**BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | |
| | : | Docket No. R-2020-3017206 |
| v. | : | |
| | : | |
| Philadelphia Gas Works | : | |

**ES Hearing Exhibit 11**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

**GREGORY STUNDER**

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Rate Filing Overview
Need for Rate Relief

February 2017

EXHIBIT
R-2017-2586783
PGW-Statement No. 1
6-28-17 EP PHC

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**Page**

# I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND CURRENT POSITION WITH PGW.**

A. My name is Gregory Stunder. My position with PGW is Vice President, Regulatory and Legislative Affairs.

**Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.**

A. I have been employed with PGW since 2001. I became Vice President, Regulatory and Legislative Affairs in January 2015. Prior to that, I was a Senior Attorney from 2003 to 2015 and a Staff Attorney from 2001 to 2003. I received my Juris Doctor (J.D.) from Temple University - James E. Beasley School of Law in 1995, and my Bachelor's Degree, Accounting, from La Salle University in 1985.

**Q. HAVE YOU EVER PROVIDED TESTIMONY BEFORE THIS COMMISSION?**

A. No.

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

A. I will provide the Commission with an overview of PGW's base rate filing and discuss the objectives that PGW seeks to accomplish in this proceeding. I will also introduce PGW's other witnesses who provide detailed testimony and supporting documentation for revenues, expenses and rate base items included in the fully projected future test year used in this base rate filing.

# II. OVERVIEW OF REASONS FOR RATE FILING

**Q. PLEASE DISCUSS THE RATE RELIEF THAT PGW IS REQUESTING.**

A. PGW is requesting an increase in its annual base rate operating revenues of $70 million, or 11.6 percent on a total revenue basis, with a proposed effective date of April 28, 2017. Consistent with its mandatory budget process, the base rate increase requested in this filing is based on a fully projected future test year starting on September 1, 2017 ("FPFTY").[1]

**Q. ON WHAT BASIS IS PGW'S REQUESTED RATE RELIEF TO BE CONSIDERED?**

A. PGW is a "City Natural Gas Distribution Operation" as that term is defined in the Public Utility Code.[2] As such, just and reasonable rates for PGW are determined using the Cash Flow Method. PGW has no shareholders and does not pay a dividend or a rate of return to its owner (instead it remits a fixed annual payment to the City of Philadelphia). Accordingly, all of the funds it needs to run the Company come from ratepayers or from borrowing (the costs of which then must be paid by ratepayers). Therefore, rather than having its revenue requirement determined on the basis of a fair rate of return on a used and useful rate base, PGW's rates are set by determining the appropriate levels of cash and other financial metrics necessary to enable PGW to pay its bills and maintain access to the capital markets at reasonable rates. The PUC issued a policy statement more fully setting forth these criteria and the financial and other considerations that are to be looked to in setting PGW's base rates at just and reasonable levels.[3]

**Q. WHY HAS PGW MADE THIS FILING?**

A. PGW's last base rate increase was filed in 2009 and settled in 2010 and, by the time that the PUC is expected to rule on this request, over seven years will have passed. In the

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[1] The statutory definition of FPFTY, 66 Pa.C.S. § 315(e), would require that the FPFTY commence in November 2017 and continue for 12 months. So, simultaneously with the filing of general base case, PGW has filed a Petition requesting that the Commission waive the application of the statutory definition of fully projected future test year ("FPFTY") so as to permit PGW to use a FPFTY beginning on September 1, 2017 in this proceeding.

[2] 66 Pa.C.S. § 102 (definitions).

[3] 52 Pa. Code § 69.2702, 2703.

2008 period PGW was in financial crisis. The Commission's decision to award PGW a $60 million "extraordinary rate increase" in 2008 and to then subsequently make that emergency rate increase permanent (along with an additional $16 million to begin to fund PGW's OPEB obligation) stabilized the Company and put it on the path back to financial solvency. Since that time, PGW has improved its financial health and, in turn, this has given PGW the ability to concentrate on modernizing its distribution system, improving safety, increasing efficiency and trying to enhance customer service. However, after seven years, PGW needs additional revenues in order to address declining financial metrics and improve them to acceptable levels in order to continue its efforts on behalf of its customers.

**Q. WHAT ARE THE KEY REASONS FOR THE NEED FOR ADDITIONAL REVENUES NOW?**

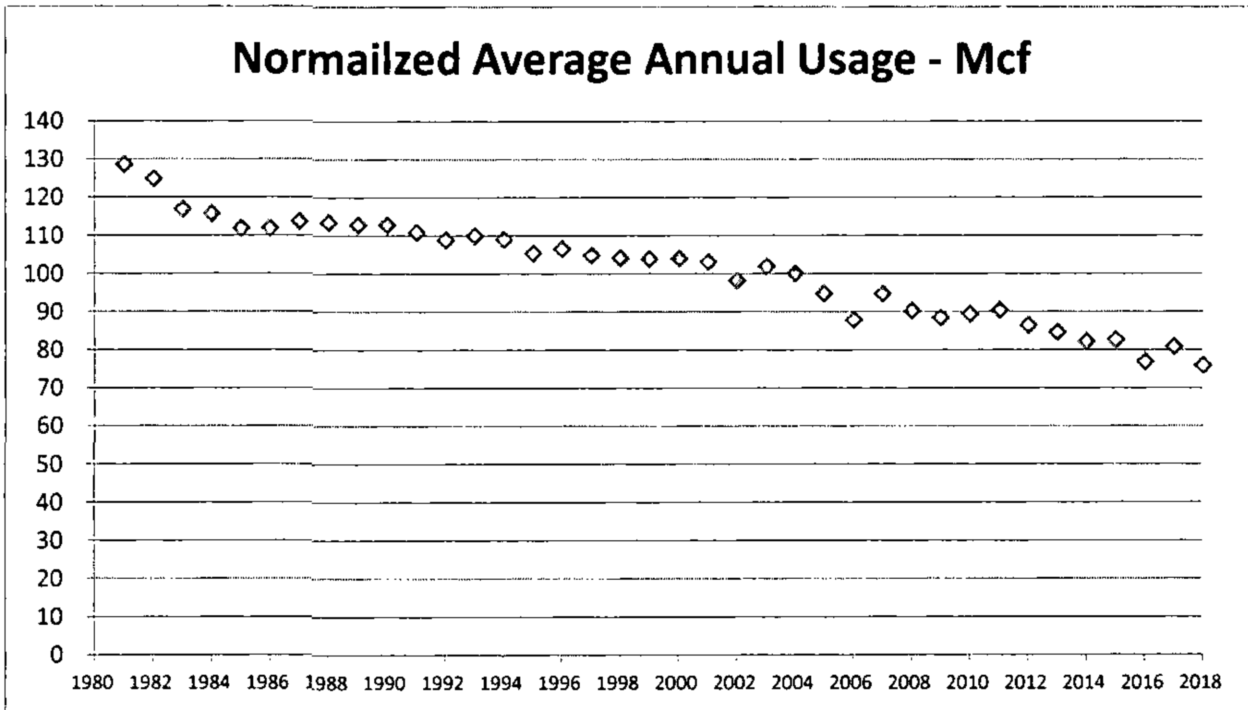
A. There are two key factors causing the need for additional revenues: increasing operational and capital costs and decreasing consumption. As PGW witness Golden explains in more detail, a combination of increasing costs over time and decreasing revenues caused chiefly by progressively warmer temperatures in PGW's service territory, resulting in less use of natural gas for heating, makes additional revenues imperative if PGW is going to avoid sliding back to a time before the Commission provided extraordinary rate relief.

**Q. HOW HAVE INCREASED WARMING TRENDS AFFECTED PGW?**

A. PGW is facing declining sales, which leads to not only declining revenues but also declining cash flow and bond coverages. Warmer weather is contributing to significant decreases in consumption. Fiscal Year (FY) 2016 reflected a 20.8% warmer than normal winter and 24.5% warmer than the prior year. In fact, since 2010, the average annual usage of PGW's residential heating customer has decreased by 15.38% from 91 Mcf (for

2010-2011) to 77 Mcf (for 2015-2016).[4] This decreased level of degree days represents a loss of about six Bcf of normal sales or roughly $36 million in lost margin.

And this trend has been long–term. As the graph below[5] shows, the average residential heating customer using 76 Mcf/year in 2017-2018 compared to 129 Mcf/year in 1980-1981.




This clear trend prompted PGW to utilize a ten year average of degree days in order to calculate normal weather for fully projected future test year purposes. Both PGW witnesses Dybalski and Hanser discuss this issue in their testimony.

**Q. WHAT IS THE OTHER MAJOR REASON FOR PGW'S NEED FOR RATE RELIEF?**

A. The second major reason for the requested rate relief is increased costs. PGW has not requested a base rate increase since 2009 because: it has maintained control of payroll

[4] *See* Exhibit KSD-1.

[5] See Exhibit KSD-1.

costs through attrition with operational efficiencies; it has held operations and maintenance expense increases at levels lower than inflation; and it has maintained collection levels. Nonetheless, PGW has experienced a number of major cost increases that it could not continue to absorb. For example, even though PGW's average number of employees has decreased since 2010 from 1686 to 1650 projected for FY 2017-18, payroll costs have increased (e.g., payroll costs ranged from $106 million in 2010 to $113 million in 2016). PGW also engaged in a concerted effort to hold the line on operating expenses and was successful in limiting increases to 5% from 2010 to 2016, while the inflation rate over that same period was 10.4%. However, PGW's expenses could have been much higher if it had not taken several steps to reduce costs. PGW witness Moser explains many of the efforts that the Company undertook to hold down expenses. For example, PGW was able to save over $77 million by self-insuring its employee health care plan during FY 2012 to FY 2016. Projection of savings from self-insurance for the period FY 2017 and FY 2018 totals an additional $48.02 million for a total savings for the seven years of $125.4 million. It also reduced pension expense by incenting employees to move to a defined contribution pension plan and dramatically reduced the number of employees that will receive post-retirement health care benefits. Those and other changes will reduce PGW's OPEB responsibility by some $55 million.[6] In addition, PGW's interest expense on long term debt has decreased from the 2009/2010 base rate case when compared to the FPFTY (FY 2018) by $12.6 million ($61.8 million reduced to $49.2 million annually). The net effect of reduced revenues and increased expenses resulted in PGW's determination that it needed to increase rates in order to

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6 PGW St. 7, Exh. DAM-2.

maintain its efforts to manage costs and improve system performance while continuing to safely and reliably deliver natural gas to its customers.

## III. OBJECTIVES

**Q. PLEASE SUMMARIZE PGW'S MAJOR OBJECTIVES IN THIS PROCEEDING.**

A. PGW seeks Commission approval to establish rate levels adequate to continue its efforts to modernize its system and to provide safe and adequate service by making its system safer and more efficient and improving customer service. To do this, PGW must be able to have the cash to pay its bills and provide for other obligations such as pensions and OPEBs and to achieve financial metrics that will enable it to maintain its present bond ratings and, if possible, improve its rating. As both PGW witnesses Hartman and Golden explain, an improved bond rating will reduce borrowing costs which, in turn will reduce costs that customers will have to bear over the life of PGW's 30-year bonds. An improved bond rating could also result in PGW considering additional system modernization steps, such as increasing the pace of cast iron main replacement. Further, approval of this request will demonstrate to the investment community that the Commission continues to support the need for intensified focus on pipeline safety matters as well as the need for reasonable and predictable earnings.

**Q. DOES PGW HAVE ANY OTHER OBJECTIVES IN THIS PROCEEDING?**

A. Yes, the Company is seeking several tariff changes. The Company seeks to add a Technology and Economic Development ("TED") Rider and a "Backup Service" rate. It also seeks to simplify its rate design by eliminating existing rate schedules that are no longer necessary or appropriate. It is also proposing that in the future, Interruptible

Transportation delivery rates be set on a negotiated basis, taking into account the customer's alternative cost of energy as well as the cost of firm transportation service.

## IV. MANAGEMENT QUALITY, EFFICIENCY AND EFFECTIVENESS

**Q. PLEASE SUMMARIZE THE COMPANY'S INITIATIVES AND ACTIVITIES RELATED TO MANAGEMENT AND PROVIDING QUALITY SERVICE TO CUSTOMERS.**

A. The Company has focused on a number of areas that demonstrate the quality and effectiveness of PGW's current management performance and its management's focus on safe, reliable, and outstanding service, as well as a strong commitment to growth – these are set forth below:

- PGW is committed to providing safe, reliable natural gas service to the City of Philadelphia. Since its last rate case, in order to assure safety and reliability, PGW has sought and obtained Commission approval for several actions that will allow for faster replacement of at-risk pipelines,[7] including the increase in the Distribution System Improvement Charge (DSIC) cap for infrastructure replacement purposes from 5% to 7.5%. PGW's efforts, as well as steps it has taken to enhance customer understanding and awareness of its accelerated main replacement program are explained by PGW witness Moser.

- PGW has enhanced its efforts to detect and appropriately respond to natural gas leaks on its system. As a result, PGW is seeing a reduction in the number of hazardous leaks. These efforts are explained in greater detail by PGW witness Moser.

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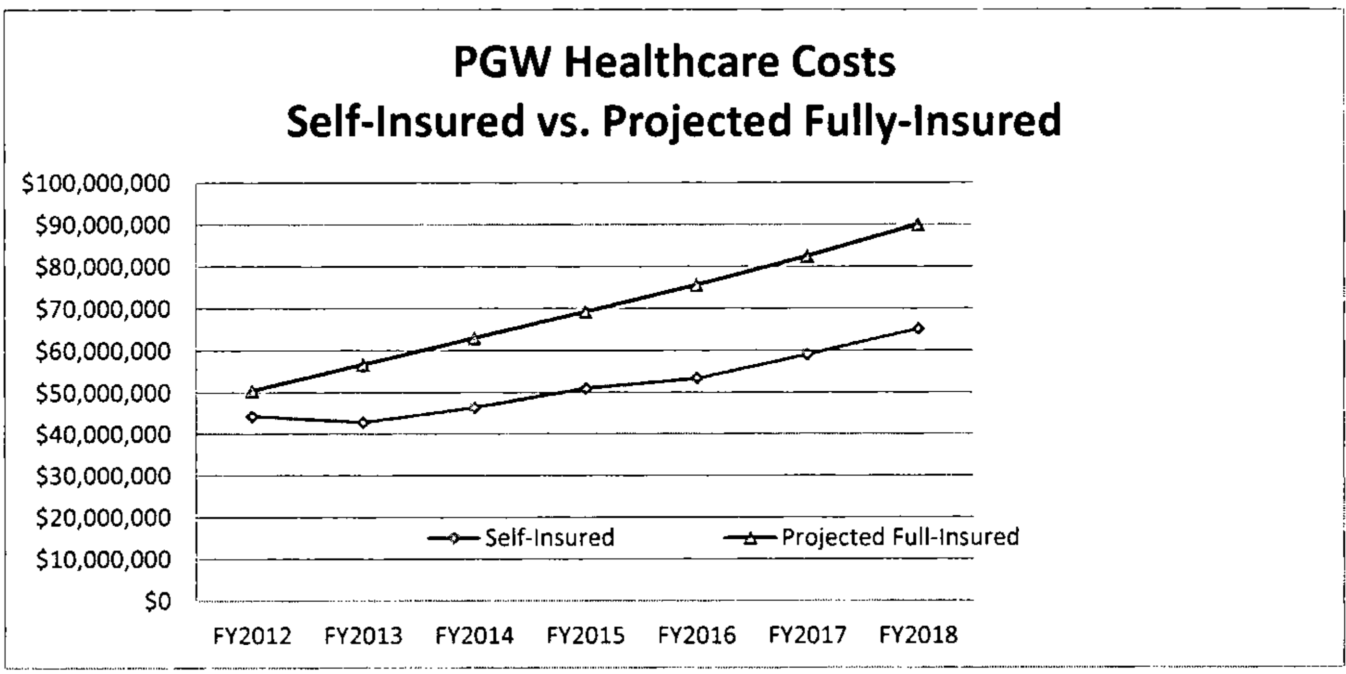
[7] Docket Nos. P-2015-2501500; C-2015-2504092.

- As noted above, PGW has worked hard to manage costs and improve system performance while continuing its commitment to safely and reliably delivering natural gas to its customers. PGW witness Moser gives more details on the multi-faceted program undertaken to build efficiencies into its employee benefit programs. Some of the most significant include the implementation of a Health Care Cost self-insurance initiative. This one initiative alone will save the Company over $125 million through the Fully Projected Future Test Year. The following chart from Exhibit DAM-1 shows:




- Proposing to implement a new rider, the TED Rider, which would increase access and expand the use of natural gas by giving customers more options to obtain natural gas services, including combined heat and power ("CHP") projects, natural gas vehicles ("NGVs") and fuel cells.

- Proposing to implement a pilot Micro-Combined Heat and Power ("Micro-CHP") Incentive Program for small and medium sized properties to incent market development and market acceptance of small targeted fuel-switching projects to increase the ability of these customers to expand natural gas usage.

**Q. HAS THE COMPANY UNDERTAKEN INITIATIVES TO ASSIST LOW INCOME CUSTOMERS TO AFFORD THEIR NATURAL GAS SERVICE?**

A. The provision of services to low income customers starts with a robust "Customer Assistance Program" ("CAP") which PGW calls its "Customer Responsibility Program" ("CRP"). CRP is a Percentage of Income Payment Program (PIPP). The CRP provides discounts to CRP participants and establishes affordability limits at 8% (for households with income at or below 50% of Federal Poverty Level ("FPL"); 9% (for households with income between 51%-100% of FPL); and, 10% (for households with income between 101-150% of FPL).

PGW also provides the largest Low Income Usage Reduction Program ("LIURP") of any natural gas utility. Named CRP Home Comfort, the program seeks to provide cost-effective energy savings to low-income customers and make customers' homes more energy efficient, safe and comfortable.

**Q. HAS THE COMPANY MADE OTHER EFFORTS TO MAKE THE COMPANY'S SERVICE MORE ECONOMIC FOR ITS CUSTOMERS?**

Yes. EnergySense is the demand side management program voluntarily offered by the Company. It offers easy, affordable ways that residential and business customers can conserve energy and save money. Its CRP Home Comfort Program is the largest Low Income Usage Reduction Program ("LIURP") of any natural gas utility and provides cost effective energy savings to over 14,000 homes since its inception.

**Q. WHAT STEPS HAS PGW TAKEN TO IMPROVE THE SERVICE IT PROVIDES TO ITS CUSTOMERS WITH RESPECT TO BILLING, COLLECTIONS AND INQUIRIES?**

**Q.** PGW has worked hard to improve its billing, collection and inquiry interactions with its customers. In that regard, PGW has worked to provide better and more comprehensive training of customer service field and collection staff and also engaged in a replacement of its phone system. Some expected benefits of this replacement are improved reporting that will assist with coaching and analyzing call center performance and providing a more user friendly service representative interface. PGW has also upgraded its workforce planning software, which will assist PGW in more efficiently and effectively handling high call volume.

**Q. PLEASE DISCUSS THE IMPACTS OF THE REQUESTED RATE RELIEF**

A. PGW is requesting an increase in the delivery charge as well as the customer charge for most customer classes. For example, the Company is proposing a residential customer charge (under Rate GS) of $18.00 per month, as compared to the current charge of $12.00 per month to better reflect the direct customer costs per customer as calculated by PGW's cost of service witness, Mr. Hanser. Customer charge increases are also discussed in greater detail by PGW witness Dybalski.

The requested residential customer charge compares to the monthly charges of other NGDCs as follows:

| **Residential Customer Charge Comparison**<br>Residential Heating 15 MCF (monthly bill) | | |
|---|---|---|
| **NGDC** | **Customer Charge** | **Notes** |
| PGW | $18.00 (P) | Current $12.00 |
| Columbia | $16.75 | Increased in December 2016; R-2016-252966 |
| National Fuel Gas | $12.00 | Last Increase: R-00061493 (2006) |
| PECO (Gas) | $11.75 | Last Increase: R-2010-2161592 |
| Peoples | $13.95 | Last Increase: R-2012-2285985 |
| Peoples - Equitable | $13.25 | Last Increase: R-2008-2029325 |
| Peoples TWP | $15.75 | Last Increase: R-2013-2355886 |
| UGI Central Penn | $14.60 | Last Increase: R-2010-2214415 |
| UGI Penn Natural Gas | $13.17 | **$18.50 proposed** in January 2017; R-2016-2580030 |
| UGI Utilities (Gas) | $11.75 | Increased in October 2016; R-2015-2518438 |
| **Sources**:<br>NGDC Tariffs filed with the Commission and made available online by each NGDC; and Pennsylvania Public Utility Commission Rate Comparison Reports, which are available at: http://www.puc.pa.gov/filing_resources/rate_comparison_report.aspx | | |

The Company is also proposing increases to delivery charges. The increase for each customer class is discussed in greater detail by PGW witness Dybalski. I would like to highlight certain proposed increases in delivery charges from Table 3 of his testimony:

| **Delivery Charge** | | | |
|---|---|---|---|
| **Rate Class** | **Current ($/MCF)** | **% Increase from Current** | **Proposed ($/MCF)*** |
| Residential | 6.0067 | 12.0% | 6.7275 |
| Commercial | 4.5984 | 4.6% | 4.8108 |
| Industrial | 4.5332 | **-15.8%** | 3.8170 |
| PHA GS | 4.9441 | 32.7% | 6.5603 |
| Municipal | 3.3661 | 14.0% | 3.8365 |
| PHA (Rate 8) | 4.1101 | **-6.7%** | 3.8365 |
| * The proposed delivery charge ($/MCF) does <u>not</u> include the Merchant Function Charge ("MFC") and the Gas Procurement Charge ("GPC") | | | |

In addition, I would note that the average impacts for the increased distribution rates are as follows:

- If PGW's base rate case is approved, the bill for a typical PGW residential heating customer who uses 76 Mcf per year will increase \$10.59 per month from \$94.06 to \$104.65 per month or by 11.3%.

- The bill for a typical PGW commercial heating customer who uses 332 Mcf per year will increase \$15.08 per month from \$327.07 to \$342.15 per month or by 4.6%.

- The bill for a typical PGW industrial customer who uses 717 Mcf year will decrease by \$18.23 per month from \$712.81 to \$694.58 per month or by (2.6)%.

The following chart compares the total charge for an average residential heating customer if the rate increase is approved compared to the same charges in 2010 and 2014:

| | **GCR*** | **Total Rate** | **Notes** |
|---|---|---|---|
| September 2010 | \$6.9050 | \$15.9847[1] | (Before DSIC) |
| June 2014 | \$6.5642 | \$15.6439[1] | |
| November 2017 | \$4.8152 | \$14.2389[2] | (Includes DSIC) |

* Purchased Gas Cost Rate Data for PGW compiled by the Bureau of Investigation & Enforcement which is available at: http://www.puc.pa.gov/NaturalGas/pdf/PGC.pdf

[1] GCR plus RC&E (\$0.0259) plus Delivery Charge (\$6.3863) plus OPEB (0.2997) plus USC (\$2.3678)2

[2] GCR plus MFC (\$0.0228) plus GPC (\$0.2165) plus Delivery Charge (\$6.7322) plus OPEB (\$0.3386) plus ECR (\$0.0315) plus USC (1.3392) plus DSIC (\$0.743)

This shows that, even if the full \$70 million is permitted by the PUC, the average residential customer will pay some 12% less on a total bill basis than they paid for the same amount of gas some seven years ago.

## V. SUMMARY OF FILING

**Q. PLEASE INDICATE WHO THE WITNESSES WILL BE FOR PGW IN THIS PROCEEDING AND THEIR RESPONSIBILITIES FOR THE FILING?**

A. PGW's direct testimony is Volume II of the Filing. The witnesses and a summary of their testimony are as follows:

- Mr. Joseph F. Golden, Jr., (PGW Statement 2) is PGW's Executive Vice President and Acting Chief Financial Officer. Mr. Golden provides documentation and supporting methodology for the schedules and exhibits that are included in PGW's base rate filing. He describes PGW's financial results for the FPFTY (comprised of the period from September 1, 2017 through August 31, 2018). He also details and provides supporting justification for PGW's requested annual increase in existing base rate of $70 million.

- Mr. Daniel J. Hartman (PGW Statement 3) is a Managing Director and Partner with PFM Financial Advisors LLC ("PFM"). He is an expert on financial markets and financial instruments. Mr. Hartman testifies to the importance of obtaining the rate increase being sought, in order to maintain its bond ratings, access to the municipal capital markets at reasonable pricing, and to ensure there are not unforeseen impacts to PGW's capital structure. Specifically, his testimony focuses on the adverse financial consequences to PGW, which could be considerable and broadly based, if the Company does not receive full approval of its needed and requested rate increase.

- Mr. Frank C. Graves (PGW Statement 4) is a Principal with The Brattle Group. He is an expert on financial economics and specializes in regulatory and financial economics, especially for electric and gas utilities. Mr. Graves discusses the results of a comparable utility analysis. His testimony benchmarks the financial performance of PGW over the 2011-2015 time period, and he analyzes both average performance over the time period and also trends over the time period. The benchmarking, among other things, (i) indicates that PGW lags its peers on key metrics such as debt to total capitalization and Days Cash; (ii) shows that a failure to grant a rate increase would return PGW's financial position to pre-2009 levels; and (iii) shows that there is a continued need to support PGW's financial stability with timely and appropriate rate increases.

- Mr. Philip Q. Hanser (PGW Statement 5) is a Principal with The Brattle Group. Mr. Hanser presents the Company's class cost of service study ("CCOSS"), which is Volume III of the Filing. The primary purpose of the present CCOSS is to allocate the Company's costs of providing service to each Rate Class. The purpose of his testimony is to describe the principles, methodology, and data used in the present CCOSS, which was developed with the aim to move towards cost allocations and rate design that more closely reflect cost causation. Mr. Hanser also shows the monthly fixed customer cost per class. Finally, Mr. Hanser explains why normal weather for PGW is best reflected as the 10-year average of degree days experienced in PGW's service territory.

- Mr. Kenneth S. Dybalski (PGW Statement 6) is the Vice President - Energy Planning & Technical Compliance at PGW. Mr. Dybalski describes and supports (i) the process used to develop the sales forecast for the test year; (ii) the allocation of the proposed base rate increase by customer class; and (iii) the proposed customer charges by class.

- Mr. Douglas A. Moser (PGW Statement 7) is PGW's Executive Vice President and Acting Chief Operating Officer. Mr. Moser provides an overview of PGW's operations. He discusses PGW's initiatives taken to improve its overall safety and compliance efforts. In addition, he describes PGW's existing universal service programs and provides data on cost offsets related to CRP requested by the PUC. He also addresses certain tariff changes proposed by PGW including PGW's proposal to establish Interruptible Transportation rates on negotiated basis within a range of cost of service and the comparable firm transportation rate.

- Mr. Florian Teme (PGW Statement 8) is PGW's Vice President, Marketing and Sales. Mr. Teme explains and provides support for the Company's proposed TED Rider and the pilot Micro-CHP Incentive Program.

In addition to these statements, PGW is submitting the information and data required by the PUC's filing requirements (Volume I) and its proposed Tariff Supplement No. 100 to Gas Service Tariff No 2, (Volume IV) which sets forth all of the changes and rate increases proposed by PGW as part of this case.

## VI. <u>CONCLUSION</u>

**Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?**

A. Yes.

PGW St. No. 1-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

# GREGORY STUNDER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:
Universal Service Surcharge, Bad Debt Offset
Universal Service Surcharge, Carrying Cost Offset

June 9, 2017



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## Table of Contents

## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.**

A. My name is Gregory Stunder. My position with PGW is Vice President, Regulatory and Legislative Affairs.

**Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON BEHALF OF PGW?**

A. Yes. I submitted my direct testimony, PGW St. No. 1 on February 27, 2017.

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

A. The purpose of my rebuttal testimony is to respond to the testimony of Office of the Consumer Advocate ("OCA") Witness Roger Colton on the structure of cost recovery for PGW's Customer Assistance Program ("CAP"), which PGW calls its "Customer Responsibility Program" ("CRP"). The Company recovers CRP costs through a "Universal Service Surcharge" ("USC"). More specifically, Mr. Colton has set forth a position that adjustments should be made to the Universal Service Surcharge for bad debt and carrying costs if CRP enrollment increases.

**Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

A. I urge the Administrative Law Judges ("ALJs") and Commission to closely scrutinize the proposed adjustments to PGW's USC. It is critical for the ALJs and the Commission to recognize that Mr. Colton incorrectly bases his position on the wrong data and an extremely limited time period. Additionally, Mr. Colton asserts a certain correlation between CRP enrollment and bad debt that is absolutely unsupported by PGW's actual CRP enrollment and bad debt expense data (this is discussed below and in the Rebuttal Testimony of PGW Witness Dr. H. Gil Peach). Furthermore, Mr. Colton has failed to realize that a full one-third of PGW's bad debt expense is excluded from base rates because it represents the projected CRP Arrearage Forgiveness for the Fully Projected Future Test Year ("FPFTY"). Finally, Mr. Colton further suggests a carrying cost offset which is inaccurate and unsupported.

## II. UNIVERSAL SERVICE SURCHARGE

**Q. WHAT ISSUES HAVE THE PARTIES RAISED REGARDING ADJUSTMENTS TO PGW'S UNIVERSAL SERVICE SURCHARGE?**

A. OCA's witness Mr. Colton recommends (OCA St. 4[1] at 4) that PGW's Universal Service Surcharge incorporate a total offset for CRP Credits of 36.7% (15.7% for bad debt offset; and 21% carrying cost offset) and a total offset for Arrearage Forgiveness Credits of 36.7% (15.7% for bad debt offset, and 21% for carrying cost offset).

**Q. DO YOU AGREE WITH MR. COLTON'S POSITION REGARDING THE BAD DEBT AND CARRYING COST OFFSETS?**

A. No. In fact, Mr. Colton's position is based on absolutely ignoring how PGW establishes the reserve for uncollectible accounts receivable, writes off accounts receivable, reactivates written-off accounts receivable and records bad debt expense. He also incorrectly characterizes write-off percentages as being the same as PGW's "bad debt rate" and "uncollectible rate." Additionally, he is unaware that the CRP Arrearage Forgiveness amount that is projected for the FPFTY is subtracted from the bad debt expense and is not included in base rates.

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[1] "OCA St. 4" refers to the revised direct testimony of OCA witness Colton that was served on June 2, 2017.

**Q. WHAT IS THE PROCESS WHICH MR. COLTON IGNORES?**

A. PGW's accounts receivable are analyzed (on an annual basis for financial statement purposes) for collectability. The collectability study (which was provided to OCA for FY 2014, 2015 and 2016 in response to OCA Interrogatory V-7) assesses the collectability of accounts receivable balances at PGW's fiscal year end. (Key data points are attached as Exhibit GJS-1). Uncollectible percentages are established for the different categories of accounts receivable after each customer's account is analyzed and the percentages are then applied to accounts receivable balances in order to calculate the total reserve for uncollectible requirement.[2]

After the reserve for uncollectible requirement is calculated, it is compared to the current reserve for uncollectible balance. In order to adjust the current reserve balance to match the collectability study requirement, the difference is recorded as bad debt expense.

It is also important to note that there are adjustments during the fiscal year to the reserve for uncollectible account for the following:

- Write-offs: PGW writes off account balances 90 days after a final bill is issued. Write-offs reduce both the reserve for uncollectible accounts and accounts receivable.
- Write-off recoveries: Payments received after an account is written off are write-off "recoveries." Write-off recoveries are credited to the reserve and increase the reserve balance.

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[2] The reserve for uncollectible is a balance sheet account -- just like accounts receivable is a balance sheet account. Additionally, the reserve for uncollectible accounts is called a contra account and it is netted against accounts receivable.

- CRP Arrearage Forgiveness: the reserve for uncollectible balance is reduced for the CRP arrearage forgiveness billed via the Universal Service Surcharge.

The following are two examples of annual adjustments to the reserve for uncollectible accounts:

**Example #1**

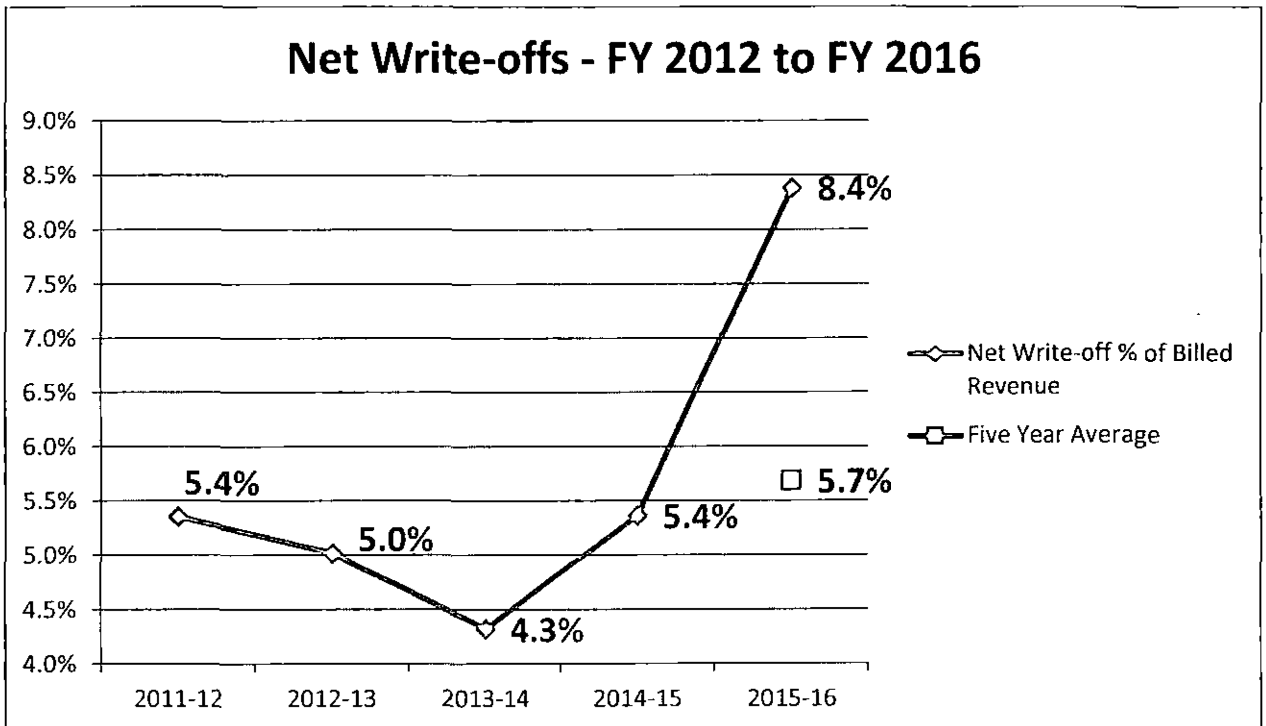
| | | |
|---|---|---|
| Reserve for Uncollectible at FYE X1 | $ | 110,000 |
| Write-offs | $ | (30,000) |
| Write-off Recoveries | $ | 12,000 |
| CRP Arrearage Forgiveness billed via USC | $ | (10,000) |
| Bad Debt Expense | $ | 25,000 |
| Reserve for Uncollectible at FYE X2 | $ | 107,000 |

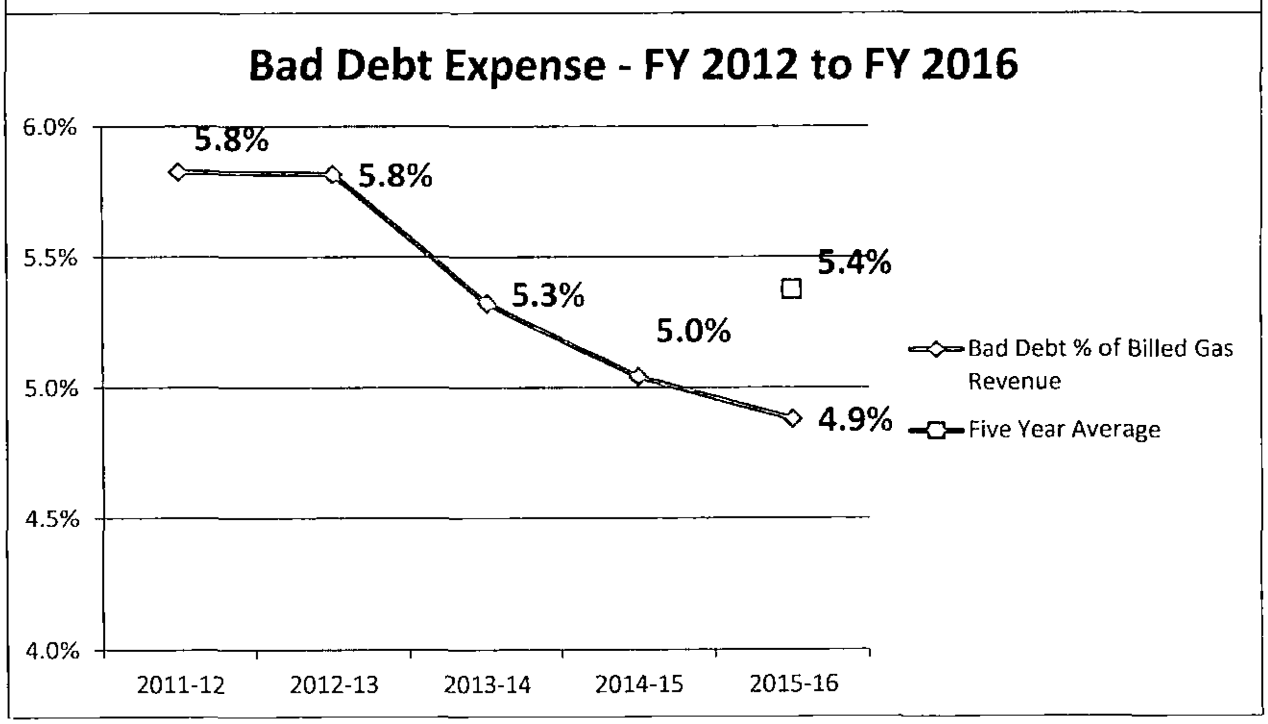
**Example #2**

| | | |
|---|---|---|
| Reserve for Uncollectible at FYE X2 | $ | 107,000 |
| Write-offs | $ | (25,000) |
| Write-off Recoveries | $ | 10,000 |
| CRP Arrearage Forgiveness billed via USC | $ | (14,000) |
| Bad Debt Expense | $ | 30,000 |
| Reserve for Uncollectible at FYE X3 | $ | 108,000 |

As can be seen from the narrative and the examples, Mr. Colton incorrectly labels the write-off percentages reported in the 2015 BCS Annual Report on Collection Performance and Universal Service as the bad debt rate or uncollectible rate. Additionally, the BCS Annual Report only provides gross write-offs and does not subtract write-off recoveries, therefore, Mr. Colton's write-off percentage is overstated. Additionally, Mr. Colton only looks at one year of data instead of looking at a multi-year average.

The following charts show the historical five year averages for both the net write-off percentages and bad debt expense percentages (which were provided to OCA in response to OCA Interrogatories XIV-1 and XIV-2). The following data shows that the *FY 2016* data for net write-offs is 3% to 4.1% higher than the 4 prior fiscal years. This further supports the use of a five year average.



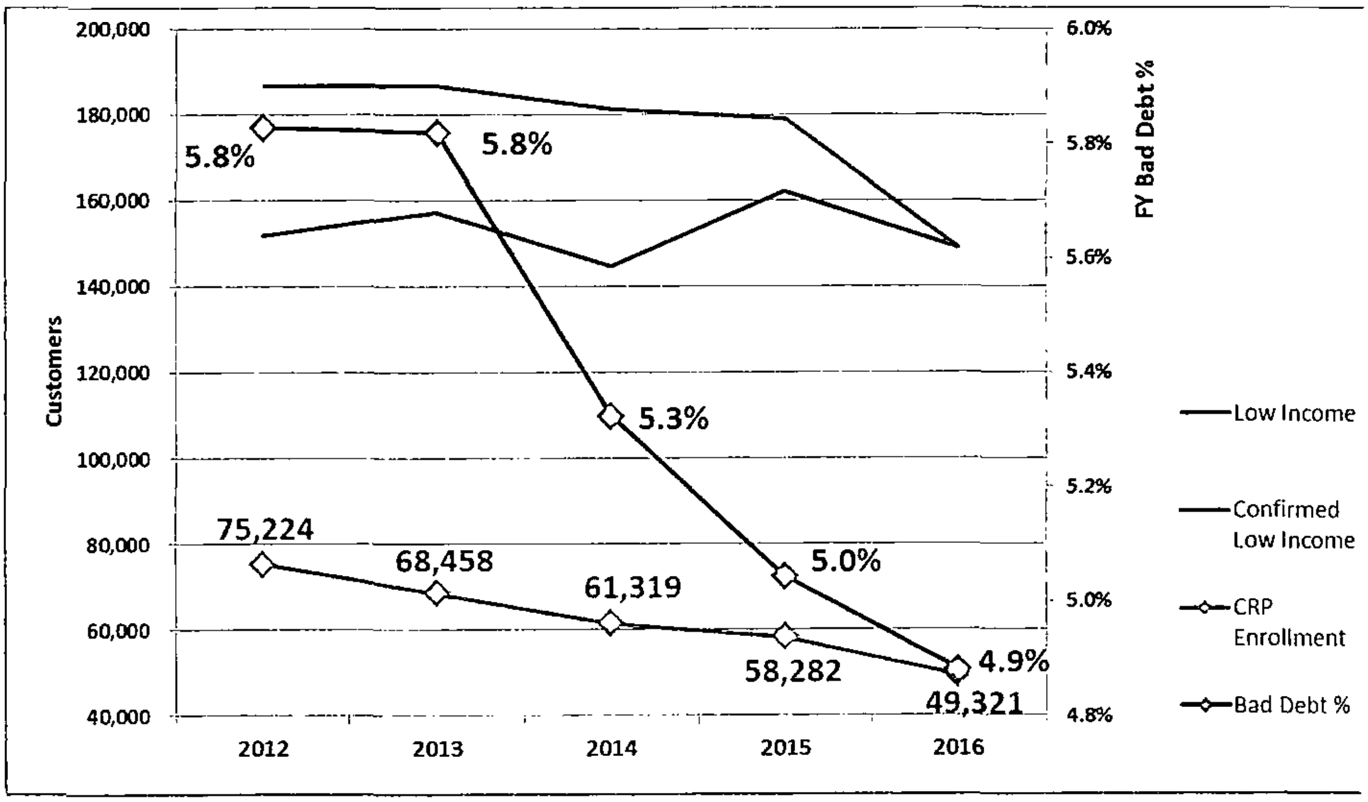

Additionally, the above data shows that on a five year average basis, net write-off and bad debt percentages track closely at 5.7% and 5.4%, respectively.

As a result of the foregoing, Mr. Colton's conclusion that PGW over-recovers for write-offs or bad debt expense when (confirmed) low-income customers enroll in CRP is incorrect because the percentages track so closely.

Simply put, there is emphatically no "double recovery" of revenues by PGW when (confirmed) low-income customers enroll in CRP. A double recovery would occur if PGW was recovering for an item of expense in base rates and then recovering the very same item of expense in another place, in this case, through the USC. What Mr. Colton is testifying about is NOT the recovery of the same expense with the same characteristics, but whether PGW's overall bad debt expense changes, on a pro forma basis, (i.e. all other things equal and not considering any other factors) when a customer that was being billed as a regular residential customer moves from that category to the CRP category, by enrolling in the program, and, if so, by how much.

**Q. IS THERE MORE EVIDENCE THAT PGW DOES NOT OVER-RECOVER FOR BAD DEBT EXPENSE WHEN CONFIRMED LOW-INCOME AND/OR LOW-INCOME CUSTOMERS ENROLL IN CRP?**

A. Yes. Mr. Colton states that confirmed low-income and/or low-income customers cause higher bad debt percentages when they are not enrolled in CRP and, therefore, PGW over-recovers (i.e., double recovers) for bad debt as CRP enrollment increases. Logically, if this relationship actually exists it should exist as well when CRP enrollment goes down; that is, as CRP enrollment goes down PGW's bad debt expense should go up, if Mr. Colton's argument is valid. However, this conclusion is not supported when comparing 2012 to 2016 data from the BCS Annual Reports on Collection Performance and Universal Service to the bad debt percentages for the same time period. The below graph (which is based on the data in Exhibit GJS-1) shows that the bad debt percentage decreased *from 5.8% to 4.9% from FY 2012 to FY 2016 while, during the same time period,* CRP enrollment decreased dramatically from 75,244 to 49,321.




As discussed above, if Mr. Colton's conclusion was valid, bad debt expense should have increased when CRP enrollment decreased. But, based on the data shown above, and the analysis prepared by Dr. Peach[3], the converse is true – bad debt expense decreases when CRP enrollment decreases.

**Q. IS MR. COLTON CORRECT ABOUT OVER-RECOVERING FOR BAD DEBT EXPENSE WITH RESPECT TO CRP ARREARAGE FORGIVENESS?**

A. No. CRP Arrearage Forgiveness is not included in base rates. The FPFTY income statement provided in Exhibit JFG-2 shows that the total bad debt expense

3 See the Rebuttal Testimony of PGW Witness Dr. H. Gil Peach.

at proposed rates is $30,073,000. The projected CRP Arrearage Forgiveness for the FPFTY is $10,461,000. The Cost of Service Study ("COSS") does not allocate this amount to base rates because the CRP Arrearage Forgiveness is recovered through the Universal Service Surcharge.[4] In other words, the net bad debt expense included in base rates is $19,612,000 ($30,073,000 minus $10,461,000). Additionally, the COSS included with the initial filing (in Exhibit PQH-3H;[5] page 4, line 140) shows the total CRP Arrearage Forgiveness in the amount of $10,461,000 as being included in the computation of the universal service charge.

**Q. DO YOU AGREE WITH MR. COLTON'S TOTAL OFFSET FOR CAP CREDITS OF 36.7% ON PROGRAM PARTICIPANTS ABOVE 51,500?**

A. No. Mr. Colton's calculation of a total offset for CRP Credits of 36.7% (15.7% for bad debt offset; and 21% carrying cost offset) is seriously flawed for the reasons that I have discussed above. Additionally, while this type of offset may have been applied to investor owned utilities, where overearnings is a concern, there is no such concern with PGW. As a company whose rates are set using the cash flow method, reducing PGW's USC recovery will simply mean that PGW will have less cash and, consequently, the use of such adjustments will force PGW to have a larger revenue requirement in its next base rate case.

I also note that the logical justification in support of the proposed bad debt offset of 15.7% is flawed. Mr. Colton is inappropriately focusing on one incorrect

4 The CRP Arrearage Forgiveness amount is FERC Account 904CRP and the FERC Account Description is "Uncollectible accounts in CRP."

5 Exhibit PQH-3H provides the USEC – Customer functional classification which shows the detail of the accounts that contribute to USEC.

factor for a one year period (i.e. the difference in the gross write-off percentage *for residential customers versus the gross write-off percentage for confirmed low-*income customers) to effectively modify PGW's bad debt recovery allowed in base rates while ignoring all the other factors that could affect its actual experience. There are many factors that affect PGW's bad debt expense, for example: natural gas costs increase or decrease, the number of customers increase or decrease, the level (and application) of LIHEAP grants increase or decrease, or a change in the level of unemployment in the PGW service territory. Each of these factors can impact PGW's bad debt expense.

I would further note that Mr. Colton provides no mathematical justification in support of his proposed carrying cost offset of 21%. Moreover, Mr. Colton attempts to justify this adjustment, despite the lack of a specific claim by PGW for "working capital" because there is a (alleged) need to replace dollars that PGW (1) does not receive because of arrears and/or (2) could have invested and received some return on it (OCA St. 4 at 26). The former is inaccurate and the latter is unsupported. PGW has not had to utilize its commercial paper program for working capital since 2009. Nothing indicates that borrowing to fund ongoing operations will be needed in the FPFTY. PGW uses cash to fund ongoing operations.

**Q. DO YOU AGREE WITH MR. COLTON'S TOTAL OFFSET FOR ARREARAGE FORGIVENESS CREDITS OF 36.7% ON PROGRAM PARTICIPANTS ABOVE 51,500?**

A. No. As discussed above, total CRP Arrearage Forgiveness in the amount of $10,461,000 is removed entirely from base rates, therefore, even if one agreed with Mr. Colton's offset theory of over-recovery, there is not any amount in bad debt expense for CRP Arrearage Forgiveness which is being charged to customers through the delivery charge.

**Q. DO YOU AGREE WITH MR. COLTON'S PROPOSED (OCA ST. NO. 4 AT 29) BASE PARTICIPATION RATE OF 51,500?**

A. As the program is designed today, the base participation rate is acceptable but I am uncertain if CRP will be changed in a material way in this proceeding or the current PGW USEC proceeding, therefore, this issue should be re-addressed if a material change occurs.

**Q. IF THE COMMISSION DECIDES TO ORDER A BAD DEBT EXPENSE OFFSET AND/OR A CARRYING COST OFFSET FOR AMOUNTS BILLED THROUGH THE USC FOR INCREMENTAL PARTICIPATION IN CRP, WHAT LEVELS OF OFFSET(S) SHOULD BE USED?**

A. That is hard to determine because I profoundly disagree with Mr. Colton's position because the data and information set forth above does not support a bad debt off-set or carrying cost offset. If a bad debt offset and/or a carrying cost offset is ordered by the Commission, I respectfully request that PGW be offered the opportunity to further develop any related data for discussion with OCA and resolve the issue within twelve months of the Commission's order in this matter.

**Q. IF THE COMMISSION DECIDES TO ORDER A BAD DEBT EXPENSE OFFSET AND/OR A CARRYING COST OFFSET FOR AMOUNTS BILLED THROUGH THE USC FOR INCREMENTAL PARTICIPATION IN CRP SHOULD THE MECHANISM BE RECIPROCAL?**

A. Most definitely. If the Commission finds that PGW's bad debt expense could be lower than pro forma amounts if CRP enrollment goes up over the level in the FPFTY then, logically, PGW should be able to *add an allowance* to its USC recovery if CRP enrollment goes down. I would note that if such a mechanism had been in place since PGW's last rate case, PGW would have recovered a significant amount, owing to the material drop in CRP participation over the last several years. However, to reiterate, PGW does not believe that such a "bad debt tracker" is justified, and, I am informed, that Mr. Colton's offset proposals are legally questionable.[6]

## III. CONCLUSION

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

A. Yes.

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6 See 66 Pa. C.S. § 1408 ("The commission shall not grant or order for any public utility a ...automatic surcharge mechanism for uncollectible expense."). While I am not testifying as an attorney, in my opinion, Mr. Colton's "bad debt" offset in the USC automatic adjustment clause does just that.

# EXHIBIT GJS-1

**Exhibit GJS-1**

**PGW**
**# OF LOW-INCOME AND CONFIRMED LOW-INCOME CUSTOMERS**

| | LOW-INCOME | CONFIRMED LOW-INCOME | CRP | Bad Debt Expense |
|---|---|---|---|---|
| 2012 | 186,747 | 151,789 | 75,224 | 5.8% |
| 2013 | 186,780 | 157,320 | 68,458 | 5.8% |
| 2014 | 181,143 | 144,696 | 61,319 | 5.3% |
| 2015 | 178,899 | 161,961 | 58,282 | 5.0% |
| 2016 | 149,001 | 148,995 | 49,321 | 4.9% |

Sources: PUC Report on USC & Collections Performance pp. 7-8, 42 (2015).
Customer counts for 2013 to 2015 were provided in PGW's Response to OCA Interrogatory OCA III-1, Attachment A
Customer counts for 2016 were provided in PGW's Response to OCA Interrogatory OCA III-1, Attachment B
Bad Debt expense was provided in PGW's Response to OCA Interrogatory XIV-1, Attachment A

PGW St. No. 1-RJ

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REJOINDER TESTIMONY OF

# GREGORY STUNDER

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2017-2586783

Philadelphia Gas Works

General Rate Increase Request

Topics Addressed:
Universal Service Surcharge, Bad Debt Offset
Universal Service Surcharge, Carrying Cost Offset

June 26, 2017

EXHIBIT
R2017 2586783
Statement
PGW No. 1-RJ
6-28-17 EP PH
PENGAD 800-631-6989

{L0691511.1}

## Table of Contents

## I. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND POSITION WITH THE COMPANY.**

A. My name is Gregory Stunder. My position with PGW is Vice President, Regulatory and Legislative Affairs.

**Q. DID YOU PREVIOUSLY SUBMIT TESTIMONY IN THIS PROCEEDING ON BEHALF OF PGW?**

A. Yes. I submitted my direct testimony, PGW St. No. 1 on February 27, 2017 and rebuttal testimony, PGW St. No. 1-R on June 9, 2017.

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

A. The purpose of my rebuttal testimony is to respond to the surrebuttal testimony of Office of the Consumer Advocate ("OCA") Witness Roger Colton (OCA St. No. 4-S) on the structure of cost recovery for PGW's Customer Assistance Program ("CAP"), which PGW calls its "Customer Responsibility Program" ("CRP"). The Company recovers CRP costs through a "Universal Service Surcharge" ("USC"). More specifically, Mr. Colton has set forth a position that adjustments should be made to the USC for bad debt and carrying costs if CRP enrollment increases.

## II. UNIVERSAL SERVICE SURCHARGE

**Q. PLEASE RESPOND TO MR. COLTON'S STATEMENT THAT HE DEMONSTRATED A POSSIBILITY OF DOUBLE COLLECTION OF BAD DEBT BY PGW. OCA ST. 4-S AT 7-8, 10-11, 27-28, 29-30.**

A. Mr. Colton states that the "purpose of the bad debt offset is to allow the Commission to identify the net universal survive program costs that should be collected from residential ratepayers through the universal service program surcharge." OCA St. 4-S at 28. Mr. Colton is proposing offsets for CRP Credits of 36.7% (15.7% for bad debt offset; and 21% carrying cost offset) and for Arrearage Forgiveness Credits of 36.7% (15.7% for bad debt offset, and 21% for carrying cost offset). The cost to PGW of these proposed offsets (or adjustments) would be $2.74 million **annually** for each and every incremental addition of 10,000 CRP participants above the base level of participation.

But, Mr. Colton does not actually demonstrate that "PGW will experience a double recovery in the absence of a" offset. OCA St. 4-S at 10-11. *See also* OCA St. 4-S at 28, 29-30. Mr. Colton's conclusion that PGW will experience an over-collection of costs is based on three points, none of which are based on data or the actual experience of PGW.

First, Mr. Colton cites to the Commission's Policy Statement on CAP Cost Recovery (52 Pa.Code. § 69.266). *See* OCA St. 4-S at 7, 28; OCA St. 4 at 23. This Policy Statement merely expresses the Commission's concern about preventing a double collection of bad debt. It provides that cost offsets should be considered but does not mandate the use of a cost offset or demonstrate that a double collection of bad debt exists for PGW.

Second, Mr. Colton cites to the Order in PGW's 2006-2007 rate case (R-00061931). *See* OCA St. 4-S at 7;OCA St. 4 at 23. I am advised by counsel that the Order is not binding on the Commission in this proceeding. My reading of that Order show that the conclusions in that proceeding were based on the record in that proceeding. *Id.* at 40. In fact, the Commission concluded that, in that proceeding, "PGW did not provide a persuasive argument ... against double recovery." *Id.* Here, as explained in rebuttal testimony, PGW's data and experience do not show that a double collection of bad debt exists. *See* PGW St. 1-R; PGW St. 11-R at 28-31.

Third, Mr. Colton provides a hypothetical. *See* OCA St. 4-S at 7; OCA St. 4-S at

20-22. The hypothetical does not demonstrate that a double collection of bad debt exists because it is not based on PGW's current data or experience. In fact, the hypothetical is refuted by PGW's data, which shows that PGW's actual bad debt expense does not conform to the hypothetical or Mr. Colton's conclusions. *See* PGW St. 1-R at 2-8; PGW St. 11-R at 28-31. Additionally, I would note that hypothetical is generic. Mr. Colton used the same hypothetical in PGW's 2006-2007 rate case (R-00061931; OCA St. 4-SR at 4-5) and PGW's 2009-2010 rate case (R-2009-2139884; OCA St. 1 at 13-14). He also used the same hypothetical for other utilities, such as PPL Electric Utilities (R-2015-2469275; OCA St. 4 at 20-21). Since the hypothetical is not based on, or reflective of, PGW's actual data or experience, it does not demonstrate that a double collection of bad debt exists for PGW or that an offset is reasonable.

In addition, I would note that Mr. Colton does not recognize that PGW's circumstances have changed over time. I will offer two brief examples. First, bad debt, in general, is declining in the current era. That is signal that PGW's fundamentals have changed. Next, gas costs for all customers have decreased dramatically, including confirmed low-income customers and the portion of confirmed low-income customers who are included in the CRP. Since bills have been lowered to the point at which some low-income customers can be put on a cost-of-service bill (including Budget and Budget Plus), the type of analysis that Mr. Colton puts forward (that decline in participation in CRP is associated with lowering bad debt) is not necessarily correct. To the extent that confirmed low-income customers can be given a lower monthly bill outside of CRP than inside CRP, Mr. Colton's so-called analysis is neither reasonable nor justified.

**Q. DID MR. COLTON PERFORM ANY ANALYSIS TO DEMONSTRATE AN ACTUAL DOUBLE RECOVERY BY PGW?**

A. No, and, in fact, because of PGW's rate making methodology, "double recovery" is not possible. As a Cash Flow ratemaking company, even if there were any decreases in PGW's bad debt expense (or other costs) compared to the levels allowed in PGW's rate case due to increased CRP participation (which I dispute), there would be not be any "double recovery" because those cost savings would be flowed through to ratepayers. As all parties recognize, PGW's revenue requirement is determined looking at PGW's test year cash flow statement and debt service coverage.

As one can see by examining PGW's Cash Flow Statement (e.g., PGW Exh. JFG-1) PGW's year-end cash is calculated by examining PGW's beginning balance of cash (i.e. the prior year ending balance of cash), taking account of sources and uses of cash projected in the year, and then determining the Company's ending cash balance. Please see Exh. JFG-1, pg. 2, Ln. 21 ("Cash-Beginning of Period). This process is used in each year, which can plainly be seen by examining the "Forecast Periods" set forth on Exh. JFG-1. Each year's cash flow calculation begins with PGW's cash balance at the beginning of the year. So, if after PGW's rates are set here and in some subsequent year its bad debt expenses or other cost item is reduced (for any reason) below the amount assumed in the Fully Projected Future Test Year), PGW's cash balance would increase in that year. That increased cash balance would be carried forward each year until PGW files for new base rates. At that time PGW's "beginning" cash flow would be higher (all things equal) than it would have been if PGW had not experienced the cost reductions.

Higher cash flow will mean more ending cash and thus less need for a rate increase. Unlike investor owned utilities, customers receive the entire benefit from any cost reductions between rate cases. Thus, Mr. Colton's fundamental premise of a "double recovery" absent his offsets if CRP participation increases is incorrect. I am unable to find any double collection of bad debt or carrying costs in the actual revenues of PGW.

Not only would there not be any "double recovery," applying Mr. Colton's adjustments would actually make it impossible for PGW to achieve the financial levels determined to be reasonable in this case. His proposed adjustment would have a significant impact on the revenues of PGW: $2.74 million **annually** for each and every incremental addition of 10,000 CRP participants above the base level of participation. That $2.74 million (which could double, triple, quadruple, etc…in any or every year between now and the next rate case, depending upon CRP participation level) is presently assumed to be billed to customers and added to PGW's ongoing cash flow. This significant revenue decrease will also negatively impact the debt service coverage calculation which is also another factor upon which PGW's revenue requirement is determined. If PGW is not permitted to recover its full revenue requirement, PGW's cash balances and debt service coverage would be lower than projected and PGW would effectively be denied the full annual rate increase determined by the PUC to be just and reasonable. This will simply force PGW to file for rate relief sooner and at higher levels than it otherwise would have to do.

**Q. PLEASE RESPOND TO MR. COLTON'S ARGUMENTS AGAINST THE USE OF RECIPROCAL OFFSET. OCA ST. 4-S AT 24-26.**

A. To reiterate, PGW does not believe that offsets proposed by Mr. Colton are justified. That being said, a reciprocal offset is logical. *See* PGW St. 1-R at 10-11. The arguments against reciprocal offsets are not well-grounded.

First, Mr. Colton argues that no double collection of bad debt occurs when the actual CRP participation is less than the base number. OCA St. 4-S at 25. A reciprocal offset is intended to capture the effect on changing levels of CRP customers on the Company. Mr. Colton focuses only on increased CRP participation (and his allegations of a double collection of bad debt). Mr. Colton ignores that decreased CRP participation has impacts as well. That is why if the CRP participation level drops below the level used for the base rate case an allowance should be added to PGW's USC recovery.

Second, Mr. Colton argues that a reciprocal offset would constitute impermissible single-issue ratemaking. OCA St. 4-S at 25. I am advised by counsel that single-issue ratemaking (a) only adjusts rates for one factor and can lead to excess revenues and/or and reduced scrutiny; and (b) is a concern outside of a base rate case proceeding.[1] This is a base rate proceeding, and the proposal for a reciprocal offset is not an attempt to isolate a single base rate variable for adjustment outside the context of a base rate proceeding. Moreover, if an adjustment to PGW's USC to attempt to account for an alleged decrease in bad debt expenses due to increased CRP enrollment is not impermissible single issue ratemaking, I fail to see how a reciprocal adjustment to PGW's USC to account for the effect of decreases in CRP enrollment on the Company's bad debt would be impermissible single issue ratemaking.

Third, Mr. Colton argues that a reciprocal offset would create the wrong incentive for PGW. OCA St. 4-S at 25. Mr. Colton is wrong. As explained by Dr. Peach, the one-way offset creates the wrong incentives by reducing cost recovery of CRP participation exceeds a "base" number. PGW St. 11-R at 28-29. Simply put, Mr.

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[1] Single-issue ratemaking outside of a base rate case is prohibited if it impacts on a matter that is normally considered in a base rate case. *See, e.g., Popowsky v. PUC*, 13 A.3d 583, at 593 (Pa. Cmwlth. 2011); *Pennsylvania Industrial Energy Coalition v. PUC*, 653 A.2d 1336, at 1350 (Pa. Cmwlth. 1995), aff'd per curiam, 670 A.2d 1152 (Pa. 1996).

Colton's proposal creates a disincentive for PGW to add CRP participants above the base level. In comparison, a two-way offset would make PGW indifferent to CRP participation.

Finally, Mr. Colton argues that a reciprocal offset is not appropriate because customers that move out of CRP do not necessarily remain a customer of PGW. OCA St. 4-S at 25-26. Mr. Colton ignores that fact that, generally speaking, customers leaving CRP (who do not remain customers of PGW) often do so with amounts owed to PGW. The two-way offset would provide PGW with a mechanism to recover those amounts.

**Q. PLEASE RESPOND TO MR. COLTON'S ARGUMENTS THAT ONLY A CURRENT YEAR OF DATA SHOULD BE USED TO DETERMINE THE OFFSETS. OCA ST 4-S AT 26-27.**

A. Nothing shows that the existence of this difference actually results in the double collection of bad debt by PGW. PGW St. 1-R; PGW St. 11-R at 28-31. Mr. Colton's has stated a five-year average of write-offs should not be used with the average of participation data for a single year. OCA. St. 4-S at 26. That concern would be remedied by using a five-years of CRP participation data. The average of the five-years of CRP participation data shown on Exhibit GJS-1 is 62,521.

Here, Mr. Colton advocates for a time frame that generates the largest difference and the highest offset. He has noted that use of five-year time frame produces a different differential and offset. However, he does not explain why the use of five-year time frame, which produces a lower differential and offset, is unreasonable or inappropriate. Given that write-offs will differ from year-to-year, it is reasonable and appropriate to use a multi-year average to determine a level for FPFTY purposes.

**Q. PLEASE RESPOND TO ALLEGED INCONSISTENCY BETWEEN YOUR REBUTTAL TESTIMONY AND THE REBUTTAL TESTIMONY OF MR. CUMMINGS. OCA ST. 4-S AT 29-30.**

A. To begin, I would note that Mr. Colton defined "carrying costs" for purposes of the carrying cost offset for PGW. OCA St. 4 at 26. For purposes of PGW (who does not make a claim for "working capital") that there is a "carrying cost" that consists of either (a) the "borrowing" cost associated with PGW's need to borrow money to replace the dollars it does not receive because of arrears and (2) the "opportunity" cost associated with the dollars that PGW could have invested (and received some return on) – even if the Company does not need to borrow money to replace those dollars. *Id.*

My rebuttal testimony responded to Mr. Colton's definition. I explained that his point on borrowing was <u>inaccurate</u>, and that his point on the opportunity cost was <u>unsupported</u>. PGW St. 1-R at 9. Contrary to Mr. Colton's assertions, I did not state that there is no opportunity cost for PGW not receiving revenue. Mr. Cummings' testimony noted that there is a "cost of not receiving revenue," PGW St. 10-R at 35, and that it could impact cash-on hand, PGW St. 10-R at 38. The lack of cash on hand could lead to borrowing for working capital, but that has not happened since 2009 (and this type of borrowing is not forecasted in the FPFTY). Mr. Cummings did not quantify any carrying cost for offset purposes. Nor did Mr. Colton. As I noted, Mr. Colton has not provided any mathematical justification in support of his proposed carrying cost offset of 21%. PGW St. 1-R at 9. Moreover, Mr. Colton has done nothing to show that PGW has actually over collected "carrying costs," which if an over collection existed would be reflected in actual revenues received by PGW.

**Q. PLEASE RESPOND TO MR. COLTON'S ARGUMENT THAT IT IS MORE APPROPRIATE TO USE GROSS BAD DEBT, AS OPPOSED TO NET BAD DEBT. OCA ST. 4-S AT 23-24.**

A. Mr. Colton notes that the use of net write-offs would create a lower offset than the use of gross-write offs. OCA St. 4-S at 24. He does not actually respond to appropriateness of using net write-offs as compared to gross write-offs. As I explained, gross write-offs do not subtract write-off recoveries. PGW St. 1-R at 4. For calculating purposes, net write-offs are gross write-offs less recoveries of amounts previously written off. So, to the extent that Mr. Colton attempting to use differences between write-off figures for residential customers as a whole and for confirmed low-income customers to prevent a double collection of bad debt, he should be using net write-offs, which are a better reflection of true uncollectible accounts expense than gross write-offs.

## III. CONCLUSION

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

A. Yes.

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | R-2017-2586783 |
| Office of Consumer Advocate | : | C-2017-2592092 |
| Office of Small Business Advocate | : | C-2017-2593497 |
| Philadelphia Industrial & Commercial | : | |
| Gas Users Group | : | C-2017-2595147 |
| William Dingfelder | : | C-2017-2593903 |
| | : | |
| v. | : | |
| | : | |
| Philadelphia Gas Works | : | |

**VERIFIED STATEMENT**

I, Gregory Stunder, hereby state that the facts set forth below are true and correct to the best of my knowledge, information and belief and I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

1. I have submitted testimony in this proceeding on behalf of Philadelphia Gas Works and am authorized to make this statement on its behalf.

2. I prepared PGW St. No. 1 which was served on the parties in this proceeding on February 27, 2017.

3. I prepared PGW St. No. 1-R, which includes Exhibit GJS-1, and which was served on the parties in this proceeding on June 9, 2017.

4. I prepared PGW St. No. 1-RJ which was served on the parties in this proceeding on June 26, 2017.

5. I do not have any corrections to any of this testimony.

6. If I were asked the same questions set forth in each of these statements today, my answers would be the same.

Date: June 27, 2017

Gregory Stunder