



COMMONWEALTH OF PENNSYLVANIA
 PENNSYLVANIA PUBLIC UTILITY COMMISSION
 COMMONWEALTH KEYSTONE BUILDING
 400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
 INVESTIGATION
 &
 ENFORCEMENT

October 26, 2022

Via Electronic Filing

Secretary Rosemary Chiavetta
 Pennsylvania Public Utility Commission
 Commonwealth Keystone Building
 400 North Street
 Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
 Leatherstocking Gas Company, LLC
 Docket No. R-2022-3032764
I&E Pre-Served Testimony, Exhibits, and Verification Statements

Dear Secretary Chiavetta,

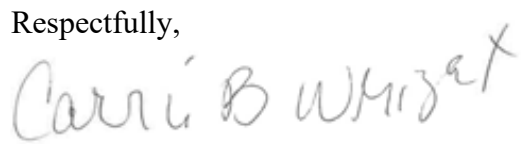
Enclosed for electronic filing please find the **Pre-Served Testimony, Exhibits, and Verification Statements** of the Bureau of Investigation & Enforcement’s (I&E) witnesses in the above-captioned proceeding. The following documents were admitted into the record by Administrative Law Judge Jeffrey A. Watson’s Interim Order Approving Joint Stipulation and Admitting Testimony and Exhibits into the Record and Cancelling the Hearings dated October 25, 2022:

Christine Wilson:	I&E Statement No. 1	I&E Exhibit No. 1
Anthony Spadaccio:	I&E Statement No. 2	I&E Exhibit No. 2
Esyon A. Sakaya:	I&E Statement No. 3	I&E Exhibit No. 3
Esyon A. Sakaya:	I&E Statement No. 3-R	I&E Exhibit No. 3-R

Verification Statements of Wilson, Spadaccio, and Sakaya

Copies of this letter are being served on parties of record per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Respectfully,



Carrie B. Wright
 Prosecutor
 Bureau of Investigation and Enforcement
 PA Attorney ID No. 208185
 (717) 783-6156
carwright@pa.gov

CBW/ac
 Enclosures

cc: Honorable Jeffrey A. Watson (*Cover Letter and Certificate of Service only – via email*)
 Nick Miskanic, Legal Assistant (*Cover Letter and Certificate of Service only – via email*)
 Per Certificate of Service (*Cover Letter and Certificate of Service only – via email*)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No.: R-2022-3032764
	:	
Leatherstocking Gas Company, LLC	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony, Exhibits, and Verification Statements** on October 26, 2022 in the manner and upon the persons listed below:

Served via Electronic Mail Only

Honorable Jeffrey A. Watson
Nick Miskanic, Legal Assistant
Office of Administrative Law Judge
Pennsylvania Public Utility Commission
301 Fifth Avenue, Suite 220
Pittsburgh, PA 15222
jeffwatson@pa.gov
nmiskanic@pa.gov

Aron J. Beatty, Esq.
Christopher M. Andreoli, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
abeatty@paoca.org
candreoli@paoca.org

Thomas J. Sniscak, Esq.
Whitney E. Snyder, Esq.
Phillip D. Demanchick, Esq.
Hawke, Mckee & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
pddemanchick@hmslegal.com
*Counsel for
Leatherstocking Gas Company LLC*

Sharon E. Webb, Esq.
Office of Small Business Advocate
555 Walnut Street
1st Floor, Forum Place
Harrisburg, PA 17101-1923
swebb@pa.gov

Jerome D. Mierzwa
Exeter Associates, Inc.
10480 Little Patuxent Pkwy, Suite 300
Columbia, MD 21044-3575
jmierzwa@exeterassociates.com
Consultant for OCA

Lafayette K. Morgan
Exeter Associates, Inc.
10480 Little Patuxent Pkwy, Suite 300
Columbia, MD 21044-3575
lmorgan@exeterassociates.com
Consultant for OCA

Kevin C. Higgins
Energy Strategies LLC
111 East Broadway, Suite 1200
Salt Lake City, UT 84111
khiggins@energystrat.com
Consultant for OSBA



Carrie B Wright
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney ID No. 208185
(717) 783-6156
carwright@pa.gov

I&E Statement No. 1
Witness: Christine Wilson, CPA

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY, LLC

Docket No. R-2022-3032764

Direct Testimony

of

Christine Wilson, CPA

Bureau of Investigation & Enforcement

Concerning:

Operating & Maintenance Expenses

Income Tax Expenses

TABLE OF CONTENTS

INTRODUCTION	1
OVERALL I&E POSITION.....	2
I&E RECOMMENDED ADJUSTMENTS TO O&M, TAXES, AND CASH WORKING CAPITAL	4
CUSTOMER ACCOUNTS EXPENSE – RECORDS/COLLECTION.....	4
ADMIN. AND GENERAL EXPENSE – INJURY AND DAMAGES.....	6
STATE INCOME TAX EXPENSE	9

1 **INTRODUCTION**

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

3 A. My name is Christine Wilson, and my business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA
5 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

11

12 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL
13 BACKGROUND.**

14 A. My education and professional background are set forth in the attached Appendix A.
15

16 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

17 A. I&E is responsible for protecting the public interest in proceedings before the
18 Commission. I&E's analysis in the proceeding is based on its responsibility to
19 represent the public interest. This responsibility requires the balancing of the interests
20 of ratepayers, the regulated utility, and the regulated community as a whole.

21

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

23 A. The purpose of my testimony is to address the base rate filing of Leatherstocking Gas

1 Company, LLC (Leatherstocking or Company) and to present the I&E overall
2 recommended revenue requirement.

3
4 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

5 A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

6
7 **OVERALL I&E POSITION**

8 **Q. PLEASE SUMMARIZE LEATHERSTOCKING'S REQUESTED REVENUES**
9 **IN THIS PROCEEDING.**

10 A. Leatherstocking is requesting an annual total revenue increase of \$701,200 to present
11 rate revenues of \$2,090,000, resulting in a total revenue requirement of \$2,791,200.¹

12
13 **Q. ARE THERE ANY RECENT CHANGES TO THE ORGANIZATIONAL**
14 **STRUCTURE OF LEATHERSTOCKING THAT ARE RELEVANT TO THIS**
15 **DISCUSSION?**

16 A. Yes. Leatherstocking was formed in 2010 as a 50/50 partnership between Corning
17 Natural Gas Holdings (CNGH) and Mirabitu Regulated Industries (MRI). In July
18 2020, CNGH purchased the entire 50% ownership from MRI to become the sole
19 owner of Leatherstocking in a transaction approved by the Commission at Docket No.
20 A-2020-3019229.² This transaction has resulted in significant increases to specific
21 operating and maintenance (O&M) expenses as discussed in more detail below.

¹ Leatherstocking Exhibit G-4 Summary, p 1.

² Leatherstocking Statement No. 1, p. 6.

1 **Q. PLEASE SUMMARIZE THE I&E RECOMMENDED REVENUE**
 2 **REQUIREMENT.**

3 A. I&E’s recommended revenue requirement is \$2,783,154. This recommended revenue
 4 requirement represents an increase of \$615,851 to the I&E adjusted present rate
 5 revenues of \$2,167,303. This total recommended allowance incorporates those
 6 recommended adjustments made in the testimony of I&E witnesses Anthony
 7 Spadaccio³ and Esyan Sakaya.⁴

8 The I&E recommended revenue requirement for Leatherstocking is shown
 9 below:

Leatherstocking Gas Company, LLC R-2022-3032764		TABLE I INCOME SUMMARY			
	3/31/23 Proforma Present Rates	Adjustments	Present Rates	Allowances	Proposed
	\$	\$	\$	\$	\$
Operating Revenue	2,090,000	77,303	2,167,303	615,851	2,783,154
Deductions:					
O&M Expenses	1,506,700	77,303	1,584,003	0	1,584,003
Depreciation	276,500	0	276,500		276,500
Taxes, Other	21,100	0	21,100	0	21,100
Income Taxes:					
Current State	-800	1,777	977	59,984	60,961
Current Federal	-1,500	3,458	1,958	116,732	118,690
Deferred Taxes	0	0	0		0
ITC	0	0	0		0
Total Deductions	1,802,000	82,538	1,884,538	176,716	2,061,254
Income Available	288,000	-5,235	282,765	439,135	721,900
Rate Base	10,864,800	-711,500	10,153,300	0	10,153,300
Rate of Return	2.65%		2.78%		7.11%

10

³ I&E Statement No. 2.

⁴ I&E Statement No. 3.

1 **I&E RECOMMENDED ADJUSTMENTS TO O&M, TAXES, AND CASH**

2 **WORKING CAPITAL**

3 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED O&M, TAX, AND CASH**
4 **WORKING CAPITAL ADJUSTMENTS TO LEATHERSTOCKING’S**
5 **REVENUE REQUIREMENT.**

6 A. I currently have no recommended adjustments to O&M expenses or the Company’s
7 cash working capital claim. The following table shows my recommended adjustment
8 to state income tax expense:

	Company Claim	I&E Recommended Allowance	I&E Adjustment
O&M and Tax Adjustments:			
State Income Tax Expense	\$69,200	\$60,961	<u>(\$8,239)</u>
Total O&M & Tax Adjustments			<u>(\$8,239)</u>

9

10

11 **CUSTOMER ACCOUNTS EXPENSE – RECORDS/COLLECTION**

12 **Q. WHAT IS THE COMPANY’S CLAIM FOR CUSTOMER ACCOUNTS**
13 **EXPENSE – RECORDS/COLLECTION?**

14 A. Leatherstocking’s claim for customer accounts expense – records/collection is
15 \$89,800,⁵ according to the MS Excel file provided as an attachment to I&E-RE-1,
16 entitled “LGC Gas Operation & Maintenance Expenses” (Operating Expenses by
17 Account tab) as shown in I&E Exhibit No. 1.

⁵ I&E Exhibit No. 1, Schedule 1, p. 2. (Note, the exhibit schedule contains a pasted excerpt from an MS Excel file provided by Leatherstocking.)

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

2 A. The Company based its claim on the actual expense amount for the historic test year
3 (HTY) ending March 31, 2022. It should be noted that this expense has increased
4 significantly since CNGH bought out MRI’s shares of the Company in July 2020.
5

6 **Q. HAS THE COMPANY EXPLAINED THE SIGNIFICANT INCREASE TO
7 RECORDS/COLLECTION EXPENSE?**

8 A. Yes. The Company states that prior to CNGH’s purchase of MRI’s 50% stake in the
9 Company, MRI handled Leatherstocking’s billing processes and did not allocate any
10 expenses to Leatherstocking. After the transaction, CNGH began handling the
11 Company’s billing processes and allocating a portion of those expenses to
12 Leatherstocking.⁶ This is explained in the MS Excel filed provided as an attachment
13 to I&E-RE-1, entitled “LGC Gas Operation & Maintenance Expenses” (O&M
14 Summary tab) as shown in I&E Exhibit No. 1.
15

16 **Q. DO YOU ACCEPT THE COMPANY’S CLAIM?**

17 A. Yes. I accept the dollar amount of the claim in this proceeding with conditions.
18

19 **Q. WHAT DO YOU RECOMMEND?**

20 A. I recommend the Company be required in its next rate case to provide documentation
21 showing how it made efforts to find operating efficiencies to reduce these expense

⁶ I&E Exhibit No. 1, Schedule 1, p. 3. (Note, the exhibit schedule contains a pasted excerpt from an MS Excel file provided by Leatherstocking.)

1 increases for customer accounts expense – records/collection between now and its
2 next rate case filing.

3
4 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

5 A. While it is reasonable in this instance to base the claim on actual costs from the HTY
6 ended March 31, 2022, due to new direct payroll charges of \$52,920,⁷ the significant
7 increase in this cost as shown below seems unreasonable without any future efforts
8 being made to mitigate cost increases.

2020	\$0
2021	\$16,489
2022	\$89,796
FTY 2023	\$89,800

9
10 Furthermore, the Company has indicated by way of its \$100,000 black box
11 adjustment that it should explore the possibility of such operating efficiencies.⁸

12
13 **ADMIN. AND GENERAL EXPENSE – INJURY AND DAMAGES**

14 **Q. WHAT IS THE COMPANY’S CLAIM FOR ADMIN. AND GENERAL**
15 **EXPENSE – INJURY AND DAMAGES?**

16 A. Leatherstocking’s claim for admin. and general expense – injury and damages is
17 \$80,700,⁹ according to the MS Excel file provided as an attachment to I&E-RE-1,

⁷ I&E Exhibit No. 1, Schedule 2, p. 1.

⁸ I&E Exhibit No. 1, Schedule 3.

⁹ I&E Exhibit No. 1, Schedule 1.

1 entitled “LGC Gas Operation & Maintenance Expenses” (Operating Expenses by
2 Account tab) as shown in I&E Exhibit No. 1.

3
4 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIM?**

5 A. The Company based its claim on the actual expense amount for the HTY ending
6 March 31, 2022. It should be noted that this expense has increased significantly since
7 CNGH bought out MRI’s shares of the Company in July 2020.

8
9 **Q. HAS THE COMPANY EXPLAINED THE SIGNIFICANT INCREASE TO**
10 **INJURY AND DAMAGES EXPENSE?**

11 A. Yes. The Company states that the increase in this expense is due primarily to
12 insurance costs. With CNGH’s purchase of MRI’s shares, CNGH assumed the
13 responsibility of purchasing insurance and began to allocate Leatherstocking’s portion
14 of actual costs.¹⁰ This is explained in MS Excel file provided as an attachment to
15 I&E-RE-1, entitled “LGC Gas Operation & Maintenance Expenses” (O&M Summary
16 tab) as shown in I&E Exhibit No. 1.

17
18 **Q. DO YOU ACCEPT THE COMPANY’S CLAIM?**

19 A. Yes. I accept the dollar amount of the claim in this proceeding with conditions.

¹⁰ I&E Exhibit No. 1, Schedule 1, p. 2. (Note, the exhibit schedule contains a pasted excerpt from an MS Excel file provided by Leatherstocking.)

1 **Q. WHAT DO YOU RECOMMEND?**

2 A. I recommend the Company be required in its next rate filing to provide
3 documentation showing how it made efforts to find operating efficiencies or cost
4 control measures to reduce this expense increase for injuries and damages expense in
5 the form of multiple comparable insurance quotes from other insurance companies
6 between now and its next rate filing.

7
8 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

9 A. While it is reasonable in this instance to base the claim on actual costs from the HTY
10 ended March 31, 2022, the significant increase in this cost as shown below seems
11 unreasonable without efforts being made to mitigate cost increases. Even though the
12 Company states that it goes out for bids every year prior to the expiration of each
13 policy,¹¹ this increase in rates is so exorbitant that I recommend such annual
14 documentation be provided in the next rate filing to show what efforts have been
15 made to control costs.

2020	\$3,348
2021	\$44,342
2022	\$80,713
FTY 2023	\$80,700

16

17 Furthermore, the Company has indicated by way of its \$100,000 black box
18 adjustment that it should explore the possibility of such operating efficiencies.¹²

¹¹ I&E Exhibit No. 1, Schedule 4, p. 2.

¹² I&E Exhibit No. 1, Schedule 3.

1 **Q. DID THE COMPANY IDENTIFY ANY POTENTIAL ADJUSTMENTS FOR**
2 **INJURY AND DAMAGES EXPENSE SINCE THE FILING OF ITS DIRECT**
3 **TESTIMONY?**

4 A. Yes. The Company identified a true-up adjustment of \$6,707 that would reduce
5 claimed injuries and damages expense by that amount.¹³

6
7 **Q. ARE YOU RECOMMENDING A CORRESPONDING REDUCTION TO**
8 **I&E'S OVERALL REVENUE REQUIREMENT AS A RESULT?**

9 A. No. Since the Company has reflected a \$100,000 reduction for the global black box
10 adjustment, I am not adjusting for this expense correction. However, if the Company
11 makes a change to the global black box adjustment in rebuttal testimony, I reserve the
12 right to adjust this particular expense in surrebuttal testimony.

13

14 **STATE INCOME TAX EXPENSE**

15 **Q. WHAT IS THE COMPANY'S CLAIM FOR STATE INCOME TAX EXPENSE?**

16 A. The Company's claim for state income tax expense is \$69,200.¹⁴

17

18 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

19 A. The Company's state income tax expense claim is based on the existing Pennsylvania
20 corporate net income tax rate of 9.99%.¹⁵

¹³ I&E Exhibit No. 1, Schedule 4, p. 1.

¹⁴ Leatherstocking Exhibit G-4 Summary, p. 1 and Exhibit G-4, Schedule 8, p. 1.

¹⁵ Leatherstocking Exhibit G-4, Schedule 8, p. 1.

1 **Q. DO YOU AGREE WITH THE COMPANY’S CLAIM?**

2 A. No.

3

4 **Q. WHAT DO YOU RECOMMEND FOR STATE INCOME TAX EXPENSE?**

5 A. I recommend an allowance of \$60,961 or a reduction of \$8,239 (\$69,200 - \$60,961) to
6 the Company’s claim.

7

8 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

9 A. On July 8, 2022, Pennsylvania House Bill 1342 was signed into law as Act 53 of
10 2022. Act 53 will lower the current 9.99% corporate net income tax rate to 8.99% in
11 2023 and will decrease the tax rate by 0.5% each year until 2031, when the tax rate
12 will be 4.99%.¹⁶ Therefore, I recommend a weighted Pennsylvania income tax rate of
13 9.74% to reflect the Pennsylvania corporate income tax rate that will be in effect for
14 the FPFTY. This change is reflected in my recommended revenue requirement in
15 Table I above and incorporates the state income tax effect of my other recommended
16 adjustments and those of I&E witnesses Anthony Spadaccio¹⁷ and Esysan Sakaya.¹⁸

¹⁶ I&E Exhibit No. 1, Schedule 3, p. 1.

¹⁷ I&E Statement No. 2.

¹⁸ I&E Statement No. 3.

1 **Q. HOW DID YOU CALCULATE THE RECOMMENDED STATE INCOME TAX**
2 **PERCENT?**

3 A. The weighted state income tax percent for the FTY was calculated as follows:

	<u>State Income</u> <u>Tax Rate</u>	<u>Weight</u>	<u>Weighted State</u> <u>Income Tax</u> <u>Rate</u>
April to December 2022	9.99%	0.75	7.49%
January to March 2023	8.99%	0.25	<u>2.25%</u>
Weighted Average State Income Tax Rate			<u>9.74%</u>

4

5

6 **Q. ARE THERE ANY OTHER RESULTING CHANGES?**

7 A. Yes. The change to Leatherstocking’s state income tax expense rate causes resulting
8 changes to the federal income tax claim that are presented above in Table I, the I&E
9 overall recommended revenue requirement. However, it is not typically I&E’s
10 practice to address such “fall-out” changes in testimony.

11

12 **Q. IS YOUR DOLLAR AMOUNT RECOMMENDATION FOR STATE INCOME**
13 **TAXES A FINAL RECOMMENDATION?**

14 A. No. All adjustments to the Company’s claims for revenues, expenses, taxes, and rate
15 base must be consistently brought together in the Administrative Law Judge’s
16 Recommended Decision and again in the Commission’s Final Order. This process,
17 which is known as iteration, effectively prevents the determination of a precise
18 calculation for income taxes until such time as all adjustments have been made to the
19 Company’s claim.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

CHRISTINE S. WILSON, CPA

PROFESSIONAL AND EDUCATIONAL BACKGROUND

EXPERIENCE:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania

August 2013 to Present:

Fixed Utility Financial Analyst Supervisor, Bureau of Investigation and Enforcement
Responsible for supervising six fixed utility financial analysts in the analysis and preparation of written and oral testimony in base rate case proceedings, purchased gas cost proceedings, and other proceedings as required.

February 2008 to August 2013:

Fixed Utility Financial Analyst, Bureau of Investigation & Enforcement
Review of operating and maintenance expenses for regulated utilities as a part of the evaluation and recommendation process for utility base rate and purchased gas cost filings, preparing written testimony for cases, and testifying as an expert witness.

Prior Accounting Employment: Approximately fifteen years performing public, corporate, and nonprofit accounting, in addition to eight years of full-time administrative work.

EDUCATION/CERTIFICATION:

Green Mountain College, Poultney, Vermont
Sustainable MBA Program, four credits earned, 2009-2010

Certified Public Accountant in Pennsylvania, since 2000

Pennsylvania State University, Middletown, Pennsylvania
Bachelor of Science, Professional Accountancy, 1995
(Graduated with distinction)

UTILITY-RELATED TRAININGS & OTHER COURSES/WEBINARS:

PA Public Utility Commission Rate School, Presenter, January 2022

NARUC Staff Subcommittee on Accounting & Finance, Fall 2021 webinar, October 5-7, 2021

Institute of Public Utilities Accounting and Ratemaking Course (Online)

Michigan State University, East Lansing, Michigan, September 14-16, 2021 (not for credit)

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 webinar, April 6-8, 2021

NARUC Staff Subcommittee on Accounting & Finance, Fall 2020 webinar, October 21-22, 2020

UTILITY-RELATED TRAININGS & OTHER COURSES/WEBINARS (continued):

S&P Global Essentials of Regulatory Finance, Georgetown University, Washington, DC, October 15-16, 2019

Taxation of Business Entities I: Corporations by University of Illinois, coursera.com, completed October 2019 (not for credit)

Federal Taxation II: Property Transactions of Business Owners and Shareholders by University of Illinois, coursera.com, completed August 2019 (not for credit)

Federal Taxation I: Individuals, Employees, and Sole Proprietorships by University of Illinois, coursera.com, completed July 2019 (not for credit)

Institute of Public Utilities Advanced Regulatory Studies Program

Michigan State University, East Lansing, Michigan, October 1-5, 2018 (not for credit)

Financial Markets (with Honors) by Yale University, coursera.com, completed November 2017 (not for credit)

PA Public Utility Commission Rate Case Training, March 5-6, 2010; October 4-5, 2012

Institute of Public Utilities Advanced Regulatory Studies Program

Michigan State University, East Lansing, Michigan, October 7-10, 2008

NARUC Utility Rate School (conducted by NARUC's Committee on Water and the Institute of Public Utilities, Michigan State University), San Diego, May 11-16, 2008

TESTIMONY SUBMITTED:

R-2022-3031704	Borough of Ambler – Water Department
R-2021-3027385	Aqua Pennsylvania, Inc. (Water)
R-2021-3027386	Aqua Pennsylvania Wastewater, Inc.
R-2021-3024750	Duquesne Light Company
P-2020-3022426	PAWC Response to COVID-19 Emergency and Financial Impacts
R-2020-3019369	PAWC base rate case (Water)
R-2020-3019371	PAWC base rate case (Wastewater)
R-2018-3000164	PECO Energy Company – Electric Division
R-2017-2640058	UGI Utilities, Inc. – Electric Division
R-2014-2428745	Metropolitan Edison Company (Met-Ed)
R-2014-2428744	Pennsylvania Power Company (Penn Power)
R-2014-2428743	Pennsylvania Electric Company (Penelec)
R-2014-2428742	West Penn Power Company
R-2014-2402324	Emporium Water Company

R-2014-2406274	Columbia Gas of Pennsylvania, Inc.
R-2013-2397353	Pike County Power & Light (Gas)
R-2013-2372129	Duquesne Light Company
R-2013-2360798	Columbia Water Company
R-2012-2336379	York Water Company
R-2012-2321748	Columbia Gas of Pennsylvania, Inc.
R-2012-2292082	Peoples Natural Gas Company, LLC (1307(f))
R-2012-2285985	Peoples Natural Gas Company, LLC
R-2011-2267958	Aqua Pennsylvania, Inc.
R-2010-2214415	UGI Central Penn Gas, Inc.
R-2010-2201702	Peoples Natural Gas Company, LLC
R-2010-2166214	PAWC Northeast Wastewater Operations
R-2010-2166212	PAWC Coatesville Wastewater Operations
R-2010-2166210	PAWC Claysville Wastewater Operations
R-2010-2166208	PAWC Clarion Wastewater Operations
R-2010-2161694	PPL Electric Utilities Corporation
R-2009-2132019	Aqua Pennsylvania, Inc.
R-2009-2117740	Penn Estates Utilities Inc. (Sewer)
R-2009-2117532	Penn Estates Utilities Inc. (Water)
M-2009-2123945	PPL Electric Utility Company (Smart Meter Plan)
M-2009-2123944	PECO Energy Company (Smart Meter Plan)
M-2009-2093216	PPL Electric Utility Corporation (EE&C Plan)
M-2009-2093215	PECO Energy Company (EE&C Plan)
R-2008-2079675	UGI Central Penn Gas, Inc.
R-2008-2046518	Pike County Light & Power Company (Electric)
R-2008-2042293	Newtown Artesian Water Company
R-2008-2032689	PAWC Coatesville Wastewater Operations

I&E Exhibit No. 1
Witness: Christine Wilson, CPA

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY, LLC

Docket No. R-2022-3032764

Exhibit to

Accompany

the

Direct Testimony

of

Christine Wilson, CPA

Bureau of Investigation & Enforcement

Concerning:

Operating & Maintenance Expenses

Income Tax Expenses

**LEATHERSTOCKING GAS COMPANY LLC. (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RE-1 TO RE-4**

I&E-RE-1 Reference Leatherstocking Gas Company, LLC (Leatherstocking) Exhibit G-1, Schedule 3, concerning Operation-excl. Purchased Gas, provide a detailed breakdown by account for the Future Test Year (FTY) ended March 31, 2022, and the prior three historic fiscal years, including explanations for line-item changes of 10% or more, and at least \$10,000.

RESPONSE: Please refer to the attached Excel file entitled "LGC Gas Operation & Maintenance Expenses." The Company would note that the Twelve Months Ended March 31, 2022 is the Historic Test Year in this case. The Twelve Months Ended March 31, 2023 is the Future Test Year. The attached file includes data for the Twelve Months Ended March 31, 2020, 2021, 2022, and 2023.

PROVIDED BY: Charles A. Lenns, Richard A. Kane (Accounting & Rate Panel)

DATE: August 19, 2022

Leatherstocking Gas Company LLC.
Gas Operating Expenses excl. Purchased Gas Costs
Twelve Months Ended March 31, 2020, 2021, 2022, & 2023

Company / Regulatory Account	Operating Expense	For the Twelve Months Ended March 31,				Explanation of Variances over \$10,000
		2020 Actual	2021 Actual	2022 Actual	2023 Forecast	
870200	Dist Exp-Op/Spv/Eng	\$ -	\$ 120.40	\$ 2,089.14	\$ 2,100	
874200	Dist Exp-Mains/Services	4,830.44	800.67	5,561.87	5,500	
875200	Dist Exp-M&R Sta Equipment	99.91	-	-	-	
880000	Dist Exp-Other Expense	2,550.84	-	-	-	
	Distribution Expense	<u>7,481.19</u>	<u>921.07</u>	<u>7,651.01</u>	<u>7,600</u>	
902000	Cust Accts Exp-Meter Read	9,190.99	11,386.20	13,275.93	13,300	
903000	Cust Accts Exp-Records / Collection	-	16,488.62	89,795.53	89,800	Prior to Corning purchasing Mirabito's 50% interest in Leatherstocking, Mirabito handled billing and did not allocate costs to Leatherstocking for this element of expense.
904000	Cust Accts Exp-Uncollectible	25,975.60	-	-	-	Bankruptcy of a large customer
905000	Cust Accts Exp-Misc	1,592.18	12,144.98	61,730.55	300	2021-2022 Payments to Wyalusing School District (normalized)
	Customer Accounts Expense	<u>36,758.77</u>	<u>40,019.80</u>	<u>164,802.01</u>	<u>103,400</u>	
910000	Cust Service Exp-Cust Assist	-	-	2,921.26	-	
911000	Cust Service Exp-Info Adv	305.73	1,776.79	1,523.39	200	Prior to Corning purchasing Mirabito's 50% interest in Leatherstocking, Mirabito handled customer service and allocated more costs for this element of expense than Corning.
912000	Cust Service Exp-Misc	29,036.94	17,854.19	7,029.70	7,000	Variations in spending levels to attract new customers
917000	Sales Expense-Advertising	35,004.78	19,420.66	34,084.11	30,800	
	Customer Service Expenses	<u>64,347.45</u>	<u>39,051.64</u>	<u>45,558.46</u>	<u>38,000</u>	
920000	Admin & Gen Exp-Salaries & Wages	56,678.75	140,130.05	163,051.99	163,100	Higher wages, the elimination of Mirabito Corporation, and annual updates to Inter-Company Cost Allocations in accordance with Affiliate Interest Agreements have resulted increased costs.
921000	Admin & Gen Exp-Office Expense	46,239.30	47,079.64	53,981.78	54,000	
922000	Admin & Gen Exp-Admin Transf.	11,998.50	4,840.50	-	-	This administrative fee was previously paid to Mirabito Corporation and has been eliminated.
923000	Admin & Gen Exp-Outside Services.	42,050.21	72,273.35	85,190.95	85,200	Increased requirements for outside legal services.
924000	Admin & Gen Exp-Prop Insurance	-	-	-	-	
925000	Admin & Gen Exp-Injury & Damages	3,347.87	44,341.70	80,712.98	80,700	Annual updates to Inter-Company Cost Allocations in accordance with Affiliate Interest Agreements have resulted increased costs, previously absorbed by Mirabito Corp.
926000	Admin & Gen Exp-Emp Benefits	80,650.79	64,259.80	53,899.81	53,900	Non-recurring tuition and other benefit payments in 2020-2021 paid to Mirabito Corp.
928000	Admin & Gen Exp-Reg Commission	3,817.03	3,672.89	5,034.72	35,000	FTY increase attributable to normalized rate case costs
930020	Admin & Gen Exp-Misc Gen	12,357.10	11,676.68	11,602.18	11,600	
930030	Admin & Gen Exp-Safety	861.93	2,384.61	243.99	200	
930060	Admin & Gen Exp-Vehicle	5,382.89	4,201.14	4,953.94	5,000	
	Administrative & General	<u>263,384.37</u>	<u>394,860.36</u>	<u>458,672.34</u>	<u>488,700</u>	
	Total	<u>\$ 371,971.78</u>	<u>\$ 474,852.87</u>	<u>\$ 676,683.82</u>	<u>\$ 637,700</u>	

Leatherstocking Gas Company LLC.
Gas Operation & Maintenance Expenses excl. Purchased Gas Costs
Twelve Months Ended March 31, 2020, 2021, 2022, & 2023

	For the Twelve Months Ended March 31,				Average Expense 2020 - 2022	FY 2023 - Average Expense	Percent Variation
	2020 Actual	2021 Actual	2022 Actual	2023 Forecast			
<u>Operation & Maintenance Expenses:</u>							
Distribution Expenses	\$ 75,319	\$ 97,317	\$ 89,035	\$ 89,000	\$ 87,224	\$ 1,776	2.0%
Customer Accounting Expenses	36,759	40,020	164,802	103,400	80,527	22,873	28.4%
Customer Service Expenses	64,347	39,052	45,558	38,000	49,653	(11,653)	-23.5%
Administrative And General Expenses	264,158	395,095	458,890	488,900	372,714	116,186	31.2%
Subtotal	<u>\$ 440,583</u>	<u>\$ 571,483</u>	<u>\$ 758,285</u>	<u>\$ 719,300</u>	<u>\$ 590,117</u>	<u>\$ 129,183</u>	<u>21.9%</u>
Global (Black Box) Adjustment	-	-	-	(100,000)	-	(100,000)	-
Total	<u>\$ 440,583</u>	<u>\$ 571,483</u>	<u>\$ 758,285</u>	<u>\$ 619,300</u>	<u>\$ 590,117</u>	<u>\$ 29,183 (a)</u>	<u>4.9%</u>

(a) Please note that If the Company's adjustment to normalize rate case costs of \$30,000 were excluded from the Future Test Year, the overall level of O&M expenses would slightly less than the three-year historic average.

Variation in Gas Distribution Expenses

The three-year average of the historic gas distribution expenses (2020 - 2022) was \$87,224. The level of O&M expense for the Future Test Year (2023) is \$1,776 or 2.0% higher than the historic average and represents a normal level of costs for this category of expense.

Variation in Customer Accounts Expenses

The Future Test Year Customer Accounting Expense was normalized to eliminate non-recurring payments to the Wyalusing School District for the difference in price between oil and gas of \$61,471 due to delays in providing gas service to this customer. The overall increase in the level of customer expenses between 2020 and 2022 was the result of Corning Natural Gas Corporation taking over the billing and customer service responsibilities from Mirabito Corporation after it acquired their 50% ownership in Leatherstocking. Mirabito Corporation absorbed the expenses associated with billing and servicing Leatherstocking customers during most of 2021 and for all prior years.

Variation in Customer Service Expenses

The three-year average of the historic gas customer expenses (2020 - 2022) was \$49,653. The level of O&M expense for the Future Test Year (2023) is \$11,653 or 23.5% lower than the historic average due primarily to normalization adjustments made to remove Industry Association Dues of \$4,239 and donations of \$3,300 from the Future Test Year.

Variation in A&G Expenses

The three-year average of the historic gas Administrative and General expenses (2020 - 2022) was \$372,714. The level of O&M expense for the Future Test Year (2023) is \$115,186 or 31.2% higher than the historic average. The adjustment to normalize estimated rate case costs of \$30,000 represents a large portion of the overall increase along with increases in the level of insurance costs for general liability and property coverage. Mirabito arranged for insurance that was in place through the middle of 2021 and did not allocate its cost to Leatherstocking. With Corning's purchase of Mirabito's 50% ownership in Leatherstocking, it took over the responsibility for purchasing insurance and charges the Company their share of actual costs. Injury and damages expense increased from \$3,348 in 2020 to \$80,713 in 2022, which is a normal level of insurance expense. Higher payroll and outside legal expenses make up the remainder of the increase in costs and are expected to continue at this level.

**LEATHERSTOCKING GAS COMPANY LLC. (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RE-5 TO RE-7**

I&E-RE-5 Reference the attachment accompanying the responses to I&E-RE-1 and I&E-RE-2 entitled "LGC Gas Operation & Maintenance Expenses," concerning Customer Accounts Expense – Records/Collection:

- A. Identify any one-time costs included in the future test year (FTY) ending March 31, 2023 and indicate the period over which such costs are normalized in the rate filing.
- B. Identify any items claimed *in full* in the FTY that benefit more than one fiscal year with a description and dollar amount and identify the number of related years for such benefit.
- C. Explain in detail any attempts to control the increase in costs associated with records/collection caused by the purchase of Mirabito Regulated Industries' shares by Corning Natural Gas Holdings.
- D. Explain in detail whether any increase in this cost is related to the hiring on additional personnel.

RESPONSE:

- A. The Company's Records and Collection expenses includes direct payroll cost for a Leatherstocking Customer Service Representative and charges for Corning Customer Accounting and Service personnel who charge Leatherstocking for time actually spent working on customer related tasks. For the twelve months ending March 31, 2022, direct payroll charges for the Leatherstocking employee was \$52,920. Payroll charges for Corning personnel totaled \$36,875.
- B. The Company's Records and Collection expense does not have any out of period costs or expenses in the Historic or Future Test Years.
- C. Corning Natural Gas Company ("CNG") took over the responsibility for customer billing and service from Mirabito Regulated Industries starting in 2020. It was necessary to hire a full time Customer Accounting and Service Representative to handle the workload picked up from Mirabito. Prior to that time Mirabito handled this function and did not charge Leatherstocking for costs incurred by them.
The Leatherstocking Customer Accounting and Service Representative should be able to handle future growth in workload for this function for the next several years, thereby controlling the overall level of costs for this function.

**LEATHERSTOCKING GAS COMPANY LLC. (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RE-5 TO RE-7**

- D. The increase in cost is primarily due the hiring of a full-time Customer Service Representative at Leatherstocking in 2021 to handle customer records, billing, and service responsibilities.

PROVIDED BY: Charles A. Lennox, Richard A. Kane (Accounting & Rate Panel)

DATE: September 6, 2022

**LEATHERSTOCKING GAS COMPANY LLC. (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RE-1 TO RE-4**

I&E-RE-4 Reference Leatherstocking Exhibit G-4, Schedule 3, concerning Global (Black Box) Adjustment, provide the basis for this adjustment and a detailed explanation, including all calculations.

RESPONSE: Please refer to the testimony of the Accounting and Rate Panel (Statement No. 1); Page 34 lines 15 through Page 35, line 5. The Company reflected a Global (Black Box) Adjustment in the amount of \$100,000 in recognition that the overall increase requested in this rate filing is significant and would have been more than \$800,000 absent this adjustment. The Global (Black Box) Adjustment was made solely for the purpose of mitigating the calculated base rate revenue increase.

There are no underlying calculations supporting the Global (Black Box) Adjustment. By making this adjustment the Company is assuming the risk of finding operating efficiencies that will offset the imputed reduction in operating costs. To the extent that those efficiencies are not achieved in whole or in part, all other items being equal, this adjustment will negatively impact Leatherstocking's actual earned return on Equity in the first year that new rates are in effect (i.e., April 2023 – March 2024).

PROVIDED BY: Charles A. Lenns, Richard A. Kane (Accounting & Rate Panel)

DATE: August 19, 2022

**LEATHERSTOCKING GAS COMPANY LLC. (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RE-5 TO RE-7**

- I&E-RE-6** Reference the attachment accompanying the responses to I&E-RE-1 and I&E-RE-2 entitled "LGC Gas Operation & Maintenance Expenses," concerning Admin. and General Expenses – Injury and Damages:
- A. Provide all available supporting documentation in the form of invoices, statements, etc., for the increased cost of insurance caused by the purchase of Mirabito Regulated Industries' shares by Corning Natural Gas Holdings.
 - B. Explain why an increase in injury and damages expense from \$3,348 in 2020 to \$80,713 in 2022 is just and reasonable.
 - C. Explain in detail what attempts have been made to mitigate the increased cost of this insurance. That is, has the Company shopped for comparative quotes with other insurance companies, when, and what were the results.
 - D. Explain the specific details of the policy that were changed causing such an increase to the premium.
 - E. State which other commonly owned companies are covered by this policy, the total amount of the policy for all entities covered, and the amount allocated to each affiliate for the FTY period.

RESPONSE:

- A. The Company does not have copies of the insurance policies from the Underwriter; the attachment entitled "Analysis of Account 925 Charges 4.1.2021-3.31.2022.xlsx" lists all of the insurance policies the Company has in place and the allocation of the costs to each affiliate. In reviewing the costs charged to Account 925 for Leatherstocking for the twelve months ended March 31, 2022, it was discovered that the account had prior period true-up adjustments amounting to \$6,707. Excluding these adjustments, the actual cost for insurance for the Twelve Months Ended March 31, 2022 was 74,006 (i.e., \$80,713 – \$6,707).
- B. Leatherstocking was not charged its proportionate share of insurance premiums for all of the policies in place during the twelve months ending March 31, 2020. Only costs associated with a workers' compensation policy was allocated to Leatherstocking during that time period. Please refer to the attachment included with Part A of this response for the listing of the insurance policies and the current cost of each policy.

**LEATHERSTOCKING GAS COMPANY LLC. (GAS)
RESPONSES TO BUREAU OF INVESTIGATION AND ENFORCEMENT'S
DATA REQUESTS, SET RE-5 TO RE-7**

- C. In June of 2021, the Corning joined a group of captive insurance companies named Presidio, to underwrite its various insurance policies (e.g., workers' compensation, general and excess liability, property, vehicle, etc.). The total cost of these insurance policies is approximately \$1,000,000 annually. The Company's insurance policies normally run from June through May. The Company goes out for bid each year prior to the expiration of each policy. At this point in time Presidio's insurance premiums have been stable since June 2020. The largest increases in premium costs that Company has experience over the last several years are related to the umbrella policies which provide excess liability insurance coverage.
- D. Please refer to the response to Parts A and B of this question. The different types of insurance policies purchased by the Company have not changed. For the twelve months ended March 31, 2020, the proper level of insurance costs was not allocated to Leatherstocking.
- E. Please refer to the attachment included in response to Part A of this question. Insurance cost is allocated between Corning Natural Gas Company, Pike County Light & Power Company, and Leatherstocking Gas Company.

PROVIDED BY: Charles A. Lenns, Richard A. Kane (Accounting & Rate Panel)

DATE: September 6, 2022

I&E Statement No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY LLC

Docket No. R-2022-3032764

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

TABLE OF CONTENTS

INTRODUCTION	1
BACKGROUND.....	2
COMPANY’S RATE OF RETURN CLAIM	5
I&E POSITION	6
PROXY GROUP.....	7
CAPITAL STRUCTURE	9
COST OF LONG-TERM DEBT.....	11
COST OF SHORT-TERM DEBT	11
COST OF COMMON EQUITY	12
COMMON METHODS	12
I&E RECOMMENDED METHOD TO EMPLOY	14
SUMMARY OF THE COMPANY’S RESULTS	20
I&E RECOMMENDATION.....	20
DISCOUNTED CASH FLOW	21
CAPITAL ASSET PRICING MODEL.....	23
CRITIQUE OF THE ACCOUNTING AND RATE PANEL’S PROPOSED COST OF EQUITY	27
OVERALL RATE OF RETURN RECOMMENDATION	28

1 **INTRODUCTION**

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

3 A. My name is Anthony Spadaccio. My business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA
5 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

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

10

11 **Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL EXPERIENCE?**

12 A. My educational and professional experience is set forth in the attached Appendix A.

13

14 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

15 A. I&E is responsible for representing the public interest in rate and other proceedings
16 before the Commission. I&E's analysis in this proceeding is based on its
17 responsibility to represent the public interest. This responsibility requires balancing
18 the interests of ratepayers, the utility company, and the regulated community as a
19 whole.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

22 A. The purpose of my direct testimony is to address the rate of return, including capital
23 structure, cost of long-term debt, the cost of equity, and the overall fair rate of return

1 for Leatherstocking Gas Company LLC (Leatherstocking or Company) for the future
2 test year (FTY) ending March 31, 2023.

3

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

5 A. Yes. I&E Exhibit No. 2 contains schedules that support my direct testimony.

6

7 **BACKGROUND**

8 **Q. WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE**
9 **CONTEXT OF A RATE CASE?**

10 A. Rate of return is one of the components of the revenue requirement formula. Rate of
11 return is the amount of revenue an investment generates in the form of net income and
12 is usually expressed as a percentage of the amount of capital invested over a given
13 period of time.

14

15 **Q. WHAT IS THE REVENUE REQUIREMENT FORMULA?**

16 A. The revenue requirement formula used in base rate cases is as follows:

17
$$RR = E + D + T + (RB \times ROR)$$

18 Where:

19 RR = Revenue Requirement

20 E = Operating Expenses

21 D = Depreciation Expense

22 T = Taxes

1 RB = Rate Base

2 ROR = Overall Rate of Return

3 In the above formula, the rate of return is expressed as a percentage. The calculation
4 of that percentage is independent of the determination of the appropriate rate base
5 value for ratemaking purposes. As such, the appropriate total dollar return is
6 dependent upon the proper computation of the rate of return and the proper valuation
7 of the Company's rate base.

8

9 **Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE OF**
10 **RETURN?**

11 A. A fair and reasonable overall rate of return is one that will allow the utility an
12 opportunity to recover those costs prudently incurred by all classes of capital used to
13 finance the rate base during the prospective period in which its rates will be in effect.

14 *The Bluefield Water Works & Improvements Co. v. Public Service Comm. of*
15 *West Virginia, 262 U.S. 679, 692-93 (1923), and the Federal Power Commission et al*
16 *v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944) cases set forth the principles that*
17 are generally accepted by regulators throughout the country as the appropriate criteria
18 for measuring a fair rate of return:

- 19 1. A utility is entitled to a return similar to that being earned by other enterprises
20 with corresponding risks and uncertainties, but not as high as those earned by
21 highly profitable or speculative ventures.
- 22 2. A utility is entitled to a return level reasonably sufficient to assure financial
23 soundness.

1 3. A utility is entitled to a return sufficient to maintain and support its credit and
2 raise necessary capital.

3 4. A fair return can change (increase or decrease) along with economic
4 conditions and capital markets.

5
6 **Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS TRADITIONALLY**
7 **CALCULATED IN BASE RATE PROCEEDINGS.**

8 A. In base rate proceedings, the overall rate of return is traditionally calculated using the
9 weighted average cost of capital method. To calculate the weighted average cost of
10 capital, a company's capital structure must first be determined by comparing the
11 percentage of each capitalization component, which has financed rate base, to total
12 capital. Next, the effective cost rate of each capital structure component must be
13 determined. The historical component of the cost rate of debt can be computed
14 accurately, and any future debt issuances are based on estimates. The cost rate of
15 common equity is not fixed and is more difficult to measure. Because of this
16 difficulty, a proxy group is used as discussed later in this testimony. Then, each
17 capital structure component percentage is multiplied by its corresponding effective
18 cost rate to determine the weighted capital component cost rate. The table in the
19 "*I&E Position*" section below demonstrates the interaction of each capital structure
20 component and its corresponding effective cost rate. Finally, the sum of the weighted
21 cost rates produces the overall rate of return. This overall rate of return is multiplied
22 by the rate base to determine the return portion of a company's revenue requirement.

1 **COMPANY’S RATE OF RETURN CLAIM**

2 **Q. WHO ARE THE COMPANY’S RATE OF RETURN WITNESSES?**

3 A. Charles Lennox, Vice President and Chief Financial Officer of Corning Natural Gas
4 Holding Corporation (CNGH) and Richard A. Kane, a Rate Case Consultant retained
5 by CNGH, provide combined testimony under the title “Accounting and Rate Panel.”
6 Throughout its direct testimony (Leatherstocking Statement No. 1) the Accounting
7 and Rate Panel provides its recommendations for the claimed capital structure, cost of
8 debt, and cost of common equity for Leatherstocking.

9

10 **Q. PLEASE SUMMARIZE THE ACCOUNTING AND RATE PANEL’S**
11 **RECOMMENDATIONS FOR THE COMPANY’S RATE OF RETURN**
12 **CLAIM.**

13 A. The Accounting and Rate Panel recommends the following rate of return for the
14 Company based on its FTY ending March 31, 2023:¹

Leatherstocking Gas Company LLC			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Leatherstocking Gas Company LLC			
Long-Term Debt	43.92%	5.18%	2.27%
Short-Term Debt	10.66%	4.00%	0.43%
Common Equity	45.43%	10.00%	4.54%
Total	100.01%		7.24%

15

¹ Leatherstocking Exhibit G-2, Schedule 3.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S RATE OF RETURN CLAIM?**

2 A. The Accounting and Rate Panel did not attempt to perform a detailed cost of equity
3 analysis specific to the Company or to reflect current market conditions. Instead,
4 Leatherstocking used the Commission’s approved Distribution System Improvement
5 Charge (DSIC) return for gas distribution companies in the Q4 2021 Quarterly
6 Earnings Summary Report² of 10.15% as its starting point. In an effort to mitigate the
7 size of the rate increase, the Company has reduced its return on equity request to an
8 even 10.00%. The Accounting and Rate Panel argues this is appropriate considering
9 the costs of performing a cost of equity study and retaining an expert to support the
10 analysis.³

11

12 **I&E POSITION**

13 **Q. PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION**
14 **FOR THE COMPANY.**

15 A. I recommend the following rate of return for the Company:⁴

I&E			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
Leatherstocking Gas Company LLC			
Long-Term Debt	43.92%	5.18%	2.28%
Short-Term Debt	10.65%	4.00%	0.43%
Common Equity	45.43%	9.69%	4.40%
Total	100.00%		7.11%

16

² PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022 at Docket No. M-2022-3032450.

³ Leatherstocking Statement No. 1, p. 18, ln. 20 through p. 20, ln. 2.

⁴ I&E Exhibit No. 2, Schedule 1.

1 Although immaterial, it should be noted that my recommendation adjusts for the
2 Company's weighted cost of long-term debt rounding error. Additionally, I adjusted
3 the short-term debt component of the capital structure down by 0.01% so the total
4 of the capital structure components equal 100.00%.

6 **PROXY GROUP**

7 **Q. WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?**

8 A. A proxy group is a set of companies that have similar traits as compared to the subject
9 utility. This group of companies acts as a benchmark for determining the subject
10 utility's rate of return in a base rate case.

12 **Q. WHAT ARE THE REASONS FOR USING A PROXY GROUP?**

13 A. A proxy group's cost of equity is used as a benchmark to satisfy the long-established
14 guideline of utility regulation that seeks to provide the subject utility with the
15 opportunity to earn a return similar to that of enterprises with corresponding risks and
16 uncertainties.

17 A proxy group is typically utilized since the use of data exclusively from one
18 company may be less reliable. The lower reliability occurs because the data for one
19 company may be subject to events that can cause short-term anomalies in the
20 marketplace. The rate of return on common equity for a single company could
21 become distorted in these circumstances and would therefore not be representative of
22 similarly situated companies. Thus, a proxy group has the effect of smoothing out
23 potential anomalies associated with a single company.

1 **Q. WHAT CRITERIA DID YOU USE IN SELECTING YOUR GAS UTILITY**
2 **PROXY GROUP?**

3 A. The criteria for my proxy group was designed to select companies that are
4 representative of Leatherstocking. I applied the following criteria to Value Line's
5 "Natural Gas Utility" company group:

- 6 1. Fifty percent or more of the company's revenues must be generated from the
7 regulated gas utility industry.
- 8 2. The company's stock must be publicly traded.
- 9 3. Investment information for the company must be available from more than one
10 source, which includes Value Line.
- 11 4. The company must not be currently involved in an announced merger or the
12 target of an acquisition.
- 13 5. The company must have four consecutive years of historic earnings data.
- 14 6. The company must be operating in a state that has a deregulated gas utility
15 market.

16

17 **Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?**

18 A. I included the following six companies in my proxy group:

Atmos Energy Corp.	ATO
Chesapeake Utilities	CPK
NiSource Inc.	NI
Northwest Natural Gas Co.	NWN
One Gas Inc.	OGS
Spire Inc.	SR

19

1 **Q. DID THE ACCOUNTING AND RATE PANEL USE A PROXY GROUP IN ITS**
2 **ANALYSIS?**

3 A. No. The Accounting and Rate Panel did not utilize a proxy group, nor has it provided
4 an analysis specific to the Company or current market conditions to determine its cost
5 of equity recommendation. As mentioned above, the Accounting and Rate Panel
6 relied on the cost of equity return approved for DSIC purposes found in the
7 Commission’s Q4 2021 Quarterly Earnings Summary Report.

8

9 **CAPITAL STRUCTURE**

10 **Q. WHAT IS A CAPITAL STRUCTURE?**

11 A. A capital structure represents how a firm has financed its rate base with different
12 sources of funds. The primary sources of funding are long-term debt and common
13 equity. A capital structure may also include preferred stock and/or short-term debt,
14 such is the case for Leatherstocking.

15

16 **Q. WHAT IS THE COMPANY’S CLAIMED CAPITAL STRUCTURE?**

17 A. The Company’s claimed capital structure is summarized in the table below:⁵

Leatherstocking Gas Company LLC	
Capital Structure - March 31, 2023	
Long-Term Debt	43.92%
Short-Term Debt	10.66%
Common Equity	45.43%
Total	100.01%

18

⁵ Leatherstocking Statement No. 1, p. 16, lines 6-14 and Leatherstocking Exhibit G-2, Schedule 1.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S CLAIMED CAPITAL**
2 **STRUCTURE?**

3 A. The Accounting and Rate Panel explains that the claimed “capital structure reflects
4 the proportions of the actual capital being used in the utility’s business.”⁶
5

6 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY’S**
7 **CAPITAL STRUCTURE?**

8 A. As explained above, I adjusted the short-term debt component of the capital
9 structure down by 0.01% so the total of the capital structure components equaled
10 100.00%. As a result of that minor adjustment, I recommend using the following
11 capital structure:

Leatherstocking Gas Company LLC	
Capital Structure - March 31, 2023	
Long-Term Debt	43.92%
Short-Term Debt	10.65%
Common Equity	45.43%
Total	100.00%

12

13

14 **Q. WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE**
15 **RECOMMENDATION?**

16 A. My recommended capital structure is reasonable as it falls almost exactly in line with

⁶ Leatherstocking Statement No. 1, p. 17, lines 2-4.

1 my proxy group's 2021 (most recently available) five-year average capital structure
2 of 42.46% long-term debt, 10.80% short-term debt, and 46.74% common equity.⁷

3
4 **COST OF LONG-TERM DEBT**

5 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**
6 **COST RATE OF LONG-TERM DEBT?**

7 A. I recommend using the Company's claimed long-term debt cost rate of 5.18% for the
8 FTY.⁸

9
10 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO USE THE**
11 **COMPANY'S CLAIMED COST RATE OF LONG-TERM DEBT?**

12 A. Although the Company's claimed cost rate of long-term debt is outside my proxy
13 group's 2021 (most recently available) implied long-term debt cost range of 1.74%
14 to 3.96%, with an average implied long-term debt cost of 3.09%,⁹ it is reasonable
15 considering the current trend of increasing interest rates.

16
17 **COST OF SHORT-TERM DEBT**

18 **Q. WHAT IS THE COMPANY'S CLAIM FOR THE COST RATE OF SHORT-**
19 **TERM DEBT?**

20 A. The Company's proposed cost rate of short-term debt is 4.00%.¹⁰

⁷ I&E Exhibit No. 2, Schedule 2.

⁸ Leatherstocking Exhibit G-2, Schedule 2, p. 2.

⁹ I&E Exhibit No. 2, Schedule 3.

¹⁰ Leatherstocking Statement No. 1, p. 17, lines 8-9 and Leatherstocking Exhibit G-2, Schedule 3.

1 **Q. WHAT IS THE BASIS FOR THE COMPANY’S PROPOSED COST RATE OF**
2 **SHORT-TERM DEBT?**

3 A. The Accounting and Rate Panel claims this cost rate is based on the rate currently in
4 effect.¹¹

5
6 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY’S**
7 **COST RATE OF SHORT-TERM DEBT?**

8 A. I recommend using the Company’s claimed short-term debt cost rate of 4.00% for
9 this proceeding as it appears reasonable and is based on the current rate.

10

11 **COST OF COMMON EQUITY**

12 **COMMON METHODS**

13 **Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN**
14 **DETERMINING THE COST OF COMMON EQUITY?**

15 A. Four methods commonly presented to estimate the cost of common equity are the
16 Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk
17 Premium (RP) Method, and the Comparable Earnings (CE) Method.

18

19 **Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?**

20 A. The DCF method is the “dividend discount model” of financial theory, which
21 maintains that the value (price) of any security or commodity is the discounted

¹¹ Leatherstocking Exhibit G-2, Schedule 3, Footnote (a).

1 present value of all future cash flows. The DCF method assumes that investors
2 evaluate stocks in the traditional economic framework, which maintains that the value
3 of a financial asset is determined by its earning power, or its ability to generate future
4 cash flows.

5
6 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?**

7 A. The CAPM describes the relationship of a stock's investment risk and its market rate
8 of return. It identifies the rate of return investors expect so that it is comparable with
9 returns of other stocks of similar risk. This method hypothesizes that the investor-
10 required return on a company's stock is equal to the return on a "risk free" asset plus
11 an equity premium reflecting the company's investment risk. In the CAPM, two
12 types of risk are associated with a stock: (1) firm-specific risk (unsystematic risk);
13 and (2) market risk (systematic risk), which is measured by a firm's beta. The CAPM
14 allows for investors to receive a return only for bearing systematic risk. Unsystematic
15 risk is assumed to be diversified away, and therefore, does not earn a return.

16
17 **Q. WHAT IS THE THEORETICAL BASIS FOR THE RP METHOD?**

18 A. The theoretical basis for the RP method is a simplified version of the CAPM. The RP
19 method's theory is that common stock is riskier than debt, thus, investors require a
20 higher expected return on stocks than bonds. In the RP approach, the cost of equity is
21 made up of the cost of debt and a risk premium. While the CAPM uses the market
22 risk premium, it also directly measures the systematic risk of a company or proxy
23 group through the use of beta. The RP method does not measure the specific risk of a
24 company.

1 **Q. WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?**

2 A. The CE method utilizes the concept of opportunity cost. This means that investors
3 will likely dedicate their capital to the investment offering the highest return with
4 similar risk to alternative investments. Unlike the DCF, CAPM, and the RP methods,
5 the CE method is not market-based and relies upon historic accounting data. The
6 most problematic issue with the CE method is determining what constitutes
7 comparable companies.

8

9 **I&E RECOMMENDED METHOD TO EMPLOY**

10 **Q. WHAT METHOD DO YOU RECOMMEND USING TO DETERMINE AN**
11 **APPROPRIATE COST OF COMMON EQUITY FOR LEATHERSTOCKING?**

12 A. I recommend using the DCF method as the primary method to determine the cost of
13 common equity. Additionally, I provide a CAPM analysis to be used as a
14 comparison, not as a check, to the DCF results. This Commission has historically
15 relied mostly upon the DCF results in base rate proceedings, including as recently as
16 2017, 2018, 2020, and 2021.¹²

¹² *Pa. PUC v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered March 28, 2017). *See generally* Disposition of Cost Rate Models, pp. 96-97; *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Cost of Common Equity, p. 119; *Pa. PUC v. Wellsboro Electric Company*; Docket No. R-2019-3008208 (Order Entered April 29, 2020). *See generally* Disposition of Primary Methodology to Determine ROE, pp. 80-81; *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 91-92. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*; Docket No. R-2020-3018835 (Order Entered February 19, 2021). *See generally* Disposition of Cost of Common Equity, p. 131.

1 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO EMPLOY THE DCF TO**
2 **DETERMINE YOUR RECOMMENDED RETURN ON EQUITY.**

3 A. I recommend using the DCF for a variety of reasons. The DCF is appealing to
4 investors since it is based upon the concept that the receipt of dividends in addition to
5 expected appreciation is the total return requirement determined by the market.¹³ The
6 use of a growth rate and expected dividend yield are also strengths of the DCF, as this
7 recognizes the time value of money and is forward-looking. The use of the utilities'
8 own, or in this case the proxy group's, stock prices and growth rates directly in the
9 calculation also causes the DCF to be industry and company specific. Finally, current
10 inflationary and economic trends are most certainly reflected in a stock's price, which
11 is used determining the dividend yield, and by analysts who generate forecasted
12 earnings growth rates. Therefore, the DCF contains the most up-to-date projected
13 information of any model and is the superior method for determining the rate of return
14 for the current economic market because it measures the cost of equity directly.

15
16 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE THE CAPM AS A**
17 **COMPARISON TO THE DCF IN YOUR ANALYSIS.**

18 A. I have included a CAPM analysis only as a comparison and not as a basis for my
19 recommendation because both the CAPM and the DCF include inputs that allow the
20 results to be specific to the utility industry. However, the CAPM is based on the
21 performance of U.S. Treasury bonds and the performance of the market as measured

¹³ David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 151.

1 through the S&P 500 and is company-specific only through the use of beta. Beta
2 reflects a stock's volatility relative to the overall market, thereby incorporating an
3 industry-specific aspect to the CAPM, but only as a measure of how reactive the
4 industry is compared to the market as a whole. While I firmly believe changes in the
5 utility industry are more likely to be accurately reflected in the DCF, which uses the
6 companies' actual prices, dividends, and growth rates, I have also included the results
7 of my CAPM analysis because changes in the market, whether as a whole or specific
8 to the utility industry, affect the outcome of each method in different ways. Even
9 though I have provided the results of my CAPM analysis as a comparison, and not as
10 a check, it must be noted that CAPM does have several disadvantages and should not
11 be given comparable weight to the DCF.

12
13 **Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.**

14 A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give results
15 that indicate to an investor what the equity cost rate should be if current economic and
16 regulatory conditions are the same as those present during the historical period in
17 which the risk premiums were determined. This is because beta, which is the only
18 company-specific variable in the CAPM model, measures the *historical* volatility of a
19 stock compared to the *historical* overall market return. Reliance on historical values
20 is especially problematic now given the recent impact of the COVID-19 pandemic on
21 economic conditions. Although the CAPM and RP results can be useful to investors
22 in making rational buy and sell decisions within their portfolios, the DCF method is
23 the superior method for determining the rate of return for the current economic

1 market and measuring the cost of equity directly. The CAPM and the RP methods are
2 less reliable indicators because they measure the cost of equity indirectly and risk
3 premiums vary depending on the debt and equity being compared.

4
5 **Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE**
6 **CREDIBILITY OF THE CAPM MODEL?**

7 A. Yes. An article, “Market Place; A Study Shakes Confidence in the Volatile-Stock
8 Theory,” which appeared in the *New York Times* on February 18, 1992, summarized a
9 CAPM study conducted by professors Eugene F. Fama and Kenneth R. French.¹⁴
10 Their study examined the importance of beta, CAPM’s risk factor, in explaining
11 returns on common stock. In CAPM theory a stock with a higher beta should have a
12 higher expected return. However, they found that the model did not do well in
13 predicting actual returns and suggested the use of more elaborate multi-factor models.

14 A more recent article, “The Capital Asset Pricing Model: Theory and
15 Evidence,” which appeared in the *Journal of Economic Perspectives*, states that while
16 “the attraction of the CAPM is that it offers powerful and intuitively pleasing
17 predictions about how to measure risk and the relation between expected return and
18 risk. Unfortunately, the empirical record of the model is poor - poor enough to
19 invalidate the way it is used in applications.”¹⁵ As a result, I conclude that the
20 CAPM’s relevance to the investment decision making process does not carry over
21 into the regulatory rate setting process.

¹⁴ Berg, Eric N. “Market Place; A Study Shakes Confidence in the Volatile-Stock Theory” *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

¹⁵ Fama, Eugene F. and French, Kenneth R., “The Capital Asset Pricing Model: Theory and Evidence.” *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

1 **Q. PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP**
2 **METHOD FROM YOUR ANALYSIS.**

3 A. The RP method is excluded because it is a simplified version of the CAPM and is
4 subject to the same faults explained above. Most importantly, unlike the CAPM, the
5 RP method does not recognize company-specific risk through beta.

6
7 **Q. EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD IN**
8 **YOUR ANALYSIS.**

9 A. The CE method is excluded because the choice of which companies are comparable is
10 highly subjective, and it is debatable whether historic accounting values are
11 representative of the future. Moreover, its historical usage in this regulatory forum
12 has been minimal.

13
14 **Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT DEVIATE**
15 **FROM THE HISTORICAL USE OF THE DCF AS THE PRIMARY METHOD**
16 **IN DETERMINING A COMPANY’S RETURN ON EQUITY?**

17 A. Yes. The Commission indicated in the most recent Aqua Pennsylvania, Inc. (Aqua)
18 base rate case order that its method “for determining Aqua’s ROE shall utilize both
19 I&E’s DCF and CAPM methodologies”¹⁶ and that “I&E’s DCF and CAPM produce a

¹⁶ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order entered May 16, 2022).

1 range of reasonableness for the ROE...”,¹⁷ which deviates from the historical
2 Commission practice of primarily relying on the DCF.

3
4 **Q. SHOULD THE COMMISSION’S USE OF THE CAPM AS A CEILING FOR A**
5 **“RANGE OF REASONABLENESS” APPLY IN THIS PROCEEDING?**

6 A. No. In a report issued by Regulatory Research Associates, a group within S&P
7 Global Market Intelligence,¹⁸ Aqua’s return on equity of 10.00% is stated as being
8 above the national average for water utility base rate cases and above the DSIC rate
9 authorized by the Commission of 9.80%¹⁹ for water and wastewater utilities based on
10 a period ended December 31, 2021. The above referenced report also states that the
11 average return on equity for water utility base rate cases that have been completed
12 during the first four months of 2022 was 9.63% and for the last twelve months ended
13 April 30, 2022 was 9.53% which are well below the 10.00% return on equity
14 authorized by the Commission for Aqua. Although this is related to the water utility
15 industry only, it demonstrates the problem associated with using the CAPM as a
16 ceiling for determining a utility’s return on equity.

17 Additionally, as I explained above, the CAPM should not be used as a primary
18 method, and it should only be used as a comparison and not as a check of the DCF or

¹⁷ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

¹⁸ Regulatory Research Associates, “Commission authorizes management performance bonus for Aqua Pennsylvania,” *S&P Global Market Intelligence*, May 16, 2022. [CIQ Pro: RRA Regulatory Focus: Commission authorizes management performance bonus for Aqua Pennsylvania \(spglobal.com\)](https://www.spglobal.com/pro/cio/pro-rra-regulatory-focus-commission-authorizes-management-performance-bonus-for-aqua-pennsylvania) (Accessed August 31, 2022).

¹⁹ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022, at Docket No. M-2022-3032405.

1 to establish a “reasonable range” due to the concerns I stated above. Also, as
2 demonstrated below, the use of the CAPM in this proceeding would result in a
3 significant burden to ratepayers during a time of increasing levels of inflation and
4 economic decline. Therefore, I disagree with providing the CAPM comparable
5 weight to the DCF method.
6

7 **SUMMARY OF THE COMPANY’S RESULTS**

8 **Q. WHAT ARE THE RESULTS OF THE COMPANY’S COST OF EQUITY**
9 **ANALYSES?**

10 A. To reiterate, the Accounting and Rate Panel did not attempt to perform a detailed cost
11 of equity analysis specific to the Company or to reflect current market conditions.
12 Instead, the Company utilized the Commission’s approved DSIC return for gas
13 distribution companies in the Q4 2021 Quarterly Earnings Summary Report of
14 10.15% as its starting point. In an effort to mitigate the size of the rate increase, the
15 Company has reduced its return on equity request to an even 10.00%.
16

17 **I&E RECOMMENDATION**

18 **Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR**
19 **LEATHERSTOCKING?**

20 A. Based upon my analysis, I recommend a cost of common equity of 9.69%.²⁰

²⁰ I&E Exhibit No. 2, Schedule 1.

1 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

2 A. My recommendation is based on the use of the DCF method. As explained below, I
3 used my CAPM result only to present to the Commission a comparison to my DCF
4 results. My DCF analysis uses a spot dividend yield, a 52-week dividend yield, and
5 earnings growth forecasts.

6

7 **DISCOUNTED CASH FLOW**

8 **Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.**

9 A. My analysis employs the constant growth DCF model as portrayed in the following
10 formula:

11
$$K = D_1/P_0 + g$$

12 Where:

13 K = Cost of equity

14 D_1 = Dividend expected during the year

15 P_0 = Current price of the stock

16 g = Expected growth rate

17 When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by
18 one half of the expected growth rate to account for changes in the dividend paid in
19 period one. As forecasts for each company in my proxy group were available from
20 Value Line, no dividends were adjusted for the purpose of my analysis.

1 **Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS**
2 **USED IN YOUR DCF ANALYSIS.**

3 A. A representative dividend yield must be calculated over a time frame that avoids the
4 problems of both short-term anomalies and stale data series. For my DCF analysis,
5 the dividend yield calculation places equal emphasis on the most recent spot and the
6 52-week average dividend yields. The following table summarizes my dividend yield
7 computations for the proxy group:²¹

Proxy Group - Average Dividend Yields	
Spot	3.04%
52-week Average	3.23%
Average	3.13%

8

9

10 **Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR**
11 **EXPECTED GROWTH RATE?**

12 A. I have used five-year projected growth rate estimates from Value Line, Yahoo!
13 Finance, and Zacks.

14

15 **Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS**
16 **GROWTH RATES?**

17 A. The expected average growth rates for my gas proxy group ranged from 5.03% to
18 7.95% with an overall average of 6.56%.²²

²¹ I&E Exhibit No. 2, Schedule 4.

²² I&E Exhibit No. 2, Schedule 5.

1 **Q. WHAT IS THE RESULT OF YOUR DCF ANALYSIS BASED ON YOUR**
2 **RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?**

3 A. The results of my DCF analysis are calculated as follows:²³

K	=	D ₁ /P ₀	+	g
9.69%	=	3.13%	+	6.56%

4

5

6 **CAPITAL ASSET PRICING MODEL**

7 **Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.**

8 A. My analysis employs the traditional CAPM as portrayed in the following formula:

9

$$K = R_f + \beta(R_m - R_f)$$

10

Where:

11

K = Cost of equity

12

R_f = Risk-free rate of return

13

R_m = Expected rate of return on the overall stock market

14

β = Beta measures the systematic risk of an asset

15

16 **Q. WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?**

17 A. Beta is a measure of the systematic risk of a stock in relation to the rest of the stock
18 market. A stock's beta is estimated by calculating the linear regression of a stock's
19 return against the return on the overall stock market. The beta of a stock with a price

²³ I&E Exhibit No. 2, Schedule 6.

1 pattern identical to that of the overall stock market will equal one. A stock with a
2 price movement that is greater than the overall stock market will have a beta that is
3 greater than one and would be described as having more investment risk than the
4 market. Conversely, a stock with a price movement that is less than the overall stock
5 market will have a beta of less than one and would be described as having less
6 investment risk than the overall stock market.

7
8 **Q. HOW DID YOU DETERMINE YOUR BETA FOR YOUR CAPM ANALYSIS?**

9 A. In estimating an equity cost rate for my proxy group, I used the average of the betas
10 for the companies as provided in the Value Line Investment Survey. The average
11 beta for my proxy group is 0.80.²⁴

12
13 **Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU USED FOR YOUR**
14 **FORECASTED CAPM ANALYSIS?**

15 A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on 10-
16 year Treasury Notes. While the yield on the short-term T-Bill is a more theoretically
17 correct parameter to represent a risk-free rate of return, it can be extremely volatile.
18 The volatility of short-term T-Bills is directly influenced by Federal Reserve policy.
19 At the other extreme, the 30-year Treasury Bond exhibits more stability but is not
20 risk-free. Long-term Treasury Bonds have substantial maturity risk associated with
21 market risk and the risk of unexpected inflation. Long-term treasuries normally offer

²⁴ I&E Exhibit No. 2, Schedule 7.

1 higher yields to compensate investors for these risks. As a result, I chose to use the
2 yield on the 10-year Treasury Note because it mitigates the shortcomings of the other
3 two alternatives. Additionally, the Commission has recently agreed with I&E and
4 recognized the 10-year Treasury Note as the superior measure of the risk-free rate of
5 return.²⁵

6 The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip
7 Financial Forecasts, is expected to range between 3.10% and 3.40% from the third
8 quarter of 2022 through the third quarter of 2023, and it is forecasted to be 3.50%
9 from 2024-2028. For my forecasted CAPM analysis, I used 3.32%, which is the
10 average of all the yield forecasts I observed.²⁶

11
12 **Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL STOCK**
13 **MARKET EMPLOYED IN YOUR FORECASTED CAPM ANALYSIS?**

14 A. To arrive at a representative expected return on the overall stock market, I observed
15 Value Line's 1700 stocks and the S&P 500. Value Line expects its universe of 1700
16 stocks to have an average yearly return of 15.55% over the next three to five years
17 based on a forecasted dividend yield of 2.21% and a yearly index appreciation of
18 65%.²⁷

²⁵ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018).
See generally Disposition of Capital Asset Pricing Model (CAPM), p. 99.

²⁶ I&E Exhibit No. 2, Schedule 8.

²⁷ I&E Exhibit No. 2, Schedule 9.

1 **Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM**
2 **ANALYSIS?**

3 A. The result of my analysis is as follows:²⁸

K	=	R_f	+	$\beta(R_m - R_f)$
13.10%	=	3.32%	+	0.80 (15.55% - 3.32%)

4

5

6 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR**
7 **CAPM ANALYSIS?**

8 A. Yes. As discussed earlier in my testimony, my recommended cost of equity is based
9 upon my DCF analysis. I only present a CAPM analysis to the Commission as a
10 comparison and not for recommendation purposes as the inputs are highly subjective,
11 and other than beta, not company or industry specific. Again, it has been the
12 historical preference of the Commission to view both the DCF and CAPM analysis in
13 base rate proceedings.

14

15 **Q. IS IT NECESSARY OR APPROPRIATE TO APPLY THE CAPM WITH**
16 **SIMILAR WEIGHT TO THE DCF WHEN DETERMINING A SPECIFIC**
17 **RETURN ON EQUITY DUE TO RECENT INFLATIONARY TRENDS?**

18 A. No. My use of the DCF as a primary method in determining an appropriate return on

²⁸ I&E Exhibit No. 2, Schedule 10.

1 equity sufficiently takes this into consideration. As mentioned above, the DCF
2 includes a spot stock price in the dividend yield calculation and analysts who generate
3 forecasted earnings growth almost certainly take inflation into consideration as well,
4 so it contains the most up-to-date projected information of any model. In other
5 words, the inputs of the DCF capture all known economic factors, including inflation.

6
7 **CRITIQUE OF THE ACCOUNTING AND RATE PANEL'S PROPOSED COST OF**
8 **EQUITY**

9 **Q. DO YOU AGREE WITH THE ACCOUNTING AND RATE PANEL'S**
10 **PROPOSED COST OF EQUITY?**

11 A. No. Although my recommended cost of equity is only 31 basis points lower than the
12 Company's claim, it is important to recognize that the Accounting and Rate Panel did
13 not attempt to perform a detailed cost of equity analysis specific to the Company or to
14 reflect current market conditions. Again, the Company simply utilized the
15 Commission's approved DSIC return for gas distribution companies in the Q4 2021
16 Quarterly Earnings Summary Report²⁹ of 10.15% as its starting point. In its stated
17 effort to mitigate the size of the rate increase, the Company has reduced its return on
18 equity request to an even 10.00%.

²⁹ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022 at Docket No. M-2022-3032450.

1 **Q. SHOULD THE COMMISSION CONSIDER THE AUTHORIZED DSIC RATE**
2 **ON THE QUARTERLY EARNINGS SUMMARY REPORT AS THE**
3 **APPROPRIATE COST OF EQUITY IN THIS PROCEEDING?**

4 A. No. It is my understanding that the Commission's authorized return on equity for
5 DSIC purposes is set higher than the Commission staff-calculated return on equity as
6 an incentive for companies to invest in improving or replace deteriorating
7 infrastructure while reducing regulatory lag. Further, DSIC spending requires
8 preapproval of eligible plant via a Long-Term Infrastructure Improvement Plan.
9 Additionally, the DSIC rate establishes a benchmark above which a utility company is
10 considered "overearning." As such, the DSIC rate does not serve as a proper
11 measurement of a subject utility's cost of equity in a rate case proceeding. To suggest
12 the cost of equity must be at or above the DSIC rate in this base rate proceeding is
13 inappropriate and not in the public interest.

14

15 **OVERALL RATE OF RETURN RECOMMENDATION**

16 **Q. WHAT IS THE COMPANY'S PROPOSED COST OF EQUITY AND**
17 **OVERALL RATE OF RETURN?**

18 A. The Company recommends a cost of equity of 10.00% and an overall rate of return of
19 7.24%.

20

21 **Q. WHAT IS I&E'S RECOMMENDED COST OF EQUITY AND OVERALL**
22 **RATE OF RETURN?**

23 A. I&E Exhibit No. 2, Schedule 1, shows the calculation of an appropriate cost of equity
24 to be 9.69% with an overall rate of return for Leatherstocking to be 7.11%.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

Fixed Utility Financial Analyst 2014 – Present	PA Public Utility Commission Bureau of Investigation & Enforcement
Auditor 2012 – 2014	Public School Employee’s Retirement System Bureau of Benefits Administration
Tax Technician 2010 – 2012	PA Department of Labor and Industry Unemployment Compensation Tax Services
Staff Accountant 2006 – 2009	Boyer & Ritter Certified Public Accountants

EDUCATION & TRAINING

EDUCATION/CERTIFICATIONS:

Society of Utility and Regulatory Financial Analysts (SURFA) – 2018
Certified Rate of Return Analyst (CRRA)

Indiana University of Pennsylvania, A.A. Accounting - 2006

The Pennsylvania State University, B.S. Labor and Industrial Relations – 2003

The Pennsylvania State University - The Smeal College of Business - 2003

Certificates of Completion:

Business Management - 20 credits of instruction

General Business - 20 credits of instruction

UTILITY SPECIFIC TRAINING/CONFERENCES:

NARUC Staff Subcommittee on Accounting & Finance, Fall 2021 webinar, October 5-7, 2021

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 webinar, April 6-8, 2021

SURFA Annual Financial Forum – New Orleans, LA – 2018

SURFA Annual Financial Forum – Indianapolis, IN - 2016

Western NARUC Utility Rate School – San Diego, CA - 2015

Pennsylvania Public Utility Commission Rate School – Harrisburg, PA – 2014

EXPERIENCE

I have submitted testimony or assisted in the following proceedings:

- Docket No. R-2022-3032369 - Citizens' Electric Company of Lewisburg, PA*
- Docket Nos. R-2022-3031672 & R-2022-3031673 - Pennsylvania-American Water Company*
- Docket No. R-2022-3031113 – PECO Energy Company – Gas Division*
- Docket No. R-2022-3030661 – Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2021-3030218 – UGI Utilities, Inc. – Gas Division*
- Docket Nos. R-2021-3027385 & R-2021-3027386 – Aqua Pennsylvania, Inc. & Aqua Pennsylvania Wastewater, Inc.*
- Docket No. A-2021-3027268 - Aqua PA Wastewater, Inc. – Acquisition of the Wastewater System Assets of Willistown Township (§1329)*
- Docket No. R-2021-3026682 – City of Lancaster – Water Fund*
- Docket Nos. R-2021-3024773, R-2021-3024774 & R-2021-3024779 – Pittsburgh Water & Sewer Authority*
- Docket No. R-2021-3024601 - PECO Energy Company – Electric Division*
- Docket No. R-2021-3023618 – UGI Utilities, Inc. – Electric Division*
- Docket No. R-2020-3022135 – Pike County Light & Power Company (Electric)*
- Docket No. R-2020-3022134 – Pike County Light & Power Company (Gas)*
- Docket No. R-2020-3020919 – Audubon Water Company*
- Docket No. R-2020-3020256 – City of Bethlehem – Bureau of Water*
- Docket Nos. R-2020-3019369 & R-2020-3019371 - Pennsylvania-American Water Company*
- Docket Nos. R-2020-3017951, R-2020-3017970 & P-2020-3019019 – Pittsburgh Water & Sewer Authority*
- Docket No. R-2020-3017850 - Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2020-3017846 - Peoples Gas Company, LLC 1307(f)*
- Docket No. R-2020-3017206 – Philadelphia Gas Works*
- Docket No. R-2019-3010955 – City of Lancaster – Sewer Fund*
- Docket No. R-2019-3008948 – Community Utilities of PA, Inc. – Wastewater Division*
- Docket No. R-2019-3008947 – Community Utilities of PA, Inc. – Water Division*
- Docket No. R-2019-3008212 - Citizens' Electric Company of Lewisburg, PA*

- Docket No. R-2019-3008208 - Wellsboro Electric Company*
- Docket No. A-2019-3006880 – Pennsylvania-American Water Company – Acquisition of the Water Treatment and Distribution System Assets of Steelton Borough Authority (§1329)*
- Docket No. R-2018-3006814 – UGI Utilities, Inc. – Gas Division*
- Docket Nos. A-2018-3003517 & 3003519 - SUEZ Water Pennsylvania, Inc. – Acquisition of the Water and Wastewater Assets of Mahoning Township (§1329)*
- Docket Nos. R-2018-3002645 & 3002647 - Pittsburgh Water & Sewer Authority*
- Docket No. R-2018-3000164 - PECO Energy Company – Electric Division*
- Docket No. R-2018-3000124 - Duquesne Light Company*
- Docket No. R-2018-3000236 - Peoples Natural Gas – Equitable Division 1307(f)*
- Docket No. R-2018-2645296 - Peoples Gas Company LLC 1307(f)*
- Docket No. R-2018-2645278 - Peoples Natural Gas Company, LLC 1307(f)*
- Docket Nos. M-2018-2640802 & 2640803 – Pittsburgh Water & Sewer Authority (Compliance Plan)*
- Docket No. R-2017-2640058 - UGI Utilities, Inc. – Electric Division*
- Docket No. A-2017-2606103 - Pennsylvania-American Water Company – Acquisition of Assets of the Municipal Authority of the City of McKeesport (§1329)*
- Docket No. R-2017-2595853 - Pennsylvania-American Water Company*
- Docket No. A-2016-2580061 - Aqua PA Wastewater, Inc. – Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority (§1329)
- Docket No. R-2016-2542923 - PNG, LLC – Equitable Division (Rate MLX)*
- Docket No. R-2016-2542918 - Peoples Natural Gas Company, LLC (Rate MLX)*
- Docket No. R-2016-2538660 - Community Utilities of PA, Inc.
- Docket No. R-2016-2531551 - Wellsboro Electric Company*
- Docket No. R-2016-2531550 - Citizens’ Electric Company of Lewisburg, PA*
- Docket No. P-2016-2543140 - Duquesne Light Company (DSP VIII)*
- Docket No. R-2016-2529660 - Columbia Gas of PA, Inc.*
- Docket No. P-2016-2521993 - Columbia Gas of PA, Inc. (DSIC)*
- Docket No. R-2015-2506337 - Twin Lakes Utilities, Inc.
- Docket No. R-2015-2479962 - Corner Water Supply & Service Corp.
- Docket No. R-2015-2479955 - Allied Utility Services, Inc.
- Docket No. R-2015-2470184 - Borough of Schuylkill Haven – Water Dept.

- Docket No. R-2014-2452705 - Delaware Sewer Company*
- Docket No. R-2014-2430945 - Plumer Water Company
- Docket No. R-2014-2427189 - B.E. Rhodes Sewer Company
- Docket No. R-2014-2427035 - Venango Water Company
- Docket No. R-2014-2428745 - Metropolitan Edison Company
- Docket No. R-2014-2428744 - Pennsylvania Power Company
- Docket No. R-2014-2428743 - Pennsylvania Electric Company
- Docket No. R-2014-2428742 - West Penn Power Company

*Testimony Submitted

I&E Exhibit No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY LLC

Docket No. R-2022-3032764

Exhibit to Accompany

the

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

I&E			
Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost
<hr/>			
Leatherstocking Gas Company LLC			
Long-Term Debt	43.92%	5.18%	2.28%
Short-Term Debt	10.65%	4.00%	0.43%
Common Equity	45.43%	9.69%	4.40%
Total	100.00%		7.11%

Forecasted CAPM = 13.10

Proxy Group Capital Structure

	2021		2020		2019		2018		2017		Average
Atmos Energy Corp.											
Long-term Debt	\$ 5,124.950	39.33%	\$ 4,732.850	41.07%	\$ 3,529.452	36.22%	\$ 2,493.665	31.81%	\$ 3,067.045	41.37%	37.96%
Short-term Debt	-	0.00%	-	0.00%	464.915	4.77%	575.780	7.34%	447.745	6.04%	3.63%
Common Equity	7,906.889	60.67%	6,791.203	58.93%	5,750.223	59.01%	4,769.950	60.85%	3,898.666	52.59%	58.41%
	<u>13,031.839</u>	<u>100.00%</u>	<u>11,524.053</u>	<u>100.00%</u>	<u>9,744.590</u>	<u>100.00%</u>	<u>7,839.395</u>	<u>100.00%</u>	<u>7,413.456</u>	<u>100.00%</u>	<u>100.00%</u>
Chesapeake Utilities											
Long-term Debt	558.474	35.93%	518.371	37.26%	450.064	35.75%	316.020	27.99%	197.395	21.12%	31.61%
Short-term Debt	221.634	14.26%	175.644	12.63%	247.371	19.65%	294.458	26.08%	250.969	26.85%	19.89%
Common Equity	774.130	49.81%	697.085	50.11%	561.577	44.60%	518.439	45.92%	486.294	52.03%	48.50%
	<u>1,554.238</u>	<u>100.00%</u>	<u>1,391.100</u>	<u>100.00%</u>	<u>1,259.012</u>	<u>100.00%</u>	<u>1,128.917</u>	<u>100.00%</u>	<u>934.658</u>	<u>100.00%</u>	<u>100.00%</u>
NISource Inc.											
Long-term Debt	9,211.300	60.71%	9,249.700	63.25%	7,907.800	53.48%	7,105.400	50.92%	7,512.200	57.62%	57.19%
Short-term Debt	560.000	3.69%	503.000	3.44%	1,773.200	11.99%	1,977.200	14.17%	1,205.700	9.25%	8.51%
Common Equity	5,400.800	35.60%	4,872.200	33.31%	5,106.700	34.53%	4,870.900	34.91%	4,320.100	33.13%	34.30%
	<u>15,172.100</u>	<u>100.00%</u>	<u>14,624.900</u>	<u>100.00%</u>	<u>14,787.700</u>	<u>100.00%</u>	<u>13,953.500</u>	<u>100.00%</u>	<u>13,038.000</u>	<u>100.00%</u>	<u>100.00%</u>
Northwest Natural Gas Co.											
Long-term Debt	1,124.055	45.90%	940.702	44.08%	806.796	44.28%	706.247	41.88%	683.184	46.16%	44.46%
Short-term Debt	389.500	15.91%	304.525	14.27%	149.100	8.18%	217.620	12.90%	54.200	3.66%	10.99%
Common Equity	935.146	38.19%	888.730	41.65%	865.999	47.53%	762.634	45.22%	742.776	50.18%	44.55%
	<u>2,448.701</u>	<u>100.00%</u>	<u>2,133.957</u>	<u>100.00%</u>	<u>1,821.895</u>	<u>100.00%</u>	<u>1,686.501</u>	<u>100.00%</u>	<u>1,480.160</u>	<u>100.00%</u>	<u>100.00%</u>
One Gas Inc.											
Long-term Debt	3,707.778	56.60%	1,613.228	37.83%	1,314.064	33.18%	1,285.483	35.44%	1,193.257	33.99%	39.41%
Short-term Debt	494.000	7.54%	418.225	9.81%	516.500	13.04%	299.500	8.26%	357.215	10.18%	9.76%
Common Equity	2,349.532	35.86%	2,233.311	52.37%	2,129.390	53.77%	2,042.656	56.31%	1,960.209	55.84%	50.83%
	<u>6,551.310</u>	<u>100.00%</u>	<u>4,264.764</u>	<u>100.00%</u>	<u>3,959.954</u>	<u>100.00%</u>	<u>3,627.639</u>	<u>100.00%</u>	<u>3,510.681</u>	<u>100.00%</u>	<u>100.00%</u>
Spire Inc.											
Long-term Debt	2,992.800	49.22%	2,482.100	45.88%	2,082.600	40.62%	1,900.100	40.35%	1,995.000	44.69%	44.15%
Short-term Debt	672.000	11.05%	648.000	11.98%	743.200	14.50%	553.600	11.76%	477.300	10.69%	11.99%
Common Equity	2,416.200	39.73%	2,280.300	42.15%	2,301.000	44.88%	2,255.400	47.89%	1,991.300	44.61%	43.85%
	<u>6,081.000</u>	<u>100.00%</u>	<u>5,410.400</u>	<u>100.00%</u>	<u>5,126.800</u>	<u>100.00%</u>	<u>4,709.100</u>	<u>100.00%</u>	<u>4,463.600</u>	<u>100.00%</u>	<u>100.00%</u>
Five-Year Average Capital Structure											
Long-term Debt	42.46%		Maximum	57.19%	Minimum	31.61%					
Short-term Debt	10.80%										
Common Equity	46.74%		Minimum	34.30%	Maximum	58.41%					
	<u>100.00%</u>										

Source:

Compustat (S&P Global Market Intelligence - Data Management Solutions)

Yearly data updates typically provided late April of each year

(data in millions)

2021			
Company	Interest Charges	Long-Term Debt	Debt Cost
Atmos Energy Corp.	\$ 94.97	\$ 5,124.95	1.85%
Chesapeake Utilities	19.57	558.47	3.50%
NiSource Inc.	345.70	9,211.30	3.75%
Northwest Natural Gas Co.	44.49	1,124.06	3.96%
One Gas Inc.	64.50	3,707.78	1.74%
Spire Inc.	111.00	2,992.80	3.71%
	Range:	Low	1.74%
		High	3.96%
		Average	<u>3.09%</u>

Source:

Compustat (S&P Global Market Intelligence - Data Management Solutions)

Yearly data updates typically provided late April of each year

(data in millions)

Dividend Yields of the Proxy Group

Company	Atmos Energy Corp.	Chesapeake Utilities	NiSource Inc.	Northwest Natural Gas Co.	One Gas Inc.	Spire Inc.
<i>Symbol</i>	<i>ATO</i>	<i>CPK</i>	<i>NI</i>	<i>NWN</i>	<i>OGS</i>	<i>SR</i>
Div	2.92	2.22	0.98	1.94	2.64	2.86
52-wk low	85.80	117.43	23.65	43.07	62.52	59.60
52-wk high	122.96	146.30	32.59	57.63	92.26	79.24
Spot Price	114.47	131.52	30.43	51.72	82.11	74.66
Spot Div Yield	2.55%	1.69%	3.22%	3.75%	3.22%	3.83%
52-wk Div Yield	2.80%	1.68%	3.49%	3.85%	3.41%	4.12%
Average	2.67%	1.69%	3.35%	3.80%	3.31%	3.98%

	<u>Average</u>
Spot Div Yield	<u>3.04%</u>
52-wk Div Yield	<u>3.23%</u>
Average	<u><u>3.13%</u></u>

Source: Barrons Value Line 5/27/2022 & 8/11/2022
05/27/22

Five-Year Growth Estimate Forecast for Proxy Group (Actual)

Company	Symbol	Yahoo!	Zacks	Value Line	Average
		Source			
Atmos Energy Corp.	ATO	7.70%	7.40%	7.50%	7.53%
Chesapeake Utilities	CPK	7.00%	NA	7.50%	7.25%
NiSource Inc.	NI	7.15%	7.20%	9.50%	7.95%
Northwest Natural Gas Co.	NWN	4.30%	4.30%	6.50%	5.03%
One Gas Inc.	OGS	5.00%	5.00%	6.50%	5.50%
Spire Inc.	SR	4.30%	5.00%	9.00%	6.10%
Average					<u>6.56%</u>

Sources date:

5/27/2022 & 8/11/2022

Expected Market Cost Rate of Equity for the Proxy Group

5-Year Forecasted Growth Rates

<u>Time Period</u>	<u>Adjusted Dividend Yield</u> (1)	<u>Growth Rate</u> (2)	<u>Expected Return on Equity</u> (3=1+2)
(1) 52-Week Average Ending: 5/27/2022 & 8/11/2022	3.23%	6.56%	9.79%
(2) Spot Price Ending: 5/27/2022 & 8/11/2022	<u>3.04%</u>	<u>6.56%</u>	<u>9.60%</u>
(3) Average:	<u>3.13%</u>	<u>6.56%</u>	<u>9.69%</u>

Sources: Value Line 05/27/22
Barrons 5/27/2022 & 8/11/2022

<u>Company</u>	<u>Beta</u>
Atmos Energy Corp.	0.80
Chesapeake Utilities	0.75
NiSource Inc.	0.85
Northwest Natural Gas Co.	0.80
One Gas Inc.	0.80
Spire Inc.	0.80
Average beta for CAPM	<u>0.80</u>

Source:
Value Line
05/27/22

Risk-Free Rate

<u>10-Year Treasury Note</u>	<u>Yield</u>
3Q 2022	3.10
4Q 2022	3.30
1Q 2023	3.40
2Q 2023	3.30
3Q 2023	3.30
2024-2028	3.50
Average	<u><u>3.32</u></u>

Source:
Blue Chip
6/1/2022 & 8/2/2022

Required Rate of Return on Market as a Whole Forecasted

	<u>Dividend</u> <u>Yield</u>	+	<u>Growth</u> <u>Rate</u>	=	<u>Expected</u> <u>Market</u> <u>Return</u>
Value Line Estimate	2.21%		13.34%	(a)	15.55%

(a) Value Line forecast for the 3 to 5 year index appreciation is 65%
((1+65%)^{.25})-1)

Sources:

Value Line Dividend Yield	8/12/2022	2.21%
Value Line Appreciation Potential	8/12/2022	65.00%

CAPM with Forecasted Return

Re Required return on individual equity security
Rf Risk-free rate
Rm Required return on the market as a whole
Be Beta on individual equity security

$$\mathbf{Re} = Rf + Be(Rm - Rf)$$

$$\mathbf{Rf} = 3.32$$

$$\mathbf{Rm} = 15.55$$

$$\mathbf{Be} = 0.80$$

$$\mathbf{Re} = \underline{\underline{13.10}}$$

Sources: Value Line 05/27/22
Blue Chip 6/1/2022 & 8/2/2022

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY, LLC.

Docket No. R-2022-3032764

Direct Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Test Year

Rate Base and Plant In Service

Construction Work In Progress

Intercompany Plant in Service

Present Revenue

GCR Expense

Proposed Rate Revenue

Scale Back of Rates

TABLE OF CONTENTS

INTRODUCTION 1

TEST YEAR..... 2

RATE BASE 3

UTILITY PLANT-IN-SERVICE..... 6

CONSTRUCTION WORK IN PROGRESS..... 7

**INTERCOMPANY PLANT ALLOCATED FROM CORNING GLASS TO
LEATHERSTOCKING..... 8**

PRESENT RATE REVENUE 10

GAS COST RATE (GCR) EXPENSE..... 12

PROPOSED RATE REVENUE..... 13

SCALE BACK OF RATES..... 17

1 **INTRODUCTION**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Eryan A. Sakaya. My business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
5 Pennsylvania 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed as a Fixed Utility Valuation Engineer in the Pennsylvania Public Utility
9 Commission’s (“Commission”) Bureau of Investigation and Enforcement (“I&E”).

10

11 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

12 A. My educational and professional background are set forth in Appendix A, which is
13 attached.

14

15 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

16 A. I&E is responsible for protecting the public interest in proceedings before the
17 Commission. The I&E analysis in this proceeding is based on its responsibility to
18 represent the public interest. This responsibility requires the balancing of the interests
19 of ratepayers, the regulated utility, and the regulated community as a whole.

20

21 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

22 A. My direct testimony relates to Leatherstocking Gas Company, LLC’s
23 (“Leatherstocking” or “Company) proposed rate increase of \$701,200 per year, or a

1 32.35%, in total gas revenue based upon a future test year ending March 31, 2023.

2 My testimony specifically addresses the following issues:

- 3 • Test Year;
- 4 • Rate Base;
- 5 • Utility Plant In Service;
- 6 • Construction Work In Progress;
- 7 • Intercompany Plant Allocated to Leatherstocking
- 8 • Present Revenue;
- 9 • GCR Expense;
- 10 • Proposed Rate Revenue; and
- 11 • Scale Back of Rates.

12
13 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

14 A. Yes.

15
16 **TEST YEAR**

17 **Q. WHAT IS A FUTURE TEST YEAR AND HOW IS IT USED BY A COMPANY**
18 **IN A RATE PROCEEDING?**

19 A. A future test year is a twelve-month period selected by a utility for ratemaking
20 purposes to utilize both historic and projected annualized and normalized financial
21 information. A future test year is used in order to allow for the time it takes to
22 adjudicate a rate proceeding by permitting a utility to select a future time period upon

1 which to base its financial information. This is necessary so that the rates set by the
2 Commission reflect up-to-date and synchronized financial information. By using a
3 future test year, a utility makes a projected, annualized, and normalized estimate of
4 future revenues and expenses and a corresponding measure of value at the end of the
5 future test year.

6
7 **Q. WHAT TEST YEAR HAS LEATHERSTOCKING SELECTED FOR USE IN**
8 **THIS PROCEEDING?**

9 A. Leatherstocking has selected a future test year ending March 31, 2023.

10
11 **Q. IS THE USE OF A FUTURE TEST YEAR ENDING MARCH 31, 2023**
12 **ACCEPTABLE?**

13 A. Yes.

14
15 **RATE BASE**

16 **Q. WHAT IS RATE BASE?**

17 A. The rate base or measure of value is the depreciated original cost of a utility's
18 financial investment in utility plant determined to be lawfully used and useful in the
19 public service at the end of the test year. It also includes other additions and
20 deductions that the Commission determines to be necessary plant in order to keep the
21 utility properly operating and providing safe and reliable service to its customers.

1 **Q. HOW IS THE DEPRECIATED ORIGINAL COST PLANT IN SERVICE AT**
2 **THE END OF THE FUTURE TEST YEAR DETERMINED?**

3 A. The depreciated original cost is determined by subtracting the book reserve
4 depreciation, which is the accumulation of all prior annual depreciation expense and
5 other items such as salvage value, from the original cost of the plant in service that is
6 used and useful at the end of the future test year. The depreciated original cost of the
7 plant in service is determined by taking a “snapshot” look at the depreciated original
8 cost value of used and useful utility plant in service at a specific point in time. That
9 point in time for a base rate case is the end of the future test year.

10

11 **Q. WHAT OTHER ADDITIONS AND/OR DEDUCTIONS TO THE**
12 **DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE**
13 **APPROPRIATE WHEN DETERMINING THE ALLOWABLE RATE BASE**
14 **OF A UTILITY?**

15 A. Additions to the depreciated original cost of a utility’s investment in utility plant
16 include materials and supplies and cash working capital. Deductions include deferred
17 tax credits, customer deposits, contributions in aid of construction, and customer
18 advances. Some additions are applicable only to a specific utility or utility type.

19

20 **Q. WHAT COMPONENTS COMPRISE THE RATE BASE IN THIS FILING?**

21 A. Leatherstocking’s total rate base claim is \$10,864,800 for the FTY. The \$10,864,800
22 is comprised of the \$12,999,100 of total utility plant in service described below, less
23 \$1,503,000 total utility plant reserve, plus the following additions and subtractions

1 shown on Leatherstocking (Gas) Exhibit G-3, Summary page 1 of 2. The additions to
2 the Company's claimed depreciated original cost are as follows:

- 3 1. Cash Working Capital;
- 4 2. Materials and Supplies;
- 5 3. Prepayments and
- 6 4. Regulatory Assets (Net of Tax).

7 The deductions to its claimed depreciated original cost are:

- 8 1. Accumulated Deferred Income Taxes.

9
10 **Q. HOW IS THE RATE BASE USED WITHIN THE RATEMAKING**
11 **FORMULA?**

12 A. The rate base is one part of the financial equation used by the Commission, along
13 with allowable expenses and rate of return to determine the level of income a utility is
14 granted an opportunity to earn, and the revenue level needed to achieve that return.

15 The equation used to determine the proper revenue requirement level is:

$$16 \text{ Revenue Requirement} = (\text{Rate Base} \times \text{Rate of Return}) + \text{Allowable Expenses.}$$

17 Each item in the revenue requirement equation is synchronized to the test year period.

18 If the date of any of the items in this equation is changed, all the other necessary data
19 that a utility must file in a rate proceeding including the test year income statement,
20 actual and projected customer levels and usage, cost of service study to determine
21 expense responsibility among the various customer classes, and other financial
22 information used to determine the utility's rate of return, must also be changed.

1 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE COMPANY'S**
2 **TOTAL RATE BASE?**

3 A. Yes. As described below, I am recommending that rate base be reduced by \$711,500.
4 The \$711,500 is comprised of two adjustments. First, I am recommending a
5 reduction of \$607,300 to the Company's Construction Work In Progress ("CWIP").
6 Second, I am recommending a reduction of \$104,200 to the Company's Intercompany
7 Plant Allocated to Leatherstocking (I&E Ex. No. 3, Sch. 1, column C).

8

9 **UTILITY PLANT-IN-SERVICE**

10 **Q. WHAT IS UTILITY PLANT-IN-SERVICE?**

11 A. Utility plant-in-service comprises all the utility's assets, including both intangible and
12 tangible assets. For example, intangible assets include organization costs, franchise
13 and consents costs, and land and land rights costs. Tangible assets include facilities
14 and equipment. Utility plant-in-service reflects the original cost of the utility's assets
15 before depreciation.

16

17 **Q. WHAT TOTAL UTILITY PLANT IS THE COMPANY CLAIMING IN THE**
18 **RATE BASE AND WHAT ITEMS COMPRISE THE TOTAL UTILITY**
19 **PLANT IN SERVICE CLAIM?**

20 A. Leatherstocking's total utility plant in service claim is \$12,999,100 for the FTY
21 ending March 31, 2023. The \$12,999,100 claim is comprised of Gas Plant in Service
22 in the amount of \$12,247,900, the net of General Plant allocated from Corning Gas
23 valued at \$143,900, and a CWIP balance of \$607,300 (Leatherstocking Ex. No. G-3
24 Summary, p. 1).

1 **CONSTRUCTION WORK IN PROGRESS**

2 **Q. WHAT IS CONSTRUCTION WORK IN PROGRESS?**

3 A. CWIP refers to certain claimed expenditures that the Commission permits to be
4 included in rate base for plant that will not be completed at the end of the future test
5 year. However, in those circumstances, the additions must be both “known and
6 measurable” and confirmed to be placed into service within six months of the end of the
7 applicable test year. These allowable additions are for definite amounts and specific
8 projects.

9

10 **Q. DID THE COMPANY INCLUDE A CWIP CLAIM IN THIS PROCEEDING?**

11 A. Yes. The Company has included \$607,300 of CWIP in its total plant in service claim
12 of \$12,999,100 (Leatherstocking (Gas) Ex. G-3, Summary, p. 1 of 2).

13

14 **Q. DID THE COMPANY ATTEMPT TO PROVIDE SUPPORT FOR ITS \$607,300**
15 **CWIP CLAIM FOR THE FTY?**

16 A. Yes. In its response to I&E-RB-2-D, Leatherstocking states that the \$607,300 CWIP
17 claim actually “represents an average CWIP balance for Leatherstocking over a
18 twelve-month period ending March 31,2022.” Leatherstocking anticipates that the
19 “actual CWIP balance will be much higher than \$607,300 at March 31,2023 due to a
20 gas expansion of the Wyalusing project.” Electronic workpapers related to I&E-RB-
21 2-D showed a 12-month CWIP balance from March of 2021 to March of 2022 listing
22 the projects that total the \$607,300 in CWIP claimed for the month of March 31, 2022
23 (I&E Ex. No. 3, Sch. 1).

1 **Q. BASED ON THE ABOVE REFERENCED RESPONSE, DO YOU BELIEVE**
2 **\$607,300 CLAIM FOR CWIP SHOULD BE APPROVED IN THIS**
3 **PROCEEDING?**

4 A. No. The fact that the \$607,300 claim is a twelve-month average demonstrates that it
5 does not reflect specific projects with specific in-service dates. Furthermore, the
6 descriptions of the projects provided by the Company claimed for the FTY are based
7 upon the historic CWIP amounts for the month of March 2021. Therefore, the FTY
8 CWIP claim is improperly based upon historic budgeted amounts of ongoing projects
9 and should be denied (I&E Ex. No. 3, Sch. 2).

10

11 **Q. WHY DO YOU RECOMMEND HE COMPANY’S \$607,300 CLAIM FOR**
12 **CWIP BE DENIED?**

13 A. Leatherstocking’s \$607,300 CWIP claim is simply a projection of historic average
14 plant additions. Since it’s not a claim for a specific project or projects to be started in
15 the FTY and completed shortly after the end of the FTY, the \$607,307 of CWIP
16 should be disallowed because it does not meet the standards required for inclusion in
17 rate base. As such, this recommended adjustment reduces the Company’s overall rate
18 base claim by \$607,300 (I&E Ex. No. 3, Sch. 1, col. C, line 4).

19

20 **INTERCOMPANY PLANT ALLOCATED FROM CORNING GLASS TO**
21 **LEATHERSTOCKING**

22 **Q. HOW MUCH COMMON INTERCOMPANY PLANT ALLOCATED FROM**
23 **CORNING GLASS IS BEING ALLOCATED TO LEATHERSTOCKING?**

24 A. Leatherstocking is claiming \$143,900 of intercompany plant allocated to its net

1 accrued depreciation (net common plant) in rate base. The \$143,900 (\$62,908 +
2 \$81,018 - \$26 rounding) was determined utilizing two separate common plant
3 subtotals. The \$62,908 was determined by taking \$5,462,560 of Shared Corning
4 Facilities, adding \$3,229,188 of accrued depreciation then applying a factor of 0.72%
5 to the total shared Corning facilities to arrive at \$62,908. The \$81,018, was
6 determined by taking the \$3,208,117 of Shared Common Office Furniture and
7 Equipment, adding \$1,762,300 of accrued depreciation then applying a factor of
8 1.63% to arrive at \$81,018 (Leatherstocking, Ex. G-3, Sch. 1, p. 2).

9
10 **Q. DID THE COMPANY PROPERLY CALCULATE NET COMMON PLANT?**

11 A. No. The Company improperly added accrued depreciation to original cost to
12 determine net common plant, rather than subtracting accrued depreciation.

13
14 **Q. DID YOU COMPILE A SPREADSHEET THAT PROPERLY CALCULATES**
15 **NET COMMON PLANT?**

16 A. Yes. I recalculated net common plant by subtracting depreciation reserve from the
17 original cost of the common plant. Then, I recalculated the amount of net common
18 plant allocated to Leatherstocking (I&E Ex. No. 3, Sch.1, col D, lines 5 and 10).

19
20 **Q. PLEASE EXPLAIN.**

21 A. The correct net common plant that should be allocated to Leatherstocking is \$39,700.
22 The \$39,700 (\$16,164 + \$23,567 - \$31 rounding) was determined by utilizing two
23 updated separate plant totals. The \$16,164 was determined by taking \$5,462,560 of

1 Shared Corning Facilities, subtracting \$3,229,188 of accrued depreciation then
2 applying a factor of 0.72% to the total shared Corning facilities to arrive at \$16,164.
3 The \$23,567 was determined by taking the \$3,208,117 of Shared Common Office
4 Furniture and Equipment, subtracting \$1,762,300 of accrued depreciation then
5 applying a factor of 1.63% to arrive at \$23,567 (I&E Ex. No. 3, Sch 2).

6
7 **Q. WHAT TOTAL ADJUSTMENT TO NET COMMON PLANT DO YOU**
8 **RECOMMEND?**

9 A. I recommend that net common plant be reduced by \$104,200, and the claimed rate
10 base be reduced by \$104,200 to reflect this correction.

11
12 **Q. HOW DID YOU ARRIVE AT A \$104,200 ADJUSTMENT?**

13 A. The \$104,200 adjustment to net common plant was determined by beginning with the
14 original \$143,900 of net common plant allocated to Leatherstocking and subtracting
15 the \$39,700 of corrected net common plant to arrive at a \$104,200 adjustment to net
16 common plant allocated to Leatherstocking (\$143,900 – \$39,700) (I&E Ex. No. 3,
17 Sch. 1, col C, line 3).

18
19 **PRESENT RATE REVENUE**

20 **Q. WHAT IS LEATHERSTOCKING'S CLAIM FOR PRESENT RATE**
21 **REVENUES FOR THE FTY?**

22 A. The Company is claiming \$2,167,303 in present rate revenue (Leatherstocking Ex. G-
23 6, Sch. 2).

1 **Q. IS THE \$2,167,303 PRESENT RATE REVENUE BASED ON THE**
2 **PROJECTED NUMBER OF CUSTOMERS AND PROJECTED SALES**
3 **VOLUMES FOR THE FTY?**

4 A. Yes. The Company projected the number of customers and normalized usage by class
5 to arrive at the \$2,167,303 in total present rate revenue. The proper number of
6 customers and sales volumes is critical in the determination of present and proposed
7 revenue.

8
9 **Q. DOES THE PRESENT RATE REVENUE IN THE INCOME STATEMENT**
10 **MATCH THE \$2,167,303 OF PRESENT RATE REVENUE IN THE BILL**
11 **ANALYSIS?**

12 A. No. In the Income Statement, the Company is reflecting \$2,090,000 of present rate
13 revenue (Leatherstocking Ex. G-4, Sch. 1, p. 1). The \$77,300 (\$2,167,303 -
14 \$2,090,000 - \$3 rounding) difference is the result of the Company reflecting a higher
15 Gas Cost Rate (GCR) in the bill analysis compared to the income statement and
16 rounding. Specifically, the GCR revenue on the income statement is \$887,400
17 (Leatherstocking Ex. G-4, Sch. 1), and the GCR revenue in the bill analysis is
18 \$964,700 (Leatherstocking Ex. G-6, Sch. 1, column G).

19
20 **Q. WHAT DO YOU RECOMMEND CONCERNING THE GCR?**

21 A. I recommend that the proposed GCR be used to determine present rates. This
22 recommendation increases present rate revenue on the income statement by \$77,300.

1 **Q. WHY ARE YOU MAKING THIS RECOMMENDATION?**

2 A. I make this recommendation because the total present rate revenue on the income
3 statement should match total present rate revenue in the bill analysis so that all parts
4 of the filing are accurate and comparable.

5
6 **GAS COST RATE (GCR) EXPENSE**

7 **Q. IS LEATHERSTOCKING PROJECTING DIFFERENT GCR EXPENSE**
8 **UNDER PRESENT AND PROPOSED RATES FOR THE FTY?**

9 A. Yes. Similar to GCR revenue, the Company is reflecting \$887,400 of GCR expense
10 on the income statement (Leatherstocking Ex. G-4, Sch. 1), and \$964,700 of GCR
11 expense in the bill analysis (Leatherstocking Ex. G-6, Sch. 1, column G). Because of
12 this, a \$77,300 (\$887,400 - \$964,700) difference exists in GCR expense between the
13 income statement and the proof of revenue for the test year ending March 31, 2023.

14
15 **Q. WHAT DO YOU RECOMMEND CONCERNING LEATHERSTOCKING'S**
16 **GCR EXPENSE UNDER PROPOSED RATES FOR THE TEST YEAR**
17 **ENDING MARCH 31, 2023?**

18 A. If the Commission accepts my recommendation to increase GCR revenue by \$77,300
19 under present rates, there should be a corresponding increase in GCR expenses by
20 \$77,300.

1 **PROPOSED RATE REVENUE**

2 **Q. WHAT IS LEATHERSTOCKING’S PROJECTED REVENUE INCREASE**
3 **AND PROJECTED REVENUE FOR THE FTY?**

4 A. The Company is requesting an increase of \$701,200 in total projected revenue, which
5 results in \$2,868,503 in total proposed rate revenue for the test year ending March 31,
6 2023 (Leatherstocking Ex. G-6, Sch. 1, col. H).

7
8 **Q. WHAT IS THE BASIS FOR THE \$2,868,503 TOTAL PROPOSED REVENUE?**

9 A. The \$2,868,503 total proposed revenue is based upon the proof of revenue shown on
10 Leatherstocking Ex. G-6, Sch. 1. The \$2,868,503 proposed revenue is comprised of
11 \$868,571 residential revenue, \$941,911 general service revenue, \$917,875
12 commercial service revenue, and \$140,144 of contract customer revenue less \$2
13 rounding by the Company.

14
15 **Q. DOES THE PROPOSED REVENUE IN THE INCOME STATEMENT**
16 **MATCH THE PROPOSED REVENUE IN THE BILL ANALYSIS?**

17 A. No. In the Income Statement, the proposed rate revenue is \$2,791,200
18 (Leatherstocking Ex. G-4, Sch. 1, p. 1). The proposed rate revenue in the bill analysis
19 is \$2,868,503 (Leatherstocking Ex. G-6, Sch. 1, column 6). The \$77,300 difference is
20 the result of the Company reflecting a higher Gas Cost Rate (GCR) in the bill analysis
21 compared to the income statement and rounding. Specifically, the GCR on the
22 income statement is \$887,400 (Leatherstocking Ex. G-4, Sch. 1), and the GCR in the
23 bill analysis is \$964,700 (Leatherstocking Ex. G-6, Sch. 1, column G).

1 **Q. WHAT DO YOU RECOMMEND CONCERNING THE GCR?**

2 A. I recommend that the revenue and expenses under proposed rates in the income
3 statement also be increased by \$77,300. These additions will cause the revenue in the
4 income statement to match the revenue in the bill analysis which is used to determine
5 proposed revenue.

6
7 **Q. WHY ARE YOU MAKING THIS RECOMMENDATION?**

8 A. I make this recommendation because the amount of proposed revenue on the income
9 statement should match the proposed revenue in other parts of the filing so the
10 accurate rates can be determined.

11
12 **Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED RATES COMPARED
13 TO PRESENT RATES?**

14 A. The Company is proposing to keep the monthly customer charges the same under
15 present and proposed rates. However, the Company proposed to increase the SC-1,
16 residential, and SC-2 commercial and residential non-heating usage rates from \$0.650
17 per CCF to \$1.6621 per CCF, which is an increase of \$1.0121 or 155.7%. The
18 Company also proposed to increase the usage rate for the SC-3, small commercial
19 customers that use less than 25,000 MCF per month from \$0.550 per CCF to \$1.4871
20 per CCF, which is an increase of \$0.9371 or 170.4%. Finally, the Company is
21 proposing to increase the usage rate of SC-4, large commercial that use more than
22 25,000 MCF per month from \$0.650 per CCF to \$1.6621 per CCF, which is an
23 increase of \$1.0121 or 155.7% (Leatherstocking Ex. G-6, Sch. 5).

1 **Q. BESIDES THE OVERALL INCREASE IN RATES IN THE ABOVE-**
2 **MENTIONED CLASSES, WHAT OTHER REVENUE CHANGES ARE**
3 **BEING PROPOSED BY THE COMPANY?**

4 A. The Company is proposing to eliminate the non-refundable Contribution in Aid of
5 Construction payment that it refers to as Construction Build-Out Contract Fee's
6 ("CBOCF") and roll it into base rates.

7
8 **Q. PLEASE EXPLAIN THE COMPANY'S PROPOSAL.**

9 A. The Company is proposing to roll-in the present CBOCF surcharge revenues of \$.30
10 per CCF into base rates on a revenue neutral basis and stop the accrual of accelerated
11 depreciation over a 10-year period. The Company proposes doing this instead of
12 implementing a general extension charge.

13
14 **Q. WHAT ARE CONTRIBUTIONS IN AID OF CONSTRUCTION?**

15 A. "Contributions in Aid of Construction ("CIAC") are an offset to plant in service that
16 is are the result of money or property that a developer or potential customer
17 contributes for the development of main and service line extensions to expand utility
18 services to new customers or locations.

19
20 **Q. WHAT IS LEATHERSTOCKING'S CONSTRUCTION BUILD-OUT**
21 **CONTRACT FEE?**

22 A. The CBOCF works the same as a CIAC.

1 **Q. HOW IS THE CBOCF DIFFERENT THAN CIAC?**

2 A. If a Company receives the contribution of cash or plant up-front from customers or a
3 developer, those funds or plant are recorded as CIAC. Leatherstocking receives funds
4 for plant from customers through the CBOCF which is a volumetric bill surcharge
5 that is paid by customers over the time they are customers (Leatherstocking St. No. 1,
6 pp. 24 and 43 and Leatherstocking Ex G-1, Sch 2).

7
8 **Q. IS IT REASONABLE TO ELIMINATE THE CBOCF?**

9 A. Yes. Since the CBOCF acts in the same manner as a CIAC, eliminating it will lower
10 the total bill of customers. It will also shift the cost of building the system to the
11 Company in a more traditional way, by not requiring customers to fund the cost of
12 construction (Leatherstocking St. No. 1, pp. 43-44, and Ex. G-4, Sch. 6, p. 3).

13
14 **Q. WHERE DID THE COMPANY REFLECT THE HIGHER REVENUE AND
15 RATES AND THE PERCENT INCREASE IN PRESENT RATE REVENUE?**

16 A. Based upon the above charge in rates and eliminations of the CBOCF, present rate
17 SC-1 revenue will increase by \$216,469 or 33.2%, SC-2 revenue will increase by
18 \$257,938 or 36.0% and the SC-3 revenue will increase by \$235,348 or 34.5%
19 (Leatherstocking Ex. G-6, Sch. 2).

20
21 **Q. WHAT IS A COST OF SERVICE STUDY (COSS)?**

22 A. A COSS is an analysis of costs that attempts to assign to each customer or rate class
23 its proportionate share of the Company's total cost of service (i.e., the Company's

1 total revenue requirement). The results of these studies can be utilized to determine
2 the relative cost of service for each class and help determine the individual class
3 revenue requirements and, to the extent a particular class is above or below the
4 system average rate of return, show the subsidy each class receives or conversely the
5 additional revenues that class or classes contribute to the Company's overall
6 revenues. In addition to the actual subsidy, a relative rate of return is also provided
7 which shows how the rate of return for each class compares to the system average rate
8 of return. In summary, without a COSS, there is no way to determine if any specific
9 class rates should be increased more than any other rate.

10
11 **Q. DID THE COMPANY PROVIDE A COSS?**

12 A. No.

13
14 **Q. ARE THE PROPOSED INCREASES IN RATES REASONABLE GIVEN THE
15 FACT THE COMPANY DID NOT PROVIDE A COST OF SERVICE STUDY?**

16 A. Yes. As described above, the percentage increases in the various class is between
17 33.2% and 36.0%. Since these percentage increase in revenues are approximately the
18 same, the proposed increases in the various usage rates are reasonable.

19
20 **SCALE BACK OF RATES**

21 **Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS
22 THAN THE FULL INCREASE?**

23 A. If the Commission grants an increase less than the amount Leatherstocking requested, I

1 recommend that the percentage increase for each class be adjusted so each class other
2 than the Contract classes receive the same percentage increase.

3

4 **Q. WHY DO YOU RECOMMEND THAT EACH CLASS OTHER THAN THE**
5 **CONTRACT CLASSES RECEIVE THE SAME PERCENTAGE INCREASE?**

6 A. The Company did not provide a COSS to compare the revenue received to the
7 expenses incurred to provide service to each class. Thus, there is no justification for
8 proposing a different percentage increase for the classes receiving an increase.

9 Therefore, scaling back the usage rates so each class receives the same percentage
10 increase is the most reasonable approach to establish rates if the Commission grants
11 less than the full increase.

12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 A. Yes.

ESYAN A. SAKAYA

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

12/2018-Present

Pennsylvania Public Utility Commission-Harrisburg, PA

Fixed Utility Valuation Engineer- Assist in engineering related studies related to valuation, depreciation, cost of service, quality of service as they apply to regulated utilities. Contribute in evaluating, contrasting and conducting performance analyses in distinctive sections of valuation engineering and rate structure involving valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design. Provide expert testimony in rate related utility cases.

4/2018-12/2018

Pennsylvania Department of Transportation-Harrisburg, PA

Photogrammetry Technician I- Created three-dimensional mapping layouts of natural and man-made features from stereoscopic images on a computer workstation. Assisted in the field placement of ground based surveyed control-points prior to aerial photography acquisition. Provided field support in the use of laser scans for comprehensive digital surveying data. Operated global positioning satellite surveying equipment to obtain accurate geodetic coordinates of pre-established benchmarks.

8/2017-4/2018

Pennoni and Associates. Consulting Engineers-King of Prussia, PA

Construction Inspector-Provided quality assurance in the onsite material testing of concrete, soils, and asphalt. Read and interpreted construction drawings and specifications of materials and components. Completed daily reports regarding project progress to engineers, project managers/superintendents, contractors and clients.

EDUCATION:

National Association of Regulatory Utility Commissioners, Clearwater, FL
Utility Rate School; Utility Rate Making Basics, October 2019

Society of Depreciation Professionals, Philadelphia, PA
Introduction to Depreciation; Depreciation Fundamentals, September 2019

Temple University, Philadelphia, PA
Bachelor of Science; Major in Engineering Technology, 2015

Community College of Philadelphia, Philadelphia, PA
Associate of Applied Science; Major in Construction Management Technology, 2011
Island School of Building Arts, Gabriola Island, BC-Canada
Certificate Graduate: Heavy Timber Construction Aug 2002-Nov 2002

Solar Energy International, Carbondale, CO
Certificate Graduate: Basic and Advanced Photovoltaic Design, April 2002-May 2002

TESTIMONY SUBMITTED:

I have assisted and/or submitted testimony in the following proceedings:

- | <u>No.</u> | <u>Case</u> |
|-------------------|---|
| 1. | UGI Gas Utilities - Gas Division, Docket Number: R-2018-3006814 |
| 2. | Newtown Artesian Water Company, Docket Number: R-2018-3006904 |
| 3. | Pittsburgh Wastewater, Docket Number: M-2018-2640803 |
| 4. | PAWC Purchase of Steelton, Docket Number: A-2019-3006814 |
| 5. | Philadelphia Gas Works, Docket Number: R-2019-3009016 - 3007636 |
| 6. | Community Utilities Water, Docket Number: R-2019-3008947 |
| 7. | Aqua Purchase of Cheltenham, Docket Number: A-2019-3008491 |
| 8. | UGI NORTH, Docket Number: R-2019-3009647 |
| 9. | UGI CENTRAL, Docket Number: R-2019-3009647 |
| 10. | UGI SOUTH, Docket Number: R-2019-3009647 |
| 11. | Twin Lakes Utilities, Docket Number: R-2019-3010958 |
| 12. | Penn Power Company, Docket: P-2019-3012628 |
| 13. | UGI Gas Utilities, Docket Number: R-2019-3015162 |
| 14. | National Fuel and Gas Distribution, Docket Number: R-2020-3015251 |
| 15. | Columbia Gas of Pennsylvania, Docket: R-2020-3018993 -3018835 |
| 16. | Duquesne Light Company, Docket Number: P-2020-3019522 |
| 17. | PA American Water Company, Docket R-2020-3019369 – 310937 |
| 18. | Bethlehem Water Company, Docket R-2020-3020256 |
| 19. | Audubon Water Company, Docket: R-2020-3020919 |
| 20. | Twin Lakes Utilities, Docket: P-2020-3020914 |
| 21. | Pike County Light and Power-Gas, Docket: R-2020-3022134 |
| 22. | Pike County Light and Power-Electric, Docket: R-2020-3022135 |
| 23. | Duquesne Light Company, Docket Number: R-2021-3024750 |
| 24. | Community Utilities Water, Docket Number: R-2021-3025206 |
| 25. | Community Utilities Wastewater, Docket Number: R-2021-3025206 |
| 26. | Hanover Municipal Water Works, Docket Number: R-2021-3026116 |
| 27. | Aqua Pennsylvania, Inc, Docket R-2021-3027385 – 3027386 |
| 28. | Aqua Purchase of Willistown, Docket Number: A-2021-3027268 |
| 29. | National Fuel and Gas Distribution, Docket Number: R-2022-3030235 |
| 30. | UGI Gas Utilities, Docket Number: R-2021-3030218 |
| 31. | PECO Energy Company – Gas, Docket Number: R-2022-3031113 |
| 32. | Valley Energy, Inc, Gas, Docket: R-2022-3032300 |
| 33. | Citizens Electric Company, Docket: R-2022-3032369 |

I&E Exhibit No. 3
Witness: Esyan A. Sakaya

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY, LLC.

Docket No. R-2022-3032764

**Exhibits to Accompany
the
Direct Testimony**

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

Concerning:

Test Year

Rate Base and Plant In Service

Construction Work In Progress

Intercompany Plant in Service

Present Revenue

GCR Expense

Proposed Rate Revenue

Scale Back of Rates

Leatherstocking Gas Company, LLC
Gas Rate Base
At March 31, 2023
R-2022-3036274

Description	Company FTY at 3/31/2023	I&E Adjustment	I&E Future Year at 3/31/2023
(A)	(B)	(C)	(D)
1 Utility Plant:			
2 Gas Plant in Service	\$12,247,900	\$0	\$12,247,900
3 General Plant allocated from Corning Gas (Net)	\$143,900	-\$104,200	\$39,700
4 CWIP not taking interest	\$607,300	-\$607,300	\$0
5 Total Utility Plant	<u>\$12,999,100</u>	<u>-\$711,500</u>	<u>\$12,287,600</u>
6 Utility Plant Reserves:			
7 Accumulated Provision For Depreciation			
8 Gas Plant in Service	\$752,300	\$0	\$752,300
9 Accelerated Depreciation	\$750,700	\$0	\$750,700
10 Total Utility Plant Reserves	<u>\$1,503,000</u>	<u>\$0</u>	<u>\$1,503,000</u>
11 Net Plant	<u>\$11,496,100</u>	<u>-\$711,500</u>	<u>\$10,784,600</u>
12 Additions to Net Plant			
13 Working Capital Requirements:			
14 Cash Working Capital	\$75,800	\$0	\$75,800
15 Materials and Supplies	\$18,000	\$0	\$18,000
16 Prepayments	\$5,800	\$0	\$5,800
17 Regulatory Assets (Net of Tax)	\$0	\$0	\$0
18 Total Additions	<u>\$99,600</u>	<u>\$0</u>	<u>\$99,600</u>
19 Deductions to Net Plant:			
20 Regulatory Liabilities (Net of Tax)	\$0	\$0	\$0
21 Customer Deposits	\$0	\$0	\$0
22 Accumulated Deferred Income Taxes	\$730,900	\$0	\$730,900
23 Total Deductions	<u>\$730,900</u>	<u>\$0</u>	<u>\$730,900</u>
24 Gas Rate Base	<u><u>\$10,864,800</u></u>	<u><u>-\$711,500</u></u>	<u><u>\$10,153,300</u></u>

Leatherstocking Gas Company, LLC
Statement in Support of Change No. (1b)
To Gas Plant in Service
For the Twelve Months Ended March 31, 2023
R-2022-3036274

<u>Intercompany Plant Allocated from Corning Gas (Net)</u>		<u>Balance at December 31, 2021</u>			%	%	%
(A)	Original Cost (B)	Depreciation Reserve (C)	Net Plant (D)	x	=	=	=
					Leatherstocking Gas (E)	Leatherstocking \$ Allocation (F)	
<u>Shared Corning Facilities</u>							
1	Land Williams Street	\$155,733	\$155,733	\$0			
2	Land Riverside	\$233,732	\$233,732	\$0			
3	West William Street Office	\$2,045,075	\$1,113,245	\$931,830			
4	Operations Facility	\$3,028,020	\$1,726,478	\$1,301,541			
5	Total	<u>\$5,462,560</u>	<u>\$3,229,188</u>	<u>\$2,233,372</u>	x 0.72%	=	<u>\$16,164</u>
6	<u>Shared Corning Office Furniture & Equipment</u>						
7	Office Furniture & Equipment - Furniture	\$342,255	-\$17,482	\$359,736			
8	Office Furniture & Equipment - Machines	\$299,814	\$157,042	\$142,772			
9	Office Furniture & Equipment - Computers	\$2,566,048	\$1,622,739	\$943,309			
10	Total	<u>\$3,208,117</u>	<u>\$1,762,300</u>	<u>\$1,445,818</u>	x 1.63%	=	<u>\$23,567</u>
11	(Change No. 1b)						<u>\$39,731</u>
12	Rounded						<u>\$39,700</u>

**I&E Statement No. 3-R
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY, LLC.

Docket No. R-2022-3032764

Rebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

**Concerning:
OSBA Proposed Rate Revenue**

TABLE OF CONTENTS

INTRODUCTION 1

OSBA PROPOSED RATE REVENUE..... 2

1 **INTRODUCTION**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Eryan A. Sakaya. My business address is Pennsylvania Public Utility
5 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg,
6 Pennsylvania 17120.

7
8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 A. I am employed as a Fixed Utility Valuation Engineer in the Pennsylvania Public
10 Utility Commission's ("Commission") Bureau of Investigation and Enforcement
11 ("I&E").

12
13 **Q. ARE YOU THE SAME ERYAN A. SAKAYA THAT SUBMITTED DIRECT**
14 **TESTIMONY ON SEPTEMBER 13, 2022?**

15 A. Yes. I submitted I&E Statement No. 3 and I&E Exhibit No. 3 on September 13,
16 2022.

17
18 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

19 A. The purpose of my rebuttal testimony is to address the direct testimony of the
20 Office of Small Business Advocate (OSBA) witness Kevin Higgins. My rebuttal
21 testimony will address OSBA's proposed rate revenue and rate structure for
22 Leatherstocking Gas for the test year ending March 31, 2023.

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

2 A. Yes. I&E Exhibit No. 3-R accompanies this rebuttal testimony.

3

4 **OSBA PROPOSED RATE REVENUE**

5 **Q. DESCRIBE THE INCREASE IN RATES THE COMPANY ORIGINALLY**
6 **PROPOSED FOR RESIDENTIAL (SC-1) AND SMALL COMMERCIAL**
7 **(SC-2) CUSTOMERS.**

8 A. In the original filing, the Company did not propose an increase to any of the
9 customer charges. For the usage rates, the Company proposed that the present SC-
10 1 and SC-2 usage rate be increased from \$0.9500 per Mcf to \$1.6621 per Mcf,
11 which is an increase of \$0.7121 per Mcf, or 75.0% (Leatherstocking Ex. G-6, Sch.
12 4).

13

14 **Q. DID THE OSBA RECOMMEND DIFFERENT CUSTOMER CHARGES**
15 **AND USAGE RATES FOR THE SC-1 AND SC-2 CUSTOMERS?**

16 A. Yes. OSBA proposed to increase the SC-1 and SC-2 customers charges from
17 \$20.00 per month to \$33.20 per month, which is an increase of \$13.20 per month
18 or 66.0%. The OSBA also proposed the total usage rate of \$0.9500 per Mcf be
19 increased to \$1.5770 per Mcf, which is an increase of an increase of \$0.6270 per
20 Mcf or 66.0% (OSBA Ex. KCH-4).

1 **Q. DID THE OSBA PROVIDE A SCHEDULE THAT SHOWS WHAT RATES**
2 **WOULD APPLY AT THE FULL INCREASE REQUESTED BY THE**
3 **COMPANY?**

4 A. Yes. OSBA provided OSBA Ex. KCH-4 which shows the OSBA proposed rates
5 at the fully requested increase of \$701,200. This \$701,200 increase to the SC-1,
6 SC-2, SC-3 and transportation classes are shown on I&E Ex, No. 3-R, Sch. 1.

7
8 **Q. WHAT WAS THE BASIS FOR OSBA’S PROPOSAL TO INCREASE THE**
9 **CUSTOMER CHARGES AND USAGE RATES THE SAME**
10 **PERCENTAGE?**

11 A. OSBA stated that Leatherstocking’s proposal to place all of its requested increase
12 on the volumetric charge without increasing the customer charge would shift a
13 disproportionate share of the increase to customers such as small business
14 customers that use higher volumes of gas. Therefore, to correct this purported
15 inequality, OSBA proposes to increase both the customer and delivery charge in
16 the same proportion, as opposed to Leatherstocking’s proposal to keep the
17 customer charge unchanged and place all of the requested increase on the
18 volumetric delivery charge. In summary, OSBA’s proposal results in equal
19 percentage rate increases in all Leatherstocking rate classes (OSBA St. No. 1 pp.
20 12-13).

1 **Q. DO YOU AGREE WITH THE OSBA PROPOSED RATES?**

2 A. No.

3

4 **Q. WHY DO YOU DISAGREE WITH THE OSBA PROPOSED RATES?**

5 A. There are four reasons. First, Leatherstocking never proposed an increase in the
6 customer charge. Second, the \$33.20 per month residential customer charge is
7 high compared to other gas companies. Third, a higher customer charge would
8 normally be supported by a Customer Cost Analysis in a formal Cost of Service
9 Study (COSS), which Leatherstocking did not provide in this case. Without such
10 an analysis, an increase in the customer charge is not supported in this case.
11 Finally, a higher customer charge discourages conservation.

12

13 **Q. WHY DOES THE FACT THAT THE COMPANY DID NOT PROPOSE TO**
14 **INCREASE THE CUSTOMER CHARGE MATTER?**

15 A. Customer charge revenue is considered guaranteed revenue because the revenue a
16 utility receives from customer charges does not vary with usage. If a utility
17 believes that the revenue from present customer charges is sufficient, the utility
18 will not request an increase in its customer charges. Therefore, if a utility doesn't
19 propose an increase in its customer charges, it is inappropriate for another party to
20 arbitrarily propose an increase to the customer charge that is not supported by a
21 customer cost analysis.

1 Further, Leatherstocking did not provide a COSS. A COSS is vital to the
2 determination of an appropriate customer charge. Without a COSS and its
3 associated customer cost analysis to establish a basis for the customer charge
4 recommendations, it is not possible to determine whether and to what extent the
5 customer charge should be increased.

6
7 **Q. DID YOU REVIEW THE RESIDENTIAL CUSTOMER CHARGES OF**
8 **OTHER GAS UTILITIES?**

9 A. Yes. Based on this review, OSBA's recommendation to increase the residential
10 customer charge from \$20.00 per month to \$33.20 per month is significantly
11 higher than other gas utilities. For example, the residential customer charge for
12 National Fuel Gas Distribution Corporation is only \$12.00 per month; the
13 residential customer charge for UGI Gas is presently \$14.60 per month; and the
14 residential customer charge for Columbia Gas is presently \$16.25 per month.
15 Therefore, comparing the various residential customer charges of other gas
16 utilities indicates that the present \$20.00 per month Leatherstocking residential
17 customer charge is above these other gas utilities and should not be increased.

18
19 **Q. WHY DOES A HIGHER CUSTOMER CHARGE DISCOURAGE**
20 **CONSERVATION?**

21 A. With a higher customer charge and lower usage rates, a customer receives less
22 benefit if that customer practices conservation or implements conservation

1 measures because the customer charge is not impacted by conservation measures.

2 I believe the Commission should promote conservation rather than approve the

3 OSBA's proposal that will deter conservation.

4

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 **A. Yes.**

**I&E Exhibit No. 3-R
Witness: Esyan A. Sakaya**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

LEATHERSTOCKING GAS COMPANY, LLC.

Docket No. R-2022-3032764

Exhibits to Accompany

the

Rebuttal Testimony

of

Esyan A. Sakaya

Bureau of Investigation and Enforcement

-

**Concerning:
OSBA Proposed Rate Revenue**

Leatherstocking
OSBA SUMMARY OF REVENUE BY CLASS

Line No.	Class (A)	Present Revenue (B)	Increase (C)	Proposed Revenue (D)	Percent Increase (E)
1	SC-1	\$365,600	\$241,296	\$606,896	66.0%
2	SC-2	\$362,469	\$239,230	\$601,699	66.0%
3	SC-3	\$334,390	\$220,697	\$555,087	66.0%
4	SC-4	\$0	\$0	\$0	
5	SC-5	\$0	\$0	\$0	
6	SC-6	\$0	\$0	\$0	
7	Transportation	\$140,144	\$0	\$140,144	0.0%
8	TOTALS	<u>\$1,202,603</u>	<u>\$701,200</u>	<u>\$1,903,826</u>	<u>58.3%</u>

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
	:	
v.	:	Docket No. R-2022-3032764
	:	
Leatherstocking Gas Company	:	
	:	

VERIFICATION OF CHRISTINE WILSON

I, **Christine Wilson**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the **I&E Statement No. 1**, and **I&E Exhibit No. 1** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 18th day of October 2022.

/s/ Christine Wilson

Christine Wilson

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2022-3032764
	:	
Leatherstocking Gas Company	:	
	:	

VERIFICATION OF ANTHONY SPADACCIO

I, **Anthony Spadaccio**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the **I&E Statement No. 2**, and **I&E Exhibit No. 2** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 18th day of October 2022.

/s/ Anthony Spadaccio

Anthony Spadaccio

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2022-3032764
	:	
Leatherstocking Gas Company	:	
	:	

VERIFICATION OF ESYAN SAKAYA

I, **Esyon Sakaya**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the **I&E Statement No. 3, I&E Exhibit No. 3, I&E Statement No. 3-R, and I&E Exhibit No. 3-R**, were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 18th day of October 2022.

/s/Esyon Sakaya

Esyon Sakaya