OCA Statement No. 2S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

Surrebuttal Testimony of
Mark E. Garrett

On Behalf of:
Office of Consumer Advocate
Statement No. 2S

July 24, 2020

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A: My name is Mark Garrett. My business address is 4028 Oakdale Farm Circle, Edmond, OK 73013.

Q: DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF OCA?

A: Yes. I submitted direct testimony on June 15, 2020.

Q: WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A: In my surrebuttal testimony I address the Company's rebuttal testimony to several OCA adjustments including: bad debt, payroll, field services expense, incentive compensation, lobbying expense, rate case expense and risk management expense. I also discuss the Company's rebuttal to OCA's COVID-19 pandemic concerns.

II. SURREBUTTAL TO EXPENSE ADJUSTMENTS

Q: WHAT ADJUSTMENTS ARE INCLUDED IN YOUR DIRECT TESTIMONY?

A: In my direct testimony, I proposed several adjustments to PGW's projected expense levels and I incorporate the debt service coverage recommendations of Dr. Habr. The combined impact of OCA witnesses' recommendations on the requested revenue requirement is set forth below:

PGW Requested Increase in Base Rates	$70,000,000
Debt Service Coverage	$(49,444,000)
Bad Debt Expense	(12,630,000)
Field Operations Expense	(2,508,000)
Payroll Expense	(4,600,000)
Lobbying Expense	(105,000)
Rate Case Expense	(94,000)
Incentive Plans	(547,000)
Risk Management	(3,325,000)
Purchased Services	(548,000)
Retain Current Other Operating Revenue	1,000,000
Net Adjustments	$(72,800,000)
Recommended Change to Base Rates	$(2,800,000)

The Company provided rebuttal testimony to most of these adjustments.

A. Bad Debt Expense
B. Payroll Expense
C. Field Services Operations
D. Lobbying Expense
E. Rate Case Expense
F. Goal-Based Compensation
G. Risk Management Expense, and
H. Purchased Services Expense

A. <u>Bad Debt Expense</u>

Q: WHAT IS THE ISSUE REGARDING BAD DEBT?

A: In my direct testimony I stated that PGW is requesting a bad debt expense rate of 4.5%. I also testified that the Company reported a revenue collection rate of 96.57% in HTY 2019 with adjusted net write-off rate of 2.937%. In other words, the Company reported two different amounts for bad debt. The 96.57% collection rate implies a bad debt write-off rate of 3.43%, which is slightly higher than the actual adjusted write-off rate of 2.937%. Both amounts, however, are much lower than the 4.5% bad debt expense rate requested by the Company.[1] As a result, I recommended a 3% bad debt expense rate for this case, which is consistent with the HTY 2019 adjusted net write-off experience of 2.9%. I also testified that the maximum rate the Commission should use is the 3.43% expense rate shown by PGW for 2019.

I further testified that in historic periods, one would expect the net write-offs to be different from a utility's bad debt expense because bad debt *expense* is an *accrual* based on estimated bad debts, and the *net write-offs* are based on actual write-off activity calculated after the fact. For future periods, though, both bad debt expense and net write-offs are based upon the estimated levels of bad debt so there should be no reason for these rates to be different. As a result, I recommend the use of the Company's actual write-off rate for 2019, which is approximately 3%, rather than the Company's requested 4.5%.

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[1] The Company states that its budgeted bad debt expense rate is 4%, however, the amount of bad debt expense actually included in the Company's revenue requirement calculation is 4.5%. *See* Rebuttal Testimony of Joseph F. Golden Jr., page 33, line 20—page 34, line 1. *See also*, Exhibits JFG-1 and JFG-2. Because the Company uses 4.5% in its revenue requirement calculations, this the relevant bad debt expense rate for purposes of this adjustment.

I also testified that on May 13, 2020, this Commission issued a decision to allow utilities to defer bad debt expenses related to the COVID-19 pandemic.[2] I pointed out that these deferrals will logically lead to ***lower***, not higher, bad debt rates, as much of the bad debt next year will be attributed to the pandemic.

Our adjustment to reflect the actual 2019 write-off rate of 3% reduces bad debt expense by $12,630,000; using the 2019 bad debt expense rate of 3.43%, results in an adjustment of $9,696,000.[3]

Q: WHAT DID THE COMPANY SAY IN REBUTTAL TO THE RECOMMENDED USE OF ITS ACTUAL 2019 BAD DEBT WRITE-OFF EXPERIENCE?

A: Mr. Golden disagreed with our recommended use of 2019 actual write-offs to establish bad debt expense. Mr. Golden testified that the Company "does not use a net write-off to establish a level of bad debt expense."[4] The problem with this statement is that the expense level is merely the amount accrued each month, but the monthly accrual amounts are trued up to the ***actual*** write-offs as the year progresses. In other words, the relevant amounts to be considered for purposes of setting rates are the actual write-offs, not the expected write-offs (the expense accrual) that the Company uses in estimating its bad debt expense.

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[2] *See* PUC's Secretarial Letter on COVID-19 Cost Tracking and Creation of Regulatory Asset at Docket No. M-2020-3019775, dated May 13, 2020.

[3] This amount can be calculated on Exhibit MEG-5.1 by changing the 3% in cell E20 to 3.43%.

[4] Rebuttal Testimony of Joseph F. Golden, Jr., page 34, lines 3-4.

Mr. Golden also objects to using actual 2019 numbers and says that a 3-year average (2017-2019) would support a higher bad debt expense level.[5] That might be true, but the 3-year history provided at page 34 of his rebuttal testimony (using gross unadjusted expense numbers, not net write-offs) clearly shows a ***downward*** trend. When there is a clear trend moving in one direction, the generally acceptable practice is to use the latest year results, rather than an average. An average is used when the annual results are fluctuating, rather than moving in one direction, as they are here. For this reason, using an average as Mr. Golden suggests would result in an overstated rate.

Mr. Golden also disagrees with our recommendation to use 2019 actual results because the Company concluded that "due to the continued effects of the Covid-19 pandemic, PGW's bad debt expense could be double in FY 2021."[6] The Company's objection is misplaced. Although PGW's write-offs may be higher in 2021 as a result of the pandemic, this will not result in a higher bad debt expense because of the Commission's recent order to allow special treatment for Covid-19-related bad debt. The Commission's order of May 13, 2020 allows utilities to defer bad debt expenses related to the COVID-19 pandemic.[7] This means Covid-19-related bad debt will be charged to a regulatory asset account and ***not*** to bad debt expense. This further means that the bad debt deferrals being accumulated in a regulatory asset account will logically lead to ***lower***, not

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[5] Rebuttal Testimony of Joseph F. Golden, Jr., page 34, lines 4-16.

[6] Rebuttal Testimony of Joseph F. Golden, Jr., page 35, lines 2-4.

[7] *See* the PUC's Secretarial Letter on COVID-19 Cost Tracking and Creation of Regulatory Asset at Docket No. M-2020-3019775, dated May 13, 2020. As of the date of this testimony, PGW has not made a filing with the PUC to defer Covid-19 bad debt expense. However, it is reasonable to assume that PGW will make such a filing.

higher, bad debt expense rates, as it is likely that much of the bad debt expense incurred next year will be attributable to the pandemic. In other words, the Commission's treatment of Covid-19-related bad debt supports a ***lower*** non-Covid-19 bad debt rate, and that is the bad debt rate that is being set in this proceeding. Pursuant to the Commission's order, the Covid-19-related bad debt will be deferred separately and therefore it will not be included in the 2021 general bad debt expense account.

B. Payroll Costs

Q: HAVE YOU REVIEWED MR. GOLDEN'S REBUTTAL TESTIMONY REGARDING YOUR PAYROLL EXPENSE RECOMMENDATIONS?

A: Yes. Mr. Golden disagrees with my recommended payroll expense for the FPFTY 2020-21. Mr. Golden opines that I did not recognize PGW's projected employee level for the FPFTY of 1,675, stating that the payroll levels are trending upwards, and that historic operations of PGW have no relevance to the (projected) FPFTY payroll expenses. Mr. Golden states that PGW disagrees with the use of average historic levels for these expenses simply because the FPFTY levels are higher than the historic cost levels.[8]

Q: DO YOU AGREE WITH MR. GOLDEN'S STATEMENTS?

A: No. Mr. Golden misunderstands my recommendation. I did not recommend that PGW payroll expense should be ***limited to*** an average of historic expense levels. Instead, my

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[8] See Rebuttal Testimony of Joseph F. Golden, Jr., page 35, line 17—page 36, line 19.

recommendation uses actual expense for FY 2018-2019 as a starting point, which I then adjust upwards to reflect pay increases for the next two years. The use of the FY 2018-2019 actual payroll levels is a reasonable starting point for setting payroll in the rate effective period. To this actual expense level, I recommend adjustments to reflect reasonable pay increases for FY 2019-2020 and for FY 2020-2021. Although the Company requested pay increases of 2.5% for all employees, I increased the bargaining payroll by 3.0% for both years to recognize the updated bargaining agreement. My adjustment therefore increases the FY 2019 payroll expense level from $97,850,525 to $103,440,364 for the FPFTY 2020-21, an expense increase of $5,586,839, or 5.7%. PGW requested an increase in the amount of $10,189,475, or 10.4% over the same two-year period.[9] The difference between my recommendation and that of the Company is that my proposed payroll increase does not include amounts for the ***unfilled*** positions requested by the Company.

Q: DID MR. GOLDEN RAISE ANY FURTHER CONCERNS ABOUT YOUR ADJUSTMENT?

A: Yes. Mr. Golden also argues that new employees were added recently, and that the additional employees would cause payroll costs to increase to the levels requested.[10] However, this statement is incorrect. The twenty-five additional employees that are being

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[9] See OCA Exhibit MEG-5.3, where the FY 2019 expenses are given compounded annual increases of 2.5% and 3.0%.

[10] See Rebuttal Testimony of Joseph F. Golden, Jr., page 36, lines 9-14.

added are ***temporary*** employees, and they are being added to the budget to implement the new Customer Information System ("CIS"). The payroll costs for these twenty-five new employees, however, will all be ***capitalized*** so the cost of these temporary additional employees have no impact on the proposed increase in payroll *expense* from the historic year FY 2019 to the budgeted year FY 2021.[11] Mr. Golden is mistaken in his claim that these new employees will affect payroll *expense* levels.[12] Since my adjustment is based exclusively on payroll *expense* levels, the addition of employees for a specific *capital* project have no impact on my proposed *expense* levels. My adjustment to reduce the requested FPFTY 2020-21 payroll expense by $4.6 million is reasonable and should be adopted by the Commission.

C. <u>Distribution and Field Services Operations</u>

Q: PLEASE DISCUSS MR. GOLDEN'S REBUTTAL TESTIMONY ON DISTRIBUTION AND FIELD SERVICES EXPENSES.

A: Mr. Golden argues that I doubled up on adjustments by reducing the requested level of (1) payroll expenses and the requested level of (2) Distribution and Field Services Expenses.[13] (The Distribution Department and the Field Services Department are now consolidated as

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[11] See PGW's Fiscal Year 2020-2021 Operating Budget Supplemental Filing, which was filed April 22, 2020. This filing shows total CIS payroll of $2.063 million, and indicates that the entire $2.063 will be ***capitalized*** into the cost of the project, meaning that none of these costs will be charged to payroll expense.

[12] Rebuttal Testimony of Joseph F. Golden, Jr., page 36, lines 1-3.

[13] Rebuttal Testimony of Joseph F. Golden, Jr., page 37, lines 19-20.

the Field Operations Department, as such, I refer to the adjustment as the "Field Operations" adjustment going forward).

Q: IS MR. GOLDEN CORRECT THAT YOUR PAYROLL ADJUSTMENT OVERLAPS THE NORMALIZATION ADJUSTMENT FOR FIELD OPERATIONS EXPENSES?

A: No. In both cases I increased the historic test year FY 2018-19 costs. So, if the adjustments overlap, it is to the Company's benefit. My recommended adjustment to payroll expense was an ***increase*** to the historic expense level and recognized two years of pay increase at or above the rate discussed by the Company. In the case of the Field Operations Expenses, I also ***increased*** the HTY 2018-2019 by averaging its cost with that of the prior year, which was higher. My adjustment increased the HTY 2019 Distribution Department expenses by $2.5 million and the Field Services Department expenses by $2.1 million, for a combined increase of $4.6 million, or 5.9%.[14] Thus, I increase the Field Operations expenses by 5.9% and I increase payroll expense by 5.7%. Payroll is one component of Field Operations expenses, so there is some overlap in these adjustments. However, since both adjustments ***increase*** the base cost from the HTY 2019 to FPFTY 2021, the result of any overlap would be an ***overstatement***, not an understatement of expense levels as Mr. Golden suggests. Moreover, a comparison of the FY 2019-20 budget

[14] See OCA Exhibit MEG-5.2, total of line 3 less the total of line 2.

to the updated FY 2019-20 estimate (which includes actual costs) shows a $3.7 million cost reduction for the combined departments.[15] Therefore, my adjustment to reduce Field Operations expenses by $2.5 million is reasonable and should be adopted by the Commission.

D. Lobbying Expense

Q: PLEASE DISCUSS THE ISSUES WITH RESPECT TO LOBBYING EXPENSES.

A: In my direct testimony I stated that PGW included $105,000 of lobbying expenses in its FPFTY 2021 revenue requirement.[16] I also testified that lobbying expenses are typically excluded for ratemaking purposes, and that it was my understanding that this Commission follows this general rule. As a result, I recommended an adjustment to remove the lobbying expenses from the FPFTY 2021 revenue requirement.

Q: HOW DID PGW RESPOND?

A: Mr. Golden acknowledged the Commission's general rule regarding lobbying expenses, but testified that PGW should be treated differently. He testified that "since PGW has no shareholders, all of PGW's lobbying efforts accrue to the benefit of customers."[17] While it is accurate that PGW has no shareholders, this fact alone does not establish that all of

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[15] See OCA Exhibit MEG-5.2, lines 4 -6.

[16] See OCA B-7.

[17] Rebuttal Testimony of Joseph F. Golden, Jr., page 38, lines 11-12.

PGW's lobbying efforts are undertaken for the benefit of its customers. Lobbying efforts may be primarily for the benefit of the Company management or other municipal agendas that may not be strictly for the benefit of customers. Because the Company has not made a sufficient showing that its lobbying costs benefit its customers, I recommend that the Commission continue to follow its rule of excluding lobbying costs from rates.

E. Rate Case Expense

Q: PLEASE DISCUSS THE COMPANY'S POSITIONS REGARDING RATE CASE EXPENSES.

A: In direct testimony, I testified that in reviewing the rate case consulting contracts, I found that one consultant, Premier Logic, LLC was engaged to provide software training.[18] Specifically, the contract states as follows: "Consultant will provide MS Office and Window OS training, associated materials and related service at PGW's Montgomery Avenue headquarters as requested by PGW, in addition to other matters pertaining to PGW as requested by PGW."[19] The amount that the Company attributed to rate case expense was $468,000, which is amortized over a five year period, resulting in an annual rate case expense of $94,000 for software training and support.[20] I testified that software training for in-house personnel is generally considered an ongoing operating cost of the utility, not

[18] See response to BIE-RE-47B, Attachment F, Exhibit A.

[19] See response to BIE-RE-47B, Attachment F, Exhibit A.

[20] Rebuttal Testimony of Joseph F. Golden, Jr., page 39, lines 8-10.

specifically related to rate case expense. An expenditure of $468,000 for rate case software support is unusual and appears unreasonably high. As a result, I recommended that these costs be excluded from rate case expense *unless* the Company can show that these costs are uniquely related to this case.

In rebuttal testimony, Mr. Golden testified that, as part of its contract with PGW, Premier Logic provides software training and, to a lesser degree, also provides technical support for the administration of the rate case."[21] This representation alone, however, does not adequately explain why the Company required $468,000 in software technical support for administration of the rate case. In my view, the Company has not made an adequate showing that these costs are uniquely related to the rate case, and therefore the Commission should disallow the recovery of these costs as rate case expense.

F. <u>Goal-Based Incentive Compensation</u>

Q: WHAT IS THE ISSUE REGARDING PGW'S INCENTIVE COMPENSATION PLANS?

A: In my direct testimony, I testified that PGW provides incentive compensation for its executives and its other non-union employees.[22] The C-Suite at-risk compensation covers executives up to 10% of base salary and the Goal-Based Compensation is calculated at 1.75% of non-union wages based on annual goals. The amounts included in FPFTY 2021

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[21] Rebuttal Testimony of Joseph F. Golden, Jr., page 39, lines 17-18.

[22] See Response to OCA-17-1.

expenses totaled $105,000 for the C-Suite at-risk compensation and $884,000 for the Goal Based Compensation.

I further testified that it was my understanding that the utility must present studies or other data to support any claimed inability to retain competent management personnel.[23] Also, the incentive plans need to have well-defined quantitative goals and criteria.[24]

I testified that the Company presented no compelling data that the executive incentives are necessary to retain personnel. Moreover, it is not appropriate for ratepayers to shoulder executive incentives or bonuses, particularly in this financial environment. With respect to the non-executive incentives, only the Gas Theft Bonus Plan directly benefits customers. The Event Driven Bonus Plan and the Employee Recognition Award Plan set forth practically no stated goals or other criteria to benefit ratepayer, making the costs associated with these plans unsuitable for rate recovery.

As a result, I recommended reducing the FPFTY 2021 expenses by $105,000 to exclude the cost of the C-Suite incentive plan and an additional $442,000 to exclude 50% of the cost of the Goal Based Compensation. A 50% inclusion in rates of the non-executive plans recognizes that these plans have some benefit to customers.

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[23] *See* Docket No. R-00061931, Order Entered September 28, 2007, page 48.

[24] *Id.*

Q: HOW DID PGW RESPOND?

A: In rebuttal testimony, Mr. Golden argues that PGW's incentive plans benefit customers and should be included in rates.[25] The problem with this rebuttal is that it does not address the main deficiency in the Company's request to include incentive compensation in rates, which is its failure to produce a study that demonstrates these incentives are necessary to attract and retain qualified personnel, as required by the Commission.[26] Because this fundamental deficiency remains unaddressed, the Commission should not allow full recovery of these costs, but instead should implement the sharing methodology I recommended in my direct testimony.

G. <u>Risk Management</u>

Q: WHAT WAS YOUR RECOMMENDATION FOR THE RECOVERY OF RISK MANAGEMENT EXPENSE?

A: I reviewed PGW's proposed risk management expenses for both historic and budgeted years, from FY 2017 through FPFTY 2020-21. I found that PGW's risk management expense fluctuated during the three historic years of FY 2017, FY 2018, and FY 2019, but was budgeted for FY 2020 and FY 2021 at levels ***greater*** than actual historic experience. I reviewed the fluctuating historic costs and found that insurance premiums had not increased or fluctuated significantly, but the reserve appropriation for liabilities and other risks not covered by insurance did. I found that the risk management accrual was lower in

[25] *See* Rebuttal Testimony of Joseph F. Golden, Jr., pages 40-41.

[26] *See* Docket No. R-00061931, Order Entered September 28, 2007, page 48.

two out of the three historic years I reviewed. I recommended that this cost be normalized since the normalization process recognizes that these accrued costs would sometimes be greater and sometimes be lower. I recommended an adjustment to reduce the estimated FPFTY 2020-21 to the average recurring levels reduced this expense by $3.3 million.[27]

Q: WHAT WAS PGW'S RESPONSE TO YOUR RECOMMENDATION TO LIMIT THE INCREASE IN THIS EXPENSE TO THE AVERAGE RECURRING ACCRUAL BASED ON PGW'S PAST EXPERIENCE?

A: Mr. Golden filed rebuttal testimony on this issue recommending that PGW recover the requested accrual level for this expense. Mr. Golden argued that the normalized expense level would not allow the full reserve accrual requested by the Company.[28] Mr. Golden also argued that a reduced expense recovery would not allow PGW to pay for all of its expenses.[29]

Q: DO YOU AGREE WITH MR. GOLDEN'S ARGUMENTS?

A: No. Mr. Golden mischaracterizes the reserve accrual as an expense that must be paid, and that is not the case. The reserve accrual is an ***estimate*** of future liabilities and damages, not covered by insurance, that may need to be paid ***if*** they materialize. The Company will

[27] *See* Direct Testimony of Mark E. Garrett, page 26, line 4—page 28, line 9.

[28] *See* Rebuttal Testimony of Joseph F. Golden, Jr., page 42, lines 12-14.

[29] *See* Rebuttal Testimony of Joseph F. Golden, Jr., page 42, lines 14-16.

not have to make any payments from the projected levels if injuries or damages do not occur. Management's desire to maintain a comfortable cushion of excess reserves must be weighed against customers' need for reasonable overall rates. The evidence shows that the Company has varied the reserve accrual from year to year, and the Company has provided no evidence that the FPFTY 2020-21 expense level should be set higher than the highest level experienced in the historic periods.

Q: WHAT IS YOUR RECOMMENDATION FOR PGW'S RESERVE FOR RISK MANAGEMENT?

A: I recommend that the Commission reduce the requested risk management expense by $3,325,000 as supported in my direct testimony.

H. Purchased Services

Q: PLEASE DISCUSS THE PHILADELPHIA FACILITIES MANAGEMENT CORPORATION ("PFMC") COSTS INCLUDED IN PGW'S REQUESTED RATES.

A: In my direct testimony, I explained that PGW has a management agreement with PFMC which includes a provision to reimburse the PFMC for its actual costs incurred in managing the Company, not to exceed the prior year's costs adjusted for inflation. In this case, PGW has proposed an increase of $548,000 in these costs, from $205,000 to $753,000. This represents a 267% increase. I testified that PGW has not identified any services or costs that would be covered by this increase. I further explained that in last year's Operating Budget proceeding, the parties agreed to a budget expense of $205,000. As a result, I recommended that this amount be retained for the FPFTY revenue requirement. My proposed adjustment reduces operating expenses by $548,000 as set forth on *Exhibit MEG-5.8.*

Q: HOW DID THE COMPANY RESPOND IN ITS REBUTTAL TESTIMONY TO THIS RECOMMENDED ADJUSTMENT?

A: The Company agreed with the adjustment.[30] It recalled that the parties had indeed agreed to a budget of $205,000 for this expense in last year's Operating Budget proceedings.

III. COVID-19 IMPACTS ON THE FULLY PROJECTED FUTURE TEST YEAR

Q: PLEASE DISCUSS THE COMPANY'S REBUTTAL POSITION REGARDING THE IMPACTS OF THE COVID PANDEMIC ON THE FPFTY.

A: I testified in my direct testimony that the Company has made no attempt to quantify any of the impacts on its filing related to the Covid-19 pandemic. In response to OCA 09-4, the Company provided the following response:

> PGW does not have a specific date or timeframe regarding when it would complete an analysis of the impacts of the Covid-19 emergency on the FPFTY. **Every day presents numerous changes to multiple variables that could impact the FPFTY from financial and operational perspectives**. (Emphasis added).

[30] See Rebuttal Testimony of Joseph F. Golden, Jr., page 29, lines 1-9.

I testified that this represents a deficiency in the Company's filing that cannot be cured. These numerous daily changes impacting the FPFTY bring into question the reliability of the FPFTY as a basis for setting prospective rates. Put another way, these numerous changes call into question whether *just and reasonable* rates can possibly result from a projected test year that is admittedly incurring material changes day to day. This makes the FPFTY an unreliable basis for setting rates. The point is, no one knows the economic impacts that COVID-19 has had on the Company or will continue to have in the future. As a result, just and reasonable rates cannot be set based on a future test year until these impacts are better known.

Q: HOW DID THE COMPANY RESPOND?

A: The Company admits that it is not in a position to determine how the pandemic will impact the Company's projected test year.[31] It did, however, conduct a quick review of four components of the revenue requirement, bad debt, revenues, payroll and construction. It found that bad debt was going up, commercial revenues were going down (but residential revenues were unchanged) and payroll and construction would be unchanged.[32] From this analysis, the Company found bad debt is likely to increase by $33M and revenues will decrease by $3.5M for a total increase in the revenue requirement of about $36.5M.[33]

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[31] *See*, for example, Rebuttal Testimony of Joseph F. Golden, Jr., page 5, lines 7-12.

[32] *See* Rebuttal Testimony of Joseph F. Golden, Jr., page 9, lines 14-17.

[33] *Id*. at page 10-11.

The problem with the Company's analysis is that it is inadequate and mostly incorrect. With respect to ***bad debt***, the projected increase of $33M due to the pandemic will have no impact on the revenue requirement because these costs are all eligible for deferral under the Commission's Covid-19 decision. With respect to ***revenues***, it is unrealistic to assert that residential revenues will not increase, especially if the schools and businesses do not re-open and residential customers are forced to spend more time at home. The Company has quantified its Covid-19-related revenue decreases but overlooks the corresponding revenue increases that are likely to occur from residential customers. With respect to ***payroll***, the Company should explain why it is so urgent to fill currently unfilled positions, which have not been essential in the past, in the midst of a pandemic that it predicts will cause nearly 10% of its customers to be unable to pay their gas bills. With respect to ***construction***, the Company should explain why it has not yet modified its construction plans as a result of the pandemic.

In short, the Company needs to explain why it hasn't already lowered all of its budgets to the extent possible to help address the pandemic impacts on the local economy.

Q: AS A RESULT OF THE COMPANY'S REBUTTAL TESTIMONY HAVE ANY OF YOUR POSITIONS AS SET OUT IN YOUR DIRECT TESTIMONY CHANGED?

A: No. I continue to recommend a revenue requirement decrease of $2,800,000, as set forth in my Direct Testimony and in OCA Exhibit MEG-1.

IV. CONCLUSION

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes. It does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Mark E. Garrett, hereby state that the facts above set forth in my Surrebuttal Testimony, OCA Statement 2, 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 24, 2020
*292339

Signature: M. Garrett
Mark E. Garrett

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