

**OCA Statement No. 4-R**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC  
UTILITY COMMISSION

Docket No. R-2020-3017206

v.

PHILADELPHIA GAS WORKS

REBUTTAL TESTIMONY OF  
JEROME D. MIERZWA

ON BEHALF OF THE  
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 13, 2020

1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Jerome D. Mierzwa. I am a Principal and President of Exeter Associates, Inc.  
4 (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia,  
5 Maryland 21044. Exeter specializes in providing public utility-related consulting services.

6 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS  
7 PROCEEDING?

8 A. Yes. My Direct Testimony was submitted as OCA Statement No. 4 on June 15, 2020.

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

10 A. The purpose of my rebuttal testimony is to respond to certain aspects of the Direct  
11 Testimony of Ethan H. Cline presented on behalf of the Bureau of Investigation and  
12 Enforcement (“I&E”), Robert D. Knecht presented on behalf of the Office of Small  
13 Business Advocate (“OSBA”), and Jeffry Pollock presented on behalf of the Philadelphia  
14 Industrial and Commercial Gas Users Group (“PICGUG”).  
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16 **II. WITNESS: ETHAN H. CLINE**

17 Q. PLEASE SUMMARIZE MR. CLINE’S POSITION WITH RESPECT TO THE  
18 MONTHLY RESIDENTIAL CUSTOMER CHARGE THAT SHOULD BE  
19 ADOPTED IN THIS PROCEEDING.

20 A. Mr. Cline notes that Philadelphia Gas Works (“PGW” or “Company”) is proposing to  
21 increase the customer charge for all customers by 40 percent, with the exception of the  
22 Natural Gas Vehicle Service (“NGVS”) class<sup>1</sup>. This includes increasing the monthly  
23 Residential customer charge from \$13.75 to \$19.25. Mr. Cline contends that the  
24 Company’s proposed monthly Residential charge is supported by a customer cost

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<sup>1</sup> Direct Testimony of Ethan H. Cline, I&E Statement No. 2, p. 2.

1 analysis.<sup>2</sup> Therefore, Mr. Cline recommends that if the Commission grants PGW its  
2 fully requested increase of \$70 million in this proceeding that the Company's proposed  
3 monthly Residential customer charge be approved.<sup>3</sup> If the Commission grants PGW an  
4 increase which is less than \$70 million, Mr. Cline recommends that the proposed  
5 charge of \$19.25 be scaled-back proportionately.<sup>4</sup>

6 Q. DO YOU AGREE WITH MR. CLINE'S RECOMMENDATION  
7 CONCERNING PGW'S PROPOSED MONTHLY RESIDENTIAL CUSTOMER  
8 CHARGE?

9 A. No. As explained in greater detail in my Direct Testimony, PGW's proposed  
10 Residential customer charge proposal is out of line with the Residential customer  
11 charges of other NGDCs in the Commonwealth, violates the principle of gradualism,  
12 and is inconsistent with the Commission's general goal of fostering energy  
13 conservation.

14 In my Direct Testimony, I recommended that, based on PGW's requested  
15 increase, a Residential customer charge of \$16.00 would be reasonable, and to the extent  
16 the Commission authorizes an increase that is less than the Company's requested  
17 increase, I recommended that the \$16.00 charge be proportionately scaled-back to reflect  
18 the reduction in PGW's requested increase. This would provide for a Residential  
19 customer charge that is consistent with the charges of other Pennsylvania NGDCs,  
20 provide for gradualism, and better promote energy conservation than the charge proposed  
21 by Mr. Cline and the Company.

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<sup>2</sup> *Id.*, at p. 3

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

1 Q. WHAT DOES MR. CLINE RECOMMEND WITH RESPECT TO THE  
2 DISTRIBUTION OF THE REVENUE INCREASE AUTHORIZED BY THE  
3 COMMISSION IN THIS PROCEEDING?

4 A. Mr. Cline recommends that the revenue distribution proposed by the Company be  
5 scaled-back proportionately to reflect the increase authorized by the Commission.<sup>5</sup> The  
6 Company's proposed revenue distribution is based on its CCOSS results.

7 Q. DO YOU AGREE WITH MR. CLINE'S PROPOSED REVENUE  
8 DISTRIBUTION?

9 A. No. Mr. Cline's revenue distribution is based on the assumption that the Commission  
10 determines that the increase assigned to each customer class should be based on the  
11 results of a class cost-of-service study ("CCOSS"). If the Commission determines that  
12 the revenue distribution should be based on a CCOSS, the revenue distribution should  
13 not be based on PGW's CCOSS because, as explained in great detail in my Direct  
14 Testimony, PGW's study violates the principle of allocating costs on the basis of cost-  
15 causality, and does not reasonably reflect the costs of providing service to the various  
16 customer classes. The OCA's CCOSS, which corrects the flaws in PGW's CCOSS,  
17 should be used as guide for the allocation of any increase authorized by the  
18 Commission in this proceeding, if the Commission determines that the use of a CCOSS  
19 is appropriate for determining a revenue allocation.

20 **III. WITNESS: ROBERT D. KNECHT**

21 Q. IN YOUR DIRECT TESTIMONIES, YOU AND MR. KNECHT PRESENT  
22 ALTERNATIVES TO THE CCOSS PRESENTED BY THE COMPANY.

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<sup>5</sup> *Id.*

1 PLEASE EXPLAIN THE PRIMARY DIFFERENCE BETWEEN THOSE  
2 STUDIES.

3 A. The CCOSS presented by the Company utilized the Average and Excess (“A&E”)  
4 method to allocate distribution mains investment. The CCOSS presented by Mr.  
5 Knecht utilizes a variant of the A&E method to allocate distribution mains investment.  
6 In the CCOSS presented in my Direct Testimony, I used the Peak and Average  
7 (“P&A”) method to allocate distribution mains investment.

8 Q. PLEASE EXPLAIN HOW DISTRIBUTION MAINS ARE ALLOCATED TO  
9 CUSTOMER CLASS UNDER THE A&E METHOD.

10 A. Under the A&E method, a portion of mains investment equal to the system average  
11 load factor is allocated to classes based on average daily demands. The balance, or the  
12 difference between total system peak demand and average daily demands (i.e., 1 minus  
13 system average load factor), is considered Excess Demand and allocated based on the  
14 Excess Demand of each class. In PGW’s CCOSS, 26.5 percent of distribution mains  
15 investment is allocated to each class based on average demands and 73.5 percent is  
16 allocated to each class based on Excess Demand. In the A&E CCOSS presented by Mr.  
17 Knecht, 50 percent of distribution mains investment is allocated based on average daily  
18 demand and 50 percent is allocated based on Excess Demand.

19 Q. HOW WERE DISTRIBUTION MAINS ALLOCATED IN THE P&A CCOSS  
20 YOU SPONSORED IN YOUR DIRECT TESTIMONY?

21 A. Under the P&A method, distribution mains are allocated to each class 50 percent based  
22 on annual (average) demands, and 50 percent based on peak demands. This  
23 Commission has previously endorsed the use of the P&A method for the allocation of  
24 mains costs, stating that the P&A method “is a sound and reasonable method of cost  
25 allocation and should remain intact.” *Pa. PUC vs. National Fuel Gas Distribution Co.*,

1 83 Pa PUC 262, 360 (1994). In that proceeding, mains were allocated 50 percent based  
2 on average day demands and 50 percent based on peak demands. My Direct Testimony  
3 also noted several other cases in which the Commission approved the use of the P&A  
4 method.

5 Q. MR. KNECHT NOTES THAT IN PGW'S LAST FULLY LITIGATED BASE  
6 RATE PROCEEDING AT DOCKET NO. R-00061931, THE COMMISSION  
7 APPROVED THE USE OF A VARIANT OF THE A&E METHOD FOR THE  
8 ALLOCATION OF DISTRIBUTION MAINS.<sup>6</sup> PLEASE COMMENT ON THE  
9 APPROACH APPROVED BY THE COMMISSION IN PGW'S LAST FULLY  
10 LITIGATED BASE RATE CASE.

11 A. In Docket No R-00061931, the OCA supported a variant of the P&A method that  
12 allocated 80 percent of distribution mains investment based on average day demands  
13 and 20 percent based on peak demand. I&E presented a CCOSS utilizing the A&E  
14 method that allocated distribution mains investment 50 percent based on average day  
15 demands and 50 percent based on Excess Demands. In its final Order the Commission  
16 provided "Reviewing the record, we find that the allocation of distribution mains  
17 investment costs should be done using both annual and peak demands." In Docket No.  
18 R-00061931, the Commission approved I&E's 50/50 percent A&E allocation of  
19 distribution mains. In my opinion, since I&E's A&E CCOSS was the only study  
20 sponsored in Docket No. R-00061931 that reflected the Commission's previously  
21 endorsed 50/50 percent approach to mains cost allocation, it was approved.

22 Q. MR. KNECHT CLAIMS THAT THE COMMISSION ALSO APPROVED A  
23 VARIANT OF THE A&E METHOD IN A PPL GAS CASE AT DOCKET NO.

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<sup>6</sup> Direct Testimony of Robert D. Knecht, OSBA Statement No. 1, pgs. 19-20.

1 R-00061398 WHICH PROCEEDED PGW'S LAST LITIGATED BASE RATE  
2 CASE.<sup>7</sup> WHAT IS YOUR RESPONSE TO MR. KNECHT'S CLAIM?

3 A. I would note that in the referenced PPL proceeding, my review of the Recommended  
4 Decision and Order indicate that only A&E studies were presented by the parties to that  
5 proceeding. A study using the P&A method was not presented. Therefore, the only  
6 study that could be approved was an A&E study.

7 Q. MR. KNECHT PROPOSES THE USE OF A 50/50 A&E ALLOCATION IN  
8 THIS PROCEEDING RATHER THAN THE ALLOCATION UTILIZED BY  
9 THE COMPANY AND PRESENTS A CCOSS WHICH UTILIZES THIS  
10 METHOD.<sup>8</sup> DO YOU AGREE WITH THE USE OF A 50/50 A&E  
11 ALLOCATION?

12 A. No. In PGW's base rate proceeding in Docket No. R-2017-2586783, Mr. Knecht  
13 acknowledged that the A&E method is tilted toward an allocation based on peak  
14 demands. Utilizing the class demands developed by Mr. Knecht, Residential customers  
15 reflect 64 percent of total peak day demand but are allocated 67 percent of peak-related  
16 costs in his CCOSS. Under the P&A method, again using Mr. Knecht's class demands,  
17 Residential customers would be allocated 64 percent of peak-related costs.

18 As I explained in my Direct Testimony, the Company's decision to invest in  
19 mains extensions is almost entirely based on annual demands (average day) and annual  
20 revenues. While some of PGW's mains investment is associated with meeting peak  
21 demands, that amount is small. As detailed in my Direct Testimony, PGW's peak-related  
22 mains investment costs represent less than 20 percent of total mains investment. To be  
23 conservative and consistent with prior Commission precedent, I allocated 50 percent of  
24 distribution mains costs based on peak demands.

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<sup>7</sup> *Id.*, at p. 20.

<sup>8</sup> *Id.*, at p. 21.

1 Q. MR. KNECHT HAS DISCOVERED AN ERROR IN PGW'S ALLOCATION  
2 OF SERVICES COSTS TO COMMERCIAL AND LARGER INDUSTRIAL  
3 CUSTOMERS, AND CLAIMS TO HAVE CORRECTED THIS ERROR.<sup>9</sup> DO  
4 YOU ACCEPT HIS CORRECTION?

5 A. Yes.

6 Q. MR. KNECHT CLAIMS THAT THE COMPANY'S CCOSS IMPROPERLY  
7 ALLOCATES CERTAIN COSTS ONLY TO THE COMPANY'S SALES (GAS  
8 COST RATE ("GCR")) CUSTOMERS ON A VOLUMETRIC BASIS (FACTOR  
9 I).<sup>10</sup> PLEASE IDENTIFY THE ALLOCATIONS TO WHICH MR. KNECHT IS  
10 REFERRING.

11 A. Mr. Knecht is referring to the allocation of the following:<sup>11</sup>

- 12 • Production Plant and Associated Depreciation (Accounts 304-320)
- 13 • Manufactured Gas Production Expenses (Accounts 701-742)
- 14 • Other Gas Supply Expenses (Accounts 804-813)
- 15 • Gas Processing Labor Costs

16 Q. DO YOU AGREE THAT EACH OF THESE COSTS HAS BEEN  
17 IMPROPERLY ALLOCATED TO ONLY GCR CUSTOMERS?

18 A. Yes, and based on Mr. Knecht's description of the costs included in these accounts, his  
19 proposed modification to the allocation of these accounts appears reasonable.

20 Q. MR. KNECHT HAS PROPOSED TO ALLOCATE CUSTOMER RECORDS  
21 AND COLLECTION COSTS IN ACCOUNT 903 BASED ON HIS  
22 WORKPAPERS EVALUATING THOSE COSTS IN THE COMPANY'S 2017

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<sup>9</sup> *Id.*, at p. 24.

<sup>10</sup> *Id.*, at p. 26.

<sup>11</sup> *Id.*, at pp. 26-28.



1 BASE RATE PROCEEDING IN DOCKET NO. R-2017-2586783.<sup>12</sup> SHOULD  
2 THE ALLOCATION OF THE COSTS IN ACCOUNT 903 BE REVISED  
3 BASED ON THE COMPANY'S EVALUATION OF THOSE COST IN THE  
4 2017 PROCEEDING?

5 A. Yes. Mr. Knecht notes that in the 2017 proceeding, the Company developed a more  
6 careful evaluation of Account 903 than it did in this proceeding. In my Direct  
7 Testimony, I proposed to allocate the costs in Account 903 based on the Company's  
8 evaluation of those cost in the 2017 proceeding.

9 Q. MR. KNECHT PROPOSES A NUMBER OF ADDITIONAL MODIFICATIONS  
10 TO THE COMPANY'S CCROSS TO WHICH HE REFERS TO AS  
11 "TECHNICAL CHANGES."<sup>13</sup> PLEASE IDENTIFY THESE CHANGES.

12 A. The technical changes proposed by Mr. Knecht relate to the following:

- 13 • Storage Gas Working Capital
- 14 • Industrial Meter/Regulator O&M
- 15 • Appliance Repair and Other Revenue
- 16 • Account 922 Transferred A&G
- 17 • Accounting/Reporting Labor
- 18 • Factor 13 Total Costs
- 19 • Uncollectibles

20 Q. DO YOU AGREE WITH THE TECHNICAL CHANGES PROPOSED BY MR.  
21 KNECHT?

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<sup>12</sup> *Id.*, at p. 29.

<sup>13</sup> *Id.*, at pp. 29-30.

1 A. While Mr. Knecht’s technical changes appear reasonable based on the descriptions  
2 presented in his Direct Testimony, I will defer addressing those changes until reviewing  
3 the Company’s rebuttal testimony on the proposed technical changes.

4 Q. MR. KNECHT PROPOSES A DISTRIBUTION OF THE REVENUE  
5 INCREASE AUTHORIZED BY THE COMMISSION IN THIS PROCEEDING  
6 BASED ON THE RESULTS OF THE ALTERNATIVE CCOSS HE  
7 PRESENTS.<sup>14</sup> DO YOU AGREE WITH MR. KNECHT’S PROPOSED  
8 REVENUE DISTRIBUTION?

9 A. I agree with Mr. Knecht’s recommendation to adopt the increase proposed by the  
10 Company for the Interruptible class, and to limit the increase to the Municipal and  
11 PHA-GS classes to 1.5 times the system average increase. I disagree with Mr. Knecht’s  
12 proposed distribution of the revenue increase authorized in this proceeding to the  
13 remaining classes because it is based on his alternative CCOSS. As just explained, Mr.  
14 Knecht’s CCOSS is not based on cost causation principals and, therefore, should be  
15 given no consideration in determining the revenue distribution in this proceeding.

16 **IV. WITNESS: JEFFRY POLLOCK**

17 Q. MR. POLLOCK CLAIMS THAT PGW’S CCOSS FAILS TO RECOGNIZE  
18 THE INTERRUPTIBLE NATURE OF THE DELIVERY SERVICE PROVIDED  
19 TO INTERRUPTIBLE TRANSPORTATION (“IT”) CUSTOMERS.<sup>15</sup> DO YOU  
20 AGREE WITH MR. POLLOCK’S CLAIM?

21 A. No. As explained by PGW witness Constance E. Heppenstall, the IT customer class  
22 has only been interrupted once (2004) in over 22 years and cannot be truly considered

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<sup>14</sup> *Id.*, at p. 33.

<sup>15</sup> Direct Testimony of Jeffrey Pollock, PUICGUG Statement No. 1 p 7.

1 as interruptible for cost allocation purposes.<sup>16</sup> Therefore, it is appropriate to reflect the  
2 peak demands of IT customers in a CCOSS.

3 Q. MR. POLLOCK CLAIMS THAT RATE IT CUSTOMERS ARE SUBJECT TO  
4 DAILY BALANCING AND DO NOT REQUIRE ANY STORAGE SERVICE.  
5 WHAT IS YOUR RESPONSE?

6 A. As explained in my Direct Testimony, suppliers serving IT customers are currently  
7 required to balance deliveries on behalf of their customers and the usage of their  
8 customers within 10 percent (+/- percent)<sup>17</sup> on a daily basis. To provide this 10 percent  
9 balancing tolerance, the use of storage service is required.

10 Q. MR. POLLOCK CLAIMS THAT UNDER THE A&E METHOD DESCRIBED  
11 IN *GAS RATES FUNDAMENTALS*, THE EXCESS DEMAND OF IT  
12 CUSTOMERS SHOULD BE SET TO ZERO. DO YOU AGREE?

13 A. As just explained, under the A&E method described in *Gas Rates Fundamentals*, the  
14 Excess Demand of IT customers is not set to zero.

15 Q. MR. POLLOCK CLAIMS THAT PGW'S ALLOCATION OF DISTRIBUTION  
16 MAINS COSTS FAILS TO ALLOCATE ANY OF THESE COSTS ON THE  
17 BASIS OF THE NUMBER OF CUSTOMERS AND THIS IS INAPPROPRIATE  
18 AND SUBSEQUENTLY PRESENTS A CCOSS WHICH ALLOCATES 20  
19 PERCENT OF DISTRIBUTION MAINS COSTS BASED ON THE NUMBER  
20 OF CUSTOMERS.<sup>18</sup> WHAT IS YOUR RESPONSE?

21 A. In PGW's last fully litigated base rate case,<sup>19</sup> the Commission found that mains  
22 allocations based on the number of customers was not acceptable.

23 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

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<sup>16</sup> Direct Testimony of Constance E. Heppenstall PGW Statement No. 5.

<sup>17</sup> Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 4, p. 36.

<sup>18</sup> *Id.*, at pp. 14, 19.

<sup>19</sup> PGW Docket No. R-00061931, 2007 Pa. PUC Lexis 46 (2007)

1 A. Yes.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Jerome D. Mierzwa, hereby state that the facts above set forth in my Rebuttal Testimony, OCA Statement No. 4-R, are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

DATED: July 13, 2020  
\*291834

Signature:

  
Jerome D. Mierzwa

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