

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REJOINDER TESTIMONY OF

CONSTANCE E. HEPPENSTALL

ON BEHALF OF
PHILADELPHIA GAS WORKS

Docket No. R-2020-3017206

TOPICS:

Cost of Service

July 27, 2020

TABLE OF CONTENTS

I. INTRODUCTION.....1

II. REBUTTAL OF OSBA WITNESS ROBERT KNECHT.....2

III. REBUTTAL OF OCA WITNESS JEROME D. MIERZWA3

IV. REBUTTAL OF PICGUG WITNESS JEFFRY POLLOCK4

TABLE OF EXHIBITS

CEH-2	Revised Rate of Return under Present Rates
-------	--

1 I. **INTRODUCTION**

2 Q. **PLEASE STATE YOUR NAME.**

3 A. Constance E. Heppenstall.

4 Q. **BY WHOM ARE YOU EMPLOYED?**

5 A. I am employed by Gannett Fleming Valuation and Rate Consultants, LLC.

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

8 A. Yes, I submitted my direct testimony, PGW St. No. 5 on February 28, 2020 and my rebuttal
9 testimony, PGW St. No. 5-R on July 13, 2020.

10 Q. **PLEASE DESCRIBE THE PURPOSE OF YOUR REJOINDER TESTIMONY.**

11 A. The purpose of my rejoinder testimony is to discuss the surrebuttal testimony filed by
12 Office of Small Business Advocate (OSBA) Witness Robert Knecht, Office of Consumer
13 Advocate (OCA) Witness Jerome Mierzwa and Philadelphia Industrial and Commercial
14 Gas Users Group (PICGUG) Witness Jeffrey Pollock.

15 Q. **ARE YOU SUBMITTING A REVISED SCHEDULE THAT SHOWS THE RATE**
16 **OF RETURN UNDER PRESENT RATES WITH YOUR REJOINDER**
17 **TESTIMONY?**

18 A. Yes, I am as Exhibit CEH-2. In response to Mr. Knecht's surrebuttal testimony, I am
19 submitting a corrected schedule.

20

21

1 **II. SURREBUTTAL OF WITNESS ROBERT KNECHT**

2 **Q. OSBA WITNESS KNECHT QUESTIONS WHY PGW DID NOT USE THE**
3 **DESIGN DAY BY RATE CLASS IN ITS COST OF SERVICE STUDY. OSBA ST.**
4 **NO. 1-S at 6. PLEASE RESPOND.**

5 A. As stated in discovery, PGW does not have access to the design day by rate class and,
6 therefore, it was not used in the cost of service study.

7 **Q. MR. KNECHT POINTS OUT AN ERROR IN THE CALCULATION OF RATE OF**
8 **RETURN BY CLASS UNDER PRESENT RATES. OSBA ST. NO. 1-S AT 7.**
9 **PLEASE COMMENT.**

10 A. A corrected schedule is attached to my rejoinder testimony as Exhibit CEH-2.

11 **Q. MR. KNECHT INDICATES THAT PGW'S COST OF SERVICE STUDY IS**
12 **BIASED TOWARD COMMERCIAL CUSTOMERS. OSBA ST. NO. 1-S AT 8. IS**
13 **THIS TRUE?**

14 A. No. The changes made to PGW's of service study were made in order to present a better
15 model. Many of Mr. Knecht's changes to the cost of service study also allocated more
16 costs to the commercial class, yet, presumably, he does not consider this biased.

17 **Q. BECAUSE THE COMPANY DID NOT SPECIFICALLY REBUT SOME OF MR.**
18 **KNECHTS COST OF SERVICE ISSUES, HE RECOMMENDS THAT THE**
19 **COMMISSION SHOULD NOT RELY ON PGW'S COST OF SERVICE STUDY**
20 **FOR REVENUE ALLOCATION. OSBA ST. NO. 1-S AT 8. PLEASE DISCUSS.**

21 A. In his direct testimony, Mr. Knecht allowed that PGW's original cost of service study was
22 not "directionally different" from his own. OSBA St. No. 1 at 3. In fact, Mr. Knecht's

1 recommended a revenue distribution (which is a based on cost of service) that is very
2 similar to PGW's, albeit recommending a smaller increase to the residential class and a
3 larger increase to the commercial class. In addition, Bureau of Investigation and
4 Enforcement Witness Ethan Kline fully supports PGW's cost of service study. I&E St.
5 No. 2-SR at 4. It is not clear why Mr. Knecht would make a recommendation to disregard
6 PGW's cost of service study given that PGW's cost of service and Mr. Knecht's cost of
7 service were not "directionally different".

8 **III. SURREBUTTAL OF OCA WITNESS JEROME D. MIERZWA**

9 **Q. DOES OCA WITNESS JEROME MIERZWA ACKNOWLEDGE THAT THE**
10 **ALLOCATION TO THE RESIDENTIAL CLASS RELATED TO MAINS IN THE**
11 **AVERAGE AND EXCESS METHOD IS SIMILAR TO THE ALLOCATION IN**
12 **THE PEAK AND AVERAGE METHOD?**

13 A. Yes, on page 8 of his surrebuttal testimony, he acknowledges this fact. In fact, Mierzwa's
14 cost of service study, presented with his direct testimony, shows an allocation of the costs
15 related to mains to the residential class (Factor 3) of .61696. In PGW's revised cost of
16 service study, presented in my rebuttal testimony, it shows an allocation of costs related to
17 mains to the residential class (Factor 3) of .63691, not a substantial difference from Mr.
18 Mierzwa's allocation factor.

19 **Q. DO YOU CONTINUE TO DISAGREE WITH MR. MIERZWA'S USE OF THE**
20 **PEAK AND AVERAGE METHOD FOR ALLOCATION OF MAINS?**

21 A. Yes, I do as the Peak and Average method weights average usage twice. Mr. Mierzwa uses
22 an example in his surrebuttal testimony to attempt to show that this is not the case. OCA

1 St. No. 4-SR at 4-5. However, his example is flawed. His example discusses two
2 hypothetical customers with peak and average flow. He demonstrates that if one customer
3 has an increase in average usage, but the peak usage remains the same, that the change
4 would have no effect on the allocation of peak demand. However, his example ignores the
5 fact that an increase in average usage for a customer would also precipitate an increase in
6 peak usage. Even if the reason for the increase in average usage was not temperature
7 related, the peak usage would still need to increase at least by the increase in the average
8 demand as that demand would not change on a peak day. In other words, a customer with
9 increasing average day demands would also show an increase in peak day demands.

10 In his other example, he proposes to calculate average daily usage based on 364
11 days, excluding the peak day demand. This calculation, obviously, would not produce the
12 average day usage as it excludes the peak day. Mr. Mierzwa appears to not understand, as
13 stated in my direct testimony, that peak day demand = average day usage + excess demand
14 so by including both peak day demand and average day usage, he is double counting
15 average day usage in the allocation.

16 **IV. SURREBUTTAL OF PICGUG WITNESS JEFFRY POLLOCK**

17 **Q. PICGUG WITNESS JEFFRY POLLOCK CONTINUES TO DISAGREE WITH**
18 **THE TREATMENT OF RATE IT CUSTOMERS IN THE COST OF SERVICE**
19 **STUDIES PRESENTED BY THE OTHER PARTIES. PICGUG ST. NO. 1-S AT 3-**
20 **5. PLEASE COMMENT.**

21 A. Mr. Pollock restates his position that an adjustment should be made to the cost of service
22 study to exclude the Rate IT customers from any allocation of peak-related costs.
23 However, Mr. Pollock is ignoring that the Rate IT customers do have substantial peaks in

1 usage and that these peaks are met by PGW. These customers have been interrupted only
2 once in 22 years. Therefore, Rate IT should pay for this service like the other customer
3 classes.

4 **Q. MR. POLLOCK REFERS TO PGW'S RESPONSE TO PICGUG 1-12 AS**
5 **FURTHER PROOF OF CHANGES THAT NEED TO BE MADE TO THE COST**
6 **OF SERVICE STUDY. PICGUG ST. NO. 1-S AT 5. DO YOU AGREE?**

7 A. Data request PICGUG 01-12 states in its question "ignoring the frequency and duration of
8 interruptions, explain how costs should be allocated to a customer class that receives
9 interruptible gas transportation service and provide supporting documents." The
10 Company's response, as shown in Mr. Pollock's surrebuttal testimony, was "If a
11 customer's flow is truly interruptible, the customer would not be allocated excess
12 demand/capacity in the allocation of costs related to distribution mains. In Exhibit CEH-1,
13 extra capacity in Factor 2 would be adjusted for a truly interruptible customer. The
14 adjustment would show that the Company would not supply gas to these customers during
15 a peak event". PICGUG St. No. 1-S at 5. This data request presupposes a very different
16 situation for an interruptible class than exists in this case. The hypothetical interruptible
17 class in this data request is actually interrupted during peak event, which is not the case for
18 the Rate IT customers. Therefore, the response to this data request is not relevant to the
19 allocation of costs for the Rate IT customers.

20 **Q. FINALLY, PLEASE EXPLAIN WHETHER THE RATE IT CUSTOMERS ARE**
21 **ALLOCATED ANY COSTS RELATED TO USEC.**

22 A. Mr. Pollock states in his surrebuttal testimony that Rate IT customers are allocated
23 \$324,000 in costs related to USEC. However, in the revision to Cost of Service Study I

CONSTANCE E. HEPPENSTALL

1 submitted with my rebuttal testimony, the allocation of these costs was changed so that
2 Rate IT customers are not allocated any costs related to USEC

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

4 **A.** Yes, it does.

PGW EXHIBIT CEH-2

PHILADELPHIA GAS WORKS
DEVELOPMENT OF RATE OF RETURN BY SERVICE CLASSIFICATION
UNDER PRESENT RATES

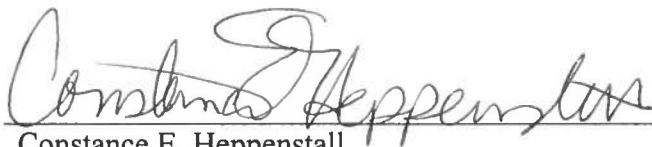
Item (1)	Cost of Service (2)	Residential (3)	Commercial (4)	Industrial (5)	Municipal (6)	PHA - GS (7)	PHA -Rate 8 (8)	NGVS (9)	Interruptible (10)
1. Revenues From Tariff Sales and Transportation	\$ 403,883	\$ 318,467	\$ 59,883	\$ 4,681	\$ 4,541	\$ 1,354	\$ 2,256	\$ 2	\$ 12,700
2. Other Revenues	102,470	77,998	17,463	1,307	1,592	409	714	-	2,987
3. Total Operating Revenues	506,353	396,465	77,346	5,988	6,133	1,762	2,970	2	15,687
4. Less: Operating Expenses and City Contribution	408,205	311,946	61,011	4,465	6,057	1,710	2,380	3	20,633
5. Income Before Interest and Surplus	98,149	84,519	16,335	1,523	76	52	590	(1)	(4,946)
6. Less: Interest and City Contribution	47,078	34,441	7,236	511	712	210	284	-	3,682
7. Current Revenue Over/Under Requirements	51,071	50,078	9,099	1,012	(636)	(158)	306	(1)	(8,628)
8. Original Cost Measure of Value (Factor 15.)	1,543,980	1,129,528	237,329	16,771	23,348	6,900	9,317	23	120,764
9. Rate of Return before Interest and Surplus, Percent	6.36%	7.48%	6.88%	9.08%	0.32%	0.76%	6.33%	-2.94%	-4.10%
10. Relative Rate of Return	1.00	1.18	1.08	1.43	0.05	0.12	1.00	-0.46	-0.64

VERIFICATION

I, Constance E. Heppenstall, hereby state that: (1) I am employed by Gannett Fleming Valuation and Rate Consultants, LLC as Senior Project Manager, Rate Studies; (2) I have been retained by Philadelphia Gas Works (“PGW”) and am authorized to present testimony on its behalf; (3) the facts set forth in my testimony are true and correct to the best of my knowledge, information and belief; and (4) 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).

July 27, 2020

Dated _____



Constance E. Heppenstall
Senior Project Manager, Rate Studies
Gannett Fleming Valuation and Rate Consultants, LLC