Pennsylvania Public Utility Commission
v. Columbia Gas of Pennsylvania, Inc.
Docket No. R-2015-2468056

REBUTTAL TESTIMONY

8-4-15

COLUMBIA STATEMENT NO. 101-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	)	
	)	
vs.	)	Docket No. R-2015-2468056
	)	
Columbia Gas of Pennsylvania, Inc.	)	

REBUTTAL TESTIMONY OF
MARK R. KEMPIC
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

July 16, 2015

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Columbia Gas Stmt.
No. 101-R HR 4 3P
R-2015-2468056 8/10/15

Q. Please state your name and business address.

A. Mark R. Kempic, 121 Champion Way, Suite 100, Canonsburg, PA 15317.

Q. By whom are you employed and in what capacity?

A. I am employed by Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") as its President.

Q. Are you the same Mark Kempic who filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to testimony of various parties who take issue with the effectiveness of Columbia's management and even question the need for the Commission to consider management's performance when it establishes just and reasonable rates in this proceeding. Specifically, I will be responding to issues raised by I&E witnesses Kline and Maurer, and CAUSE-PA witness Miller.

Q. What position does I&E witness Kline seek to advance in his testimony?

A. Witness Kline argues that Columbia accelerated its pipeline replacement because of "historically poor performance in this area that resulted in an increase in corrosion leaks repaired per mile."

Q. Do you agree with his statement?

A. No, he cites to no evidence that Columbia has ever performed poorly in the past because none exists. His statement on page 11 that this allegedly poor performance resulted in an increase in corrosion leaks repaired per mile is also simply wrong.

The fact is that all metals corrode as a result of the natural process of chemical interactions with their physical environment, most commonly caused by moist soil. A company's management – whether good or bad – cannot prevent this natural process. There are efforts, such as installation of cathodic protection, that can slow this natural process, and Columbia has undertaken these efforts. However, corrosion ultimately will occur regardless of a utility management's performance. Rather, the effectiveness of a utility's management is to be determined by what the utility does in response to the natural corrosion and when such action is appropriate. Columbia's efforts, as more specifically detailed by Company witness Davidson, consist of a two-fold approach of both intensifying leak detection and repair and accelerating its pipeline replacement for those highest risk portions of its distribution system. Under this approach, the life of the existing pipe is maximized which helps control costs for customers. After it is no longer feasible to repair the pipe, it is replaced.

Q. What response do you have to witness Kline's contention that Columbia's actions were required by the Distribution Integrity Management Plan ("DIMP") or driven by the Commission's Pipeline safety program?

A. On page 12 of his testimony, witness Kline first states that Columbia went above and beyond the regulatory requirements by conducting annual (as opposed to triennial) leakage surveys, identifying cross bores as a safety threat and developing a program to mitigate that threat, and for reducing the number of open Type 2 leaks. This recognizes Columbia's commitment to safety of customers. Then he reaches the conclusion that these are required by DIMP so Columbia's management should not be recognized for its performance. The fact is, however, that a DIMP is a company-specific plan - developed by the company - for the purpose of identifying risk, developing plans and implementing actions to reduce identified risk and to evaluate the effectiveness of risk reduction efforts. Under his argument, a gas company could never be considered to have superior pipeline safety performance because once the gas company identifies a risk and places it into the DIMP, the mitigation of that risk is "required by the DIMP". However, the Company's point is that its efforts to investigate and analyze its system, proceed on an enhanced pipeline safety program before the DIMP regulation was in effect, and thereafter create a robust DIMP that exceed the minimum standards of the regulations and which exceed the practices of other Pennsylvania gas utilities is what the Commission should take notice of during this rate case in establishing the effectiveness of Columbia's management.

Q. Would you like to respond to any other witness's testimony concerning the effectiveness of Columbia's management and the need to consider Columbia's performance when setting rates?

A. Yes. The Bureau of Investigation and Enforcement's Witness Mauer states that the Company has the most expensive LIURP job cost at $6,792 and the second highest CAP program cost while having a 30% participation rate. With regard to the contention that having the most expensive LIURP job cost should be considered a failing, one needs only to review the Commission's Bureau of Consumer Service's ("BCS") reports to understand that the average cost per Columbia's LIURP jobs is a good thing, because it is a good investment for customers. While the BCS Universal Service and Collections Report does not report individual company LIURP savings, it does report the average savings for gas utilities across Pennsylvania as 17%. In 2013, Columbia reported an average of 24% consumption savings across all customers participating in LIURP, and this level of savings is typical for Columbia's LIURP. Using the BCS's numbers, Columbia's results are 41 percent *better* than the statewide average usage savings achieved by the gas utility industry. Incidentally, the statewide average would be *worse* if Columbia's superior performance were not included in the average. The higher cost invested by Columbia in its LIURP results in higher savings for the customer, which is the primary goal of the program and produces real savings for our low income customers. In addition, due to the nature of the investments made by Columbia in the low income households, these savings are sustained year after year, thereby providing substantial and sustainable savings for the customers who previously struggled the most with paying their gas bills. Instead of criticizing Columbia's performance in the management of its LIURP, Columbia's superior performance should be appropriately recognized.

Q. What about Witness Maurer's concerns about CAP participation rates?

A. Witness Maurer compares CAP participation rates to confirmed low income counts to suggest that Columbia is not appropriately managing its CAP program. But her comparison is not accurate. She bases it on a one month participation rate, not the annual participation rate. Her comparison is incorrect because the fact that a customer was in CAP one month and subsequently moved or graduated from the program the next month because he/she was no longer payment-troubled is not a reflection of the quality of the management of the program. Annual participation rates – instead of monthly participation rates - more closely reflect the efforts of the Company to enroll and promote CAP participation. When the correct analysis is performed using annual metrics, Columbia's CAP participation rate is 37% of confirmed low income customers. To put this number into perspective, across Pennsylvania, 29% of all eligible residents receive LIHEAP. That means that Columbia's success in enrolling customers into its CAP is much better than the overall success across the state of Pennsylvania of customers being enrolled into LIHEAP.

Perhaps most importantly, Columbia manages the cost of the CAP program by only enrolling customers who meet program criteria, which includes a history of being payment troubled. There are many low income customers who pay their bills every month who do not need the assistance of CAP. It would not be cost effective to enroll those customers into CAP since other good paying customers would be asked to pick up a portion of their bills through the Universal Service Rider that they pay. Further, some customers only need a LIHEAP or a Hardship Fund grant to get through the year. In the same manner, it would not be wise to enroll these customers into CAP merely to meet Witness Maurer's metric of CAP participation. Instead, Columbia manages these accounts by finding the best cost alternative to ensure that the customer's needs are met. Columbia contends that this practice is the most appropriate for all of its customers and believes that its efforts in this regard further demonstrate good management of the Universal Service portfolio.

Q. Do you have other comments in response to Witness Maurer's testimony about Columbia's CAP program cost?

A. Yes, Witness Maurer suggests that because Columbia has the second most expensive CAP program in the state, it somehow means that Columbia is mismanaging its CAP program. Nothing could be further from the truth. The important metrics to review concerning CAP programs are whether the bill is affordable and how much the program costs to administer. When the proper metrics are reviewed, it is clear that Columbia offers the lowest CAP bill of any gas company in the state with the second highest CAP credit- which is the primary driver of the CAP cost. In addition, Columbia's administrative cost is a low 6.7% of the total cost of the program. Both of these evidence Columbia's superior management of its CAP program. The effectiveness of Columbia's management of its LIURP and CAP programs should be considered by the Commission in establishing the return on equity in this proceeding in accordance with the statute.

Q. Do you have a response to I&E witness Maurer's testimony on page 61 in which she states that Columbia should not receive recognition for management performance through extra return on equity points because it is already proposing to recover its claimed management incentive program through expenses?

A. Yes, I disagree with witness Maurer. She fails to recognize the fundamental difference in purpose between the Company's employee incentive compensation plan and Pennsylvania's statutory construct which requires the Commission to consider the efficiency of a utility's management when establishing the return on equity to be granted to a particular utility during a base rate proceeding.

Q. What is the purpose of the Company's incentive compensation plan?

A. The Company employs a "total rewards" compensation philosophy, which compensates employees competitively in comparison to the utility industry in order to attract, retain and motivate employees who are qualified to perform the functions needed by the Company. This philosophy enables the Company to meet its obligations to provide safe, reliable and cost-effective service to its customers. One of the four main components of the Company's compensation plan is its "Incentive Plan" under which each job is assigned a job scope level that is based on the specific requirements of the job. Each job scope level has an incentive range that provides additional individual earnings potential as a percentage of base salary – but only if certain corporate, business unit and individual goals, as set each year, are met. The individual goals include items such as customer service, safety and reliability, productivity, and cost containment. The Company could have chosen not to have an incentive compensation plan and instead built that cost into employee wages, but placing a portion of the employee's total compensation at risk serves as an incentive for that employee to work diligently to meet the required metrics. It is the Company's position that this incentive helps improve customer service and satisfaction. As such, this represents a cost of labor for the Company which the Company believes it should be able to recover in full.

Q. What then is the purpose of Columbia's proposed adjustment of 25 basis points to the return on equity for management performance?

A. Columbia's counsel has advised me that under Pennsylvania law, the Commission shall consider the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates. Title 66, Section 523 further provides that the Commission "shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate." In my direct testimony – as well as in the testimony of other Columbia witnesses, we have offered examples of the "efficiency, effectiveness and adequacy of service" to provide the Commission evidence upon which to make such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate.

Q. How are the incentive plan expenses related to the Company's request to increase the return on equity by 25 basis points?

A. They are not related and they serve two different purposes. The Company's incentive plan expenses represents recovery of labor costs that are incurred to run the business, while the 25 basis point adder is part of the return that shareholders have an opportunity to earn, to recognize and encourage the Company to continue to further the Commission's public policy goals such as accelerated pipeline replacement, increased leak repair, highly efficient management (as shown by the management audit results described in my direct testimony), leading edge customer service and a heightened focus on employee training, customer, community and pipeline safety.

Q. Do you have a response to CAUSE-PA witness Miller's statement that Pennsylvania has never embraced performance based ratemaking?

A. Contrary to witness Miller's testimony, and as stated above, Columbia's counsel has advised me that under Pennsylvania law, the Commission shall consider the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates. Title 66, Section 523 further provides that the

Commission "shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate." While witness Miller is wrong in his statements about the need for the Commission to consider the effectiveness of Columbia's management while establishing rates, he is correct when he notes that in comparison to other companies, "Columbia performs well".

Q. Does this conclude your rebuttal testimony?

A. Yes.