and lows of actual payments (I&E Statement No. 1, pp. 31-32).

**Q. WHY DO YOU CONTINUE TO DISAGREE WITH THE COMPANY'S METHOD OF CALCULATING ITS CLAIM?**

A. The Company's claim for injuries and damages expense includes auto liability, general liability, and other related payments (I&E Exhibit No. 1, Schedule 8). Ms. Miller states that the cost incurred to repair damaged property, incurred five

years ago, would cost more today due to inflation. While a five-year average appropriately reflects the variable nature of injuries and damages expenses, Ms. Miller opines it does not capture inflationary effects (Columbia Statement No. 4-R, p. 5). However, I disagree with this assertion because injuries and damages expenses are related to various categories as stated above and not solely related to repair expenses of damaged property. Injuries and damages occur due to unfortunate, uncertain, and unpredictable events, so the projected expenses can *fluctuate widely*. In 2013, the Company's actual expense was \$362,842 as compared to a 2014 expense of \$261,045, a significant reduction of 28%. Similarly, in 2016, the Company's actual expense was \$390,604 as compared to a 2017 expense of \$283,553, a significant reduction of 27%. Thus, adjusting the projected expenses for inflation will increase such expenses inappropriately and unreasonably for ratemaking purposes. Therefore, my recommended allowance for injuries and damages expense based on an average of last five years' payments will even out historic highs and lows of actual expenses and will reflect a proper projected expense for ratemaking purposes.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR INJURIES AND DAMAGES EXPENSE?**

A. No. I continue to recommend a reduction to the Company's claim based on an average of the last five years' payments.

## **CORPORATE INSURANCE**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING CORPORATE INSURANCE EXPENSE.**

A. In direct testimony, I recommended acceptance of the Company's updated insurance expense amount of \$3,494,000, which produced a reduction of \$120,000 (\$3,614,000 - \$3,494,000) to the Company's original claim (I&E Exhibit No. 1, p. 34). This adjustment resulted from the Company updating its information during the discovery process (I&E Exhibit No. 1, Schedule 9).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR CORPORATE INSURANCE EXPENSE?**

A. Yes. Company witness Nancy J. D. Krajovic agrees with my recommendation (Columbia Statement No. 10-R, p. 24) and Company witness Kelley K. Miller states that an adjustment for corporate insurance expense of (\$120,000) is reflected under O&M Expense in the revised revenue requirement calculation included with her rebuttal testimony as an updated Columbia Exhibit No. 102, Schedule 3, p. 3 (Columbia Statement No. 4-R, p. 2 and Exhibit KKM-1-R-Revised, p. 1).

**PUC, OCA, OSBA FEES**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING PUC, OCA, OSBA FEES.**

A. In direct testimony, I recommended an allowance of \$2,248,344 for PUC, OCA, and OSBA fees or a reduction of \$171,656 (\$2,420,000 - \$2,248,344) to the Company's claim (I&E Statement No. 1, pp. 34-35). This recommendation was based on updated information provided by the Company in response to I&E-RE-39-D with a revised amount for the FPFTY claim of \$2,248,344 (I&E Exhibit No. 1, Schedule 10, pp. 1-3).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR PUC, OCA, AND OSBA FEES?**

A. Yes. Company witness Nancy J. D. Krajovic responded to my recommendation for PUC, OCA, and OSBA fees. Ms. Krajovic agrees partially to my recommendation and accepts an adjustment of (\$160,000), explaining the adjustment as decrease in FTY claim by \$160,000 to \$2,089,000 carried forward to FPFTY; which yields a revised FPFTY claim of \$2,248,000 (Columbia Statement No. 10-R, p. 24). Company witness Kelley K. Miller states that an adjustment for PUC, OCA, and OSBA fees of (\$160,000) is reflected under O&M expense in the revised revenue requirement calculation included with her rebuttal

testimony as an updated Columbia Exhibit 102, Schedule 3, p. 3 (Columbia Statement No. 4-R, p. 2 and Exhibit KKM-1-R-Revised, p. 1).

**Q. DO YOU AGREE WITH MS. KRAJOVIC'S AND MS. MILLER'S RESPONSES?**

A. No. Ms. Krajovic appears to have made an error in calculation of the adjustment of (\$160,000) (rounded). She considered the difference between the revised FTY claim of \$2,089,411 and revised FPFTY claim of \$2,248,344. In fact, the Company's as-filed FPFTY claim was \$2,420,000 (I&E Exhibit 104, Schedule 1, p. 4). Therefore, the correct downward adjustment is \$171,656 (\$2,420,000 - \$2,248,344) and not \$160,000.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR PUC, OCA, AND OSBA FEES?**

A. Yes. I am revising my recommendation in view of the Company's acceptance of my recommended reduction in part for \$160,000. Thus, I recommend a revised reduction of \$11,656 (\$2,260,000 - \$2,248,344) to the Company's updated claim of \$2,260,000 (\$2,420,000 - \$160,000) (I&E Statement No. 1, p. 35, ln. 2-6).

## **PENSION DEFERRAL AMORTIZATION**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING THE PENSION DEFERRAL AMORTIZATION.**

A. In direct testimony, I recommended disallowance of Company's FPFTY pension deferral amortization claim of \$2,816,591, which is based on a three-year amortization period (I&E Statement No. 1, p. 37). This recommendation was based on the five reasons as detailed in my direct testimony (I&E Statement No. 1, pp. 38-40).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR THE PENSION DEFERRAL AMORTIZATION?**

A. Yes. Company witness Nancy J. D. Krajovic responded to my recommendation to disallow the proposed pension deferral amortization (Columbia Statement No. 10-R, pp. 25-27).

**Q. WHAT WAS MS. KRAJOVIC'S RESPONSE TO YOUR RECOMMENDATION FOR THE PENSION DEFERRAL AMORTIZATION?**

A. Ms. Krajovic rejected my recommendation to disallow the proposed pension deferral amortization of \$2,816,591, stating the following reasons (Columbia Statement No. 10-R, pp. 25-26):

1. The payment made in 2017 to fully fund the projected pension plan over a 10-year horizon, was not only extraordinary, but done in the interest of capturing savings associated with the pension fund.
2. The prepayment was voluntary but relevant to the issue. She asserts that the voluntary choice was done to benefit ratepayers.
3. The Company did file a separate petition, which is consolidated with this case to comply with the requirement of prior approval for such deferral treatment.
4. Waiting until pension contributions are made mandatory by law is not an appropriate approach.
5. Alternatively, the proposed 10-year amortization period unfairly punishes the Company for not including the unamortized balance in rate base for a longer period.

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

A. No.

**Q. WHY DO YOU DISAGREE WITH MS. KRAJOVIC'S RESPONSE?**

A. First, I reiterate and stand by my recommendation to disallow the proposed pension deferral amortization as described in my direct testimony (I&E Statement No. 1, pp. 38-40).

I am responding to Ms. Krajovic's response in the same order as narrated above:

1. I have concerns with Ms. Krajovic's statement that the prepayment was done in the interest of capturing savings associated with the pension fund because the calculation of projected savings is based on several variable factors like base pay increases and a consequent additional contribution requirement, increase/decrease in employees, changes in tax regulations, interest rates, financial market conditions, and inflation over the next ten years, which are unpredictable and will have an impact on projected benefits or savings. The farther into the future one predicts these factors the likelihood of errors or inaccuracy increases.

Further, the Company provided the confidential Attachment A in response to I&E-RE-65-D (A) (I&E Exhibit No. 1-SR, Schedule 2, p. 3), concerning the NiSource Inc. 2017 Contribution Analysis – 2017-2026 Projections prepared by AON Hewitt (Actuary) that projected yearly cash contributions, PBGC variable rate premium, expense, PBO funded status, and expected return on assets for the period 2017 through 2026. The footnotes of this analysis revealed the following underlying assumptions of the calculation: **{BEGIN PROPRIETARY}**

**{END**

**PROPRIETARY}**

All these assumptions are variable, uncertain, and not measurable for the next ten years, so it is difficult to predict the achievement of a projected fully

funded status as well as the benefits or savings resulting from the prepayment of pension contributions. Therefore, Ms. Krajovic's emphasis on projected savings/benefits that drove the Company's decision to make a pension prepayment is not appropriate and reliable.

2. Ms. Krajovic states that the prepayment decision was a voluntary choice done to benefit ratepayers. As stated above, the projected benefits to the customers at this time or in future are not certain as they are contingent on variable factors and fulfilment of assumptions over ten years; therefore, the Company's voluntary choice may not be prudent.

3. I disagree with the Ms. Krajovic's statement that the Company filed a petition seeking prior approval for pension deferral treatment. The Company's petition at Docket No. P-2018-2641257 was filed with the Commission on January 5, 2018 after making the voluntary prepayment for the pension contributions in September 2017. Further, in order to avoid mirrored arguments in two proceedings at the same time that petition was consolidated with the instant proceeding.

4. I partly agree with Ms. Krajovic's statement that waiting until pension contributions are made mandatory by law is not an appropriate approach from the Company's perspective. However, in the ratemaking process, the Company has consistently used an annual cash contribution method to determine its pension expense claim. The Company had no reason to believe that the Commission would agree with a 10-year prepayment of this pension, and it should have waited

to make the contribution for permission to defer the cost if it wanted to seek rate recovery.

5. If the Commission decides to allow amortization of the claimed prepayments, my proposed 10-year amortization period, as opposed to the Company's requested three-year amortization as an alternative approach is fair and reasonable given that the advance contributions made are for ten future years. Ms. Krajovic states that the Company will be unfairly punished if the Company is required to amortize the balance over a longer period. However, I disagree with Ms. Krajovic because her statement is not in the ratepayers' interest. The proposed three-year amortization period would put an unreasonable burden on ratepayers, when the Company's projection of accrual of benefits or savings due to pension prepayment are based on a 10-year time frame. Thus, it is unreasonable to fully recover the cost in three years when the savings related to the prepayment are not fully realized until ten years into the future.

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR THE PROPOSED PENSION DEFERRAL AMORTIZATION?**

A. No. I continue to recommend disallowance of Company's claim for pension deferral amortization.

## **HARDSHIP FUND**

### **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE HARDSHIP FUND.**

A. In direct testimony, I recommended the following (I&E Statement No. 1, pp. 46-47):

1. Columbia fund its Hardship Fund entirely through voluntary and shareholders' (Company) contributions and cease utilizing funds for the Hardship Fund that occur through pipeline refunds and penalty credits received or to be received effective March 1, 2018.
2. Columbia should match pipeline refunds and penalty credits dollar-for-dollar with shareholder funds in each year that the volunteered customer funds are utilized in the Hardship Fund. Effective with the program year 2021/2022, the Company will fund the Hardship Fund entirely from voluntary and shareholder contributions or propose an alternate funding methodology.
3. Supplier/pipeline refunds and penalty credits received or to be received effective March 1, 2018 should be refunded or passed back to the residential customers through rates filed in the quarterly purchased gas cost ("PGC") filing.
4. Columbia's current practice of adjusting administrative costs associated with pipeline refunds and penalty credits should be continued and it should not be recovered through the Universal Service Plan ("USP") rider as proposed by the Company in its filing.

**Q. DID ANY WITNESSES SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR THE HARDSHIP FUND?**

A. Yes. Company witness Deborah A. Davis (Columbia Statement No. 14-R) and CAUSE-PA witness Mitchell Miller (CAUSE-PA Statement No. 1-R) disagree with the majority of my recommendations. First, I will address to the responses of Ms. Davis and then Mr. Miller's responses.

**Company Witness Davis**

**Q. SUMMARIZE MS. DAVIS' RESPONSE IN REBUTTAL TESTIMONY.**

A. A summary of Ms. Davis' main points are as follows:

1. Ms. Davis first states that she is advised by legal counsel that the issue of whether the Company is allowed to use pipeline credits or supplier refunds to fund the Hardship Fund has been decided at Docket No. P-2018-3000160 (Columbia Statement No. 14-R, p. 20). She further explains that the Company was unsure whether the petition would be reviewed prior to the base rate case decision, therefore, the Company included this in the base rate filing as well.
2. She disagrees with my testimony which references a Commission Order at Docket No. R-2015-2468056, p. 51 where the Commission instructs Columbia to devise a plan by which it will transition to fully voluntary means. However, she agrees that the Company will continue to seek voluntary funding (Columbia Statement No. 14-R, pp. 20-21).

3. She disagrees with my recommendation that the Company should provide shareholder matching for supplier refunds and pipeline credits to the Hardship Fund (Columbia Statement No. 14-R, p. 21).
4. She disputes my testimony that “just default gas ratepayers” fund the source of supplier refunds and penalty credits (Columbia Statement No. 14-R, p. 21).
5. She disagrees with my assertion that “utilizing funds that belong to Columbia’s PGC customers is not voluntary, nor is it equally applied to all customers as these funds do not belong to shopping residential gas customer.” (Columbia Statement No. 14-R, p. 22). She explains how the penalty credits and pipeline refunds are applied to Columbia ratepayers’ bill.
6. Finally, she refutes my recommendation that the Company should not be allowed to collect administrative costs associated with the pipeline refunds and supplier credits to be recover through the Rider USP.

**Q. DO YOU AGREE WITH MS. DAVIS’ INTERPRETATION OF THE COMMISSION’S ORDER AT DOCKET NO. R-2015-2468056, P. 51 (ORDER ENTERED ON DECEMBER 3, 2015)?**

A. No. Ms. Davis seems to disagree that the Commission had required the Company to make an effort to transition entirely to voluntary funding. However, the referenced Commission order at page 51 states that,

The credible record evidence indicates that by instructing the Parties to “address” the Hardship Fund issue, the Commission simply intended to instruct Columbia to devise a plan by which it will transition toward funding its Hardship Fund entirely through voluntary means and to instruct the Parties to consider ways for Columbia to raise additional voluntary funding.

Ms. Davis interpreted the above language as favoring the Company and states that the Company is required to continue to seek and develop fundraising opportunities, which the Company has agreed to do, and it continues to consider cost effective efforts that can develop into an annual fund-raising campaign (Company Statement No. 14-R, p. 21, ln. 1-3). This implies that the Company will continue trying to source voluntary contributions for funding the Hardship Fund for an indefinite period to remain in compliance with the Commission’s Order. In the interim the Company was permitted to source Hardship funding from suppliers’ refunds and penalty credits of \$375,000 annually, which the Company intends to continue for an indefinite period through its recent petition at Docket No. P-2018-3000160 that was approved by the Commission (Order entered on June 14, 2018). I believe the Company is not fully addressing the Commission’s instruction of 2015 order that Columbia present a plan to transition to entirely voluntary funding for Hardship Fund.

**Q. DO YOU AGREE WITH MS. DAVIS' RESPONSE TO YOUR RECOMMENDATION FOR SHAREHOLDER MATCHING CONTRIBUTIONS FOR SUPPLIER REFUNDS AND PIPELINE CREDITS TO THE HARDSHIP FUND?**

A. No. Ms. Davis states that Company does provide \$150,000 in shareholder donations to the Dollar Energy Fund to match customers' contributions and for funds raised through other fundraisers (Columbia Statement No. 14-R, p. 21, ln. 8-10). Since the Company uses a portion of pipeline refunds and penalty credits for funding the Hardship Fund, which belongs to and is supposed to be refunded to the ratepayers, the Company shareholders should match an equal amount to the customers' involuntary contributions representing the residential portion of supplier refunds and penalty credits that are used for the Hardship Fund.

**Q. DO YOU AGREE WITH MS. DAVIS' RESPONSE CONCERNING THE USE OF SUPPLIER REFUNDS AND PENALTY CREDITS CREATING AN INACCURACY IN PRICE-TO-COMPARE?**

A. No. I do not agree with Ms. Davis' response because supplier refunds and pipeline credits not refunded through PGC rate to the residential customers inflate the customers' current rate, and therefore, the price-to-compare rate of default customers which creates an inaccuracy with CHOICE customers' rates. Further, using these monies for other purposes creates a market imbalance for the effective gas cost rate.

**Q. DO YOU HAVE ANY OTHER RESPONSES TO MS. DAVIS' REBUTTAL TESTIMONY REGARDING THE HARDSHIP FUND?**

A. Yes. In 2012, Columbia proposed to cease the \$375,000 Hardship Fund donation agreement with Citizens Energy Corporation, which was added to purchased gas costs. Company witness Nancy J. D. Krajovic in her Statement No. 6, p. 20, under Columbia's base rate case filing at Docket No. R-2012-2321748 provided the following reason for a proposal to cancel the agreement with Citizens Energy Corporation:

In 1984, all residential customers bought their gas supply through Columbia Gas. Today, under CHOICE, customers can choose an alternate supplier and in doing so are exempt from paying the cost of this program. There is no justification that only a portion of the residential customers should support the Hardship Fund. Secondly, the transaction is subject to administrative fees retained by the Citizens Energy Corporation that can be avoided by canceling the contract, subject to 60 days' notice as required by the contract.

This means that in 2012, Columbia found it inappropriate for only a portion of its residential customers to support the Hardship Fund and therefore cancelled the arrangement with Citizens Energy Corporation.

It is unfair to use PGC-related refund money for non-gas related purposes. This is a merging of funds that is not consistent with the pass-through requirement of gas supply costs, and it has the potential to impact the marketplace by improperly diverting the funds that belongs to the PGC rate.

**Q. DO YOU AGREE WITH MS. DAVIS' RESPONSE TO YOUR RECOMMENDATION TO DISALLOW RECOVERY OF ADMINISTRATIVE COSTS ASSOCIATED WITH PIPELINE REFUNDS AND PENALTY CREDITS THROUGH THE USP RIDER?**

A. No. Ms. Davis states that the Hardship Fund reduces expenses of other Universal Service Costs recovered through the USP rider by resolving the payment trouble with a grant versus CAP enrollment. Further, she states that the application costs associated with the CAP program recovered through the USP rider is an established practice (Columbia Statement No. 14-R, p. 23, ln. 17-20). I disagree with Ms. Davis' comparison of application cost recovery of a mandated CAP program with the costs associated with pipeline refunds and penalty credits that is used for funding the voluntary Hardship Fund. Further, the Company has not provided supporting data evidencing that the Hardship Fund reduces expenses of other Universal Service Costs recovered through the USP rider.

**CAUSE-PA Witness Miller**

**Q. DID MR. MILLER AGREE WITH ANY OF YOUR RECOMMENDATIONS RELATED TO THE HARDSHIP FUND?**

A. Yes. Mr. Miller supported my recommendation that Columbia should match supplier refunds and penalty credits dollar-for-dollar with shareholder funds in each year that volunteered customer funds are utilized in the Hardship Fund (CAUSE-PA Statement No. 1-R, p. 3, ln. 23 and p. 4 ln. 1-2).

**Q. SUMMARIZE AREAS WHERE MR. MILLER DISAGREES WITH YOUR RECOMMENDATIONS FOR THE HARDSHIP FUND.**

A. First, Mr. Miller states that the Hardship Fund is not a voluntary program. It is a required component of Columbia's portfolio of Universal Service Programs, approved as a part of Columbia's Universal Service and Energy Conservation Plan (USECP). Second, he states that it takes years to design and implement successful fundraising campaigns and in turn requires substantial investment of staff time and resources and therefore, Columbia does not have sufficient time to replace the funding currently provided through supplier refunds and penalty credits by the start of the 2021-2022 program year. Lastly, he disagrees with my recommendation for rejecting the Company's proposal to recover administrative fees relating to the supplier refunds and penalty credits through the USP rider.

**Q. DO YOU AGREE WITH MR. MILLER'S RESPONSE TO YOUR RECOMMENDATION TO CEASE FUNDING THE HARDSHIP FUND THROUGH SUPPLIER REFUNDS AND PENALTY CREDITS?**

A. No.

**Q. PLEASE EXPLAIN.**

A. I reiterate that pipeline refunds and penalty credits should not be a source of funding for the Hardship Fund since they are part of the net gas costs paid by

default gas customers. The Hardship Fund is a voluntary fund not tied with recovery in rates from customers via a rider and is aimed to support/help low income customers in addition to other mandated programs under the USP. The Dollar Energy Fund (Columbia's Hardship Fund) is designed to be fully funded through voluntary customer contributions that are matched dollar-for-dollar by the Company's shareholders (I&E Statement No. 1, pp. 47, ln. 17-22 and p. 48, ln. 1-2).

Utilizing funds that belong to Columbia's PGC customers is not voluntary, nor it is equally applied to all customers as these funds do not belong to shopping residential gas customers (I&E Statement No. 1, p. 48, ln. 3-5).

Mr. Miller states that the Hardship Fund is necessary, and its funding must not be diminished or reduced (CAUSE-PA Statement No. 1-R, p. 4, ln.10-12). This implies that I am opposed to Hardship Funding of \$675,000 per program year. I am not opposed to the Hardship Fund conceptually and the annual funding amount. However, I have recommended that the Company be required to fund the Hardship Fund entirely from voluntary sources with matching contributions from Company shareholders as is followed by other utilities.

**Q. DO YOU AGREE WITH MR. MILLER'S RESPONSE THAT THE  
HARDSHIP FUND IS NOT A VOLUNTARY PROGRAM?**

A. No. I reiterate that Hardship Fund is intended to be funded by voluntary contributions from various sources.



**Q. DO YOU AGREE WITH MR. MILLER'S RESPONSE THAT THE  
HARDSHIP FUND IS A PART OF A MANDATED UNIVERSAL SERVICE  
AND CONSERVATION PLAN (USECP)?**

A. I agree with Mr. Miller that the Hardship Fund is listed as one of the programs under the USECP, but that does not authorize it to require residential ratepayers to mandatorily fund this program directly or indirectly.

**Q. DO YOU ACKNOWLEDGE THE COMMISSION'S RECENT ORDER  
UNDER DOCKET NO. P-2018-3000160 APPROVING COLUMBIA'S  
REQUEST TO CONTINUE USING THE RESIDENTIAL PORTION OF  
PIPELINE REDUNDS AND PENALTY CREDITS FOR FUNDING THE  
HARDSHIP FUND?**

A. Yes. I am aware of this Order.

**Q. DO YOU AGREE WITH MR. MILLER'S RESPONSE TO YOU  
REJECTING THE COMPANY'S PROPOSAL TO USE THE USP RIDER  
TO RECOVER ADMINSTRATIVE COSTS ASSOCIATED WITH PIPELINE  
REFUNDS AND PENALTY CREDITS?**

A. No. Mr. Miller reiterates that the Hardship Fund is not a voluntary program and is a critical component of the USECP, and that other utilities collect administrative fees for the Hardship Fund through the USP riders and/or through operating and

maintenance budgets (CAUSE-PA Statement No. 1-R, p. 6, ln. 15-16, 19 and p. 7, ln.1). However, I disagree with Mr. Miller's response because he refers to the administrative fees of the Hardship Fund (program) itself that is being recovered by other utilities through USP riders but, to my knowledge, these other companies are not using supplier refunds and penalty credits for funding their Hardship Fund. In the instant proceeding, Columbia is proposing to recover fees/costs associated with supplier refunds and penalty credits that needs to be adjusted from this amount had this money refunded to the customers. So, it is improper to recover the administrative fee associated with supplier refunds and penalty credits through the USP rider, when the refund amount is utilized for funding the Hardship Fund.

**Q. IN LIGHT OF THE COMPANY'S AND CAUSE-PA'S RESPONSES AND THE COMMISSION'S RECENT ORDER CONCERNING THE HARDSHIP FUND, DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATIONS?**

A. I continue to support my Hardship Fund recommendations (I&E Statement No. 1, pp. 46-47). However, if the recent Commission order is deemed to be the final word on this issue, I would recommend that the Company be required to report in testimony in future PGC cases the exact cost per customer of utilizing those funds and the overall impact to the price to compare.

**FEDERAL INCOME TAXES**

**Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING FEDERAL INCOME TAXES.**

A. In direct testimony, I recommended that FTY estimated total excess recovery of federal income tax of \$23,828,540 should be accounted for as deferred regulatory liability and the entire amount of this deferred regulatory liability account be refunded with accrued interest at the residential mortgage lending rate over a one-year (12-month) period commencing with the date new rates become effective (I&E Statement No. 1, p. 55).

**Q. DID ANY COMPANY WITNESS SUBMIT REBUTTAL TESTIMONY IN RESPONSE TO YOUR RECOMMENDATION FOR FLOW BACK OF 2018 EXCESS RECOVERY OF FEDERAL INCOME TAXES?**

A. Yes. Company witness Nancy J. D. Krajovic responded to my recommendation in an effort to justify the Company's request to permit the refund of 2018 excess recovery of federal income tax to begin no later than three years after the calendar year ending December 31, 2018 (Columbia Statement No. 10-R, pp. 29-33).

**Q. WHAT WAS MS. KRAJOVIC'S RESPONSE TO YOUR RECOMMENDATION FOR THE FLOW BACK OF 2018 EXCESS RECOVERY OF FEDERAL INCOME TAXES?**

A. Ms. Krajovic rejected my recommendation. She agrees in part with the Commission's Order at Docket No. M-2018-2641242 (Order Entered May 17, 2018) and interpreted the language of the Commission's Order as favoring or in line with the Company's proposal. She states that Columbia is in the midst of an aggressive capital-intensive infrastructure (pipeline) replacement and upgrade program that requires annual funding and even with the frequent base rate increases, it requires issuances of debt and equity. Therefore, she opines that having an option to temporarily retain 2018 tax savings for limited period of time would support the Company's ability to avoid credit rating down-grade and associated increase in the cost of debt and equity (Columbia Statement No. 10-R, p. 32).

Further, she argues that the Company's proposal to hold savings is not dissimilar to the Commission's directive to non-rate case filing utilities that are permitted to hold six months' worth of tax savings, while Columbia is seeking to hold twelve months' worth of tax savings until the end point of January 1, 2022 (Columbia Statement No. 10-R, pp. 31 and 33).

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

A. No.

**Q. WHY DO YOU DISAGREE WITH MS. KRAJOVIC?**

A. First, I reiterate and stand by my recommendation to refund the 2018 excess federal income tax recovery as more specifically described in my direct testimony (I&E Statement No. 1, pp. 55-57).

Ms. Krajovic states that the Company's aggressive capital-intensive infrastructure (pipeline) replacement and upgrade program needs more funding and that frequent rate increases are not sufficient. This statement is not acceptable nor appropriate to support the Company's proposal to hold income tax savings, which the Commission has directed companies to return to ratepayers via a negative surcharge. The Company has an approved Distribution System Improvement Charge (DSIC) surcharge mechanism and has regularly filed base rate cases since 2009 to meet funding requirements for infrastructure (pipeline) replacement and its upgrade program. The Commission in its Order at Docket No. M-2018-2641242 already ruled that it is not persuaded by the arguments of some commenters that utilities be given the option to use any tax savings from the Tax Cuts and Jobs Act (TCJA) for utility infrastructure projects or other utility-identified benefits. Utilities already have in place the DSIC to fund, on a near current basis, the capital costs of replacing aging infrastructure.

The Commission in its order at Docket No. M-2018-2641242 also ruled out utilities' intention to retain TCJA tax savings due to the perceived risk of possible negative outlooks from credit rating firms and utilities' cash flow concerns, which

Columbia has also expressed in support of its proposal to refund tax savings over three-year period. The Order also clarified that if a utility's cash flow is of concern, a general rate increase is an appropriate vehicle to address such concern. However, Ms. Krajovic states that challenges caused by the TCJA will not be resolved by a general rate increase (Columbia statement No. 10-R, p. 31,

ln.18-21). I disagree with this statement because she has not provided support to indicate what types of challenges and financial impacts would result from refunding the 2018 TCJA tax savings over a period of twelve months. In fact, the excess recovery of federal tax should be refundable or flowed back as soon as possible since it belongs to ratepayers. The Company, as a custodian of this fund for the ratepayers, should not hold or request holding of such money for a longer period. It is being collected from ratepayers in a single year; therefore, the Company should not have more than a single year period to refund this over-recovery of 2018 taxes.

To support the Company's proposal, Ms. Krajovic incorrectly compares Commission's directive to non-rate case (without pending rate case) utilities that are permitted to hold six months' worth of tax saving, while Columbia is seeking to hold twelve months' worth of tax saving. To this response, I would like to point out that the Commission's directive for utilities without pending base rate cases to flow back tax saving effective July 1, 2018 and has addressed the concerns regarding single-issue and retroactive treatment of tax savings. Further, she also

opines, without any basis, that other utilities' capital requirements for investments in their operating systems, associated costs to customers, and subsequent impacts from TCJA are not as great as those experienced by Columbia (Columbia Statement No. 10-R, p. 33, ln. 7-10).

**Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR THE FLOW BACK OF 2018 EXCESS RECOVERY OF FEDERAL INCOME TAXES?**

A. No. I continue to recommend flowback of 2018 excess recovery of federal income taxes as contained in my direct testimony without any changes.

**Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

A. Yes.