

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REBUTTAL TESTIMONY OF  
PANPILAS W. FISCHER  
ON BEHALF OF  
COLUMBIA GAS OF PENNSYLVANIA, INC.**

July 3, 2018

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

2 A. My name is Panpilas W. Fischer. My business address is 290 W. Nationwide  
3 Blvd, Columbus, Ohio 43215.

4 **Q. Are you the same Panpilas W. Fischer who submitted Direct Testimony**  
5 **in this proceeding?**

6 A. Yes.

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

8 A. Subsequent to the filing of my prepared Direct Testimony, Dante Mugrace, filed  
9 direct testimony on behalf of the Pennsylvania Office of Consumer Advocate (“OCA”)  
10 related to proposed adjustments to rate base and income tax expense in the FPFTY.  
11 In addition, Ethan Cline and D.C. Patel filed direct testimony on behalf of the Bureau  
12 of Investigation and Enforcement (“I&E”) related to proposed adjustments to rate  
13 base and FICA taxes respectively. This testimony will respond to the  
14 recommendation of Mr. Mugrace concerning the flow back of excess deferred income  
15 taxes. In addition, this testimony will respond to what appear to be errors in the  
16 OCA’s adjustments to property tax expense in Mr. Mugrace’s Schedule DM-30  
17 included with his direct testimony as well as both OCA and I&E’s proposal to adjust  
18 FICA tax expense. Lastly, this testimony will respond to what appears to be an error  
19 in the I&E’s and OCA’s calculation of Accumulated Deferred Income Taxes (“ADIT”)  
20 in rate base in I&E’s Confidential Exhibit No. 1 and in Mr. Mugrace’s Schedule DM-  
21 35 using their average rate base method.

22 **Q. On p. 55 of Mr. Mugrace’s Direct Testimony, Mr. Mugrace proposes to**  
23 **modify the amortization for the Flow Back of Excess Deferred Income**

1           **Taxes as a result of the TCJA related to Property. Do you agree with this**  
2           **modification?**

3    A.    No, I do not. Mr. Mugrace adjusts the amount of amortization related to the  
4           Company's property excess deferred income taxes ("EDIT") of \$178,083,190 using a  
5           straight line method over a 40 year amortization period resulting in an annual  
6           amortization of \$4,452,080. However, pursuant to the IRS normalization rules, the  
7           property EDIT cannot be reduced more rapidly or to a greater extent than such  
8           reserve would be reduced under the average rate assumption method ("ARAM"). Mr.  
9           Mugrace's use of a straight line amortization is a clear violation of the IRS  
10          normalization rules<sup>1</sup> and would result in the Company being disallowed accelerated  
11          tax depreciation deductions in the future which would be a detriment to ratepayers.<sup>2</sup>

12   **Q.    What amortization method has been proposed by the Company?**

13   A.    As described on pages 6 and 7 of my Direct Testimony, the Company is using ARAM  
14          to reduce the property EDIT as required under the IRS normalization rules. Under  
15          ARAM the amortization is \$2,945,624. ARAM reduces the excess tax reserve over the  
16          remaining regulatory life of the property during the years in which the related  
17          deferred tax reserve is reversing<sup>3</sup> (i.e. when book depreciation is greater than tax  
18          depreciation) and not over the entire remaining regulatory life. This typically results  
19          in a lower amortization compared to a straight line method when a number of assets  
20          are not in a turnaround position yet and a higher amortization compared to a straight  
21          line method when a number of assets have been fully depreciated for tax purposes.

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<sup>1</sup> Treasury Regulation Sec. 1.167(l)-1

<sup>2</sup> Revenue Procedure 88-12

<sup>3</sup> IBID

1 Another difference is that ARAM considers the separate tax and book lives of separate  
2 assets, and does not lump all assets into a single balance to be amortized.

3 As an example, an asset from 1980 with a 20 year life for tax depreciation purposes  
4 will be fully depreciated in the year 2001 for tax purposes. The excess tax reserve will  
5 start reversing on this asset since book depreciation is greater than tax depreciation,  
6 which is zero. Compare that to an asset from 2012 with a 20 year life for tax  
7 depreciation purposes. In year 2019 when the tax depreciation rate is 4.888%, the  
8 excess tax reserve will not start to reverse yet under ARAM, since tax depreciation is  
9 still greater than book depreciation on this asset.

10 **Q. Can the Company use a straight line method of amortization?**

11 A. No, it cannot. The use of a method other than ARAM to refund the Flow Back of  
12 Excess Deferred Income Taxes related to Property is only available when the  
13 Company does not have the books and records to support the use of ARAM. The  
14 Company does have the books and records to support the use of the ARAM  
15 calculation and has done so historically. Consequently, the method proposed by Mr.  
16 Mugrace is a clear normalization violation and should therefore be rejected.

17 **Q. Mr. Mugrace asserts that other utilities he has reviewed have used a 40**  
18 **year amortization. Do you have any comments?**

19 A. Yes. Mr. Mugrace does not indicate whether these utilities have the books and  
20 records to use the ARAM method, or whether 40 years is just a fallout from their use  
21 of ARAM applied to their specific assets, and taking into account the age of their  
22 assets.

23 **Q. Did Mr. Mugrace propose adjustments related to property tax expense?**

1 A. Yes, on page 52 of his Direct Testimony and in Schedule DM-30, there is a  
2 recalculation of property tax expense based on the OCA's proposal to use a 13 month  
3 average to calculate rate base which appears to be an error.

4 **Q. Why is the recalculation of property tax expense an error?**

5 A. The property tax expense is based on a balance of property subject to tax, which in  
6 the Company's calculation is gas storage and real property, at a fixed point in time  
7 referred to as the assessment date. As can be seen on Exhibit No. 106, Schedule 2,  
8 page 4, that assessment date precedes the beginning of the FPFTY. This assessment  
9 date is independent of the use of a different method to calculate the balance of  
10 property in rate base so property tax expense will remain the same whether an end  
11 date or an average is used to calculate FPFTY rate base. Mr. Mugrace's proposed  
12 reduction of \$24,289 of property tax expense should be rejected.

13 **Q. Did the I&E and OCA propose adjustments related to any other taxes**  
14 **other than income taxes?**

15 A. Yes, on page 52 of the direct testimony of Mr. Mugrace and on page 23 of the direct  
16 testimony of Mr. Patel, both adjust the level of payroll taxes based on their  
17 recommended adjustments to labor expense.

18 **Q. Do you agree with the adjustment to payroll tax expense?**

19 A. No, I do not based on the Company's rejection of the proposed adjustments to labor  
20 expense which are addressed in the Rebuttal Testimonies of Company Witnesses  
21 Krajovic and Miller.

22 **Q. Did the I&E and OCA propose any adjustments related to accumulated**  
23 **deferred income taxes?**

1 A. Yes, on pages 41-42 of Mr. Cline's direct testimony he proposes the use of an average  
2 rate base. In calculating an average rate base Mr. Cline appears to have erred in using  
3 the balance of ADIT at 11-30-18, as shown on I&E Exhibit No. 1, instead of 12-31-18.  
4 This will be addressed further in the rebuttal testimony of Company Witness Covert.  
5 There is also an error on page 59 of Mr. Mugrace's direct testimony as shown in his  
6 Schedule DM-35. In proposing the immediate flow back of 2018 income taxes he  
7 neglects to remove the Company's rate base adjustment in the amount of  
8 (\$16,943,974) related to the Company's proposal to defer that flow back, which will  
9 be addressed in the rebuttal testimony of Company Witness Krajovic.

10 **Q. Did the company's original filing reflect all prospective effects of the**  
11 **TCJA?**

12 A. Yes. Ms. Krajovic's supplemental direct testimony did not include any prospective  
13 components of the TCJA. Her supplemental direct testimony only concerns the  
14 treatment of 2018 taxes.

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

16 A. Yes, it does.