

REVISED OCA Statement No. 4-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC
UTILITY COMMISSION

Docket No. R-2020-3017206

v.

PHILADELPHIA GAS WORKS

REVISED SURREBUTTAL TESTIMONY OF
JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 27, 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,
4 Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300,
5 Columbia, Maryland 21044. Exeter specializes in providing public utility-related
6 consulting services.

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

9 A. Yes. My Direct Testimony was submitted as OCA Statement No. 4 on June 16, 2020,
10 and my Rebuttal Testimony was submitted as OCA Statement No. 4-R on July 13,
11 2020.

12 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A. The purpose of my Surrebuttal Testimony is to respond to certain aspects of the
14 Rebuttal Testimony of Constance E. Heppenstall presented on behalf of Philadelphia
15 Gas Works (“PGW”), Robert D. Knecht presented on behalf of the Office of Small
16 Business Advocate (“OSBA”), and Jeffrey Pollock presented on behalf of the
17 Philadelphia Industrial and Commercial Gas Users Group (“PICGUG”).
18

19 **II. PHILADELPHIA GAS WORKS**

20 **Witness: Constance E. Heppenstall**

21 Q. IN HER REBUTTAL TESTIMONY, MS. HEPPENSTALL IS PROPOSING TO
22 MODIFY THE AVERAGE AND EXCESS (“A&E”) METHOD SHE
23 INITIALLY USED IN THE COST OF SERVICE STUDY (“COSS”)
24 PRESENTED IN HER DIRECT TESTIMONY TO ALLOCATE

1 DISTRIBUTION MAINS COSTS. PLEASE EXPLAIN THIS PROPOSED
2 MODIFICATION.

3 A. In the COSS initially filed by Ms. Heppenstall, using the A&E method described in *Gas*
4 *Rate Fundamentals*, distribution mains costs equal to the system average load factor (26.5
5 percent) were allocated to rate classes based on the average daily demand of each class.¹
6 Under the A&E Method, the difference between the total system coincident peak day
7 demand and average daily demands (i.e., 1 minus the system average load factor) is
8 considered Excess Demand (73.5 percent).² The remainder of distribution mains costs
9 were allocated to each class based on the Excess Demand of each class served.³ As
10 explained in significant detail in my Direct Testimony, Ms. Heppenstall's application of
11 the A&E method to allocate distribution mains costs resulted in an allocation equal to an
12 allocation based 100 percent on peak demands.⁴ As also explained in significant detail in
13 my Direct Testimony, a 100 percent peak allocation of distribution mains costs produced
14 results that do not reasonably reveal an accurate indication of class allocated cost
15 responsibilities.⁵

16 In her Rebuttal Testimony, Ms. Heppenstall modified the A&E allocation of
17 distribution mains costs to reflect a 50 percent allocation based on average demands and a
18 50 percent allocation based on Excess Demand.⁶

19 Q. WHAT IS YOUR RESPONSE TO THIS PROPOSED MODIFICATION?

20 A. In his Direct Testimony, Mr. Knecht proposed to utilize the same 50/50 A&E allocation
21 of distribution mains costs which Ms. Heppenstall is now proposing to utilize.⁷ I

¹ Direct Testimony of Constance E. Heppenstall, PGW Statement No. 5, p. 5; Exhibit CEH-1, pp. 2-3.

² *Id.*

³ *Id.*

⁴ Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 4, pp. 8-11.

⁵ *Id.*, p. 3.

⁶ Rebuttal Testimony of Constance E. Heppenstall, PGW Statement No. 5-R, p. 4.

⁷ Direct Testimony of Robert D. Knecht, OSBA Statement No. 1, p. 21.

1 addressed why a 50/50 A&E allocation of distribution mains costs is unreasonable in
2 significant detail in responding to Mr. Knecht in my Rebuttal Testimony.⁸ Ms.
3 Heppenstall's 50/50 A&E allocation is unreasonable for the same reasons the 50/50 A&E
4 allocation utilized by Mr. Knecht is unreasonable.

5 Q. MS. HEPPENSTALL CLAIMS SHE USED THE A&E METHOD TO
6 ALLOCATE DISTRIBUTION MAINS COSTS IN THIS PROCEEDING
7 BECAUSE IT WAS APPROVED IN A PPL GAS UTILITIES CORPORATION
8 PROCEEDING IN DOCKET NO. R-0061398, AND IN PGW'S LAST FULLY
9 LITIGATED CASE.⁹ WHAT IS YOUR RESPONSE TO THESE CLAIMS?

10 A. The identical arguments for utilizing an A&E allocation of distribution mains costs were
11 presented by Mr. Knecht in his Direct Testimony, and I have already responded to those
12 arguments in my Rebuttal Testimony.¹⁰

13 Q. MS. HEPPENSTALL HAS ALSO REVISED THE COSS PRESENTED IN HER
14 DIRECT TESTIMONY TO REFLECT SEVERAL MODIFICATIONS
15 PROPOSED BY OSBA WITNESS MR. KNECHT, AND SEVERAL OTHER
16 CHANGES.¹¹ ARE THESE MODIFICATIONS REASONABLE?

17 A. Yes. These modifications appear to be reasonable and I further address these
18 modifications later in my testimony.

19 Q. MS. HEPPENSTALL CLAIMS THAT HER REVISED COST OF SERVICE
20 STUDY WHICH USES A 50/50 A&E ALLOCATION FOR DISTRIBUTION
21 MAINS ADDRESSES THE CONCERN EXPRESSED IN YOUR DIRECT

⁸ Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R, p. 6.

⁹ Rebuttal Testimony of Constance E. Heppenstall, PGW Statement No. 5-R, pp. 3-4.

¹⁰ Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R, pp. 5-6.

¹¹ Rebuttal Testimony of Constance E. Heppenstall, PGW Statement No. 5-R, pp. 1-2.

1 TESTIMONY THAT THE COMPANY'S INITIAL COSS COLLAPSES INTO
2 A PURE PEAK ALLOCATION.¹² WHAT IS YOUR RESPONSE?

3 A. As explained in responding to Mr. Knecht in my Rebuttal Testimony, a 50/50 A&E
4 allocation of distribution mains costs is inappropriately tilted toward an allocation based
5 on peak demands.¹³ Residential customers reflect 67 percent of total peak day demand
6 but are allocated 71 percent of peak-related costs in Ms. Heppenstall's modified A&E
7 COSS.

8 Q. MS. HEPPENSTALL CLAIMS THAT YOUR PROPOSED PEAK &
9 AVERAGE COSS HAS THE EFFECT OF WEIGHTING AVERAGE USAGE
10 TWICE IN THAT IT DOUBLE COUNTS AVERAGE USAGE.¹⁴ WHAT IS
11 YOUR RESPONSE?

12 A. Ms. Heppenstall's claim is misleading. Consider the following example. Customer A, a
13 Residential customer, has a peak demand of 10 Mcf and an average demand of 4 Mcf.
14 Customer B, an industrial customer, also has a peak demand of 10 Mcf, but an average
15 demand of 8 Mcf. Under the P&A method, each customer would be allocated 50 percent
16 of peak demand-related mains costs, as each customer's peak demand represents 50 percent
17 of the total peak demand of 20 Mcf. Customer A would be allocated 33.3 percent ($4/(4 +$
18 $8)$) of annual demand-related mains costs and Customer B would be allocated 66.7 percent
19 ($8/(4 + 8)$) of annual demand-related mains costs. Now assume the average demand of
20 Customer A increases to 6. Under the P&A method, each customer would continue to be
21 allocated 50 percent of peak demand-related mains costs, but the allocation of annual
22 demand-related mains costs to Customer A would increase. The change in annual demand

¹² Id., p. 4.

¹³ Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R, p. 6.

¹⁴ Rebuttal Testimony of Constance E. Heppenstall, PGW Statement No. 5-R, p. 5.

1 of Customer A has no effect on the allocation of peak demand-related costs and, therefore,
2 there is no double-counting of annual usage.

3 Another way to demonstrate that the P&A method does not double-count annual
4 demands is as follows. The allocation of the annual component of mains under the P&A
5 method reflects average usage over a 365-day period. The peak day used to allocate the
6 peak component of mains is theoretically supposed to reflect usage on one day during the
7 year. To eliminate the alleged double-count, the annual average component of mains can
8 be allocated based on average daily usage over a 364-day period. That is, the annual
9 allocation would reflect average usage on every day except the peak day. Of course, a
10 calculation of average daily use over a 364-day period will differ little from that
11 computed over a 365-day period, so this hypothetical flaw in the P&A method would
12 have no material impact on the cost of service study results.

13 Q. ALTHOUGH THE COMPANY HAS MODIFIED ITS INITIAL COSS, MS.
14 HEPPENSTALL IS NOT PROPOSING TO MODIFY THE INITIAL REVENUE
15 DISTRIBUTION PROPOSED BY THE COMPANY.¹⁵ IS THIS
16 REASONABLE?

17 A. No. In this proceeding, PGW is requesting an increase of \$70 million. As a result of the
18 modifications to the COSS presented in Ms. Heppenstall's Rebuttal Testimony, there
19 have been significant changes to the indicated cost of service for certain customer class.
20 For example, the indicated cost of service for the Residential class has declined from
21 \$376,387,000 to \$358,503,000, or by nearly \$18,000,000, which is a reduction of 5
22 percent. Under the Company's proposed revenue distribution and modified COSS, the
23 relative rate of return of the Residential class will increase from 0.70 to 1.16.¹⁶ It is

¹⁵ Rebuttal Testimony of Constance E. Heppenstall, PGW Statement No. 5-R, p. 4.

¹⁶ The relative rate of return for the Residential class of 0.70 at present rates is incorrectly calculated and should be 1.18.

1 unreasonable not to modify the Company's initial revenue distribution to reflect the
2 significant change in the indicated Residential cost of service. Although I disagreed with
3 the initial \$59,098,000 revenue increase assigned to the Residential class by PGW, PGW
4 should have at least reduced the increase to the Residential class by 5 percent, or
5 \$3,000,000.

6 **III. OFFICE OF SMALL BUSINESS ADVOCATE**

7 **Witness: Robert D. Knecht**

8 Q. MR. KNECHT CONTENDS THAT THE CLAIM IN YOUR DIRECT
9 TESTIMONY THAT NO MAINS WOULD BE INSTALLED IF CUSTOMERS
10 ONLY DEMANDED GAS ON A PEAK DAY IS A NONSENSICAL
11 ARGUMENT.¹⁷ WHAT IS YOUR RESPONSE?

12 A. Mr. Knecht claims that in the case of gas mains, the factors that drive the cost of the
13 mains are peak demand and system footage, and the cost is not related to average or
14 annual usage.¹⁸ It is nonsensical to say that PGW's distribution mains investment is not
15 related to average or annual usage when, as explained in my Direct Testimony, as set
16 forth in Section 10.1 of the Company's tariff and discussed later in my testimony, annual
17 delivery charge revenues are the primary consideration in PGW's mains extension
18 decision making process.¹⁹

19 Q. MR. KNECHT ADDRESSES YOUR ARGUMENT THAT ECONOMIES OF
20 SCALE SUPPORT THE USE OF AN AVERAGE DEMAND ALLOCATION
21 FOR DISTRIBUTION MAINS. WHAT IS MR. KNECHT'S RESPONSE TO
22 YOUR ARGUMENT?

¹⁷ Rebuttal Testimony of Robert D. Knecht, OSBA Statement No. 1-R, p. 4.

¹⁸ *Id.*, p. 5.

¹⁹ Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 4, p. 13.

1 A. Mr. Knecht contends that many experts argue that the costs which do not vary with peak
2 demand, (i.e., costs of meeting average demand), should be allocated based on customer
3 count.²⁰ In responding to a proposal by Mr. Pollock in his Direct Testimony to allocate a
4 portion of distribution mains costs based on the number of customers I noted that in
5 PGW’s last fully litigated base rate case, the Commission found that mains allocations
6 based on the number of customers was not acceptable.²¹ An allocation of distribution
7 mains costs based on the number of customers does not account for the fact that more
8 distribution main footage is generally required to connect a large customer to a
9 distribution system than a small customer.

10 Q. MR. KNECHT CLAIMS THAT THE FACT THAT THE A&E ALLOCATION
11 METHOD COLLAPSES INTO A PEAK DEMAND ALLOCATION WHEN
12 THERE IS NO LOAD DIVERSITY IS NOT A “BUG” BUT A FEATURE.²²
13 WHAT IS YOUR RESPONSE?

14 A. Clearly Mr. Knecht believes that it is appropriate to allocate distribution mains costs
15 based entirely on peak demands. For the reasons discussed in significant detail in my
16 Direct Testimony, an allocation based entirely on peak demand produces COSS results
17 that do not reasonably reveal an accurate indication of class cost responsibilities.²³

18 Q. MR. KNECHT CONTENDS THAT THE DIFFERENCE BETWEEN THE A&E
19 DISTRIBUTION MAINS ALLOCATION HE RECOMMENDS AND THE P&A
20 METHOD YOU HAVE SUPPORTED IS RELATIVELY MODEST.²⁴ WHAT
21 IS YOUR RESPONSE?

²⁰ *Id.*, p. 5.

²¹ Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R, p. 10.

²² Rebuttal Testimony of Robert D. Knecht, OSBA Statement No. 1-R, p. 7.

²³ Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 4, pp. 12-13.

²⁴ *Id.*

1 A. To assess the validity of this claim, I modified the COSS presented in Mr. Knecht's
2 Direct Testimony which uses a 50/50 A&E allocation to reflect a 50/50 P&A allocation
3 of distribution mains costs. As a result of that modification, the indicated rate of return at
4 present rates for the Residential class, PGW's largest customer class, increases from 7.27
5 percent²⁵ in Mr. Knecht's 50/50 A&E COSS to 7.49 percent under the 50/50 P&A
6 method. This change is relatively modest and, therefore, Mr. Knecht's claim appears
7 accurate. However, this does not support the use of Mr. Knecht's 50/50 A&E method.
8 The 50/50 A&E method presented by Mr. Knecht unreasonably and illogically assigns
9 certain customer classes a greater share of peak demand-related costs than those customer
10 classes' actual contribution to peak day demands. For example, under Mr. Knecht's
11 50/50 A&E allocation, the Residential class is allocated 67 percent of peak demand-
12 related costs while only representing 64 percent of peak day demand.²⁶

13 The Commission decision in this proceeding with respect to the allocation of
14 distribution mains costs is likely to set precedent for years to come. The Commission
15 should not set as precedent a distribution mains allocation method which assigns a greater
16 percentage of peak demand related costs to a class than a class' actual percentage
17 contribution to peak day demand. While the differences in the allocation of distribution
18 mains costs is modest in this proceeding, it is unlikely to be modest in other proceedings.

19 Q. MR. KNECHT NOTES THAT IN HIS DIRECT TESTIMONY, HE
20 ADDRESSED COST ALLOCATION ISSUES THAT YOU DID NOT
21 ADDRESS IN YOUR REBUTTAL TESTIMONY. THEREFORE, HE
22 BELIEVES THAT YOUR COST ALLOCATION STUDY IS NOT AS A

²⁵ RDK WP5, tab "SumPresent."

²⁶ *Id.*

1 RELIABLE BASIS FOR RATEMAKING IN THIS PROCEEDING.²⁷ WHAT
2 IS YOUR RESPONSE?

3 A. In his Direct Testimony, Mr. Knecht claimed that PGW's COSS improperly allocated
4 certain costs only to the Company's sales customers.²⁸ I accepted these changes in my
5 Rebuttal Testimony but did not file a COSS to reflect those changes.²⁹ Mr. Knecht also
6 identified what he considered to be "technical changes" that should be made to PGW's
7 COSS.³⁰ In my Rebuttal Testimony, I indicated that these technical changes appeared
8 reasonable, but would defer addressing those changes until I reviewed the Company's
9 Rebuttal Testimony.³¹ I have now reviewed the Company's Rebuttal Testimony and
10 based on my review, these technical changes generally continue to appear reasonable.
11 Later in my Surrebuttal Testimony, I present a revised COSS which incorporates both the
12 sales customer allocation changes and technical changes identified by Mr. Knecht.
13 Therefore, my revised COSS is not less reliable than the COSS presented by Mr. Knecht.

14 Q. IN RESPONDING TO MR. POLLOCK, MR. KNECHT NOTES THAT EVEN
15 IF RATE IT CUSTOMERS ARE TREATED AS INTERRUPTIBLE IN HIS
16 50/50 A&E COSS, A \$6 MILLION INCREASE FOR RATE IT IS
17 WARRANTED.³² IS THAT ALSO TRUE UNDER YOUR REVISED COSS?

18 A. Yes. Under my revised COSS discussed later in my testimony, the relative rate of return
19 for Rate IT is negative under proposed rates. If Rate IT is treated as interruptible and the
20 peak day demands of Rate IT customers are removed from my revised COSS, the relative
21 rate of return of Rate IT is still well less than the system average return under proposed
22 rates and the \$6 million increase is warranted.

²⁷ *Id.*, p. 14.

²⁸ Direct Testimony of Robert D. Knecht, OSBA Statement No. 1, pp. 24-26.

²⁹ Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R, p. 7.

³⁰ Direct Testimony of Robert D. Knecht, OSBA Statement No. 1, p. 29.

³¹ Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R, pp. 8-9

³² Rebuttal Testimony of Robert D. Knecht, OSBA Statement No. 1-R, p. 12.

1 **IV. PHILADELPHIA INDUSTRIAL AND COMMERCIAL GAS USERS GROUP**

2 **Witness: Jeffry Pollock**

3 Q. TABLE R-1 IN MR. POLLOCK'S TESTIMONY INDICATES THAT UNDER
4 YOUR P&A COST OF SERVICE STUDY, 50 TO 80 PERCENT OF
5 DISTRIBUTION MAINS COSTS ARE ALLOCATED BASED ON ANNUAL
6 THROUGHPUT.³³ WHAT IS YOUR RESPONSE?

7 A. Mr. Pollock misinterprets the application of the P&A method I used in my COSS. Under
8 the P&A method utilized in my COSS, 50 percent of distribution mains costs are
9 allocated based on annual throughput. In my Direct Testimony I demonstrated that based
10 on PGW's actual distribution mains costs, 80 percent of mains cost could be allocated
11 based on annual throughput, however, to be conservative, my P&A study only allocated
12 50 percent of mains costs based on annual throughput.³⁴

13 Q. MR. POLLOCK CONTENDS THAT THE P&A METHOD DOUBLE COUNTS
14 JANUARY THROUGHPUT.³⁵ WHAT IS YOUR RESPONSE?

15 A. First, the P&A method does not use monthly throughput for January or any other month.
16 The P&A method I used in my COSS used peak day demands and annual throughput.
17 With respect to double counting, I have already addressed this claim in responding to Ms.
18 Heppenstall.

19 Q. MR. POLLOCK CLAIMS THAT WEIGHTING ANNUAL THROUGHPUT IS
20 ENTIRELY ARBITRARY AND LACKS ANY FOUNDATION IN THE
21 ALLOCATION OF DISTRIBUTION MAINS COSTS.³⁶ WHAT IS YOUR
22 RESPONSE?

³³ Direct Testimony of Jeffrey Pollock, PICGUC Statement No. 1, p. 3.

³⁴ Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 4, p. 21.

³⁵ Rebuttal Testimony of Jeffrey Pollock, PICGUC Statement No. 1-R, p. 3

³⁶ *Id.*

1 A. As just explained in responding to Mr. Knecht, and addressed later in my testimony,
2 annual delivery charge revenues, which are assessed on throughput, are the primary
3 consideration in PGW's mains extension decision making process. Therefore, weighting
4 annual throughput in the allocation of distribution mains is not arbitrary, but essential.

5 Q. MR. POLLOCK CONTENDS THAT THE ALLOCATION OF DISTRIBUTION
6 MAINS COSTS PROPOSED BY YOU AND MR. KNECHT
7 INAPPROPRIATELY FAILS TO REMOVE INTERRUPTIBLE RATE IT
8 CUSTOMERS FROM AN ALLOCATION OF PEAK DEMAND-RELATED
9 DISTRIBUTION MAINS COSTS.³⁷ WHAT IS YOUR RESPONSE?

10 A. Why it is appropriate to allocate peak demand related distribution mains costs to Rate IT
11 customers has already been addressed in detail by Ms. Heppenstall, Mr. Knecht, and
12 myself in direct and rebuttal testimonies. Specifically, Rate IT customers have only been
13 interrupted once in over 22 years and, therefore, cannot be truly considered as
14 interruptible for cost allocation purposes. In addition, as explained in Mr. Knecht's
15 Rebuttal Testimony and earlier in my Surrebuttal Testimony, the \$6 million increase
16 proposed for Rate IT would be appropriate based on the results of a COSS which
17 excludes an allocation of peak demand-related distribution costs to Rate IT.

18 Q. MR. POLLOCK PRESENTS AN ANALYSIS WHICH HE CONTENDS
19 DEMONSTRATES THAT THERE IS ONLY A WEAK RELATIONSHIP
20 BETWEEN THE LENGTH OF DISTRIBUTION MAINS AND BOTH
21 ANNUAL AND PEAK DEMANDS, AND THAT THERE IS A MUCH
22 STRONGER CORRELATION BETWEEN THE LENGTH OF DISTRIBUTION
23 MAINS AND THE NUMBER OF CUSTOMERS.³⁸ WHAT IS YOUR
24 RESPONSE?

³⁷ *Id.*, pp. 3-4.

³⁸ *Id.* pp. 4-5.

1 A. As previously explained, in PGW’s last fully litigated base rate case, the Commission
2 found that mains allocations based on the number of customers to be unacceptable. In
3 addition, as also previously explained in this testimony, an allocation simply based on the
4 number of customers fails to account for the fact that more feet of distribution main is
5 typically required to extend service to a large customer than a small customer.

6 Q. WHY ELSE DOES MR. POLLOCK OPPOSE THE RECOMMENDATIONS OF
7 THE OCA AND OSBA TO ALLOCATE DISTRIBUTION MAINS COSTS
8 BASED ON ANNUAL AND PEAK DEMANDS?

9 A. Based on his experience with other gas distribution utilities, Mr. Pollock claims two facts
10 are clear:

- 11 • Mains are sized to meet design day demand, not annual throughput; and
- 12 • Distribution mains are required to attach each and every customer irrespective
13 of the customer’s peak demand or annual throughput.³⁹

14 Further, he contends that the practice of classifying a portion of distribution mains as a
15 customer-related cost is both accepted and consistent with precedent in other
16 jurisdictions.⁴⁰

17 Q. WHAT IS YOUR RESPONSE TO THESE ADDITIONAL CLAIMS BY MR.
18 POLLOCK?

19 A. I agree that mains are sized to meet design day demands; however, PGW’s distribution
20 mains extension decisions are based on annual throughput. I also agree that distribution
21 mains are required to attach customers to PGW’s system; however, as subsequently
22 explained, PGW will not attach a customer to its system unless there is sufficient annual
23 throughput. Finally, as just indicated, classifying a portion of distribution mains as
24 customer related has been rejected in this jurisdiction.

³⁹ *Id.* p. 5.

⁴⁰ *Id.*

1 Q. MR. POLLOCK ALSO CONTENDS THAT YOU HAVE PROVIDED NO
2 ANALYSIS SUPPORTING YOUR ASSERTION THAT THERE WOULD BE
3 NO PGW GAS DISTRIBUTION SYSTEM WITHOUT SUFFICIENT ANNUAL
4 USAGE.⁴¹ WHAT IS YOUR RESPONSE?

5 A. Mr. Pollock is correct that I have provided no analysis demonstrating that there would be
6 no PGW gas distribution system without sufficient annual usage. No such analysis is
7 necessary. PGW's tariff specifies that for Residential customers, annual delivery
8 revenues must be at least five times the cost of an extension before PGW will extend its
9 distribution system to serve a customer without requiring a contribution-in-aid of
10 construction ("CIAC") payment from the customer. For commercial and industrial
11 customers total annual revenues must generally be three times the cost of an extension
12 without requiring a CIAC payment from the customers. Clearly, PGW's distribution
13 system would not exist without sufficient annual volumes.

14 Q. MR. POLLOCK CONTENDS THAT GAS DISTRIBUTION SYSTEMS EXIST
15 TO MEET DEMAND ON THE COLDEST DAYS OF THE YEAR, AND THAT
16 ALSO SUPPLYING AVERAGE ANNUAL DEMAND THROUGHOUT THE
17 YEAR IS A BYPRODUCT.⁴² WHAT IS YOUR RESPONSE?

18 A. Mr. Pollock has put the cart before the horse. As just explained in response to several of
19 Mr. Pollock's other claims, PGW's distribution mains investment decisions are based on
20 annual throughput.

21 Q. MR. POLLOCK CLAIMS THAT YOUR ASSERTION THAT PGW'S
22 PROPOSED MODIFICATION TO THE DAILY IMBALANCE SURCHARGE
23 ASSESSED TO RATE IT CUSTOMERS IS INSUFFICIENT TO ENCOURAGE

⁴¹ Rebuttal Testimony of Jeffrey Pollock, PICGUC Statement No. 1-R, p. 7.

⁴² *Id.*, p. 7.

1 SUPPLIERS TO MEET THEIR ALLOWABLE DAILY VARIATION IS
2 WITHOUT SUPPORTING EVIDENCE.⁴³ WHAT IS YOUR RESPONSE?

3 A. In my Direct Testimony, I recommended that the same charges applicable for exceeding
4 daily imbalance charges assessed to suppliers serving firm transportation customers be
5 assessed to suppliers serving Rate IT customers.⁴⁴ Mr. Pollock has presented no
6 evidence or rationale as to why suppliers serving Rate IT customers should be assessed
7 more lenient charges than suppliers serving firm transportation customers, particularly
8 when Rate IT customers are assessed significantly lower delivery charges than firm
9 transportation customers. This desperate treatment is unreasonable and discriminatory.

10 **V. REVISED COST OF SERVICE STUDY**

11 Q. HAVE YOU PREPARED A REVISED COST OF SERVICE STUDY TO
12 REFLECT THE COST ALLOCATION MODIFICATIONS PREVIOUSLY
13 ACCEPTED IN YOUR REBUTTAL AND SURREBUTTAL TESTIMONIES?

14 A. Yes. I have generally revised the COSS presented in my Direct Testimony to reflect the
15 following cost allocation modifications and technical changes presented in the Direct
16 Testimony of Mr. Knecht:

- 17 • Production Plant and Associated Depreciation (Accounts 304-320)
- 18 • Manufactured Gas Production Expenses (Accounts 701-742)⁴⁵
- 19 • Other Gas Supply Expenses (Accounts 804-813)
- 20 • Gas Processing Labor Costs
- 21 • Storage Gas Working Capital

⁴³ *Id.*, p. 12.

⁴⁴ Direct Testimony of Jerome D. Mierzwa, OCA Statement No. 4, p. 36.

⁴⁵ Allocated based on total throughput rather than firm throughput since all customers benefit from these facilities.

- 1 • Industrial Meter/Regulator O&M
- 2 • Appliance Repair and Other Revenue
- 3 • Account 922 Transferred A&G
- 4 • Accounting/Reporting Labor

5 I did not revise my COSS study to reflect Mr. Knecht's modification to Factor 13
6 (Total Costs) because it would not have resulted in a material change to my COSS. I did
7 not modify my COSS study to revise the classification of uncollectibles for purposes of
8 calculating customer charges as recommended by Mr. Knecht because uncollectibles are
9 not a direct customer cost and should not be included in the calculation of customer
10 charges. Finally, I did not revise my COSS to reflect incremental distribution system
11 improvement charge ("DSIC") revenues as recommended by Mr. Knecht. As explained
12 by Mr. Knecht, DSIC-eligible plant is included in PGW's COSS and revenue requirement
13 claim in this proceeding.⁴⁶ Since PGW will be recovering the costs associated with the
14 DSIC-eligible investment through base rates, those costs should not also be recovered
15 through the DSIC and, therefore, Mr. Knecht's inclusion of incremental DSIC revenues is
16 not appropriate.

17 I have also revised the COSS presented in my Direct Testimony to reflect certain
18 modifications to the Company's study addressed in the Rebuttal Testimony of Ms.
19 Heppenstall.⁴⁷ More specifically, I revised my COSS to reflect a direct allocation of
20 ECR revenue to customer classes and revised the labor allocation as proposed by Ms.
21 Heppenstall. Ms. Heppenstall recommended several additional modifications, but those
22 modifications were already reflected in the COSS I presented in my Direct Testimony. A

⁴⁶ Direct Testimony of Robert D. Knecht, OSBA Statement No. 1, p. 26.

⁴⁷ Rebuttal Testimony of Constance E. Heppenstall, PGW Statement No. 5-R, pp. 1-2.

1 summary of the results of my revised COSS is attached to my testimony as Schedule
 2 JDM-1S.

3 Table 1-S compares the results of my revised COSS with the COSS presented by
 4 Ms. Heppenstall in her Rebuttal Testimony and Mr. Knecht in his Direct Testimony. In
 5 preparing Table 1-S, I have corrected the error in Ms. Heppenstall’s rate of return
 6 calculation.

Table 1-S. Class Cost of Service and Rate of Return Present Rates

Class	Company			OCA			OSBA ^[1]	
	Cost of Service	Rate of Return	Index	Cost of Service	Rate of Return	Index	Rate of Return ^[2]	Index
Residential	\$358,503	7.48%	1.18	\$351,752	7.62%	1.27	7.30%	1.14
Commercial	68,921	6.88	1.08	68,044	6.83	1.14	9.20	1.44
Industrial	4,956	9.08	1.43	6,325	1.89	0.31	9.90	1.55
Municipal	6,952	0.32	0.05	6,856	0.25	0.04	1.70	0.27
PHA GS	2,066	0.76	0.12	2,010	1.08	0.18	0.47	0.06
PHA-Rate 8	2,659	6.33	1.00	2,819	6.12	1.02	10.20	1.59
NGVS	6	(2.94)	(0.46)	5	0.97	0.16	N/A	N/A
Interruptible	30,389	(4.10)	(0.64)	36,764	(7.18)	(1.19)	(7.70)	(1.20)
Overall	\$474,458	6.36%	1.00	\$474,571	6.02%	1.00	6.40%	1.00

[1] The OSBA’s COSS included incremental Universal Service and Energy Conservation (“USEC”) and DSIC revenues and, therefore, the cost of service for each class is not directly comparable and is excluded from the comparison.

[2] Direct Testimony of Robert D. Knecht, Table IEC-1, page 31.

7 Q. DOES THIS REVISED STUDY CHANGE YOUR RECOMMENDED
 8 REVENUE DISTRIBUTION?

9 A. No.

10 Q. IN HIS COSS, MR. KNECHT UTILIZED DESIGN DAY DEMANDS RATHER
 11 THAN PEAK DAY DEMANDS AS PROPOSED BY THE COMPANY TO
 12 ALLOCATE A PORTION OF DISTRIBUTION MAINS COSTS. WOULD

1 THE USE OF DESIGN DAY DEMANDS IN YOUR REVISED COSS
2 SIGNIFICANTLY IMPACT THE RESULTS?

3 A. No. For example, at present rates, under my revised COSS, the rate of return of the
4 Residential class is 7.62 percent. Utilizing design day demands would increase the rate
5 of return of the Residential class to 7.87 percent.

6 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

7 A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC
UTILITY COMMISSION

Docket No. R-2020-3017206

v.

PHILADELPHIA GAS WORKS

SCHEDULE ACCOMPANYING THE
REVISED SURREBUTTAL TESTIMONY OF

JEROME D. MIERZWA

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

July 27, 2020

PHILADELPHIA GAS WORKS

DEVELOPMENT OF RATE OF RETURN BY SERVICE CLASSIFICATION
UNDER PRESENT RATES

Item (1)	Cost of Service (2)	Residential (3)	Commercial (4)	Industrial (5)	Municipal (6)	PHA - GS (7)	PHA -Rate 8 (8)	NGVS (9)	Interruptible (10)
1. Revenues From Tariff Sales and Transportation	\$ 404,035	\$ 318,467	\$ 59,883	\$ 4,681	\$ 4,541	\$ 1,354	\$ 2,407	\$ 2	\$ 12,700
2. Other Revenues	102,470	76,578	18,620	1,528	1,699	364	712	-	2,969
3. Total Operating Revenues	506,505	395,045	78,503	6,209	6,240	1,717	3,120	2	15,669
4. Less: Operating Expenses and City Contribution	410,552	305,985	62,812	5,844	6,183	1,642	2,522	2	25,562
5. Income Before Interest and Surplus	95,953	89,061	15,690	364	57	75	598	0	(9,892)
6. Less: Interest and City Contribution	47,078	34,495	6,776	570	674	205	288	-	4,068
7. Current Revenue Over/Under Requirements	48,875	54,566	8,914	(206)	(617)	(130)	310	0	(13,960)
8. Original Cost Measure of Value (Factor 15.)	1,594,940	1,168,663	229,579	19,302	22,820	6,953	9,766	14	137,842
9. Rate of Return before Interest and Surplus, Percent	6.02%	7.62%	6.83%	1.89%	0.25%	1.08%	6.12%	0.97%	-7.18%
10. Relative Rate of Return	1.00	1.27	1.14	0.31	0.04	0.18	1.02	0.16	-1.19

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

Philadelphia Gas Works

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:
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:
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Docket No. R-2020-3017206

VERIFICATION

I, Jerome D. Mierzwa, hereby state that the facts above set forth in my Revised Surrebuttal Testimony, Revised OCA Statement 4, 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 27, 2020
*293054

Signature:


Jerome D. Mierzwa

Consultant Address: Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044-3575