



1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. Kelley K. Miller, 290 West Nationwide Boulevard, Columbus, Ohio 43215.

4 **Q. Are you the same Kelley K. Miller that submitted Direct testimony in this**  
5 **proceeding?**

6 A. Yes.

7 **Q. What is the purpose of your Rebuttal testimony?**

8 A. The purpose of my testimony is to:

- 9           • Provide an updated revenue requirement deficiency of \$\$44,910,070 which  
10           incorporates all adjustments provided by Company rebuttal witnesses, as  
11           well as the Supplemental Statement No. 10, supplemental testimony of  
12           Nancy Krajovic. This update is labeled as Exhibit KKM-1R;
- 13           • Provide a brief explanation of each item that contributed to the changes to  
14           the Company's revenue requirement;
- 15           • Respond to O&M rate making comments made by Mr. Patel, witness for the  
16           Bureau of Investigation and Enforcement ("I&E") regarding labor  
17           annualization, rate case expense and injuries and damages; and
- 18           • Respond to O&M rate making comments made by Pennsylvania Office of  
19           Consumer Advocate ("OCA") witness Dante Mugrace regarding labor  
20           annualization, the recalculation of the York lease, corporate insurance,  
21           Injuries and damages, utilities, advertising, rate case expense and PUC fees.

1 **II. Exhibit KKM-1R, Updated Revenue Requirement**

2 **Q. Have you determined a revised revenue requirement?**

3 A. Yes, Exhibit KKM-1R reflects an updated Exhibit 102, Schedule 3, Pages 3 through 6  
4 and computes a revised revenue requirement of \$44.9 million as compared to the  
5 Company's originally stated revenue requirement of \$46.9 million. This deficiency  
6 is noted on Line 12.

7 **Q. Can you provide a summary of items that the Company is adjusting that**  
8 **impact the revenue requirement?**

9 A. Yes, below is a listing of each adjustment:

10 **1. FPFTY Rate Base on Exhibit 102, Schedule 3, Page 3, Line 26, Column 4.**

11 Per Exhibit NJDK-S3, rate base and the resulting revenue requirement have been  
12 adjusted to reflect levels as presented in Supplemental Statement No. 10 of the  
13 Company's calculation of the effect of the Tax Cuts and Jobs Act of 2017 ("TCJA")  
14 on Columbia's 2018 tax liability, and the Company's proposal to return this  
15 amount to customers (please see Exhibit NJDK-S3 for amounts).

16 **2. FPFTY O&M Expense on Exhibit 102, Schedule 3, Page 3, Line 17,**  
17 **Column 4.**

18 Per Company witness Krajovic, the following O&M Expense adjustments are to be  
19 reflected in the Company's revised revenue requirement:

- 20 • Corporate Insurance (\$120,000)
- 21 • PUC, OSBA, OCA Fees (\$160,000)



1           **rate making adjustment for labor annualization and resulting**  
2           **adjustment to payroll taxes?**

3       A.     Yes.

4       **Q.     Do you agree with his recommendation to disallow the entire as-filed**  
5       **claim of \$446,256 for annualizing labor expense?**

6       A.     No, the Company has annualized this expense to match the overall claim in the case  
7       of annualized revenue, terminal rate base and annualized expenses. As such, the  
8       annualization of labor expense is appropriate. This adjustment is consistent with  
9       historic practice of annualizing test year adjustments.

10      **Q.     Did the Company update the annualization adjustments for both the FTY**  
11      **and the FPFTY?**

12      A.     Yes. Please see CONFIDENTIAL Exhibit KKM-2R, response to discovery request  
13      I&E-RE-009-D, where the Company revised this adjustment by \$8,379 for the  
14      Company's claim.

15      **Q.     I&E recommends a 16 month normalization period for rate case**  
16      **expenses versus the 12 month normalization period utilized by the**  
17      **Company. Do you agree?**

18      A.     No. The Company utilized a 12 month period for normalizing rate case expense  
19      because Columbia anticipates a need to file annual rate cases in the near future.  
20      During recent years, the Company has filed annual rate cases with only a few  
21      exceptions, and the Company's most recent historic filing record is the best indicator

1 of future filing frequency. Therefore, a 12 month normalization period is appropriate.

2 **Q. Have you reviewed I&E's recommended level of expense for Injuries**  
3 **and Damages ("I&D")?**

4 A. Yes. I have reviewed witness Patel's recommended \$25,162 disallowance for  
5 Injuries and Damages as listed on page 31 of I&E Statement No. 1.

6 **Q. Do you agree with this recommendation?**

7 A. No. The Company recommends the full claim of \$352,959 for the FPFTY.

8 **Q. What is the basis for I&E's recommended allowance?**

9 A. I&E's recommended allowance is the historical 5 year average of actual I&D  
10 payments for years 2013 through 2017.

11 **Q. Does I&E utilize Gross Domestic Product ("GDP") Deflators and**  
12 **Inflation factors to determine their recommended allowance for I&D?**

13 A. No. I&E rejects this aspect of the calculation.

14 **Q. Why should the historical five year average be adjusted for inflation?**

15 A. A five year average, unadjusted for inflation, will not provide an appropriate  
16 projection for 2019 costs. The cost incurred to repair damaged property, incurred  
17 five years ago, will cost more today due to inflation. While a five year average  
18 appropriately reflects the variable nature of I&D expense, it does not capture  
19 inflationary effects.

20 **Q. Does witness Patel provide a rationale for rejecting the use of inflation**  
21 **factors?**

1 A. No, he simply states that he disagrees.

2 **Q. Are the costs incurred to repair damaged property subject to inflation?**

3 A. Yes. I&D costs include materials & supplies, contractor labor, legal services,  
4 medical services, etc., all of which are subject to inflationary pressures.

5 **IV. OCA Recommended Ratemaking Adjustments**

6 **Q. Have you reviewed OCA witness Mugrace's testimony concerning his**  
7 **second adjustment to the Company's labor cost beginning on page 14?**

8 A. Yes. Mr. Mugrace proposes to disallow \$185,940 in FPFTY costs, contending that  
9 the Company has included annualized costs that extend beyond the FPFTY.

10 **Q. Do you agree with his assertion that the Company made an error in its**  
11 **adjustment to annualize labor costs beyond the FPFTY?**

12 A. I do not. Please refer to CONFIDENTIAL Exhibit KKM-2R, page 3 of 3 for the  
13 Company's exact calculation of the annualization adjustment. As explained in my  
14 Direct Testimony on page 34, these adjustments are for normal pay increases only,  
15 for labor charges *prior* to the timing of the annual budgeted increases. Therefore the  
16 adjustment is not for the 5 months beyond the FPFTY period of December 31, 2019,  
17 but rather for the 5 months included in the Twelve Months Ended ("TME") December  
18 31, 2019. For example, exempt employees are expected to receive a merit increase on  
19 June 1, 2019. Therefore, the annualization adjustment adds the incremental expense  
20 for January 1, 2019 through May 31, 2019 in order to reflect the annualized wages for  
21 the TME December 31, 2019, at the June 1, 2019 rate. Therefore, the Company rejects

1 Mr. Mugrace's adjustment to Labor and the resulting payroll tax expenses in Taxes  
2 Other Than Income.

3 **Q. Have you reviewed Witness Mugrace's adjustments to the Company's**  
4 **building leases, beginning on page 27 of his testimony?**

5 A. Yes.

6 **Q. Do you agree with his recommended adjustment for the York Operating**  
7 **Center Lease?**

8 A. No, I do not.

9 **Q. Please explain why you disagree.**

10 A. Mr. Mugrace's analyses of both the FTY and the FPFTY rent expense for York  
11 assumes that Common Area Maintenance "CAM" charges are included in the  
12 monthly rental expenses that he quotes. Also, Witness Mugrace does not realize that  
13 the Company is representing annualized costs, using the monthly rental expense for  
14 the last month of each test year to reflect total annualized rental expense for each of  
15 the test years. It also should be noted that while Mr. Mugrace correctly states the net  
16 monthly rental expense for 4/1/2018 through 3/3/2019 at \$55,405.94, he mistakenly  
17 uses \$50,405.94 in each of his calculations on pages 27 and 28 of his direct testimony.

18 **Q. Please provide the correct breakout of rental expense for York Operating**  
19 **Center for FTY and the FPFTY.**

20 A. Mr. Mugrace calculates the FTY lease expense for the York Operating Center to be  
21 \$644,767 and the FPFTY to be \$665,680, and deducts CAM charges and Charges to

1 Others to derive a net rental of \$336,122 for the FTY \$356,843, as compared to the  
2 Company's \$476,327 and \$477,247 for the FTY and the FPFTY, respectively. Witness  
3 Mugrace states that it is unclear how the Company calculated its Gross Rental Cost  
4 of \$786,083 (OCA Direct Testimony, Statement 1, page 28, line 15). I can clarify how  
5 the Company has calculated this amount. Please refer to the Company's Exhibit 104,  
6 Schedule 2, pages 6 & 7, line 24. The amounts of Rental Expense of \$784,871  
7 and \$786,083 represent the annualized level of rent expense for the York Operating  
8 Center including CAM charges for the FTY and the FPFTY:

9 Rent + CAM = Monthly Expense x 12 months = annualized expense

10 FTY:           \$55,405.94 + \$10,000 = \$65,405.94 x 12 = \$784,871.28

11 FPFTY:       \$55,506.94 + \$10,000 = \$65,506.94 x 12 = \$786,083.28

12  
13 Starting with the annualized expense, the Company then removes the CAM Charges  
14 of \$120,000 (which are included in Outside Services Expense) and then removes the  
15 amounts of rental expense that are expected to be charged to other companies of  
16 \$188,545, to arrive at the annualized levels of rent expense of \$476,326.52 for the  
17 FTY and \$477,247 that is included in the Company's claim for the York Operating  
18 Center.

19 **Q. Do you agree with OCA's recommendation to remove inflation factors for**  
20 **the adjustments to Injuries and Damages, Utilities – Fuel Used in**

1           **Company Operations and Advertising Expense (OCA Direct Testimony,**  
2           **Statement 1, pages 30, 35 and 36, respectively)?**

3    A.    I do not.

4    **Q.    What reason does OCA present for rejecting inflation factors?**

5    A.    Witness Mugrace states that he believes that inflation related increases are not  
6           known and measurable and do not reflect the true costs of expenses.

7    **Q.    Please explain why you disagree.**

8    A.    Each of these adjustments are actually building upon the normalized levels of  
9           expense included in the HTY. Each HTY adjustment is specific to the type of expense  
10          it is and adjusts to an appropriate test year level of expense for rate making purposes  
11          for the Twelve Months Ended December 31, 2017. For each of these types of expenses:  
12          Injuries and Damages, Advertising and Utilities – Gas Used in Company Operations,  
13          the Company is actually replacing the Budgeted level of expense with an appropriate  
14          test year level of expense, which includes inflation to adjust to the Twelve Months  
15          Ended December 31, 2019.

16   **Q.    Has the Company used inflation factors in past cases as an established**  
17          **method of determining future costs?**

18   A.    Yes. The Company has used inflation factors in every recent filing, including cases  
19          that were filed prior to the passage of Act 11 that utilized a build –up method of  
20          determining appropriate test year levels of expense versus using a budget.

1 **Q. Why does the Company use inflation factors for certain costs instead of**  
2 **using the Budgeted amounts for the FTY and the FTFPY?**

3 A. The Company often makes adjustments to the historic test year data to reflect actual  
4 cash payments, versus an accrual based, per books level of expense. The Budgeted  
5 amount also reflects accrual based accounting, therefore it is logical to determine the  
6 FTY and FPFTY levels of expense by adjusting the HTY level of expense for inflation.  
7 This is the case for Injuries and Damages.

8 **Q. In what other instances is it appropriate to start with a normalized level**  
9 **of expense?**

10 A. In the case of Advertising Expense, the Company adjusts the HTY by removing all  
11 promotional advertising as non-recoverable expenses. Knowing that the Budgeted  
12 level of expense also included promotional advertising, it is prudent to include the  
13 HTY normalized level of expense, adjusted for inflation for the Company's claim for  
14 Advertising Expense.

15 **Q. What about Utilities – Gas Used in Company Operations?**

16 A. The HTY level of Utilities includes Gas Used in Company Operations. Since these  
17 costs are recovered through the Company's Purchased Gas Cost Adjustment, they  
18 need to be removed for base rate making purposes. Building off of the HTY level of  
19 adjustment ensures that Gas Used for Company Operations have been properly  
20 removed from the FPFTY.

1 **Q. Has OCA also made an adjustment to the Company's claim for Rate Case**  
2 **Expense?**

3 A. Yes. The OCA recommends a two year normalization period.

4 **Q. Does the Company agree with this adjustment?**

5 A No, for the same reasons stated above in my rebuttal testimony regarding I&E's  
6 proposed adjustments for Rate Case Expense, the Company has reflected a 12 month  
7 period. Furthermore, Mr. Mugrace's selective calculation of a 24-month  
8 normalization period is clearly biased and improper. Mr. Mugrace looks at a five year  
9 history of rate filings, excludes the 2015 filing, and concludes the Company has a  
10 history of filing rate cases every two years. Conveniently, the 2015 case was the  
11 second in a three year history of annual rate filings.

12 **Q. Have you reviewed the OCA's adjustment to Uncollectible Expense?**

13 A. Yes.

14 **Q. Do you agree with the level of this adjustment?**

15 A. While the Company agrees with the method used to adjust Uncollectible Expense,  
16 the Company does not accept the level of adjustment to Uncollectible Expense by the  
17 OCA, which is based upon all of their recommended adjustments that impact their  
18 overall recommended revenue change, which have been rejected by Columbia  
19 witnesses, as discussed in various Company witnesses' rebuttal testimonies.

20 **Q. Does Witness Mugrace address the PUC, OCA, OSBA Fees adjustment in**  
21 **Direct Testimony that is included on Schedule DM-23.**

1 A. No, Mr. Mgrace has inadvertently omitted the discussion of this adjustment,  
2 however the Company recognizes this as the revised amount provided during  
3 discovery to be discussed by Company Witness Krajovic.

4 **Q. Does this complete your Prepared Rebuttal Testimony?**

5 A. Yes, it does.

6

**Exhibit KKM-1R - REVISED**  
**Page 1 of 4**

Exhibit No. 102  
 Schedule 3  
 Page 3 of 6  
 Witness: K.K. Miller

**Columbia Gas of Pennsylvania, Inc.**  
**Statement of Income at Present and Proposed Rates**  
**FTY = Future Test Year TME 11/30/18, FPFTY = Fully Projected Future Test Year Period Ended December 31, 2019**

| Line No. | Description                                     | FTY                             |               | FPFTY                           |               | FPFTY @ Proposed Rates |
|----------|---|---------------------------------|---------------|---------------------------------|---------------|------------------------|
|          |   | Reference (1)                   | Test Year (2) | Reference (3)                   | Test Year (4) |                        |
| 1        | Operation Revenues                              |                                 | \$            |                                 | \$            | \$                     |
| 2        | Base Rate Revenues (Incl. Transportation)       | Exhibit 103                     | 373,978,562   | Exhibit 103                     | 377,114,360   | 419,291,082            |
| 3        | Fuel Revenues                                   | Exhibit 103                     | 161,913,940   | Exhibit 103                     | 163,506,936   | 163,506,936            |
| 4        | Rider USP                                       | Exhibit 103                     | 29,177,309    | Exhibit 103                     | 29,305,816    | 31,941,840             |
| 5        | Gas Procurement Charge                          | Exhibit 103                     | 2,556,203     | Exhibit 103                     | 2,581,692     | 2,581,692              |
| 6        | Merchant Function Charge                        | Exhibit 103                     | 1,209,223     | Exhibit 103                     | 1,216,174     | 1,216,174              |
| 7        | Rider CC  | Exhibit 103                     | 46,714        | Exhibit 103                     | 47,177        | 47,177                 |
| 8        | Total Sales and Transportation Revenue          |                                 |               |                                 | 573,772,155   | 618,584,901            |
| 9        | Off System Sales Revenue                        | Exhibit 103                     | 0             | Exhibit 103                     | 0             | 0                      |
| 10       | Late Payment Fees                               | Exhibit 103                     | 1,235,612     | Exhibit 103                     | 1,246,120     | 1,343,444              |
| 11       | Other Operating Revenues (Excl. Transportation) | Exhibit 103                     | 344,604       | Exhibit 103                     | 344,604       | 344,604                |
| 12       | Total Operating Revenues                        |                                 | 570,462,167   |                                 | 575,362,879   | 620,272,949            |
| 13       | Operating Revenue Deductions                    |                                 | 0             |                                 | 44,910,070    |                        |
| 14       | Gas Supply Expense                              | Exhibit 103                     | 161,913,940   | Exhibit 103                     | 163,506,936   | 163,506,936            |
| 15       | Off System Sales Expense                        | Exhibit 103                     | 0             | Exhibit 103                     | 0             | 0                      |
| 16       | Gas Used in Company Operations                  |                                 | 0             |                                 | 0             | 0                      |
| 17       | Operating and Maintenance Expense               | Exhibit 104, Sch 1, Pg 2, Col 3 | 190,657,070   | Exhibit 104, Sch 1, Pg 2, Col 6 | 190,734,892   | 191,269,562            |
| 18       | Depreciation and Amortization                   | Exhibit 105                     | 63,942,330    | Exhibit 105                     | 72,557,195    | 72,557,195             |
| 19       | Net Salvage Amortized                           | Exhibit 105                     | 4,189,204     | Exhibit 105                     | 4,744,713     | 4,744,713              |
| 20       | Taxes Other Than Income Taxes                   | Exhibit 106                     | 3,354,408     | Exhibit 106                     | 3,457,422     | 3,457,422              |
| 21       | Total Operating Revenue Deductions              |                                 | 424,086,952   |                                 | 435,001,158   | 435,535,828            |
| 22       | Operating Income Before Income Taxes            |                                 | 146,375,215   |                                 | 140,361,721   | 184,737,121            |
| 23       | Income Taxes                                    | Exhibit 107                     | 25,113,530    | Exhibit 107                     | 19,791,410    | 31,211,535             |
| 24       | Investment Tax Credit                           | Exhibit 107                     | (301,500)     | Exhibit 107                     | (299,568)     | (299,568)              |
| 25       | Operating Income                                |                                 | 121,563,185   |                                 | 120,869,879   | 153,825,154            |
| 26       | Rate Base                                       | Exhibit 108                     | 1,658,931,197 | Exhibit 108                     | 1,899,075,978 | 1,899,075,978          |
| 27       | % Rate of Return Earned on Rate Base            |                                 | 7.33%         |                                 | 6.36%         | 8.10%                  |

Exhibit No. 102  
Schedule 3  
Page 4 of 6  
Witness: K.K. Miller

Columbia Gas of Pennsylvania, Inc.  
Calculation of Proforma Interest Expense  
FTY = Future Test Year TME 11/30/18, FPFTY = Fully Projected Future Test Year Period Ended December 31, 2019

| <u>Line No.</u>          | <u>Description</u>       | <u>Pro Forma</u>  |
|--------------------------|--------------------------|-------------------|
|                          |                          | (1)<br>\$         |
| <u>FTY Calculation</u>   |                          |                   |
| 1                        | Rate Base                | 1,658,931,197     |
| 2                        | Weighted Cost of Short & |                   |
| 3                        | Long Term Debt           | <u>2.370%</u>     |
| 4                        | Interest Expense         | <u>39,316,669</u> |
| <u>FPFTY Calculation</u> |                          |                   |
| 5                        | Rate Base                | 1,899,075,978     |
| 6                        | Weighted Cost of Short & |                   |
| 7                        | Long Term Debt           | <u>2.370%</u>     |
| 8                        | Interest Expense         | <u>45,008,101</u> |

Exhibit No. 102  
Schedule 3  
Page 5 of 6  
Witness: K.K. Miller

Columbia Gas of Pennsylvania, Inc.  
Rate of Return on Rate Base  
Proposed Revenue Requirement

FTY = Future Test Year TME 11/30/18, FPFTY = Fully Projected Future Test Year Period Ended December 31, 2019

| Line No. | Acct. No. | Description                                 | Detail | Amount        |
|----------|-----------|---|--------|---------------|
| 1        |           | Proforma Rate Base at Present Rates         |        | 1,899,075,978 |
| 2        |           | Return on Rate Base                         | 8.100% |               |
| 3        |           | Total Requirement                           |        | 153,825,154   |
| 4        |           | Less: Net Operating Income at Present Rates |        | 120,869,879   |
| 5        |           | Net Required                                |        | 32,955,275    |
| 6        |           | Revenue Conversion Factor                   |        | 1.36275816    |
| 7        |           | Gross Revenue Requirement                   |        | 44,910,070    |
| 8        |           | Revenue Conversion Factor:                  |        |               |
| 9        |           | Operating Revenue                           |        | 1.00000000    |
| 10       |           | Less: Uncollectibles                        |        | 0.01190535    |
| 11       |           | Plus: Late Payments                         |        | 0.00217180    |
| 12       |           | Income Before State Taxes                   |        | 0.99026645    |
| 13       |           | State Income Tax Effect Tax Rate            |        | 0.06200170    |
| 14       |           | Less: State Income Tax                      |        | 0.06139820    |
| 15       |           | Income Before Federal Taxes                 |        | 0.92886825    |
| 16       |           | Less: Federal Tax @ 21%                     |        | 0.19506233    |
| 17       |           | Adjusted Operating Income                   |        | 0.73380592    |
| 18       |           | Revenue Conversion Factor                   |        | 1.36275816    |

Exhibit No. 102  
Schedule 3  
Page 6 of 6  
Witness: K.K. Miller

Columbia Gas of Pennsylvania, Inc.  
Additional Revenue Requirement Adjustments

FTY = Future Test Year TME 11/30/18, FPFTY = Fully Projected Future Test Year Period Ended December 31, 2019

| Line No. | Acct. No. | Description                                      | Amount     |
|----------|-----------|--|------------|
| 1        |           | Additional Revenue Requirement                   | 44,812,746 |
| 2        | Plus:     | Late Payments                                    | 97,324     |
| 3        |           | Total Revenue Requirement                        | 44,910,070 |
| 4        | Less:     | Uncollectible Accounts Expense                   |            |
| 5        |           | Line 3 X Uncollectible Rate                      | 534,670    |
| 6        |           | Income Before State Income Tax                   | 44,375,400 |
| 7        |           | State Income Taxes                               |            |
| 8        |           | Exh 107, Pg 17, Col 3 Less Exh 107, Pg 17, Col 2 | 2,659,862  |
| 9        |           | Income Before Federal Income Tax                 | 41,715,538 |
| 10       |           | Federal Income Taxes                             |            |
| 11       |           | Line 9 Times 21%                                 | 8,760,263  |
| 12       |           | Operating Income                                 | 32,955,275 |

CONFIDENTIAL Exhibit KKM-2R

No Public Version Available