

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2018-2647577

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

**Flex Rate Customers
Weather Normalization Adjustment
Revenue Normalization Adjustment
Test Year
Utility Plant in Service
Accumulated Depreciation
Annual Depreciation Expense
Rate Base
Future Test Year and Fully Projected Future Test Year Reports
Present Rate Revenue
Proposed Rate Revenue
Scale Back of Rates**

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ethan H. Cline. My business address is Pennsylvania Public Utility Commission, P.O. Box 3265, Harrisburg, PA 17105-3265.

Q. ARE YOU THE SAME ETHAN H. CLINE THAT SUBMITTED I&E STATEMENT NO. 3 AND I&E EXHIBIT NO. 3 ON JUNE 7, 2018?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony submitted by witnesses on behalf of Columbia Gas of Pennsylvania, Inc. (“Columbia” or “Company”): David Joseph Mays (Columbia Statement No. 3-R), John J. Spanos (Columbia Statement No. 5-R), Julie E. Covert (Columbia Statement No. 6-R), Panpilas W. Fischer (Columbia Statement No. 9-R), Nancy J. D. Krajovic (Columbia Statement No. 10-R), Mark P. Balmert (Columbia Statement No. 11-R), and Paula A. Strauss (Columbia Statement No. 12-R). I will also address the rebuttal testimony submitted on behalf of the Pennsylvania Office of Small Business Advocate (“OSBA”) by witness Robert D. Knecht (OSBA Statement No. 1-R) and the rebuttal testimony submitted on behalf of the Pennsylvania State University (“PSU”) by James L. Crist, P. E. My surrebuttal testimony specifically addresses the following issues:

- Flex Rate Customers;
- Weather Normalization Adjustment;
- Revenue Normalization Adjustment;
- Fully Projected Future Test Year (“FPFTY”);
- Use of the FPFTY as it applies to Rate Base;
- Application of the average rate base methodology;
- Present rate revenue;
- Revenue allocation;
- Rate Structure;
- Customer charge;
- Cost of Service allocation;
- Scale back of rates.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 3-SR contains schedules relating to my testimony.

FLEX-RATE CUSTOMERS

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

A. I recommended that the Company provide a competitive alternative analysis for each of these seven customers in the next base rate case and justify the customers' flex-rates (I&E St. No. 3, p. 4).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION REGARDING ITS FLEX-RATE CUSTOMERS?

A. Yes. Columbia witness Mays stated that the Company would be amenable to providing the competitive alternative analysis for each of the above referenced customers as part of the Company's next base rate case under a confidentiality agreement (Columbia St. No. 3-SR, p. 4).

Q. IS PROVIDING THE REQUESTED COMPETITIVE ALTERNATIVE ANALYSIS UNDER A CONFIDENTIALITY AGREEMENT IN THE NEXT BASE RATE CASE ACCEPTABLE?

A. Yes.

WEATHER NORMALIZATION ADJUSTMENT

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

A. I agreed with the Company's proposal that the Weather Normalization Adjustment ("WNA") be made a permanent tariff provision for the months November through May. However, I recommended that the proposal to remove the 5% deadband be denied (I&E St. No. 3, p. 8). Finally, I recommended that, should the Commission decide to not include a deadband provision or authorize a smaller deadband, the WNA continue as a pilot program for an additional five (5) years so that the effects of the deadband change can be studied (I&E St. No. 3, p. 9).

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

A. Yes. The Company disagreed with my recommendation to deny the proposed removal of the 5% deadband as well as my alternative recommendation of keeping the WNA without the 5% deadband as a Pilot program for five years (Columbia St. No. 12-R, p. y).

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

A. The Company did not agree with my recommendation regarding the 5% deadband for the following reasons; first, Columbia witness Strauss opines, on pages 3 and 4 of Columbia Statement No. 12-R, that she does not agree that the WNA only serves as extreme weather fix. She further reiterates that the goal of the WNA is to “eliminate revenue and bill variations due to warmer and colder than normal weather.” (Columbia St. No. 12-R, p. 4). Second, witness Strauss provides an example of the revenue impact of 4.5% colder than normal weather on a typical residential customer with the 5% deadband in place (Columbia St. No. 12-R, pp. 4-7), which resulted in a 3% variance in customers’ bills. Third, the Company disagrees that it is appropriate for Philadelphia Gas Works (“PGW”) to have a higher degree of revenue stability through a 1% deadband while the Company has a 5% deadband (Columbia St. No. 12-R, p. 7).

Q. PLEASE ADDRESS COLUMBIA WITNESS STRAUSS’ FIRST ARGUMENT THAT THE WNA IS NOT ONLY AN EXTREME WEATHER FIX.

A. On pages 8-9 of I&E Statement No. 3, I stated that I believe that a tariff provision that allows the Company to adjust Commission-approved rates in between rate cases is a departure from traditional ratemaking and that such a departure should only occur due to circumstances that are an extraordinary departure from normal operating conditions, such as abnormal weather. I continue to believe that the 5%

deadband represents a range of what can be considered “normal” weather and that the WNA with the 5% deadband achieves the Company’s stated goal of eliminating revenue and bill variations due to warmer and colder than normal weather. Further, the Company did not provide sufficient evidence in its direct or rebuttal testimony that shows that weather variations within 5% above or below an established base line could or should not be considered “normal” weather.

Weather is inherently variable, and I continue to believe that there is no need to reconcile day-to-day temperature variations that fall within the 5% deadband.

Further, on page 4 of Columbia Statement No. 12-R, witness Strauss opines that the deadband applies to the billing month as a total and that small variances in the weather throughout the month could potentially offset the larger adjustment, or “extreme” days. If, in one month, the Company experiences enough variable weather days to offset a larger weather adjustment that the adjustment falls within the 5% deadband, then an adjustment is not necessary.

Q. DID THE COMPANY PROVIDE A THEORETICAL REVENUE IMPACT OF INCLUDING THE 5% DEADBAND AS A PERMANENT PROVISION OF THE WNA?

A. Yes. The Company stated that the difference in revenues between a three-month period (January through March) with normal usage and the same three-month period with 4.5% colder than normal usage results in a difference of \$12.31

(Columbia St. No. 12-R, pp. 5-7). The \$12.31 difference represents approximately 3% ($\$12.31 / \366.92). A 3% variance in a customers' bill over a three-month period falls within what can be considered normal weather changes and a normal part of doing business as a utility. Additionally, such a small variance would likely not be considered detrimental to the Company. I do not believe this small variance is a suitable reason to deviate from traditional ratemaking procedures or the Company's Commission-approved rates.

Q. DO YOU AGREE WITH THE COMPANY'S STATEMENT THAT "BECAUSE COLUMBIA HAS A LOWER PERCENTAGE OF LOW INCOME CUSTOMERS AND SHAREHOLDERS" (COLUMBIA ST. NO. 12-R, PP. 7-8) IS NOT JUSTIFICATION FOR MAINTAINING A HIGHER WNA DEADBAND?

A. No. PGW is a non-profit entity, therefore variations in revenue due to the weather produce a greater amount of risk to both customers and the utility than it does to Columbia, which is granted the opportunity by the Commission to earn a return that can act as a cushion that would sustain the Company through the normal day-to-day changes in weather included in the 5% deadband as well as larger changes that are adjusted for in the WNA.

Q. SHOULD THE EFFECTS OF THE WNA ON THE PROPOSED REVENUE NORMALIZATION ADJUSTMENT BE CONSIDERED WHEN DETERMINING WHETHER A 5% DEADBAND IS APPROPRIATE?

A. No. The proposed Revenue Normalization Adjustment (“RNA”) should not be considered when determining whether a 5% deadband in the WNA is reasonable. The RNA is currently at issue in the present proceeding and has not yet been approved by the Commission; therefore, it is not appropriate to consider the benefits, or lack thereof, of a WNA with or without a 5% deadband on a tariff provision that does not yet exist and may not be approved.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. I continue to recommend that the 5% deadband be made a permanent part of the Company’s WNA.

REVENUE NORMALIZATION ADJUSTMENT

Q. WHAT IS A REVENUE NORMALIZATION ADJUSTMENT?

A. A revenue normalization adjustment is a tariff provision that is “designed to ‘break the link’ between residential non-gas revenue received by the Company and gas consumed by non-CAP residential customers.” (Columbia St. No. 12, p. 9). In other words, the Company is proposing to stabilize its revenue level received from customers by enacting a “benchmark distribution revenue level” and adjusting revenues to that point regardless of actual usage levels.

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

A. No. On pages 10-11 of I&E Statement No. 3, I disagreed with the Company’s proposal and stated that “through Act 11 and the FPFTY, the Company is permitted to build into its revenue requirement an adjustment for revenue lost due to a decline in usage that is projected to occur after rates go into effect.”

Q. DID THE COMPANY RESPOND TO YOUR POSITION?

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

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

A. The Company did not agree with my recommendation regarding the RNA for the following reasons; first, the Company claims that “the stability provided by the RNA is beneficial for both the Company and its residential customers,” (Columbia St. No. 12-R, p. 8). Second, the Company claims that I made two incorrect assumptions in my direct testimony that the proposed RNA can cause harm (Columbia St. No. 12-R, p. 9). Third, the Company claims that I portrayed the RNA as one-sided (Columbia St. No. 12-R, p. 12). Fourth, the Company points to an incorrect statement regarding the Distribution Service Improvement Charge (“DSIC”) that was included in my direct testimony (Columbia St. No. 12-R, p. 13).

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

A. On pages 8-9 of Columbia Statement No. 12-R, witness Strauss states that the RNA is beneficial because “the Company would credit or collect any distribution revenues over or under the benchmark revenue per customer that is established as part of a base rate proceeding.”

Q. IS WITNESS STRUASS’ STATEMENT AN ADEQUATE DEMONSTRATION OF A BENEFIT TO THE COMPANY AND ITS CUSTOMERS?

A. No. Based on the information provided by the Company in the current proceeding, it appears that the Company would be receiving most of the benefit of any revenue stabilization while the customers receive little or no benefit. The ways in which customers could benefit from an RNA is through less frequent base rate cases and receiving revenue credits. However, witness Strauss stated on page 8 of Columbia Statement No. 12-R that the “Company is not able to state with certainty” that a residential RNA would result in fewer rate cases, thus removing that potential benefit from Columbia’s customers.

Additionally, the Company has projected, and made revenue adjustments for, declining use per customer in the current base rate case (Columbia St. No. 3,

p. 13). This means that the Company is anticipating declines in revenue due to customers using less natural gas which, if the RNA were enacted, would cause additional revenue collected from customers rather than revenues being credited to customers. This removes the other potential benefit to customers that I identified above as the Company has not given any indication that the usage decline will not continue.

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

A. The Company claimed that two assumptions made in I&E Statement No. 3 are incorrect. First, the Company claims that my statement that for customers to benefit from the RNA, they would need to use more gas to trigger the refund, which is contrary to conservation efforts is flawed (Columbia St. No. 12-R, p. 9). Second, the Company disagrees with my statement that customers will see their investment payback time increase as rates increase in response to usage declines (Columbia St. No. 12-R, p. 10). Third, the Company disagrees with my statement regarding the Company's filing frequency and its eligibility for the Distribution System Improvement Charge ("DSIC") between cases (Columbia St. No. 12-R, p. 13).

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

A. Columbia witness Strauss, in Columbia Statement No. 12-R, pp. 9-10, states that I fail to recognize the many reasons that a residential customer's usage could increase. Strauss argues that a customer turning up their heat to benefit from the RNA credit would not have lower bills due to the commodity charge and that usage may increase for other reasons such as with the example provided of a customer deciding to work from home, that increase would not be contrary to conservation efforts.

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

A. The Company's example regarding customers that turn up their heat on a cold day would not help them to lower their bill because they would pay for using the additional gas commodity (Columbia St. No. 12-R, p. 9) shows that the RNA in general is less beneficial to customers than it is to the Company. Based on the Company's statement, it is clear that for all residential customers, the credit received for higher usage is mitigated by the increase to their bills due to the commodity cost. However, the Company experiences no such offset when collecting extra revenue under the RNA during times of declining usage. This shows that the RNA is unfairly tilted in favor of the Company at the expense of the customers.

While I agree with the Company that there are other reasons that could cause usage to increase, a large reason for the decline in the usage of gas that the natural gas industry has experienced in recent years is due to conservation efforts. As witness Strauss stated on page 10 of Columbia Statement No. 12-R, RNA adjustments are calculated on a class-wide basis and are not customer specific. Therefore, the example of a customer deciding to work from home has no bearing in this case because witness Strauss provided no evidence that large sections of residential customers are deciding to work from home and, thus, would not be a class-wide factor of increasing usage.

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

A. The Company stated that, because the adjustments to the RNA are real time, a customer who reduces consumption will experience immediate savings on their bill and provided an example of the type of savings a customer could experience (Columbia St. No. 12-R, pp. 10-12). Also, the Company stated that the proposed RNA reflects what happens in a rate case when customers implement conservation measures in that fixed costs are spread over lower volumes and rates for all residential customers would increase (Columbia St. No. 12-R, p. 10).

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

A. No. First, if the RNA is simply doing what the normal rate case process does without the benefit of less frequent base rate cases, then there is no need for the RNA as the Company’s rates will continue to be adjusted every year or two as has been the Company’s pattern of rate case filing. Second, I disagree that witness Strauss’ example regarding conservation savings shown on Columbia Exhibit PAS-1R shows that the payback time would not increase. The schedule shows two hypothetical scenarios involving two RNA rates. Rate A at \$0.25 per Dth and Rate B at \$0.75 per Dth. The conservation savings without an RNA, with Rate A, and Rate B generated by a furnace replacement, attic insulation, and wall insulation are shown on Columbia Exhibit PAS-1R, columns 9-12, lines 13-19 and below.

Table 3-SR-1				
	Furnace Replaced	Attic Insulation	Wall Insulation	Total
No RNA Savings	\$146.63	\$119.20	\$168.79	\$434.62
Rate A	\$18.13	\$18.78	\$17.60	\$11.30
Rate A Savings	\$128.50	\$100.43	\$151.18	\$423.32
% of Total Savings	88%	84%	90%	97%
Rate B	\$54.38	\$56.33	\$52.81	\$33.91
Rate B Savings	\$92.25	\$62.87	\$115.98	\$400.72
% of Total				

Savings	63%	53%	69%	92%
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This table clearly shows that the customer who installs the furnace replacement would have their savings reduced to 88% of the no-RNA savings under RNA Rate A and 63% of the no-RNA savings under Rate B. With the customer saving less through their investment in conservation efforts each year after the first, the time it takes for the customer to recover their investment will take longer. Therefore, the Company's assertion that my statement is incorrect, is incorrect.

Q. PLEASE ADDRESS THE COMPANY'S CORRECTION OF YOUR STATEMENT REGARDING THE DSIC.

A. The Company is correct that my statement on page 23 of I&E Statement No. 3 regarding the Company not being eligible for the DSIC is incorrect. I will address the Company's response to my testimony regarding the DSIC more fully below. However, specifically regarding the RNA, the Company utilizing the DSIC and its ability to recover certain plant outside of a base rate case is further evidence that revenue stabilization is not needed.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

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

AVERAGE RATE BASE METHODOLOGY

**Q. WHAT DID YOU RECOMMEND REGARDING THE AVERAGE RATE
BASE METHODOLOGY?**

A. I recommended that Columbia's FPFTY year-end rate base amount of \$1,899,052,483 be rejected and instead recommended a rate base amount of \$1,770,527,705 based on my recommended use of an average rate base methodology (I&E St. No. 3, pp. 14-15, 40).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION REGARDING THE USE OF AN AVERAGE RATE BASE METHODOLOGY?

A. Yes. The Company disagreed with my recommended use of the average rate base methodology for several reasons. First, the Company references Act 11 of 2012, which allows for the use of a FPFTY and does not require an average rate base (Columbia St. No. 6-R, p. 2). Second, the Company disagrees because the average rate base methodology is not substantially different than the construction work in progress (“CWIP”) that was allowed prior to the passage of Act 11 of 2012 (Columbia St. No. 6-R, p. 2). Third, witness Covert does not agree that using an average rate base more accurately reflects the period during which rates set in this proceeding will be in effect (Columbia St. No. 6-R, p. 2). Fourth, the Company disagrees with the average rate base because it complicates the alignment of costs and revenues (Columbia St. No. 6-R, p. 3).

Q. PLEASE DEFINE THE AVERAGE RATE BASE CONCEPT.

A. As I stated on pages 15-16 of I&E Statement. No. 3, under the FPFTY, the traditional interpretation of the “used and useful” requirement for rate base inclusion of investments is unclear because when a company employs the use of a FPFTY in a base rate case, the new rates go into effect before the end of the Company’s FPFTY. The inclusion of rate base added in a FPFTY necessarily

means that customers will be paying a return on and a return of a utility's plant investment that has not yet been placed in service. For example, customers will begin paying a return on and a return of plant when Columbia's new rates are effective January 1, 2019, or perhaps even earlier if the case is settled and new rates are approved before the January 2019 effective date, but that plant may not be used and useful until December 2019. By using an average of the rate base that is projected to be in service by the end of the FPFTY, rather than the full year-end amount, the impact of the necessary customer overpayment at the beginning of the year is mitigated. This results in rates that are more just and reasonable because ratepayers are not paying for approximately a year of plant that is not yet in service.

Q. WHY DOES THE COMPANY NOT AGREE WITH THE AVERAGE RATE BASE METHODOLOGY BASED ON ACT 11 OF 2012?

A. Columbia witness Covert states on page 2 of Columbia Statement No. 6-R that Act 11 of 2012 allows for the use of a FPFTY, which is defined as the 12-month period that begins with the first month that the new rates will be placed into effect, after the application of the full suspension period permitted under Section 1308(d). She further states that nothing in Act 11 of 2012 requires the use of an average rate base, allows plant to be in service at any point during the FPFTY to be included in rate base, and that the average rate base approach does not include all plant to be installed in the FPFTY to be included in rate base (Columbia St. No. 6-R, p. 2).

Q. PLEASE RESPOND TO COLUMBIA WITNESS COVERT'S DISCUSSION OF THE IMPLICATIONS OF ACT 11.

A. While the language of Act 11 does permit inclusion of plant proposed to be placed into service throughout the FPFTY to be included in rates, it does not indicate a specific or preferred methodology for recovery in rates. My recommendation does not preclude the Company from projecting plant additions throughout the FPFTY. In fact, the average is based upon the full proposed FPFTY level of plant additions and the level of plant additions projected in the FTY. Instead, my recommendation lowers the amount of plant the Company has been granted the opportunity to earn a return on and of the Company's investment that customers are required to pay for through rates on plant that is merely proposed but is not yet and may never be used and useful in the provision of service.

Q. WHY DOES THE COMPANY BELIEVE THAT THE AVERAGE RATE BASE METHODOLOGY YOU RECOMMEND IS NOT SUBSTANTIALLY DIFFERENT THAN THE CWIP ALLOWED BY THE COMMISSION PRIOR TO ACT 11?

A. As stated on page 2 of Columbia Statement No. 6-R, prior to the passage of Act 11, the Commission allowed certain non-revenue producing, non-expense reducing CWIP to be added into rate base. This CWIP was often projected to be added after the end of the Future Test Year.

Q. DO YOU AGREE THAT CWIP AND THE AVERAGE RATE BASE METHODOLOGY ARE SIMILAR?

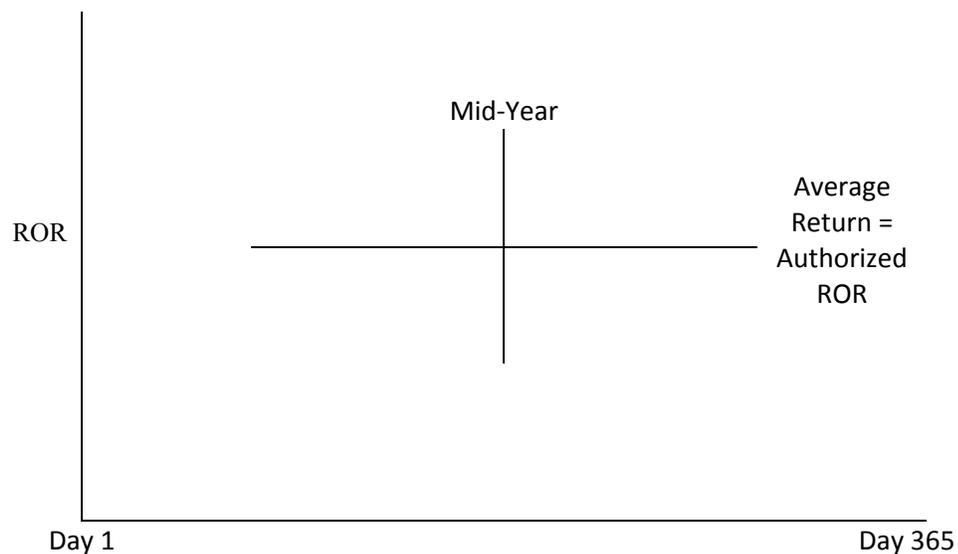
A. I believe that the average rate base and CWIP can seem similar but have two very important distinctions. First, as stated above, only plant that fell under certain requirements, i.e. non-revenue producing, non-expense reducing, were permitted to be added to rate base as CWIP. Further, it was generally required that the construction of the plant addition be “in progress” during the FTY. This definition was narrow and there was not a large amount of plant that fell under it. As an example, a dam or power plant that was started in the FTY but required extra time to be placed into service would generally fall under CWIP. On the other hand, using the average rate base, there is no limit to the type of plant that the Company can project to be added. Second, average rate base allows for the matching of revenues and expenses to plant added in the FPFTY, whereas CWIP allowed the plant to be placed into service up to six months after the end of the FTY and did not adjust revenue and expenses accordingly. Therefore, while CWIP and average rate base seem similar, using a FPFTY with the average rate base methodology is much less restrictive than the FTY with CWIP.

Q. WHY DOES WITNESS COVERT NOT AGREE THAT USING AN AVERAGE RATE BASE MORE ACCURATELY REFLECTS THE PERIOD DURING WHICH RATES SET IN THIS PROCEEDING WILL BE IN EFFECT?

A. Witness Covert states that either the rates will be in effect for longer than the FPFTY or the cost to serve customers will increase enough to warrant another rate case. In either case, costs will exceed the average cost after mid-year of the FPFTY (Columbia St. No. 6-R, pp. 2-3).

Q. PLEASE ADDRESS WITNESS COVERT’S STATEMENT REGARDING THE COSTS IN RELATION TO THE COST TO SERVE UNDER THE AVERAGE RATE BASE.

A. Similar to what I stated on page 18 of I&E Statement No. 3, an average rate base would yield an average annual return on rate base throughout the FPFTY equal to the authorized ROR. As illustrated below, the sloping line represents the ROR during the FPFTY. As time passes from left to right, the ROR will decrease over time as the Company places FPFTY plant into service during the FPFTY:



Under the Company's proposed methodology, only the end-of-year point at Day 365 would coincide with the authorized ROR, which would shift the entire graph upwards with the entire ROR line shifted above the authorized rate of return for every point.

This illustrates that, while it is more beneficial for the Company to use an end-year rate base, for ratepayers it results in rates that recover a return on investment that is higher than what the Commission determined to be just and reasonable for an entire year after rates go into effect.

Q. SHOULD THE PERIOD THAT RATES WILL BE IN EFFECT IMPACT THE ISSUE?

A. No. The period that rates will be in effect is an indeterminate amount of time. Rates are set based on data provided in a series of three 12-month periods of time, specifically the historic test year, FTY, and FPFTY. Plant additions, expenses, and changes to revenue are not projected beyond the end of the FPFTY and, therefore, that time period should not be considered when setting rates.

Q. DID WITNESS COVERT CITE ANY OTHER DOCUMENTS IN AN ATTEMPT TO SUPPORT THE YEAR-END RATE BASE?

A. Yes. Columbia witness Covert referenced *A Guide to Utility Ratemaking* authored by Commissioners James H. Cawley and Norman J. Kennard and offers that the

Commissioners do not state that an average rate base is required when using a FPFTY.

Q. DO YOU AGREE THAT *A GUIDE TO UTILITY RATEMAKING* IS EVIDENCE THAT THE AVERAGE RATE BASE CONCEPT SHOULD NOT BE CONSIDERED?

A. I do not. As I stated on pages 20-21 of I&E Statement No. 3, the average rate base methodology is a relatively new concept being presented in Pennsylvania. In fact, the issue has yet to be presented to the Commissioners for a determination, though the UGI Utilities, Inc. – Electric Division case at Docket No. R-2017-2640058 is currently further along in that process than any other previous cases. As a result, Commissioners Cawley and Kennard likely did not consider the average rate base concept when writing *A Guide to Utility Ratemaking*. This does not mean that the average rate base methodology is not valid and should not be applied by utilities or the Commission in Pennsylvania.

DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

Q. DID YOU ADDRESS THE COMPANY’S USE OF THE DSIC IN YOUR DIRECT TESTIMONY?

A. Yes. On page 23 of I&E Statement No. 3, I stated that “Columbia’s rate case filings have occurred with such frequency that the Company has not been eligible for a DSIC between rate cases.”

Q. DID THE COMPANY ADDRESS YOUR TESTIMONY REGARDING ITS ELIGIBILITY FOR THE DSIC IN REFERENCE TO ITS RATE CASE FILING FREQUENCY?

A. Yes. The Company pointed to the fact that it currently has an effective DSIC rate of 0.48%, which went into effect on April 1, 2018 and that the DSIC rate that the Company filed on June 20, 2018 of 1.52% became effective on July 1, 2018 (Columbia St. No. 10-R, p. 2).

Q. PLEASE ADDRESS YOUR TESTIMONY REGARDING THE COMPANY'S ELIGIBILITY FOR THE DSIC.

A. The statement on page 23 of I&E Statement No. 3 should have more correctly read "prior to the current year, Columbia's rate case filings have occurred with such frequency that the Company has not been eligible for a DSIC between rate cases."

Q. DID THE COMPANY ADDRESS I&E'S PRIOR POSITION IN THE COMPANY'S PETITION FILED ON DECEMBER 31, 2015 TO INCREASE ITS DSIC FROM 5% TO 10%?

A. Yes. On pages 5-6, the Company noted that I&E's position in that case was to oppose the Company's requested increase from 5% to 10%, with which the Commission agreed and denied the petition, and stated that it was perplexing that witness Cline appears to be criticizing Columbia for NOT using a DSIC (even though it does, in fact, have a DSIC rate in place).

Q. DOES THE COMPANY’S STATEMENT IN REFERENCE TO I&E’S PRIOR POSITION IN THE PETITION ACCURATELY REFLECT YOUR INTENT CONCERNING THE USE OF THE DSIC IN YOUR DIRECT TESTIMONY?

A. No. I acknowledge and agree that the first time the Company could utilize the DSIC after the last base rate case was April 2018. The point I was making in my direct testimony is that, prior to 2018, the Company’s base rate cases up to that point were filed so frequently, the Company found it more advantageous to utilize the projected plant provisions claimed in the FPFTY, via the filing of a base rate case, rather than recover plant additions more gradually through the DSIC.

Q. WHAT DID THE COMPANY STATE REGARDING ITS KNOWLEDGE OF THE EFFECTS OF ITS FREQUENT RATE CASE FILING ON ITS CUSTOMERS?

A. On pages 6-7 of Columbia Statement No. 10-R, witness Krajovic states that the Company is well aware of the rate impact of its infrastructure replacement program that is in effect because the Commission has required the Company to remove all cast iron and bare steel facilities from its distribution system by the year 2029. She further states that the Company is dedicated to operating as efficiently and effectively as possible with respect to the rate impacts on customers.

**Q. PLEASE ADDRESS THE COMPANY’S STATEMENTS ON
INFRASTRUCTURE REPLACEMENT.**

A. While I recognize the fact that the Company is required to replace all of its bare steel and cast iron facilities from its distribution system by the year 2029, it must be noted that it is the customers that bear the financial burden of this task. Therefore, by using an average rate base methodology along with the DSIC, the Company would be made whole at the end of the FPFTY while the customers benefit by no longer being forced to pre-pay for all of the plant in service at the beginning of the FPFTY that is not used and useful until the end of the year. This is accomplished because the average rate base methodology allows the Company to implement the DSIC part way through the FPFTY. At that point, the Company is charging customers for plant as it is placed into service.

UTILITY PLANT IN SERVICE

**Q. DID YOU HAVE A RECOMMENDATION REGARDING UTILITY
PLANT-IN-SERVICE IN THIS PROCEEDING?**

A. Yes. I recommended that Columbia’s FPFTY year-end utility plant-in-service be rejected and that a total gas plant-in-service amount of \$2,588,654,760 be adopted instead, based on my recommended use of an average rate base methodology (I&E St. No. 3, pp. 14-15).

Q. APART FROM NOT AGREEING WITH THE AVERAGE RATE BASE METHODOLOGY, DID THE COMPANY AGREE WITH YOUR RECOMMENDED CALCULATION OF UTILITY PLANT IN SERVICE?

A. No. First, the Company disagrees with my calculation of average utility plant in service because it calculates the average based on plant balances at the end of November 30, 2018, the FTY and December 31, 2019, the FPFTY. Columbia witness Covert states, and is correct, that the appropriate calculation should be at the end of December 31, 2018 and December 31, 2019, which would include all plant that would be in service prior to rates going into effect in January 2019 (Columbia St. No. 6-R, p. 5).

Q. WHAT IS THE AVERAGE UTILITY PLANT IN SERVICE LEVEL CALCULATED AT DECEMBER 31, 2018 AND DECEMBER 31, 2019 IDENTIFIED BY THE COMPANY?

A. Columbia witness Spanos stated on page 5 of Columbia Statement No. 5-R that the average utility plant in service balance would be \$2,612,533,896, which reflects the December 31, 2018 amount of \$2,483,276,054 and December 31, 2019 amount of \$2,741,791,737.

Q. DO YOU AGREE WITH THE COMPANY'S AVERAGE UTILITY PLANT IN SERVICE AMOUNT OF \$2,741,791,737?

- A. Yes. The \$2,741,791,737 amount of average utility plant in service calculated by averaging the end of year plant balances at December 31, 2018 and December 31, 2019 is reasonable.

ANNUAL DEPRECIATION EXPENSE

Q. WHAT DID YOU RECOMMEND REGARDING ANNUAL DEPRECIATION EXPENSE?

- A. Based on my use of average rate base methodology, I recommended an annual depreciation expense of \$72,716,721, which represents a decrease of \$4,585,187 to the Company's annual depreciation expense claim (\$72,716,721 - \$77,301,908) (I&E St. No. 3, p. 27).

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION REGARDING ANNUAL DEPRECIATION EXPENSE?

- A. No. The Company stated that my calculation of the annual depreciation expense by taking an average of the total end of year balances of annual depreciation expense was incorrect because it was calculated using 13-months rather than 12-months and based on activity for the twelve months which includes the development of the annual depreciation provision on a twelve-month basis (Columbia St. No. 5-R, p. 5). The Company provided a corrected annual depreciation expense amount of \$73,511,274, which includes the amortization of

net salvage of \$4,744,712, if the Commission approves the average rate base methodology (Columbia St. No. 5-R, p. 6).

Q. DO YOU AGREE WITH THE COMPANY'S RECOMMENDED AVERAGE ANNUAL DEPRECIATION EXPENSE AMOUNT OF \$73,511,274?

A. Yes. The Company's average annual depreciation expense amount of \$73,511,274 is reasonable.

Q. HAVE YOU UPDATED YOUR EXHIBIT TO REFLECT THE \$73,511,274 AMOUNT OF ANNUAL DEPRECIATION EXPENSE?

A. Yes. I&E Exhibit No. 3-SR, Schedule 2 shows the adjustment from my original recommendation to my accepted annual depreciation expense amount of \$73,511,274.

DEPRECIATION RESERVE

Q. WHAT DID YOU RECOMMEND REGARDING DEPRECIATION RESERVE?

A. I recommended an accumulated depreciation amount of \$479,057,725 for the FPFTY (I&E St. No. 3, p. 29).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION REGARDING DEPRECIATION RESERVE?

A. Yes. Similar to the annual depreciation expense above, the Company disagrees with my recommended depreciation reserve calculation and instead recommends an average depreciation reserve of \$479,939,787 which reflects the developed December 31, 2018 amount of \$460,649,848 and December 31, 2019 amount of \$499,229,725 (Columbia St. No. 5-R, p. 6). It should be noted that the sentence on page 6 of Columbia Statement No. 5-R, lines 3-4 that reads “[t]hen the average rate base would be \$2,132,594,109” is incorrect and is instead referring to the average net utility plant in service, which is the average utility plant in service amount of \$2,612,533,896 less the average depreciation reserve amount of \$479,939,787.

Q. DO YOU AGREE WITH THE COMPANY’S AVERAGE DEPRECIATION RESERVE AMOUNT OF \$479,939,787?

A. Yes. The Company’s average depreciation reserve amount of \$479,939,787 is reasonable.

RATE BASE

Q. DID YOU RECOMMEND ANY ADJUSTMENTS TO THE ADDITIONS AND DEDUCTIONS TO RATE BASE IN YOUR DIRECT TESTIMONY?

A. Yes. As discussed below, I recommended adjustments to Materials and Supplies, prepayments, gas storage underground, total deferred income taxes, and customer deposits (I&E St. No. 3, p. 33). As a result of the adjustments discussed, I recommended the Company's original rate base claim be reduced by \$128,524,778 from \$1,899,052,483 to \$1,770,527,705 (I&E St. No. 3, p. 40).

Q. WOULD YOU LIKE TO NOTE ANYTHING REGARDING THE COMPANY'S RESPONSE TO YOUR ADJUSTMENTS TO THE ADDITIONS AND REDUCTIONS TO RATE BASE?

A. Yes. It should be noted that the Company has in general not agreed with the average rate base methodology, which has been described above. Therefore, the discussions regarding the adjustments are made with the knowledge that the Company continues to support the end-of-year methodology but wishes to provide more accurate calculations of the rate base adjustments based on the end of year balances at December 31, 2018 and December 31, 2019.

Q. DO YOU AGREE WITH THE COMPANY'S POSITION THAT THE BALANCES AT THE END OF DECEMBER 31, 2018 ARE MORE APPROPRIATE THAN THE BALANCES AT THE END OF NOVEMBER 30, 2018?

A. Yes. As I stated above regarding the utility plant in service, it is reasonable to calculate the average adjustments to rate base based on the balances at the end of December 31, 2018 rather than November 30, 2018. Therefore, I agree with the rate base calculation provided by Columbia witness Covert as shown on Columbia Exhibit JEC-1R that provides an average rate base amount of \$1,792,670,631. I&E Exhibit No. 3-SR, Schedule 1 shows my original average rate base calculated and the Company's updated average rate base calculation, which I accept.

Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION TO UPDATE THE ACTUALS FOR THE MATERIALS AND SUPPLIES, PREPAYMENTS, AND CUSTOMER DEPOSITS THROUGH APRIL 30, 2018?

A. Yes. The Company agreed with my recommendation and the updated actuals were included in the calculation of the Company's average rate base (Columbia St. No. 6-R, p. 6). These updated amounts are included on I&E Exhibit 3-SR, Schedule 1.

FTY AND FPFTY REPORTING

Q. WHAT DID YOU RECOMMEND REGARDING PLANT ADDITIONS THAT COLUMBIA PROJECTS TO BE IN SERVICE DURING THE FTY ENDING NOVEMBER 30, 2018 AND THE FPFTY ENDING DECEMBER 31, 2019?

A. I recommended that the Company provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2019, under this docket number, which should include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2018. An additional update should be provided for actuals through December 31, 2019, no later than April 1, 2020 (I&E St. No. 3, p. 42).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDED REPORTING REQUIREMENT RECOMMENDATION?

A. No. Therefore, because the Company did not respond to this item in my direct testimony and agreed to this reporting in its last base rate case, I will assume the Company agrees as part of this base rate case until informed otherwise.

PRESENT RATE REVENUE

Q. WHAT IS THE COMPANY'S CLAIMED PRESENT RATE REVENUE LEVEL IN THE FPFTY?

A. The Company's claimed Total Operating Revenues under pro forma present rates in the FPFTY are \$575,348,119 (Columbia Gas Ex. No. 103, Sch. No. 1, p. 15 of 15, line 45).

Q. DID THE COMPANY ADJUST ITS CLAIM FOR TOTAL OPERATING REVENUES UNDER PRO FORMA PRESENT RATES IN THE FPFTY?

A. Yes. On pages 3-4 of Columbia Statement No. 3-R, witness Mays stated that a mistake regarding the pricing of a flex rate customer was determined to be incorrect and was corrected in Exhibit DJM-3R. The result is a slight decrease to the Company's present rate revenue of \$14,873 from \$575,348,119 to \$575,362,992 (Columbia St. No. 3-R, p. 3).

Q. WHAT DID YOU RECOMMEND REGARDING THE COMPANY'S PRESENT RATE REVENUE LEVEL IN THE FPFTY?

A. For purposes of consistency, it is also necessary to calculate the Company's present rate revenue level in the FPFTY using a consistent average methodology, therefore I recommended that the Company's Total Operating Revenue under pro forma present rate revenue be decreased by \$2,533,278, from \$573,757,395 to \$571,224,117 (I&E St. No. 3, p. 44).

Q. DID THE COMPANY RESPOND TO YOUR PRESENT RATE REVENUE RECOMMENDATION?

A. Yes. Similar to above, Columbia witness Mays disagreed with the use of the average rate base methodology, but also provided an adjustment to my calculation of the average present rate revenue. Witness Mays based his adjustment on the forecasted unadjusted and forecasted annualized present rate revenues in the FPFTY (Columbia St. No. 3-R, pp. 2-3). The result of witness Mays' adjustment would be to decrease the Company's adjusted present rate revenue amount by \$3,332,501 from \$575,362,992 to \$572,030,491 (Columbia St. No. 3-R, p. 3).

Q. DOES COLUMBIA'S PROPOSED AVERAGE ADJUSTMENT FOR PRESENT RATE REVENUE REFLECT THE CHANGE IN CUSTOMERS USAGE THAT THE COMPANY PROJECTS TO OCCUR OVER THE FPFTY?

A. Yes. The Company's proposed adjustment removes all of the annualized changes and calculates present rate revenue using the forecasted, unadjusted bills and volumes at the end of the FPFTY.

Q. DO YOU AGREE WITH THE COMPANY'S RECOMMENDED ADJUSTMENT TO PRESENT RATE REVENUES?

A. Yes. The Company recommended adjustment to present rate revenues of a reduction of \$3,332,501 from \$575,362,992 to \$572,030,491 is reasonable.

Q. DID YOUR RECOMMENDED PRESENT RATE REVENUE

ADJUSTMENT INCLUDE AN ADJUSTMENT FOR GAS COSTS?

A. Yes. I recommended that a reduction in the gas cost expense of \$796,499 from \$163,506,936 to \$162,710,437.

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Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDED

ADJUSTMENT TO GAS COSTS?

A. Yes. The Company agreed that it is appropriate to include an adjustment for gas costs if present rate revenue is adjusted. Similar to present rate revenue, the Company provided an alternate gas cost expense reduction of \$1,233,194 from \$163,506,936 to \$162,273,742 (Columbia St. No. 3-R, pp. 2-3).

Q. DO YOU AGREE WITH THE COMPANY'S ADJUSTMENT TO GAS

COSTS?

A. The calculation of the adjustment to gas costs should be consistent with the calculation for the adjustment to present rate revenue. Therefore, I agree with the Company's calculation reflecting a reduction of \$1,233,194 from \$163,506,936 to \$162,273,742.

COST OF SERVICE

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

A. Yes. The Company performed and provided three allocated cost of service (“ACOS”) studies in its filing sponsored by Columbia witness Mark P. Balmert as he described on page 4 of Columbia Statement No. 11. The first is a customer-demand ACOS study (Columbia Exhibit No. 111, Schedule 1), the second is a peak and average ACOS study (Columbia Exhibit No. 111, Schedule 2); and the third ACOS study is an average of the customer-demand studies and the peak and average studies (Columbia Exhibit No. 111, Schedule 3).

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

A. The Company utilized the third ACOS study sponsored by Mr. Balmert which is the average of the customer-demand study and the peak and average study, presented on Columbia Exhibit No. 111, Schedule No. 3 to allocate the proposed revenue increases (Columbia St. No. 3, pp. 4-5).

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

A. I recommended the Commission use the peak and average ACOS study provided by the Company on Columbia Exhibit No. 111, Schedule 2 to allocate the final revenue increases among the different customer classes (I&E St. No. 3, pp. 52-53).

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

A. No. Columbia witness Balmert claimed that throughput is not a determining factor when it comes to main investment (Columbia St. No. 11-R, p. 8). Furthermore, citing OCA Witness Watkins, various Orders in the base rate cases of its affiliates in other jurisdictions such as Columbia Gas of Kentucky (2016 Case No. 216-00162), Columbia Gas of Virginia (2016 PUE-2016-00033), and Columbia Gas of Maryland (2018 Case No. 9480), the National Association of Regulatory Utility Commissioners' 1989 Gas Distribution Rate Design Manual, and OSBA Witness Knecht, Columbia objected to the use of a single COSS in revenue allocation and rate design (Columbia St. No. 11-R, pp. 2-5).

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

A. No. The purpose of a natural gas distribution company ("NGDC"), such as Columbia, is to deliver gas at all times, 365 days a year. The two main reasons an

NGDC invests in its distribution system is to improve safety and to meet the gas supply needs of its customers. The Company, on pages 12-14 of Columbia Statement No. 11-R responds to a hypothetical example given by OCA witness Mierzwa in his direct testimony. The example is that on one street are 10 residential customers with a peak demand of one Dth each and on another street is one commercial customer with a peak demand of 10 Dth. If the commercial customer is torn down and replaced with five high-usage residential customers who each have a peak demand of 2 Dth, the main that was sized to deliver 10 Dth is adequate and that is not the number of customers but rather the load that is the determining factor in the main investment.

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

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

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

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

A. Yes. OSBA Witness Knecht also claimed that the peak and average COSS lacks a customer component (OSBA Statement No. 1-R, page 5, lines 20-23). Additionally, the OSBA noted that even though the Commission approved the peak and average COSS in 1994, it also approved the average-and-excess COSS in

the PPL Gas Utilities Corporation proceeding at Docket No. R-00061398 (Order Entered February 8, 2007) and in the Philadelphia Gas Works proceeding docketed at R-00061931 (Order Entered September 28, 2007) (OSBA St. No. 1-R, pages 5-6, lines 27-28 and lines 1-2).

PSU Witness Crist also opposed my use of the peak and average ACOS only in allocating costs in this proceeding stating that there are valid reasons that there are other ACOS methodologies that have a sound technical and economic basis to them (PSU St. No. 1-R, p. 9).

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

A. In general, any system must be designed to handle peak usage and year-long usage. In addition, I continue to believe that although mains serve customers, the type of main investment is properly determined by the throughput. Although Mr. Balmert disagrees and uses recent support from other, non-Pennsylvania jurisdictions, the support I referenced in my direct testimony is preferential because these Orders come from the Pennsylvania Commission on Pennsylvania public utilities.

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

A. Yes. Columbia witness Balmert rejects my reference to the 1994 National Fuel Gas Distribution Corporation (“NFG”) Order on page 52 because in the 1994 NFG case, NFG only submitted studies based on the Peak & Average methodology and not multiple methodologies as the Company did in the current case (Columbia St. No. 11-R, p. 23).

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

A. No. In the 1994 NFG case, NFG submitted two different Peak & Average cost of service studies, and the Commission could have rejected the Peak & Average method and ruled that a different methodology was appropriate. The Commission did not do this. In fact, as I stated on page 52 of I&E Statement No. 3, the Commission instead specifically stated that the “Peak & Average method that allocates mains equally is a sound and reasonable method of cost allocation and should remain intact.” (Pa. P.U.C. v. National Fuel Gas Distribution Co. 83 Pa. PUC 262 (1994)).

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

A. Yes. Mr. Knecht pointed out that recent Commission precedent for electric distribution utilities specifically affirms the use of a minimum system methodology for classifying electric distribution system costs (OSBA St. No. 1-R, p. 3). Mr. Knecht refers to two recent PPL Electric Utilities Corporation rate cases. However, there are often distinct differences between electric distribution companies and natural gas distribution companies. These differences include the fact that electric distribution cost of service studies use customer and demand allocators, while gas and water companies also use volumes as an allocator; additionally, there are differences as it relates to geographical and customer density characteristics. PPL is largely rural in nature and is required to run distribution lines along every public road and also provide service to virtually every residence and business within its service territory. The same is not true for natural gas distribution companies that do not have this same service requirement.

Q. ON PAGES 2-3 OF OSBA STATEMENT NO. 1-R, OSBA WITNESS KNECHT POINTS OUT THAT THE COMMISSION HAS IN THE PAST APPROVED THE AVERAGE AND EXCESS ALLOCATION METHOD AND QUESTIONS WHY I DID NOT PROPOSE THE AVERAGE AND EXCESS ALLOCATION METHOD FOR MAINS BE ADOPTED IN THIS PROCEEDING.

A. I did not propose that the Average and Excess allocation method for mains be adopted in this proceeding because the Company had introduced an allocation method, the Peak and Average method, which has been accepted by the Commission in previous natural gas utility base rate cases.

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

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

CUSTOMER COST ANALYSIS

Q. DID COLUMBIA PREPARE A CUSTOMER COST ANALYSIS TO SUPPORT THE PROPOSED CUSTOMER CHARGE INCREASES IN THIS PROCEEDING?

A. Yes. As I stated on page 56 of I&E Statement No. 3, the Company prepared two customer cost analyses presented in Columbia Exhibit No. 111, Schedule 1, pages 14-30. The first of the Company's customer cost analyses allocates a portion of the cost of mains to customers and is presented on pages 14-22. The second of the Company's customer cost analyses does not allocate any portion of the cost of mains to customers and is presented in Columbia Exhibit No. 111, Schedule 1, pages 23-31. The results of each customer cost analysis are presented in the following table:

Customer Class	Including Mains (Columbia Ex. No. 11, Sch. 1, p. 16, line 41)	Excluding Mains (Columbia Ex. No. 11, Sch. 1, p. 25, line 37)
RSS/RDS	\$46.05	\$19.66
SGSS1/SCD1/SGDS1	\$51.18	\$22.46
SGSS2/SCD2/SGDS2	\$96.64	\$41.78
SDS/LGSS	\$517.57	\$199.54
LDS/LGSS	\$1,773.97	\$910.57
MLDS	\$584.57	\$366.56

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

A. I recommended the Company's customer cost analysis that includes the cost of mains should not be considered (I&E St. No. 3, p. 57).

Q. DID YOU AGREE WITH ALL OF THE COSTS INCLUDED IN THE COMPANY'S CUSTOMER COST ANALYSIS?

A. No. As I stated previously, I believe that the Company's customer cost analysis improperly includes indirect costs such as, but not limited to, uncollectibles, miscellaneous costs related to customer accounts, and miscellaneous costs related to customer service and information (I&E St. No. 3, pp. 57-58).

Q. DID YOU SUBMIT A CUSTOMER COST ANALYSIS IN THIS CASE TO SUPPORT A DIFFERENT RESIDENTIAL CUSTOMER CHARGE?

A. No. While I disagreed with some of the items the Company included in its customer related revenue requirement analysis, I stated my analysis does not produce results sufficiently different to warrant a revised customer cost analysis and related testimony in this case (I&E St. No. 3, p. 58).

Q. DID THE COMPANY AGREE WITH YOUR DECISION TO EXCLUDE THE ITEMS MENTIONED ABOVE FROM YOUR CUSTOMER COST ANALYSIS?

A. No. Company Witness Balmert disagreed with my exclusion of the items he has included in the Company's customer cost analyses (Company Statement No. 11-R, pages 39-42. Specifically, on pages 41-42 of his rebuttal testimony, Mr. Balmert claimed because I did not remove "Customer Accounts Expense" from my customer cost analysis, it is logical that the uncollectible expense of not collecting payment of the customer charge should also be recovered by the customer charge. Further, on page 42 of his rebuttal testimony, Mr. Balmert testifies that because I have not opposed the allocation of Operations and Maintenance ("O&M") accounts 905, 907, 908, 909, 910, 912, and 916 based on number of customers, they too should also be included in the customer charges. Finally, witness Balmert states that he agrees with OSBA witness Knecht on page 35 of OSBA Statement

No. 1 where he states that the approach he takes to the problem of cost basis with regards to the customer charge is to include all costs that are allocated on a customer basis (Columbia St. No. 11-R, p. 42).

Q. DO YOU AGREE THAT A PERCENTAGE OF NON-GAS COST RELATED UNCOLLECTIBLE ACCOUNTS SHOULD BE CONSIDERED A BASIC CUSTOMER COST (COLUMBIA ST. NO. 11-R, P. 41)?

A. No. Uncollectible accounts represent the revenue lost due to late or unpaid bills. The Company already collects and records revenue not included in distribution rates related to Late Payment Fees. Therefore, it is not necessary to recover any uncollectible accounts in the customer charge because those revenues are largely recovered in the usage rates and late payment fees.

Q. DO YOU AGREE WITH THE COMPANY THAT O&M ACCOUNTS 905, 907, 908, 909, 910, 912, AND 916 COSTS SHOULD BE INCLUDED IN THE CUSTOMER CHARGES?

A. No. As indicated in my direct testimony, only the costs previously allowed by the Commission as indirect costs as well as those costs that change with the addition or subtraction of a single customer, or direct customer costs, should be included in a customer cost analysis. O&M accounts 905, 907, 908, 909, 910, 912, and 916 do not meet the criteria of direct customer costs nor have they been previously

allowed by the Commission. While I did not take a specific position on the Company's recommendations regarding the inclusion of the O&M accounts 905, 907, 908, 909, 910, 912, and 916 in the present proceeding, I continue to believe that it is not reasonable to include such costs in a customer cost analysis.

Q. DO YOU AGREE WITH OSBA WITNESS KNECHT THAT ALL COSTS THAT ARE ALLOCATED ON A CUSTOMER BASIS SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. No. A customer cost analysis, while related to the overall cost allocation, is a different analysis. The overall cost allocation is a broader process that deals with allocating costs to the various rate classes to determine how much revenue needs to be generated from each, whereas the customer cost analysis is a much narrower analysis, which affects each customer's individual bill. Because the customer cost analysis has a more direct effect on the customers' bills, it should be more selective in what is included than the overall cost allocation. Therefore, I disagree with witness Knecht that including all costs that are allocated on a customer basis should be included in a customer cost analysis.

CUSTOMER CHARGE

Q. WHAT CUSTOMER CHARGE IS THE COMPANY PROPOSING FOR EACH RATE CLASS?

A. The customer charge proposed for each rate class is shown in the table below. The Company is only proposing an increase in the customer charge for the residential (RS, RDS, RCC) and Small General Service for customers using less than or equal to 6,440 Therms, annually (SGSS1, SCD1, SGDS1) (Columbia No. 103, Sch. No. 8, pp. 6-10).

Rate Schedule (Therms, annually)	Present Rate	Change	Proposed Rate	Percent Increase
RS, RDS, RCC				
All Usage	\$16.75	\$1.50	\$18.25	8.96%
SGSS1, SCD1, SGDS1				
<u>≤6,440</u>	\$21.25	\$1.50	\$22.75	7.06%
SGSS2, SCD2, SGDS2				
>6,440 to ≤64,440	\$48.00	\$0.00	\$48.00	0.00%
SDS/LGSS				
>64,400 to ≤110,000	\$229.75	\$0.00	\$229.75	0.00%
>110,000 to ≤540,000	\$757.34	\$0.00	\$757.34	0.00%
NSS & MLDS-I and MDS Class II				
>274,000 to ≤540,000	\$469.34	\$0.00	\$469.34	0.00%
>540,000 to ≤1,074,000	\$1,149.00	\$0.00	\$1,149.00	0.00%
>1,074,000 to ≤3,400,000	\$2,050.00	\$0.00	\$2,050.00	0.00%
>3,400,000 to ≤7,500,000	\$4,096.00	\$0.00	\$4,096.00	0.00%
>7,500,000	\$7,322.00	\$0.00	\$7,322.00	0.00%

Q. DID YOU AGREE WITH THE COMPANY’S RECOMMENDED INCREASE TO THE RESIDENTIAL AND SMALL GENERAL SERVICE RATE CUSTOMER CHARGES?

A. Yes. Despite the fact that I disagreed with the items included in the Company’s customer cost analysis, I believe the Company’s requested increases to the residential and small general service rate customer charges are acceptable because the increases do not violate the concept of gradualism.

PROPOSED REVENUE

Q. WHAT DID YOU RECOMMEND REGARDING THE ALLOCATION OF PROPOSED RATE REVENUE AMONG THE COMPANY’S RATE CLASSES?

A. I recommended that \$4,793,000 be subtracted from the proposed RSS/RDS class increase, that \$3,113,000 be added to the proposed SGSS1/SCD1/SGDS1 class increase, that \$1,680,000 be added to the proposed SGSS2/SCD2/SGDS2 class increase, to make the relative rate of return for these classes 1.13, which accounts for the flex-rate and large usage customers who do not pay their full cost of service (I&E St. No. 3, pp. 61-63).

Q. DID ANY PARTIES RESPOND TO YOUR RECOMMENDATION REGARDING THE ALLOCATION OF PROPOSED RATE REVENUE?

A. Yes. The Company and the OSBA responded to my recommended allocation of proposed rate revenue.

Q. WAS THERE AN ERROR IN I&E EXHIBIT NO. 3, SCHEDULE 14 ATTACHED TO YOUR DIRECT TESTIMONY?

A. Yes. The I&E Revised Operating Revenue and Increase shown on I&E Exhibit No. 3, Schedule 14 are incorrect as they do not match the operating revenue shown on I&E Exhibit No. 3, Schedule 13. I have corrected this schedule and attached it as I&E Exhibit No. 3-SR, Schedule 3. This correction has a minor impact on the proposed percent increases, however, it is not the inconsistency referred to by OSBA witness Knecht in footnote 2 on page 5 of OSBA Statement No. 1-R. I will address that issue below.

Q. DOES OSBA WITNESS KNECHT OTHERWISE AGREE WITH YOUR POSITION REGARDING THE ALLOCATION OF PROPOSED RATE REVENUE AS A RESULT OF THE COMPANY'S FLEX RATE CUSTOMERS?

A. No. OSBA witness Knecht does not agree with my position regarding the reallocation of revenue as a result of the Company's flex rate customers for several reasons. First, witness Knecht disagrees with my recommended use of the Peak and Average ACOS study as a basis for my allocations and that it produces results that are different than current rates (OSBA St. No. 1-R, p. 4). Second, witness Knecht states that I exempt the SDS/LGSS and LDS/LGSS classes from the requirement of moving class rates of return closer to the system average (OSBA St. No. 1-SR, p. 5).

Third, he claims that my recommended revenue allocation is not consistent with the cost allocation method that I support (OSBA St. No. 1-SR, p. 6). Fourth, witness Knecht has an issue with the percentage increases to the SGS1 and SGS2 rate classes that I recommended (OSBA St. No. 1-Sr, pp. 6-7). Sixth, witness Knecht claims that my cost allocation analysis is irrelevant to more than one-third of the overall system load (OSBA St. No. 1-SR, p. 7).

Q. PLEASE ADDRESS WITNESS KNECHT’S CONCERNS REGARDING THE PEAK AND AVERAGE ACOS STUDY AND THE RESULTS THAT ARE VERY DIFFERENT THAN CURRENT RATES.

A. The reasonableness of the Peak and Average ACOS study is addressed above. Regarding witness Knecht’s statement that a cost allocation methodology that produces results that are more than four times higher than current rates for the flex-rate LDS customers should be suspect, I disagree. The reason for my reallocation of proposed rate revenue between the rate classes is that the flex-rate customers do not produce enough revenue to recover the cost to serve those customers. That revenue shortfall must be recovered from the other rate classes. Additionally, the Company’s present rates are based on a settlement in the last base rate case which states that “[r]evenue allocation and rate design reflect a compromise and do not endorse any particular cost of service study.” (Recommended Decision Docket No. R-2016-2529660, paragraph 40, September 28, 2016). In addition, witness Knecht’s

statement shows that he is attempting to match a cost of service study to rates, rather than selecting the appropriate cost of service allocation method to determine proper rates by class.

Q. PLEASE CLARIFY YOUR POSITION REGARDING EXEMPTING THE SDS/LGSS AND LDS/LGSS CLASSES FROM THE TARGET RATE OF RETURN GOAL.

A. On pages 61 and 62 of I&E Statement No. 3, I stated that the customers in the SDS/LGSS, LDS/LGSS, and MLDS classes should be excluded from the target rate of return goal because the income for flex rate customers is negotiated and the MLDS class exceeds the relative rate of return. To be clear, my direct testimony is referring to the fact that including the revenue shortfall generated by the negotiated rates of the flex rate customers in the SDS/LGSS and LDS/LGSS classes will prevent those classes from ever truly reaching a relative rate of return of 1.0. This does not exempt those classes from receiving an increase to their rates, as I have recommended the SDS/LGSS and LDS/LGSS classes each receive an approximately 12% increase, which is larger than the overall Company increase (I&E Ex. No. 3-SR, Sch. 2). Under my recommendation, the MLDS class also receives an increase, but one that is less than the overall increase, which will reduce the relative rate of return for that class, which will increase the rate of return for the large classes with flex rate customers as a whole.

Q. WHY DOES WITNESS KNECHT STATE THAT YOUR PROPOSED REVENUE ALLOCATION IS NOT CONSISTENT WITH THE COST ALLOCATION METHOD YOU SUPPORT?

A. Witness Knecht stated that the primary source of the issue with my cost allocation method is that I ignore the cost allocation results for the SDS/LGSS and LDS/LGSS because these classes contain flex rate customers (OSBA St. No. 1-R, p. 6).

Q. DO YOU AGREE WITH WITNESS KNECHT THAT YOU IGNORED THE COST ALLOCATION RESULTS FOR THE SDS/LGSS AND LDS/LGSS CLASSES BECAUSE THESE CLASSES CONTAIN FLEX RATE CUSTOMERS?

A. No. The purpose of my proposed rate allocation is to acknowledge and account for the fact that the flex rate customers will not provide revenues that match their cost to serve, as determined by my recommended Peak and Average ACOS study. I accepted the 11.9% increase proposed by the Company for these classes which is 145% (11.9%/8.2%) of the system average increase (I&E Ex. 3-RS, Sch. 3, line 8). Therefore Mr. Knecht's criticisms are unsupported.

Q. PLEASE DESCRIBE THE ISSUE WITNESS KNECHT HAS WITH THE RECOMMENDED PERCENT INCREASES TO THE SGS1 CLASS AND THE SGS2 CLASS.

A. Witness Knecht's issue with my recommended revenue allocation appears to be that the new relative rate of return for the residential, SGS1, and SGS2 classes is 1.13. as shown on I&E Exhibit No. 3, Schedule 12, the relative rates of return in the Peak and Average ACOS is 1.16 for the residential rate class, 0.97 for the SGS1 rate class, and 1.04 for the SGS2 rate class. This shows that the SGS1 and SGS2 rate classes are below the system average rate of return and, therefore, need to have their rates increased more in order to recover the flex rate revenue shortfall.

Q. DO YOU AGREE THAT YOUR REVENUE ALLOCATION METHOD MEANS THAT THE PEAK AND AVERAGE ACOS IS NOT RELEVANT TO ONE-THIRD OF THE SYSTEM LOAD?

A. No. I disagree that it is not relevant to one-third of the system load as witness Knecht suggests. As shown on I&E Exhibit No. 3, Schedule 13, the Peak and Average ACOS is used to determine both the proposed rate revenue allocation and the overall class increases as described in my direct and surrebuttal testimonies. The cost of service study is a guide in assigning revenue to each rate class. The existence of flex rate customers necessarily means that the revenue shortfall must be recovered from the other rate classes, which will affect how revenue is allocated and recovered utilizing the results of the cost of service study.

Q. WHY DOES THE COMPANY NOT AGREE WITH YOUR RECOMMENDATION?

A. Similar to the OSBA, as discussed above, the Company does not agree with my recommendation because it is based on the Peak and Average ACOS method and the Company does not agree with targeting different rates of return by customer class (Columbia St. No. 12-R, pp. 18-19).

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION REGARDING THE PROPOSED RATE REVENUE ALLOCATION?

A. No. For the reasons described above, I continue to recommend the proposed rate revenue allocation.

SCALE BACK OF RATES

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

A. If the Commission grants less than the Company's requested increase, I recommended that the Commission follow the scale-back schedule that I prepared showing the reduction to the various classes and different scale-back levels. For example, if the Commission reduces the proposed increase by half, or \$23,468,500 which would reduce I&E's revised Operating Revenue at proposed rates from \$622,285,201 to \$598,816,701 (I&E Ex. No. 3-SR, Sch. 2), the scale-back would be as follows:

	RSS/RDS	SGSS1/SCD1/SDGS1	SGSS2/SCD2/SGDS2	SDS/LGSS	LDS/LGSS	MLDS
I&E Proposed Operating Revenue	\$458,378,128	\$61,830,258	\$57,032,281	\$23,458,935	\$20,067,870	\$1,517,729
50% scale back	(\$21,103,500)	\$705,000	(\$733,000)	(\$1,252,000)	(\$1,064,000)	(\$21,000)
Operating Revenue at 50% scale back	\$437,274,628	\$62,535,258	\$56,299,281	\$22,206,935	\$19,003,870	\$1,496,729
Percent Increase	2.8%	10.8%	5.5%	6.0%	5.9%	1.5%

Any scale-back level between the amounts shown on I&E Exhibit No. 3-SR, Schedule 2, should be interpolated (I&E St. No. 3, pp. 64-65).

Q. DID ANY PARTIES RESPOND TO YOUR RECOMMENDED SCALE BACK METHODOLOGY?

A. Yes. The Company and the OSBA did not agree with my recommended scale back methodology because it is based on the Peak and Average cost allocation method and due to the proposed revenue allocation as I discussed above.

Q. WHY DID THE COMPANY NOT AGREE WITH YOUR SCALE BACK RECOMMENDATION?

A. The Company did not agree with my scale back recommendation because it was based on the Peak and Average cost allocation method and the Company does not agree with targeting different rates of return by customer class (Columbia St. No. 12-R, p. 19).

Q. PLEASE RESPOND.

A. I discuss the peak and average allocation methodology and my recommended reallocation of proposed rates above.

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION REGARDING THE PROPOSED SCALE BACK OF RATES?

A. Yes. Upon further review and the concerns expressed by the OSBA, I wish to make two changes. First, I recommend that no scale-back be applied to the SDS/LGS class. Second at a 50% scale back level, the SGSS1/SCD1/SDGS1 class receive no increase. The additional revenue caused by these two changes is allocated to further reduce the increase for the RSS /RDS and SGSS2/SCDI2/SDGS2 classes. My revised recommendation is shown below and on I&E Exh. No. 3-SR, Sch. 4, line 6.

	RSS/RDS	SGSS1/SCD1/SDGS1	SGSS2/SCD2/SGDS2	SDS/LGSS	LDS/LGSS	MLDS
I&E Proposed Operating Revenue	\$458,085,128	\$61,943,258	\$57,212,281	\$23,458,935	\$20,067,870	\$1,517,729
50% scale back	(\$21,576,500)	0	(\$806,500)	0	(\$1,064,000)	(\$21,000)
Operating Revenue at 50% scale back	\$436,508,628	\$61,943,258	\$56,405,781	\$23,458,935	\$19,003,870	\$1,496,729
Percent Increase	2.7%	9.8%	5.7%	11.9%	5.9%	1.4%

Q. WHY ARE YOU CHANGING YOUR SCALE BACK RECOMMENDATION IN THIS PROCEEDING?

A. I believe that the concerns expressed by the OSBA that the rates for non-flex SDS/LGS customers are valid. Therefore, not scaling back the non-flex rates in the SDS/LGS class, will increase the rate of return for this class and satisfy some of the OSBA's concerns for this class. I also believe that some of the concerns expressed by the OSBA for the SGSS1/SCDI1/SDGS1 can be addressed by eliminating the increase that I proposed for this class at the 50% level. Therefore, at any increase above 50%, the SGSS1/SCDI1/SDGS1 rate class will receive my full recommended increase of \$5,503,715, but any increase less than 50% the SGSS1/SCDI1/SDGS1 rate class will receive a scale back.

Q. HOW SHOULD THE COMMISSION SCALE BACK THE REVENUE IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. I recommend that the Commission follow the revised scale back that I recommend on I&E Exh. No. 3-SR, Sch. 4, line 6. If the Commission grants an increase above or below 50% then the results should be interpolated. Within each class, I recommend the customer charges and usage rate that have received an increase be scaled back proportionally.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.