

**I&E Statement No. 1-SR
Witness: D. C. Patel
NON-PROPRIETARY**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2022-3031211

Surrebuttal Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

ENERGY EFFICIENCY PLAN

STATE INCOME TAX EXPENSE

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is D. C. Patel, and my business address is Pennsylvania Public Utility
4 Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA
5 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11

12 **Q. ARE YOU THE SAME D. C. PATEL WHO SUBMITTED DIRECT AND**
13 **REBUTTAL TESTIMONY IN THIS PROCEEDING?**

14 A. Yes. I submitted I&E Statement No. 1 PROPRIETARY, I&E Exhibit No. 1
15 PROPRIETARY, I&E Statement No. 1 NON-PROPRIETARY, I&E Exhibit No. 1
16 NON-PROPRIETARY, I&E Statement No. 1-R, and I&E Exhibit No. 1-R.

17

18 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN**
19 **ACCOMPANYING EXHIBIT?**

20 A. No. However, I refer to my direct testimony and its accompanying exhibit in this
21 surrebuttal testimony (I&E Statement No. 1 and I&E Exhibit No. 1).

1 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

2 A. The purpose of my surrebuttal testimony is to respond to Columbia Gas of
3 Pennsylvania, Inc's. (Columbia or Company) rebuttal testimonies of the following
4 witnesses:

- 5 • Kelley K. Miller (Columbia Statement No. 4-R) regarding Columbia's
6 revised revenue requirement and operating and maintenance (O&M)
7 expenses.
- 8 • Nicole M. Paloney (Columbia Statement No. 9-R) regarding O&M
9 expenses.
- 10 • Jennifer Harding (Columbia Statement No. 10-R) regarding payroll taxes.
- 11 • Nicholas Bly (Columbia Statement No. 15-R) regarding employee benefits
12 expense.
- 13 • Kimberly Cartella (Columbia Statement No. 17-R) regarding incentive
14 compensation, stock rewards, and profit-sharing expense.
- 15 • C. J. Anstead (Columbia Statement No. 14-R) regarding other adjustment
16 for safety initiatives expenses.
- 17 • Theodore M. Love (Columbia Statement No. 16-R) regarding Energy
18 Efficiency Plan.

19 Additionally, I will address a recent Pennsylvania law change regarding state
20 income tax expense.

1 **Q. HAS COLUMBIA UPDATED ITS OVERALL REVENUE REQUIREMENT**
2 **CLAIM IN REBUTTAL TESTIMONY?**

3 A. Yes. The Company updated its revenue increase requirement from \$82,151,953 to
4 \$83,512,136 by revising its total O&M expense claim from \$245,615,375 to
5 \$246,958,501 and consequential changes in the income tax for the fully projected
6 future test year (FPFTY) ending December 31, 2023 (Columbia Exhibit KKM 1-R,
7 p. 1 (Columbia Exhibit No. 102, Schedule 3, p. 3-Revised). However, Columbia is
8 not seeking the updated/revised revenue increase requirement and continues to
9 request an increase of \$82,151,953 (Columbia Statement No. 4-R, p. 2).

10

11 **Q. HAS THE COMPANY ACCEPTED ANY OF YOUR RECOMMENDED**
12 **ADJUSTMENTS FROM DIRECT TESTIMONY?**

13 A. Yes. The Company witnesses accepted my recommended O&M expense
14 adjustments as follows:

15 • Kelley K. Miller has reduced the FPFTY COVID-19 Deferral amortization
16 claim by \$304,000 as recommended to rectify the billing system error that
17 resulted in overstatement of this expense claim. Additionally, Columbia
18 witness Ms. Miller confirmed that Columbia has ceased recording any new
19 COVID-19 related expense deferrals as of the effective date of rates in its
20 last rate case (Columbia Statement No. 4-R, pp. 10-11).

- 1 • C. J. Anstead has accepted my recommendation to remove the one-time
2 start-up cost of \$620,000 from the Picarro Leak Detection System program
3 expense claim of \$10,900,000 included in the Other Adjustments expense
4 claim of \$15,813,021 (Columbia Statement No. 14-R, p. 6).
- 5 • Kelley K. Miller has accepted my recommendation to remove a customer
6 education expense claim of \$33,500 included in the Other Adjustments
7 expense claim of \$15,813,021 pertaining to the Renewable Natural Gas
8 (RNG) choice under the proposed Green Path Rider, a separately docketed
9 application (at Docket No. R-2022-3032167) (Columbia Statement No. 4-R,
10 p. 3).

11 12 **BASE RATE CASE IMPACT ON CUSTOMERS' RATES**

13 **Q. SUMMARIZE YOUR DISCUSSION IN DIRECT TESTIMONY**

14 **CONCERNING THE BASE RATE CASE IMPACT ON CUSTOMERS.**

15 A. I discussed the base rate case impact on customers in light of the consistent
16 increase in base rates since 2013 because the Company has filed eight base rate
17 cases in a span of the last eleven years (I&E Statement No. 1, p. 3). Additionally,
18 Columbia has planned a total of \$3,903.80 million in capital investments over ten
19 years (2022-2031) at an annual average of \$390.38 million, which would likely
20 require the Company to file a rate case every year. This would continue to increase
21 customers' rates year after year (I&E Statement No. 1, pp. 4-5). Lastly,
22 Columbia's current average monthly rate (without the proposed increase in this

1 proceeding) is higher than four other natural gas distribution companies (I&E
2 Statement No. 1, p. 6).

3 In short, I presented the above analysis to call attention to the fact that
4 Columbia has not considered the impact of the rate increase proposed in this filing
5 nor considered the historic rate increases' impact on customers and the future
6 potential rate increase scenario (I&E Statement No. 1, p. 6).

7
8 **Q. DID ANY WITNESS RESPOND OR ACKNOWLEDGE YOUR**
9 **DISCUSSION ABOUT THE BASE RATE CASE IMPACT ON**
10 **CUSTOMERS' RATES?**

11 A. No. Columbia might have considered this analysis of rate impact as irrelevant in
12 the context of this base rate case proceeding. However, I believe it is an important
13 consideration in the interest of ratepayers in this proceeding.

14
15 **SUMMARY OF RECOMMENDED ADJUSTMENTS**

16 **Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS AS**
17 **UPDATED IN THIS SURREBUTTAL TESTIMONY.**

18 A. As illustrated in the following table and in the discussion that follows, I continue to

1 recommend adjustments as updated to O&M expenses:

| | Updated Company Claim | Updated I&E Recommended Allowance | Updated I&E Adjustment |
|---|--------------------------------------|--|---------------------------------------|
| O&M Expenses and Taxes: | | | |
| Rate Case Expense | \$1,254,200 | \$694,387 | (\$559,813) |
| Payroll Expense | \$36,719,966 | \$35,648,708 | (\$1,071,258) |
| Incentive Compensation | \$2,570,000 | \$1,425,948 | (\$1,144,052) |
| Employee Benefits | \$7,923,000 | \$7,006,622 | (\$916,378) |
| Payroll/FICA Taxes | \$2,867,303 | \$2,705,634 | (\$161,669) |
| Outside Services | \$29,660,205 | \$27,574,732 | (\$2,085,473) |
| Injuries and Damages | \$348,384 | \$311,042 | (\$37,342) |
| Advertisement Expense | \$683,312 | \$648,468 | (\$34,844) |
| NCSC Allocated Compensation | \$6,380,000 | \$2,541,870 | (\$3,838,130) |
| Total O&M Expense Adjustments | | | <u>(\$9,848,959)</u> |
| State Income Tax Expense | \$9,531,758 | \$5,444,504 | (\$4,087,254) |
| Total State Income Tax Adjustments | \$9,531,758 | \$5,444,504 | <u>(\$4,087,254)</u> |

2

3

4 **SUMMARY OF OVERALL I&E UPDATED POSITION**

5 **Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE**

6 **REQUIREMENT?**

7 A. I&E's total recommended revenue requirement for the Company is \$851,291,177.

8 This recommended revenue requirement represents an increase of \$36,785,738 to

9 the Company's claimed present rate revenues of \$814,505,439 to be recovered in

10 new rates effective January 1, 2023 (the first day of the FPFTY). This total

11 recommended allowance incorporates my adjustments made in this testimony to

1 O&M expenses, and those recommended adjustments made in the surrebuttal
 2 testimony of I&E witness Christopher Keller (I&E Statement No. 2-SR). A
 3 calculation of the I&E recommended revenue requirement is shown below:

| Columbia Gas of PA, Inc. R-2022-3031211 | | TABLE I INCOME SUMMARY | | | |
|--|----------------------|-----------------------------|---------------|------------|---------------|
| | 12/31/23 Proforma | INVESTIGATION & ENFORCEMENT | | | |
| | Present Rates | Adjustments | Present Rates | Allowances | Proposed |
| | \$ | \$ | \$ | \$ | \$ |
| Operating Revenue | 814,505,439 | 0 | 814,505,439 | 36,785,738 | 851,291,177 |
| Deductions: | | | | | |
| O&M Expenses | 482,124,699 | -9,687,290 | 472,437,409 | 461,304 | 472,898,713 |
| Depreciation | 116,724,231 | 0 | 116,724,231 | | 116,724,231 |
| Taxes, Other | 3,580,973 | -161,669 | 3,419,304 | 0 | 3,419,304 |
| Income Taxes: | | | | | |
| Current State | 1,293,517 | 885,420 | 2,178,937 | 3,265,567 | 5,444,504 |
| Current Federal | 9,841,282 | 1,882,343 | 11,723,625 | 6,942,362 | 18,665,987 |
| Deferred Taxes | 20,770,893 | 0 | 20,770,893 | | 20,770,893 |
| ITC | -221,354 | 0 | -221,354 | | -221,354 |
| Total Deductions | 634,114,241 | -7,081,196 | 627,033,045 | 10,669,233 | 637,702,278 |
| Income Available | 180,391,198 | 7,081,196 | 187,472,394 | 26,116,505 | 213,588,899 |
| Rate Base | 2,958,295,013 | 0 | 2,958,295,013 | 0 | 2,958,295,013 |
| Rate of Return | 6.10% | | 6.34% | | 7.22% |

4
5

Effective Date of New Rates:

6
7 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
 8 **FOR EFFECTIVE DATE OF NEW RATES.**

9 A. In direct testimony, I recommended that Columbia voluntarily make the new rates
 10 effective January 1, 2023 (the first day of the FPFTY) instead of on December 17,

1 2022, to avoid any unreasonable and unjustified rate impact on ratepayers (I&E
2 Statement No. 1, p. 11). As discussed in direct testimony, my recommendation is
3 more appropriate, fair, and logical in the interest of customers because the
4 ratemaking calculation (projection) for new rates includes the 12-month FPFTY
5 beginning January 1, 2023 and not beginning December 17, 2022 (I&E Statement
6 No. 1, pp. 9-11).

7
8 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

9 A. Yes. Columbia witness Nicole M. Paloney disagrees with my recommendation to
10 voluntarily make the new rate effective January 1, 2023, the first day of the FPFTY
11 (Columbia Statement No. 9-R, pp. 3-4).

12
13 **Q. PLEASE SUMMARIZE MS. PALONEY'S RESPONSE.**

14 A. First, Ms. Paloney expressed her view that it is not clear how costs associated for
15 the period December 17, 2022 through December 31, 2022 can be considered
16 unsupported and unreasonable as they were subject to the same prudence review
17 for costs that may be incurred after January 1, 2023. Additionally, she states that
18 the Company's data for the FTY ended November 30, 2022 produces a revenue
19 deficiency at the Company's proposed rate of return, as shown on Exhibit No. 102,
20 Schedule 3, page 3. (Columbia Statement No. 9-R, p. 4). Second, Ms. Paloney
21 asserts that per counsel advice, Columbia is under no obligation to delay the

1 implementation of new rates in the case as filed beyond the effective date mandated
2 by Section 1308(d) of the Public Utility Code (Columbia Statement No. 9-R, p. 4).

3
4 **Q. WHAT IS YOUR RESPONSE TO MS. PALONEY'S ASSERTION?**

5 A. First, I disagree with Columbia's assertion that costs associated for the period
6 December 17, 2022 through December 31, 2022 are supported and reasonable
7 because they were subject to the same prudence review for costs that may be
8 incurred after January 1, 2023. As discussed in my direct testimony, I reiterate that
9 the revenue requirement calculations in this rate filing are based on full year
10 projections or changes that would occur in the FPFTY 12-month period January 1,
11 2023 through December 31 2023 and not for the 15-day period December 17, 2022
12 through December 31, 2022 (I&E statement No. 1, pp. 10-11). Columbia stated
13 that by statute, the FPFTY should be the 12-month period *beginning with the first*
14 *month that new rates will be placed into effect after the full suspension period* and
15 the full statutory suspension period concludes in December 2022 (I&E Exhibit
16 No. 1, Schedule 2, pp. 2-3). Therefore, in the light of true compliance to this
17 statement, Columbia should voluntarily agree to make new rates effective January
18 1, 2023. Also, I disagree with Ms. Paloney's argument that the Company's data for
19 the FTY ended November 30, 2022 produces a revenue deficiency at the
20 Company's proposed rate of return. The proposed new rates are built on the basis
21 of the FPFTY and not the FTY revenue deficiency and the FTY 2022 revenue
22 deficiency was considered in the 2021 base rate case. Considering the above, it

1 would be unfair and unreasonable for Columbia to make new rates effective on
2 December 17, 2022 instead of January 1, 2023.

3
4 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
5 **THE NEW RATES EFFECTIVE DATE ?**

6 A. No. I recognize that Columbia is not willing to push the effective date of new
7 rates; however, I continue to recommend that Columbia voluntarily make the new
8 rates effective January 1, 2023 (the first day of the FPFTY) instead of on December
9 17, 2022, to avoid any unreasonable and unjustified rate impact on ratepayers.

10
11 **RATE CASE EXPENSE**

12 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
13 **FOR RATE CASE EXPENSE.**

14 A. I recommended the Company's total rate case expense first be adjusted based on
15 the 2020 fully litigated rate case actual expense and then normalized over a period
16 of 16 months resulting in the FPFTY allowance of \$694,387 ((adjusted expense of
17 \$925,850 ÷ 16 months) x 12 months), or a reduction of \$559,813 (\$1,254,200 -
18 \$694,387) to the Company's claim (I&E Statement No. 1, p. 13). My
19 recommendation was comprised of two parts: (1) adjusting rate case expense based
20 on the 2020 fully litigated rate case actual expense; and (2) normalizing the
21 adjusted rate case expense over a period of 16 months based on Columbia's historic
22 rate case filing frequency in contrast to Columbia's claimed 12-month

1 normalization period as discussed in my direct testimony (I&E Statement No. 1, pp.
2 13-19).

3
4 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

5 A. Yes. Columbia witness Kelley K. Miller disagrees with my recommended
6 adjustment to rate case expense (Columbia Statement No. 4-R, pp. 4-5).

7
8 **Q. PLEASE SUMMARIZE MS. MILLER'S RESPONSE.**

9 A. First, Ms. Miller disagrees with my recommended 16-month normalization period
10 in contrast to the Company's 12-month normalization period for rate case expense
11 because Columbia continues to anticipate the need to file annual rate cases for the
12 foreseeable future, and in the last two base rate cases, a one-year normalization
13 period was proposed, and the rate cases were filed within 12 months of each other
14 (Columbia Statement No. 4-R, p. 5). Second, she confirms that Columbia's
15 budgeted expenses for this rate case reflect anticipated costs for a fully litigated
16 case. She then asserts that basing a rate case expense adjustment on only one
17 historical occurrence, the 2020 litigated base rate case, is inappropriate and not
18 reflective of the level of expenses that are expected, because during the COVID-19
19 pandemic, no travel expense was incurred and the filing of hard copy versions to all
20 parties were not required (Columbia Statement No. 4-R, p. 5).

1 **Q. WHAT IS YOUR RESPONSE TO MS. MILLER'S ASSERTIONS?**

2 A. First, I disagree with Ms. Miller because the Commission has cited in several base
3 rate cases to the importance of considering the involved utility's historic filing
4 frequency as an essential element to determine the normalized level of rate case
5 expense for ratemaking purposes (I&E Statement No. 1, pp. 17-18). The
6 Company's proposed normalization period fails to properly rely upon the historic
7 data of three filing intervals instead of relying on the last two rate case filings (I&E
8 Statement No. 1, pp. 15-16). Additionally, Columbia's anticipated need to file
9 annual rate cases for the foreseeable future is speculative in nature and is not
10 supported by the historic filing intervals as shown in my direct testimony (I&E
11 Statement No. 1, p. 15). Furthermore, as discussed in my direct testimony, the
12 outcome of PPL Electric's claimed 24-month normalization period in 2012 supports
13 my recommendation. In that proceeding, PPL Electric's claim was based on the
14 expected timing of future base rate case filings, where PPL did not file its next rate
15 case until March 31, 2015, which was 36 months after the 2012 rate case filing
16 (I&E Statement No. 1, pp. 15-16).

17 Second, I disagree with Ms. Miller that basing a rate case expense
18 adjustment on only one historical occurrence, the 2020 litigated base rate case, is
19 inappropriate and not reflective of the level of expenses to be incurred. In my
20 direct testimony I presented Columbia's budgeted/claimed versus actual rate case
21 expense for the last three rate cases and there was only one litigated rate case
22 (2020) that depicted a 73.82% actual expense incurred as compared to the budgeted

1 claim, while two other cases were settled. Therefore, it is more appropriate and
2 reasonable to base the 2022 rate case expense allowance on the 2020 actual
3 expense (at 73.82%) since it is the most recently litigated rate case. Ms. Miller's
4 argument that Columbia incurred lower travel expenses and the waiver of filing
5 hard copy versions due to the pandemic resulted in lower actual rate case expense
6 in 2020 is not a supported and acceptable basis because these expenses were
7 negligible in proportion to the other categories of rate case expense, and this
8 proceeding is occurring under the same electronic filing and telephonic hearing
9 basis as that 2020 rate case. The total actual rate case expense per the comparative
10 data is provided below:

| | R-2018- 2647577 Actual | R-2020- 3018835 Actual | R-2021- 3024296 Actual | R-2022- 3031211 Claimed |
|-------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--|
| Travel Expenses | \$9,224 | \$1,085 | \$0 | \$5,000 |
| Miscellaneous Expense | \$13,259 | \$1,126 | \$0 | \$25,000 |
| Other Categories | \$589,103 | \$780,311 | \$529,623 | \$1,224,200 |
| Total Rate Case Expense | \$611,586 | \$782,522 | \$529,623 | \$1,254,200 |

11
12
13 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
14 **RATE CASE EXPENSE?**

15 A. No. I continue to recommend basing the FPPTY rate case expense allowance on
16 the basis of 2020 actual rate case expense and then applying a 16-month
17 normalization period to the adjusted expense.

1 **PAYROLL EXPENSE**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR PAYROLL EXPENSE.**

4 A. In direct testimony, I recommended an allowance of \$35,648,708 for payroll
5 expense, or a reduction of \$1,071,258 (\$36,719,966 - \$35,648,708) to the
6 Company's claim (I&E Statement No. 1 p. 20). As discussed in direct testimony,
7 my recommendation was comprised of two parts: (1) removing the annualization
8 adjustment of \$444,966 for the normal pay increases to be paid after the end of the
9 FPFTY 2023; and (2) a payroll expense adjustment of \$626,292 for vacant/unfilled
10 positions due to unpredictable normal vacancies, which occur due to retirements,
11 resignations, transfers, etc. throughout the year (I&E Statement No. 1, pp. 20-25).

12
13 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

14 A. Yes. Columbia witness Kelly K. Miller disagrees with my recommendation for
15 removal of the FPFTY payroll annualization adjustment of \$444,966 (Columbia
16 Statement No. 4-R, pp. 6-8) and Columbia witness Nicole M. Paloney disagrees
17 with my recommended payroll expense adjustment of \$626,292 for normal
18 employee vacancies (Columbia Statement No. 9-R, pp. 5-7).

19
20 **Q. PLEASE SUMMARIZE MS. MILLER'S RESPONSE REGARDING YOUR**
21 **PAYROLL ANNUALIZATION ADJUSTMENT.**

22 A. Ms. Miller states that labor expenses, as well as other expenses, are adjusted by

1 normalizing and annualizing expenses for ratemaking purposes, to reflect a full
2 year of expenses to conform to the revenue and expense matching principle
3 (Columbia Statement No. 4-R, p. 6). She cites an example stating the pay increases
4 for exempt employees are anticipated to be effective March 1 2023; the
5 annualization adjustment for these employees effectively increases the expense to
6 reflect this wage increase to be effective January 1, 2023 and thus reflecting the
7 entire test year at the level of wages that would be in effect at the end of the test
8 period (Columbia Statement No. 4-R, p. 6).

9
10 **Q. WHAT IS YOUR RESPONSE TO MS. MILLER'S ASSERTION?**

11 A. I agree that the FPFTY expense claim should conform to the revenue and expense
12 matching principle. Columbia has different effective dates for pay increases by
13 employee class/unions in the FPFTY, and therefore, the *Company is not incurring*
14 *or paying the portion of pay increases that is built in payroll annualization*
15 *adjustment during the 12-month period of the FPFTY. Contrary to what the*
16 *Company contends, allowing a pay increase annualization in the FPFTY for an*
17 *increase with an effective date after the end of that period would enable Columbia*
18 *to collect excess revenue via new rates in the FPFTY. This proposed method is*
19 *actually in conflict with the revenue and expense matching principle.*

20 Per Ms. Miller's example, the exempt employees' pay increase will be
21 effective March 1, 2023. It is relevant to note that Ms. Miller cites only to the one
22 pay increase that is reflected to occur in the FPFTY, which would qualify for

1 annualization based on the matching principle, but she totally ignores the pay
2 increases the Company has included that occur after the end of the FPFTY. Thus,
3 with the pay increase annualization as the Company has claimed, the payroll
4 expense claim is inflated/overstated for the portion attributable to January and
5 February 2024 pay increases, because Columbia is not liable to pay or incur any
6 portion of those pay increase in the FPFTY. If the pay increase annualization is
7 allowed in the FPFTY ratemaking calculation, Columbia will recover a portion of
8 the 2024 pay increase in FPFTY rates, which is unreasonable, unsupported, and
9 violates ratemaking revenue and expense matching principles.

10 As discussed in my direct testimony, the post-FPFTY pay increase
11 annualization adjustment would result in an unfair and unreasonable burden on
12 ratepayers by establishing or allowing an expense recovery in its revenue
13 requirement that is not reflective of the actual FPFTY expense level (I&E
14 Statement No. 1, pp. 20-21).

15
16 **Q. PLEASE SUMMARIZE MS. PALONEY’S RESPONSE REGARDING**
17 **YOUR RECOMMENDED EMPLOYEE VACANCY ADJUSTMENT.**

18 A. Ms. Paloney disagrees with my vacancy adjustment because, she opines, my
19 recommendation was based on an incorrect assumption that the Company’s payroll
20 expense claim is based upon a full authorized complement of employees. She then
21 states that in past cases the Company has made its labor expense claim based upon
22 its full authorized complement of employees, and thus had included vacant

1 positions in the employee complement and the Company has now changed its
2 approach in this case. Therefore, the employee headcount in the current case is not
3 inclusive of vacancies, whereas in past cases, the employee headcount included
4 vacancies (Columbia Statement No. 9-R, p. 6). Considering the above, Ms.
5 Paloney asserts that the budgeted labor expenses already take into consideration
6 employee vacancies and the vacant authorized positions will not result in savings in
7 the budgeted claim (Columbia Statement No. 9-R, p. 7).

8
9 **Q. WHAT IS YOUR RESPONSE TO MS. PALONEY'S ASSERTION?**

10 A. Ms. Paloney puts forward new information that the Company's FPFTY employee
11 complement (total headcount) of 782 in the current case is not inclusive of
12 vacancies in this case. However, she did not support or provide information about
13 the number of vacancies and related payroll expense adjusted in the total budgeted
14 FPFTY payroll expense claim. Per SDR-GAS-RR-026, the FPFTY headcount is
15 shown as 782, and in the next line, budgeted payroll expense claim of \$36,719,966
16 is identified with reference to the total headcount of 782. In the absence of specific
17 information about a payroll expense adjustment for vacancies and the number of
18 vacancies considered/assumed in the ratemaking calculation, it is not possible to
19 reconcile/verify the payroll expense claim as described by Ms. Paloney.
20 Additionally, the HTY and FTY head count and payroll expense should be
21 reconciled with the FPFTY information.

1 Therefore, as discussed in my direct testimony, my recommendation based
2 on Columbia's historic average vacancy rate of 54 (which produced a
3 6.90% vacancy rate: Average Vacancy Rate of 54 ÷ FPFTY budgeted employee
4 count of 782) vacant positions in the FPFTY is reasonable and appropriate (I&E
5 Statement No. 1, pp. 21-24). Lastly, I reiterate that it is important to note that
6 normal vacancies due to retirements, resignations, transfers, layoffs, etc., on a day-
7 to-day operating basis are unpredictable, and there will always be search and
8 placement time involved in filling normal vacancies, which Columbia estimates
9 approximately 8 weeks to 16 weeks for filling vacant positions depending on the
10 timing of the vacancies, the number of applicants, and other variables (I&E Exhibit
11 No. 1, Schedule 4, p. 6).

12
13 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
14 **PAYROLL EXPENSE?**

15 A. No. I continue to recommend removal of the FPFTY payroll expense annualization
16 adjustment of \$444,966 and a vacancy adjustment of \$626,292 to the FPFTY
17 payroll expense claim.

18
19 **INCENTIVE COMPENSATION**

20 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
21 **FOR INCENTIVE COMPENSATION.**

22 A. In direct testimony, I recommended an allowance of \$1,425,948 for incentive

1 compensation, or a reduction of \$1,144,052 (\$2,570,000 - \$1,425,948) to the
2 Company's claim (I&E Statement No. 1, p. 27). As discussed, my
3 recommendation was based on a historic average actual payout factor of 4.00% on
4 the FPFTY total payroll expense in contrast to the Company's claimed speculative
5 target of a 7.00% payout factor (I&E Statement No. 1, pp. 27-29).

6
7 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

8 A. Yes. Columbia witness Kimberly Cartella disagrees with my recommendation to
9 adjust the FPFTY incentive compensation claim (Columbia Statement No. 17-R, p.
10 3).

11
12 **Q. PLEASE SUMMARIZE MS. CARTELLA'S RESPONSE.**

13 A. First, Ms. Cartella states that incentive compensation expense is calculated on the
14 anticipated base salary of employees during the period and the assumption of
15 achieving the target performance levels described in the incentive plan, which is the
16 anticipated level of achievement (Columbia Statement No. 17-R, p. 3). Second,
17 Ms. Cartella objects to my recommendation to apply the Company's average
18 incentive {BEGIN PROPRIETARY} [REDACTED]
19 [REDACTED] {END PROPRIETARY} in contrast with the Company's claimed
20 target level of a 7.00% incentive compensation pay out factor on total payroll
21 expense (Columbia Statement No. 17-R, p. 3). She then presented a table showing

1 the last three years' payout factor that calculates an average payout factor of 4.92%
2 (Columbia Statement No. 17-R, p. 5).

3
4 **Q. WHAT IS YOUR RESPONSE TO MS. CARTELLA'S ASSERTION?**

5 A. First, I am not disputing Ms. Cartella's statement that the incentive compensation
6 expense claim is calculated on the anticipated base salary of employees during the
7 period and *the assumption of achieving the anticipated target performance levels*
8 *described* in the incentive plan. However, it is equally important to consider
9 historic actual incentive compensation versus the budgeted expense claim to
10 ascertain reasonableness of the FPFTY claim in the ratemaking calculation because
11 the actual incentive payment occurs when *the anticipated target performance levels*
12 *are achieved* per the incentive plan. The following table shows Columbia's budget
13 versus its revised actual incentive compensation data presented by Columbia
14 witness Nicole M. Paloney (Columbia Exhibit NP 7-R, pp. 1-3 contained in
15 Columbia Statement No. 9-R):

| | 2019 | 2020 | 2021 |
|------------------------------|-------------|-------------|-------------|
| Budget | \$1,133,000 | \$2,676,000 | \$2,946,000 |
| Actual | \$1,246,000 | \$1,687,000 | \$2,676,000 |
| Over/(under) spent expense | \$113,000 | (\$989,000) | (\$270,000) |
| Over/(under) spent expense % | 9.97% | (36.96%) | (9.16%) |

16
17 Second, I would like to clarify that Ms. Cartella's historic incentive payout factor of
18 4.92% is calculated based on 2021 incentive compensation of \$2,464,604

1 (Columbia Statement No. 17-R, p. 5, ln. 4) while I used the 2021 normalized
2 incentive expense of \$1,186,045 as presented in SDR-GAS-RR-026, which
3 produced my calculated average payout factor of 3.95% (rounded to 4.00%) (I&E
4 Statement No. 1, p. 27). Additionally, the Company has applied {BEGIN
5 PROPRIETARY} [REDACTED]
6 {END PROPRIETARY} on additional labor expense for determining the related
7 additional benefits expense, claimed in other adjustments per the details provided
8 in response to I&E-RE-66-D, Attachment A (I&E Exhibit No. 1, Schedule 5, p. 6).

9 Lastly, as discussed in my direct testimony, achievement of financial triggers
10 for the incentive payout were \$1.25 NOEPS for 2021 and \$1.38 NOEPS for 2022
11 (dependent on the Company's or parent company financial performance), and
12 Cash-Based Award Programs which accounts for 70% weight and only 30% of the
13 incentive compensation would be paid independent of meeting the financial
14 performance goals (I&E Statement No. 1, p. 28 and I&E Exhibit No. 1, Schedule 5,
15 p. 8). Per Ms. Cartella's Exhibit KKC 1-R, 80% weight was assigned to
16 achievement of the financial goals for the 2019-2021 incentive plan and 50%
17 weight is assigned to achievement of the financial goals for the 2021-2023
18 incentive plan. The achievement of financial goals is speculative and contingent on
19 overall financial performance of the Company. Therefore, it is speculative to
20 estimate the FPFTY incentive compensation expense when the financial
21 performance of the Company is linked to the incentive payment (I&E Statement
22 No. 1, p. 28). Thus, my recommendation calculated {BEGIN PROPRIETARY}

1 [REDACTED] {END PROPRIETARY} on base payroll expense
2 is appropriate and reasonable in contrast to Columbia's speculative 7.00% payout
3 factor.

4
5 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
6 **INCENTIVE COMPENSATION?**

7 A. No. I continue to recommend an adjustment in incentive compensation claim based
8 on the more reasonable {BEGIN PROPRIETARY} [REDACTED]
9 {BEGIN PROPRIETARY}.

10
11 **EMPLOYEE BENEFITS EXPENSE**

12 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
13 **FOR EMPLOYEE BENEFITS.**

14 A. In direct testimony, I recommended an allowance of \$7,006,622 for benefits
15 expense, or a reduction of \$916,378 (\$7,923,000 - \$7,006,622) to the Company's
16 claim (I&E Statement No. 1, p. 30). As discussed in my direct testimony, my
17 recommendation is comprised of three parts: (1) removal of the profit-sharing cost
18 of \$373,920 from benefits expense; (2) an adjustment to the remaining benefits
19 expense claim of \$7,549,080 (\$7,923,000 - \$373,920) based on {BEGIN
20 PROPRIETARY} [REDACTED] {END
21 PROPRIETARY}; and (3) an adjustment for 54 employee vacancies as discussed
22 in the payroll section (I&E Statement No. 1, pp. 31-34).

1 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

2 A. Yes. Columbia witness Kimberly Cartella disagrees with my recommendation to
3 remove profit-sharing expense from the FPFTY employee benefits expense claim
4 (Columbia Statement No. 17-R, pp. 7-8). Columbia witness Nicholas Bly
5 disagrees with my recommendation to apply a {BEGIN PROPRIETARY}
6 [REDACTED] {END PROPRIETARY} to determine
7 the FPFTY employee benefits expense allowance (Columbia Statement No. 15-R,
8 p. 2). Columbia's witnesses did not specifically respond to the adjustment to
9 benefits expense as result of my recommended vacancy adjustment to payroll
10 expense. However, Nicole M. Paloney rejected the vacancy adjustment in the
11 payroll section above (Columbia Statement No. 9-R, pp. 5-7).

12
13 **Q. PLEASE SUMMARIZE MS. CARTELLA'S RESPONSE CONCERNING**
14 **PROFIT SHARING EXPENSE.**

15 A. Ms. Cartella states that as part of the total rewards package, profit sharing is an
16 element of the Company's 401(k)/Retirement Savings Plan, not the Omnibus
17 Incentive Plan, and supports all employees' saving for retirement and not just
18 certain high-level executives are eligible for the 401(k)/Retirement Savings Plan.
19 The Company's contributions for Profit Sharing are deposited into employees'
20 401(k) accounts, which provide an important element of employee savings
21 (Columbia Statement No. 17-R, p. 8).

1 **Q. WHAT IS YOUR RESPONSE TO MS. CARTELLA?**

2 A. I accept Ms. Cartella’s response because the profit-sharing plan supplements
3 employees’ contributions to their retirement accounts and the traditional defined
4 benefit plans are no longer offered to exempt new hires on or after January 1, 2010,
5 and non-exempt new hires on or after January 1, 2013 (Columbia Statement No.
6 17-R, p. 8). Therefore, I withdraw my recommendation to remove profit-sharing
7 expense of \$373,920.

8

9 **Q. PLEASE SUMMARIZE MR. BLY’S RESPONSE CONCERNING**
10 **BENEFITS EXPENSE.**

11 A. Mr. Bly disagrees with my recommendation to adjust benefits expense based on
12 the {BEGIN PROPRIETARY} [REDACTED]
13 [REDACTED] {END PROPRIETARY}. He then states that Columbia underspent
14 in 2020 and 2021 benefits expense due to COVID-19 pandemic impacts. He also
15 presented the AON Hewitt (a Human Resource Consulting Services) COVID-19
16 Impact Summary for NiSource regarding the impact of COVID-19 on healthcare
17 costs as an exhibit (Columbia Statement No. 15-R, p. 2 and Exhibit NB 1-R, p. 2).

18

19 **Q. WHAT IS YOUR RESPONSE TO MR. BLY’S ASSERTION?**

20 A. AON’s one page note states that health care data showed a decrease in medical
21 costs from 2019 to 2020 due to suppression in medical claim activities because of
22 the COVID-19 impact, and now medical claims have bounced back to pre-

1 pandemic level. Economy-wide inflation will likely drive-up wages in the
2 healthcare sector and may drive up negotiated prices as contracts are renegotiated
3 with an increase in medical costs. AON's comment does not specify or present any
4 specific percentile increase in medical costs nor include any supporting analysis for
5 a speculative increase in medical costs due to inflationary wage increases in the
6 healthcare sector.

7 As discussed in my direct testimony, Columbia's 2019-2021 average
8 benefits expense to payroll expense factor was 18.91% $((19.18 + 18.45 + 19.10) \div$
9 $3)$, and the Company underspent its budgeted benefits expense in the last three
10 years as shown in my direct testimony (I&E Statement No. 1, p. 32) and in
11 Columbia's rebuttal testimony (Columbia Exhibit NP 7-R, pp. 1-3 contained in
12 Columbia Statement No. 9-R). Therefore, my recommendation which is based on a
13 **{BEGIN PROPRIETARY} [REDACTED] {END**
14 **PROPRIETARY}** (I&E Exhibit No. 1, Schedule 5, p. 6) is more appropriate and
15 reasonable in contrast to the Company's FPFTY claimed 22.53% benefits expense
16 factor.

17
18 **Q. DO YOU HAVE ANY CHANGES TO YOUR REDUCTION IN BENEFITS**
19 **EXPENSE RELATED TO YOUR RECOMMENDED VACANCY**
20 **ADJUSTMENT?**

21 **A.** No. Since I disagree with Ms. Paloney's response to the vacancy adjustment

1 discussed in the payroll section above, I offer no change in my recommendation for
2 the corresponding adjustment to benefits expense (I&E Statement No, 1, p. 33).

3
4 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
5 **EMPLOYEE BENEFITS EXPENSE?**

6 A. No. The calculation of my recommendation for employee benefits expense
7 adjustment and allowance are summarized in the table below:

| | |
|--|--------------------|
| 1. FPFTY Employee Benefits Expense Claim | \$7,923,000 |
| 2. Adjustment for Removal of Profit-Sharing Expense | \$0 |
| 3. FPFTY Employee Benefits Expense Claim | \$7,923,000 |
| 4. I&E Benefits Expense allowance at 20% of Payroll Expense Allowance of \$35,648,708 | \$7,129,742 |
| 5. Adjustment for Benefits Expense (4 - 3) | (\$793,258) |
| 6. Adjustment for Employee Vacancies | (\$123,120) |
| 7. Total Adjustment to Benefits Expense (5 + 6) | (\$916,378) |
| 8. FPFTY Benefits Expense Allowance (3 – 7) | \$7,006,622 |

8
9
10 **PAYROLL/FICA TAXES**

11 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
12 **FOR PAYROLL/FICA TAXES.**

13 A. In direct testimony, I recommended an allowance of \$2,705,634 for FICA tax
14 expense, or a reduction of \$161,669 (\$2,867,303 - \$2,705,634) to the Company's
15 claim (I&E Statement No. 1, p. 35). My recommendation was based on applying

1 the Company's experienced FICA tax rate of 7.2978% to my recommended payroll
2 expense adjustment of \$1,071,258 and incentive compensation adjustment of
3 \$1,144,052 (I&E Statement No. 1, p. 35).

4
5 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

6 A. Yes. Columbia witness Jennifer Harding disagrees with my recommendation for
7 payroll/FICA taxes (Columbia Statement No. 10-R, p. 3).

8
9 **Q. PLEASE SUMMARIZE MS. HARDING'S RESPONSE.**

10 A. Ms. Harding states that since Columbia witness Ms. Miller disputes the reduction
11 in payroll expense, the Company also disputes the associated decrease in payroll
12 tax expense (Columbia Statement No. 10-R, p. 3).

13
14 **Q. WHAT IS YOUR RESPONSE TO MS. HARDING?**

15 A. Since I am not changing my recommended adjustments to payroll expense and
16 incentive compensation as discussed above, I do not accept Ms. Harding's
17 assertion.

18
19 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
20 **PAYROLL/FICA TAXES?**

21 A. No. I have no changes to my recommended adjustment to payroll/FICA taxes.

1 **OUTSIDE SERVICES**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR OUTSIDE SERVICES.**

4 A. In direct testimony, I recommended an allowance of \$27,574,732 or a reduction of
5 \$2,085,473 (\$29,660,205 - \$27,574,732) for outside services expense (I&E
6 Statement No. 1, p. 37). As discussed in my direct testimony, my recommendation
7 was based on the HTY actual expense after an adjustment for an increase in
8 expenses for known new/additional program costs and removal of the blanket
9 inflation adjustment of 3.00% in the FTY and FPPTY outside services claim (I&E
10 Statement No. 1, p. 37-39).

11

12 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

13 A. Yes. Columbia witness Nicole M. Paloney disagrees with my recommended
14 adjustment to outside services (Columbia Statement No. 9-R, pp.10-11 and pp. 15-
15 16).

16

17 **Q. PLEASE SUMMARIZE MS. PALONEY'S RESPONSE.**

18 A. Ms. Paloney rejects my recommended adjustment to remove the recognition of
19 inflation included in the outside services budget and states that during the
20 preparation of rebuttal testimony, the Company determined that changes were
21 needed to update the historic budgeted actual outside services for 2020 and 2021 in
22 Columbia Exhibit NP-1 attached to her direct testimony (Columbia Statement

1 No. 9). Therefore, she presented a revised Exhibit NP 7-R as the changes were the
2 result of incorrect data pulled from the system at the time the schedule was created.
3 (Columbia Statement No. 9-R, pp. 15). Accordingly, she presented a revised table
4 of historic variance in budget v. actual expense, which now shows a lower
5 underspent variance of 3.22% and 6.98% as compared to the originally filed data of
6 underspent variance of 29.56% and 15.16% for the fiscal years 2020 and 2021
7 respectively (Columbia Statement No. 9-R, pp. 15):

| | Budgeted Expense | Actual Expense | Underspent | % Underspent |
|------|------------------|----------------|---------------|--------------|
| 2018 | \$22,634,000 | \$21,352,000 | (\$1,282,000) | (5.66%) |
| 2019 | \$23,453,000 | \$22,850,000 | (\$603,000) | (2.57%) |
| 2020 | \$22,167,000 | \$21,453,000 | (\$714,000) | (3.22%) |
| 2021 | \$26,529,000 | \$24,677,000 | (\$1,852,000) | (6.98%) |

8
9
10 **Q. WHAT IS YOUR RESPONSE TO MS. PALONEY'S ASSERTION?**

11 A. It is concerning to note that the Company is revising the historic budgeted and
12 actual outside services expense that produced a low underspent variance as
13 compared to the originally filed data. This revised information still shows outside
14 services expense underspent amounts of \$714,000 in 2020 and \$1,852,000 in 2021.
15 Columbia witness Ms. Paloney did not specifically respond to my adjustment to
16 remove blanket inflation increases from the HTY to FTY and the FTY to FPFTY
17 claims. However, she discussed in general the need for an inflation adjustment in
18 response to the OCA witness's recommendation.

1 As discussed in my direct testimony, I disagree with the blanket inflation
2 adjustment of 3% to the FTY and FPFTY claims and reiterate that there is no
3 breakdown for the FTY and FPFTY outside services expense claims and no basis to
4 support the blanket inflation adjustments. Per Columbia Exhibit No. 4, Schedule
5 14, p. 3, the Company provided a breakdown for outside services expense incurred
6 in 2019 through 2021 that consisted of seventy-seven-line items of expenses (by
7 cost element). The Company, in its response to I&E-RE-23-D, states that such a
8 breakdown for the FTY and FPFTY is not available as it does not budget expenses
9 by each cost element (I&E Exhibit No. 1, Schedule 7, p. 5). In the absence of a
10 specific basis and support for applying a blanket inflation rate of 3% across the
11 board in all cost elements of outside services expense, such an increase is
12 unreasonable and unsupported. Each cost element is a separate expense item and
13 should be evaluated and budgeted based on historic spending level, merit, and
14 future known and measurable changes (I&E Statement No. 1, p. 38).

15
16 **Q. DO YOU HAVE ANY ADDITIONAL SUPPORT FOR YOUR**
17 **RECOMMENDED DISALLOWANCE OF THE BLANKET INFLATION**
18 **ADJUSTMENT?**

19 A. Yes. Recently, the Commission denied a blanket increase in the 2020 Wellsboro
20 Electric Company base rate case¹ which applied a 3% blanket inflation adjustment

¹ Pa. PUC v. Wellsboro Electric Company at Docket No. R-2019-3008208 (Order entered April 29, 2020, p. 40).

1 to the FTY expenses to estimate the FPFTY expenses claim, and the Commission
2 stated that:

3 [T]he Company did not demonstrate that making this blanket
4 adjustment to each expense claim directly relates to the actual
5 costs expected to be incurred in each expense account in the
6 FPFTY.

7 Similarly, in a recent Aqua Pennsylvania base rate case,² the Commission
8 denied a General Price Level Adjustment (blanket inflation adjustment) to
9 expenses, which was neither targeted nor specific and agreed with the
10 Administrative Law Judge’s Recommended Decision stating that:

11 We also agree that allowing Aqua to apply a general inflation
12 adjustment to a block of expenses could incentivize less
13 accurate tracking of expenses and a less rigorous approach to
14 controlling costs for those expenses.

15 Considering the Commission’s Orders, the Company did not meet its burden in
16 demonstrating that its proposed blanket inflation adjustment to all the seventy-
17 seven-line items of expenses contained in the outside services expense claim would
18 meet the “known and measurable” standard for increasing each expense line item in
19 the FTY and FPFTY expense claims.

20
21 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
22 **OUTSIDE SERVICES?**

23 **A. No.**

² Pa. PUC v. Aqua Pennsylvania, Inc. at Docket No. R-2021-3027385 (Order entered on May 16, 2022, pp.116-117).

1 **INJURIES AND DAMAGES**

2 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
3 **FOR INJURIES AND DAMAGES.**

4 A. In direct testimony, I recommended an allowance of \$311,042 for injuries and
5 damages expense, or a reduction of \$37,342 (\$348,384 - \$311,042) to the
6 Company's claim (I&E Statement No. 1, p. 41). As discussed in direct testimony,
7 my recommendation was based on an average of the last five years' (2017 through
8 2021) actual payments to even out historic highs and lows in actual payments in
9 contrast to Columbia's calculation based on the last five years' average of inflated
10 actual expenses (I&E Statement No. 1, pp. 41-42).

11

12 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

13 A. Yes. Columbia witness Kelly K. Miller disagrees with my recommended
14 adjustment to injuries and damages expense (Columbia Statement No. 4-R, pp. 8-
15 10).

16

17 **Q. PLEASE SUMMARIZE MS. MILLER'S RESPONSE.**

18 A. Ms. Miller rejects my recommended historic five-year simple average of actual
19 expenses (cash payment) in contrast to the Company's inflated historic actual
20 expense (cash payment) average method for determining the FPFTY claim for
21 injuries and damages. The primary reason for her rejection is that the cash
22 payments incurred five years ago to repair damaged property will cost more today

1 due to inflation (Columbia Statement No. 4-R, p. 10). She then asserts that
 2 Columbia does not (and did not in the instances mentioned) use the budget as a
 3 basis for its claimed expense level. The budget reflects an accrual amount for
 4 injuries and damages and Columbia consistently uses actual cash payments for
 5 ratemaking purposes, and therefore, she asserts that it is inappropriate to compare
 6 the historic actual expense variance as compared to the budgeted amounts as a
 7 support to my recommendation (Columbia Statement No. 4-R, p. 10).

8
 9 **Q. WHAT IS YOUR RESPONSE TO MS. MILLER'S ASSERTION?**

10 A. I disagree with Ms. Miller applying a historic five-year inflated actual expense
 11 (cash payment) average method for determining the FPFTY claim. Regarding Ms.
 12 Miller's assertion that the cash payments incurred five years ago to repair damaged
 13 property will cost more today due to inflation is true in general. However, the
 14 Company's historic injuries and damages expense (cash payment) shows highs and
 15 lows as shown in the table below (Columbia filing Exhibit 4, Schedule 2, p. 11):

| | Actual cash payment | Columbia's GDP Inflated |
|-------------------|----------------------------|--------------------------------|
| 12/2016-11/2017 | \$283,553 | \$311,257 |
| 12/2017-11/2018 | \$225,982 | \$242,271 |
| 12/2018-11/2019 | \$397,834 | \$419,013 |
| 12/2019-11/2020 | \$441,145 | \$459,139 |
| 12/2020-11/2021 | <u>\$206,698</u> | <u>\$206,698</u> |
| | <u>\$1,555,212</u> | <u>\$1,638,378</u> |
| Five-Year Average | \$311,042 | \$327,676 |

16

1 The above table shows that the Company experienced highs and lows in actual cash
2 payments for this expense, and therefore, it is more appropriate and reasonable to
3 use a simple average to even out historic highs and lows of the actual cash
4 payments for determining an appropriate FPPTY allowance. This expense trend
5 does not support applying inflation to the historic expense to determine a FPPTY
6 allowance (I&E Statement No. 1, p. 41).

7
8 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
9 **INJURIES AND DAMAGES?**

10 A. No.

11
12 **ADVERTISEMENT EXPENSE**

13 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
14 **FOR ADVERTISEMENT EXPENSE.**

15 A. In direct testimony, I recommended an allowance of \$435,666 for advertisement
16 expense, or a reduction of \$247,646 (\$683,312 - \$435,666) to the Company's claim
17 (I&E Statement No. 1, p. 44). As discussed in my direct testimony, my
18 recommendation is based on a three-year average of the actual expense to even out
19 the highs and lows in this expense (I&E Statement No. 1, pp. 44-45).

20
21 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

22 A. Yes. Columbia witness Nicole M. Paloney disagrees with my recommended

1 adjustment to advertisement expense (Columbia Statement No. 9-R, pp. 16-20).

2
3 **Q. PLEASE SUMMARIZE MS. PALONEY’S RESPONSE.**

4 A. Ms. Paloney explains that the three years (2019, 2020, 2021) of historic actual
5 expense data presented in my direct testimony (I&E Statement No. 1, p. 44) are not
6 comparable to the FTY and FPFTY claims because of changes in the way certain
7 costs are being budgeted and booked by cost element due to accounting changes for
8 actual costs incurred. Additionally, the public awareness expenses included in the
9 FTY and FPFTY claims are not included in the historic actual expenses, and
10 therefore, they are not comparable with the historic expense level (Columbia
11 Statement No. 9-R, pp. 16-17). She then presented a revised table showing historic
12 and future test year expense claims, which is summarized in the table below
13 (Columbia Statement No. 9-R, p. 18):

| | 2019 | 2020 | 2021 | FTY | FPFTY |
|----------------|-------------|-------------|-------------|------------|--------------|
| As Filed Total | \$193,037 | \$714,668 | \$571,123 | \$866,000 | \$866,000 |
| Rebuttal Total | \$587,771 | \$701,397 | \$656,236 | \$687,332 | \$683,312 |

14
15 Considering the above updated information, Ms. Paloney rejects my recommended
16 adjustment to advertisement expense because it is consistent with the historic
17 expense level (Columbia Statement No. 9-R, pp. 19-20).

18
19 **Q. WHAT IS YOUR RESPONSE TO MS. PALONEY’S ASSERTION?**

20 A. It is concerning to note that in response to I&E-RE-38-D, Columbia did not provide

1 or clarify changes in the historic actual advertisement expense as compared to the
2 FTY and FPFTY claims (I&E Exhibit No. 1, Schedule 9). Based on updated
3 information provided in the Company's rebuttal testimony, I am revising my
4 recommended adjustment to the FPFTY claimed expense applying a three-year
5 average of the historic actual expense to even out highs and lows in this expense.
6

7 **Q. WHAT IS YOUR UPDATED RECOMMENDATION FOR**
8 **ADVERTISEMENT EXPENSE?**

9 A. I recommend a revised allowance of \$648,468 $((\$587,771 + \$701,397 + \$656,236)$
10 $\div 3)$ for advertisement expense, or a reduction of \$34,844 $(\$683,312 - \$648,468)$ to
11 the Company's claim as explained above.
12

13 **NCSC ALLOCATED COMPENSATION**

14 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
15 **FOR NCSC ALLOCATED COMPENSATION.**

16 A. In direct testimony, I recommended an allowance of \$2,326,870 or a reduction of
17 \$4,053,130 $(\$6,380,000 - \$2,326,870)$ to NCSC allocated compensation expense
18 broken down as follows (I&E Statement No. 1, p. 46):

- 19 (1) Allowance of \$2,326,870 or a reduction of \$1,173,130 $(\$3,500,000 -$
20 $\$2,236,870)$ to the Company's claim for NCSC incentive compensation
21 based on the last three years' average payout factor of 1.12% (I&E
22 Statement No. 1, pp. 46-48).

1 (2) Allowance of \$0 or a reduction of \$215,000 (\$215,000 - \$0) to the
2 Company's claim for NCSC profit-sharing expense as this benefit is
3 available only to certain high-level executive-type positions based on
4 earning targets rather than goals that benefit ratepayers (I&E Statement
5 No. 1, pp. 46 and 49).

6 (3) Allowance of \$0 or a reduction of \$2,665,000 (\$2,665,000 - \$0) to the
7 Company's claim for NCSC stock rewards expense as this benefit is linked
8 to financial goals and targets such as earnings per share, rate of return on
9 equity, or appreciation of the parent company's common stock and focused
10 on shareholder-oriented goals (I&E Statement No. 1, pp. 46, 49-50).

11
12 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

13 A. Yes. Columbia witness Kimberly Cartella disagrees with my recommended
14 adjustment to NCSC allocated compensation expense (incentive compensation,
15 profit sharing, and stock rewards) (Columbia Statement No. 17-R, pp. 3, 5-8).

16
17 **Q. PLEASE SUMMARIZE MS. CARTELLA'S RESPONSE CONCERNING**
18 **INCENTIVE COMPENSATION.**

19 A. Ms. Cartella states that I made errors in calculating the NCSC incentive
20 compensation payout factors (2019: 1.13%, 2020: 1.31%, and 2021: 0.93%) due to
21 incorrect alignment of numbers to wrong years (Columbia Statement No. 17-R, p.
22 5). She then presented her version of data showing calculation of payout factors

(2019: 1.74%, 2020: 1.31%, and 2021: 2.87%) (Columbia Statement No. 17-R, p. 5, lines 15-18). Based on her calculation the historic average payout factor calculates to 1.97% in contrast to my calculated average payout factor of 1.12%. Therefore, she rejects my recommended adjustment to the NCSC allocated incentive compensation (Columbia Statement No. 17-R, p. 5).

Q. WHAT IS YOUR RESPONSE TO MS. CARTELLA’S ASSERTION?

A. I disagree with Ms. Cartella’s response that I made errors in the calculation of incentive payout factors because I relied on Columbia’s revised response to I&E-RE-54-D (I&E Exhibit No. 1, Schedule 10, pp. 3-5). I am reproducing my calculation of payout factors with additional columns for explanation as follows:

| Fiscal Year | NCSC Total Base Payroll (1) | Allocated Actual Incentive Compensation (2) | O&M – Actual Incentive Compensation (3) | Payout Factor on Base Payroll (4) (3 ÷ 1 x 100) |
|--------------------|--|--|--|--|
| November 30, 2019 | \$164,112,582 | \$2,379,193 | \$1,862,432 | 1.13% |
| November 30, 2020 | \$165,772,955 | \$2,860,519 | \$2,166,271 | 1.31% |
| November 30, 2021 | \$166,635,538 | \$2,166,291 | \$1,547,165 | 0.93% |
| FTY | \$197,613,381* | | \$3,400,000* | 1.72% |
| FPFTY | \$207,756,275* | | \$3,500,000* | 1.68% |

*Projected

In the above table the amounts shown in column (3) is the O&M portion of incentive compensation calculated by applying Columbia’s O&M expense factors of 78.28%, 75.73%, and 71.42% for the fiscal years 2019, 2020, and 2021

1 respectively to the amounts shown in column (2) (I&E Exhibit No. 1, Schedule 10,
2 pp. 3-5).

3 It appears from Ms. Cartella's payout factor calculation that she considered
4 total incentive compensation paid in each fiscal year, which should in fact be
5 calculated on the O&M portion of incentive compensation as shown in the above
6 table, and her 2021 total compensation amount does not reconcile with Columbia's
7 revised response to I&E-RE-54-D, Attachment A, p. 1 (I&E Exhibit No. 1,
8 Schedule 10, p. 3). Additionally, as discussed in the incentive compensation
9 section above, the achievement of financial goals is speculative and contingent on
10 overall financial performance of the Company. Therefore, it is speculative to
11 estimate the FPFTY NCSC incentive compensation expense when the financial
12 performance of the company is linked to the incentive payment.

13 Thus, my recommended allowance calculated based on a 1.12% payout
14 factor applied to the FPFTY total base payroll expense is appropriate and
15 reasonable in contrast to Columbia's speculative 1.97% payout factor (I&E
16 Statement No. 1, pp. 47-48).

17
18 **Q. PLEASE SUMMARIZE MS. CARTELLA'S RESPONSE CONCERNING**
19 **PROFIT-SHARING EXPENSE?**

20 A. Ms. Cartella explains that as part of the total rewards package, profit sharing is an
21 element of the Company's 401(k)/Retirement Savings Plan, not the Omnibus
22 Incentive Plan, and supports all employees' retirement savings and not just certain

1 high-level executives as all employees are eligible for the 401(k)/Retirement
2 Savings Plan. Company contributions for Profit Sharing are deposited into
3 employees' 401(k) accounts, which provide an important element of employee
4 savings (Columbia Statement No. 17-R, p. 8).

5
6 **Q. WHAT IS YOUR RESPONSE TO MS. CARTELLA?**

7 A. I accept Ms. Cartella's response as discussed in the employee benefits section
8 above and withdraw my recommendation for removal of NCSC profit-sharing
9 expense of \$215,000 from the NCSC compensation expense claim.

10
11 **Q. PLEASE SUMMARIZE MS. CARTELLA'S RESPONSE CONCERNING
12 STOCK REWARDS EXPENSE?**

13 A. Ms. Cartella rejects my recommendation to disallow 100% of stock rewards
14 expense. She states that these rewards are not based upon return on equity or
15 appreciation of the parent company's stock. Long-term incentives are based on
16 achievement of metrics (goals and measures) that include safety, customer
17 perception, employee culture, environmental, financial, and employee diversity
18 (Columbia Statement No. 17-R, pp. 6-7). Additionally, she states that stock
19 rewards are provided to leaders in positions at the director level and above and are
20 based upon financial metrics and achievements of goals (Columbia Statement No.
21 17-R, p. 6).

1 **Q. WHAT IS YOUR RESPONSE TO MS. CARTELLA?**

2 A. As discussed in my direct testimony, stock rewards are limited to certain top-level
3 executives, and therefore, it is not immediately obvious how stock rewards expense
4 is related to providing safe and reliable service to ratepayers (I&E Statement No. 1,
5 pp. 49-50). Additionally, the achievement of financial goals/metrics of the parent
6 company and other operating companies combined financial performance may
7 influence the determination of stock rewards for certain top-level executives at the
8 corporate management level. I continue to recommend removal of the entire stock
9 rewards expense from the NCSC compensation claim as discussed in my direct
10 testimony (I&E Statement No. 1, pp. 49-50).

11

12 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
13 **NCSC ALLOCATED COMPENSATION?**

14 A. Yes, in part. I recommend a revised allowance of \$2,541,870 or a reduction of
15 \$3,838,130 (\$6,380,000 - \$2,541,870) to NCSC allocated compensation expense
16 after accepting profit-sharing expense of \$215,000.

17

18 **OTHER ADJUSTMENTS**

19 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
20 **FOR OTHER ADJUSTMENTS.**

21 A. In direct testimony, I recommended an allowance of \$14,275,000 for other
22 adjustments, or a reduction of \$1,538,021 (\$15,813,021 - \$14,275,000) to the

1 Company's claim (I&E Statement No. 1, p. 51). As discussed in my direct
2 testimony, my recommendation was comprised of three parts: (1) an adjustment for
3 removal of the one-time, nonrecurring expense of \$620,000 from Picarro Leak
4 Detection System expense claim (I&E Statement No. 1, p. 51); (2) disallowance of
5 education costs related to the RNG pilot program as this program cost relates to the
6 purchased gas cost recovery mechanism (Section 1307(f)-Recovery of Natural Gas
7 Costs) and the Company's application for Green Path Rider (RNG program) is
8 separately docketed and pending for the Commission's consideration and approval
9 (I&E Statement No. 1, pp. 53-54); and (3) disallowance of the entire \$884,521
10 FPFTY claim for additional labor and benefits expense pending for employees'
11 union contracts ratification (I&E Statement No. 1, pp. 54-55).

12
13 **Q. DID ANY WITNESSES RESPOND TO YOUR RECOMMENDATION?**

14 A. Yes. (1) C. J. Anstead has accepted my recommendation to remove the one-time
15 start-up cost of \$620,000 from the Picarro Leak Detection System program expense
16 claim of \$10,900,000 included in Other Adjustments expense of \$15,813,021
17 (Columbia Statement No. 14-R, p. 6). (2) Kelley K. Miller has accepted my
18 recommendation to remove education costs of \$33,500 from the Other Adjustments
19 expense claim of \$15,813,021 pertaining to the Renewable Natural Gas (RNG)
20 Choice under the proposed Green Path Rider, a separately docketed application
21 (Columbia Statement No. 4-R, p. 3). (3) Nicole M. Paloney revised Columbia's
22 FPFTY additional labor and benefits expense adjustment claim from \$884,521

1 (\$672,181 labor + \$ 212,340 benefits) to \$578,147 (\$483,442 labor + \$94,705
2 benefits) (Columbia Statement No. 9-R, p. 8 and Exhibit NP 5-R).

3
4 **Q. WHAT IS YOUR RESPONSE TO THE COLUMBIA WITNESSES?**

5 A. For the first two items above, my recommendations were accepted by Company
6 witnesses. For the third item, I accepted Ms. Paloney's revision to the labor and
7 benefits amounts based on her explanation.

8
9 **ENERGY EFFICIENCY PLAN**

10 **Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY**
11 **FOR THE ENERGY EFFICIENCY PLAN.**

12 A. In direct testimony, I recommended disallowance of Company's proposal to
13 implement an Energy Efficiency (EE) Plan (I&E Statement No. 1, p. 61), which
14 was based on various reasons as discussed in my direct testimony (I&E Statement
15 No. 1, pp. 61-63).

16
17 **Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?**

18 A. Yes. Columbia witness Theodore M. Love disagrees with my recommended
19 disallowance of the proposed EE Plan (Columbia Statement No. 16-R, pp. 1-9).

20
21 **Q. PLEASE SUMMARIZE MR. LOVE'S RESPONSE.**

22 A. First, Mr. Love states that Columbia has been running a Low-income Usage

1 Reduction Program (LIURP) and Audit and Rebate Program (A&R), so it is
2 incorrect to state that Columbia has proposed the EE Plan for the first time
3 (Columbia Statement No. 16-R, p. 3). Second, he states that Columbia's EE Plan
4 programs are based on successful EE programs from other NGDCs' and
5 Columbia's program assumptions have been modified to conform to the
6 Company's specific utility territory (Columbia Statement No. 16-R, p. 3). Third,
7 he states that for the Online Audit Kit (OAK) program he did not use another
8 state's regional parameters, however, he updated savings and participation figures
9 for Columbia's climate and customer base (Columbia Statement No. 16-R, p. 4).
10 Fourth, he states that non-performance penalties are not necessary for ensuring
11 voluntary plans meet goals as other NGDCs' similar plans are already in place
12 (Columbia Statement No. 16-R, p. 6). Fifth, Pipeline Replacement programs and
13 EE Plans are not mutually exclusive and can both address burdens placed on aging
14 infrastructure and there may even be some pipeline replacements projects that
15 could be delayed or avoided due to energy efficiency efforts (Columbia Statement
16 No. 16-R, p. 7).

17 Lastly, he asserts that it is inappropriate to argue that the proposed EE Plan
18 would burden customers' rates via an EE rider in light of the current inflationary
19 trends in the cost of living because it is designed to specifically help ratepayers to
20 combat rising energy prices through conservation (Columbia Statement No. 16-R,
21 pp. 8-9).

1 **Q. WHAT IS YOUR RESPONSE TO MR. LOVE'S ASSERTION?**

2 A. First, I disagree with Mr. Love comparing Columbia's LIURP experience with the
3 proposed EE Plan to refute my statement that Columbia has proposed the EE Plan
4 for the first time and has no experience or measurable data in this regard (I&E
5 Statement No. 1, p. 61). Second, though Columbia's EE Plan is designed based on
6 success or results of other NGDCs' energy efficiency plans, it is speculative to
7 determine whether Columbia's EE Plan would succeed in attaining all projected gas
8 savings, additional employment generation, carbon emission reduction,
9 environmental/societal benefits, and cost-benefits ratio (I&E Statement No. 1, p.
10 61). Third, I agree with Mr. Love that he did not use Columbia Gas Virginia's
11 OAK program parameters and performance data, which is influenced by the
12 region/state-specific program parameters of Virginia. However, success of the
13 proposed OAK program in line with Columbia Gas Virginia's OAK program is
14 speculative at this time. Fourth, I presented the fact that Act 129 does not mandate
15 NGDCs to introduce or develop and implement EE Plans and there is no mandated
16 requirement for the NGDC's EE plan performance parameters, and therefore,
17 NGDCs are not subject to any civil penalties for a failure to meet stated goals (I&E
18 Statement No. 1, p. 61). In my view in such a situation, if an NGDC's EE Plan
19 fails to achieve targeted goals, the expenses incurred (funded by the ratepayers)
20 would be unproductive. Fifth, I reiterate that Columbia filed base rate cases
21 consistently and requested rate increases since 2012 to primarily recover the capital
22 cost of pipeline infrastructure replacement program and O&M expenses, which

1 have constantly increased customers' rates year after year. Columbia is heavily
2 focused on a capital-intensive pipeline infrastructure project, which will continue
3 for the next several years. Therefore, it is not appropriate at this time to put an
4 additional burden on customers' rates via the proposed EE rider in light of the
5 current inflationary trends in the cost of living (I&E Statement No. 1, p. 62).

6 Also, although Columbia's EE Plan is designed with an intent to help
7 ratepayers to combat rising energy prices through conservation, this plan is based
8 on a speculative calculation about the number of customers' participation, gas
9 savings, additional employment generation, environmental or societal benefits, and
10 the cost-benefit ratio (achieving Total Resource Cost test results) (I&E Statement
11 No. 1, p. 63). It is equally important to consider the increase in the cost of energy
12 efficient equipment and installation/replacement cost due to the current inflationary
13 trend, which impact customers' affordability for energy efficient equipment
14 installation or replacement and generally the replacement of an equipment is need
15 based rather than the availability of utility's incentives.

16 Another limitation in EE Plans is that the customer must be able to afford to
17 invest in the high efficiency equipment at the time of equipment replacement or
18 installation to qualify for these incentives. With the costs of consumer products
19 rising so dramatically, fewer customers may be able to afford these high efficiency
20 products, so the Company will be funding these programs largely from customers
21 who cannot afford these improvements themselves. While programs to encourage
22 conservation are important for our environment, introducing a program of this type

1 at a time when so many products are becoming unaffordable for so many is not
2 appropriate in conjunction with another increase in base rates.

3 Finally, it is important to remember that existing NGDC's energy efficiency
4 plans largely came on the scene when the cost of the natural gas commodity was
5 very low. In that environment, investing in costly and highly efficient appliances
6 and heating systems was not attractive to consumers as it was unlikely that their
7 cost of investment in that equipment could ever be recovered in the lifetime of that
8 equipment through gas savings. Offering incentives to help offset the cost of the
9 more costly equipment was practically a necessity to encourage consumers to
10 invest in higher efficiency appliances. For example, UGI Utilities introduced its
11 energy efficiency program in 2015 (Docket No. R-2015-2518438). In 2016 when
12 that program first began operation, Columbia's gas cost rate was \$3.0994/Dth on
13 January 1, 2016; in 2022, Columbia's gas cost rate was \$5.493/Dth on January 1,
14 2022. A customer who can afford to purchase high efficiency equipment in 2022
15 clearly has incentive to do so without the Company funding rebates from customers
16 who cannot afford to make those investments.

17
18 **Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR**
19 **THE COMPANY'S PROPOSED EE PLAN?**

20 **A.** No. I continue to recommend that it would be imprudent and unfair to permit
21 Columbia to implement an EE Plan at this time.

1 **STATE INCOME TAX EXPENSE**

2 **Q. HAVE THERE BEEN ANY CHANGES IN LAW THAT HAVE BEEN**
3 **ENACTED SINCE YOUR DIRECT TESTIMONY WAS WRITTEN?**

4 A. Yes. On July 8, 2022, Pennsylvania House Bill 1342 was signed into law as Act 53
5 of 2022. Act 53 will lower the current 9.99% corporate net income tax rate to
6 8.99% in 2023 (the Company's claimed FPFTY) and will decrease the tax rate by
7 0.5% each year until 2031, when the tax rate will be 4.99%.³

8
9 **Q. WHAT IS THE COMPANY'S CLAIM FOR STATE INCOME TAX**
10 **EXPENSE?**

11 A. The Company's FPFTY state income tax expense as proposed rates is \$9,531,758
12 (Columbia Exhibit KKM 1-R, p. 1).

13
14 **Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?**

15 A. The Company's state income tax expense claim is based on the existing
16 Pennsylvania corporate net income tax rate of 9.99% (Columbia Exhibit No. 102,
17 Schedule 3, p. 5).

18
19 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?**

20 A. No.

³ <https://home.kpmg/us/en/home/insights/2022/07/tmf-pennsylvania-changes-to-corporate-net-income-tax-laws-other-tax-changes.html>, accessed July 13, 2022.

1 **Q. WHAT DO YOU RECOMMEND FOR STATE INCOME TAX EXPENSE?**

2 A. I recommend an allowance of \$5,444,504 or a reduction of \$4,087,254 (\$9,531,758
3 - \$5,444,504) to the Company's claim.
4

5 **Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?**

6 A. I recommend a Pennsylvania income tax rate of 8.99% to reflect the Pennsylvania
7 corporate income tax rate that will be in effect for the FPPTY. This change is
8 reflected in my recommended revenue requirement in Table I of my testimony
9 above. This recommended allowance also incorporates the state income tax effect
10 of my other recommended adjustments and those of I&E witness Christopher
11 Keller. Additionally, the federal income tax expense at the proposed rates will
12 change corresponding to the change in state income tax allowance at proposed
13 rates, which is reflected in Table I of my testimony above.
14

15 **Q. ARE THERE ANY OTHER CHANGES NECESSARY FOR STATE
16 INCOME TAXES?**

17 A. If applicable, the Company will need to identify any other changes necessary for
18 restating deferred state income taxes. Generally, utilities are required to use the
19 flow through method for state income taxes which would not generate deferrals.
20 However, the Company should confirm whether there are any specific state tax
21 items that utilize normalization treatment and whether adjustments are required.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes.

**I&E Statement No. 2-SR
Witness: Christopher Keller**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2022-3031211

Surrebuttal Testimony

of

Christopher Keller

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

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1 **INTRODUCTION OF WITNESS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Christopher Keller. My business address is Pennsylvania Public
4 Utility Commission, Commonwealth Keystone Building, 400 North Street,
5 Harrisburg, PA 17120.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by the Pennsylvania Public Utility Commission (Commission) in
9 the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial
10 Analyst.

11

12 **Q. ARE YOU THE SAME CHRISTOPHER KELLER WHO IS**
13 **RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E**
14 **STATEMENT NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?**

15 A. Yes.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

18 A. The purpose of my surrebuttal testimony is to address statements made by
19 Columbia Gas of Pennsylvania, Inc. (Columbia or Company) witness Paul R.
20 Moul (Columbia Statement No. 8-R) in his rebuttal testimony regarding rate of
21 return topics including the cost of common equity and the overall fair rate of
22 return, which will be applied to the Company's rate base. I will also address the

1 Company's management performance claim discussed by Mr. Moul and Company
2 witness Mark Kempic (Columbia Statement No. 1-R).

3
4 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN**
5 **ACCOMPANYING EXHIBIT.**

6 A. No.

7
8 **SUMMARY OF MR. MOUL'S REBUTTAL TESTIMONY**

9 **Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY**
10 **TO YOUR RECOMMENDATIONS MADE IN DIRECT TESTIMONY.**

11 A. Mr. Moul disputes my recommendations regarding an appropriate proxy group,
12 my reliance on and application of the DCF method, the DCF growth rate, and
13 disallowance of his leverage adjustments to the DCF and beta of his CAPM.
14 Further, Mr. Moul disagrees with the appropriate risk-free rate to use and my
15 exclusion of a size adjustment in my CAPM analysis, my disagreement with his
16 use of the Risk Premium (RP) and Comparable Earnings (CE) methods, and my
17 recommended disallowance of additional basis points for management
18 performance. Finally, Mr. Moul opines that the Commission-determined
19 Distribution System Improvement Charge (DSIC) rate should serve as the bare
20 minimum cost of equity in this proceeding.

1 **DSIC RATE**

2 **Q. SHOULD THE COMMISSION CONSIDER THE AUTHORIZED DSIC**
3 **RATE ESTABLISHED IN THE QUARTERLY EARNINGS SUMMARY**
4 **REPORTS AS AN APPROPRIATE MEASURE TO DETERMINE THE**
5 **COST OF EQUITY IN THIS PROCEEDING?**

6 A. No. Mr. Moul’s comparison between the I&E recommended return on equity in
7 this proceeding and the Company’s DSIC rate is misguided. The DSIC rate is
8 designed to encourage its use and to incentivize accelerated pipeline replacement
9 and infrastructure upgrades to bring the existing aging infrastructure closer to
10 meeting safety and reliability requirements in between base rate filings. To
11 suggest the cost of equity must be at or above the DSIC rate in this base rate
12 proceeding is inappropriate and not in the public interest. Additionally, the DSIC
13 rate establishes a benchmark above which a utility company is considered
14 “overearning.” As such, the DSIC rate does not serve as a proper measurement of
15 a subject utility’s cost of equity in a rate case proceeding since the DSIC rate is
16 routinely higher than any return on equity approved in such base rate proceedings.

17 In fact, 66 Pa. C.S. § 1358(b)(3) states the following:

18 The distribution system improvement charge shall be reset at
19 zero if, in any quarter, data filed with the commission in the
20 utility’s most recent annual or quarterly earnings report show
21 that the utility will earn a rate of return that would exceed the
22 allowable rate of return used to calculate its fixed costs under
23 the distribution system improvement charge.

1 Finally, the DSIC mechanism serves to lower a utility’s risk because it
2 reduces the lag time in the recovery of a company’s capital outlays. DSIC
3 spending requires preapproval of eligible plant via a Long-Term Infrastructure
4 Improvement Plan so there is little question as to the prudence of those
5 expenditures.

6
7 **Q. ARE THERE ANY INSTANCES YOU ARE AWARE OF WHERE THE**
8 **COMMISSION GRANTED A RETURN ON EQUITY THAT WAS**
9 **HIGHER THAN THE MOST RECENTLY PUBLISHED DSIC RATE?**

10 A. Yes. In the recent Aqua Pennsylvania, Inc. (Aqua) base rate case the Commission
11 awarded that company a return on equity of 10.00%,¹ which was higher than the
12 most recently published DSIC rate for water and wastewater utilities of 9.80%.²
13 This was due to the Commission granting 25 basis points for management
14 effectiveness,³ which caused the return on equity to go from 9.75% to 10.00%.

¹ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

² PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022 at Docket No. M-2022-3032405.

³ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1 **Q. ARE THERE ANY POTENTIAL PROBLEMS WITH AWARDING A**
2 **RETURN ON EQUITY THAT IS EQUAL TO OR HIGHER THAN THE**
3 **DSIC RATE?**

4 A. Yes. First, it removes incentive for utilities to use the DSIC mechanism between
5 rate filings and may encourage the more frequent filing of base rate cases.
6 Second, it may encourage litigation as opposed to settlement of cases, since
7 companies may improperly believe this is the new norm. Finally, it may set
8 companies up to quickly land in an over-earnings status and preclude them from
9 being able to utilize the DSIC mechanism at all.

10 Therefore, in my opinion, the DSIC rate should generally be an incentive
11 rate that is higher than a return on equity percentage granted in a rate proceeding,
12 and I am anticipating that the recent Commission decision is not indicative of “the
13 new normal.”

14

15 **DISCOUNTED CASH FLOW**

16 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
17 **YOUR DCF ANALYSIS.**

18 A. Mr. Moul agrees that the results of a DCF analysis should be given weight but
19 disagrees with my approach. Mr. Moul also disagrees with my results based on
20 the outcomes of certain individual companies and my recommendation to reject
21 his leverage adjustment (Columbia Statement No. 8-R, pp. 18-23).

1 **EXCLUSIVE USE OF THE DCF**

2 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
3 **YOUR USE OF THE DCF.**

4 A. Mr. Moul explains that the use of more than one method provides a superior
5 foundation for the cost of equity determination. Mr. Moul claims that the use of
6 more than one method will capture the multiplicity of factors that motivate
7 investors to commit their capital to a particular enterprise. Mr. Moul asserts that I
8 have made a “remarkable shift” from using the CAPM as a check to the DCF to a
9 comparison. Mr. Moul also claims that my DCF results are too low compared to
10 my CAPM results and are not a reasonable representation of the cost of equity due
11 to an increase in interest rates and inflation. Finally, Mr. Moul states that my
12 comparison of my DCF results to my CAPM results when determining the impact
13 to ratepayers is not relevant and proceeds to recalculate the impact to ratepayers
14 by using the average of my DCF and CAPM results and comparing this to my
15 DCF results as he asserts that if there was to be a comparison, it would be between
16 the average of my DCF results and my CAPM results being compared to my DCF
17 results (Columbia Statement No. 8-R, pp. 15-19).

18
19 **Q. WERE ANY METHODS OTHER THAN THE DCF EMPLOYED IN YOUR**
20 **ANALYSIS?**

21 A. Yes. Although my recommendation was based on the results of my DCF analysis,
22 I also employed the CAPM as a comparison. For the reasons discussed in my

1 direct testimony, the DCF method is the most reliable (I&E Statement No. 2, pp.
2 19-21). Although no one method can capture every factor that influences an
3 investor, including the results of methods less reliable than the DCF does not make
4 the end result more reliable or more accurate. As a result, I stand by my method
5 of using the DCF with a CAPM comparison, which is consistent with the
6 methodology historically used by the Commission in base rate proceedings, even
7 as recently as 2017, 2018, 2020, and 2021.⁴

8
9 **Q. HAVE YOU EVER STATED THAT THE CAPM SHOULD BE USED AS A**
10 **CHECK?**

11 A. No. Neither I nor anyone from I&E has advocated that the CAPM should be used
12 as a “check.” As stated in my direct testimony, I provide the results of my CAPM
13 as a comparison and *not* as a check to the DCF results, which is consistent with all
14 prior I&E rate of return testimonies (I&E Statement No. 2, p. 19, lines 4-5).

⁴ *Pa. PUC v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered March 28, 2017). *See generally* Disposition of Cost Rate Models, pp. 96-97; *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Cost of Common Equity, p. 119; *Pa. PUC v. Wellsboro Electric Company*; Docket No. R-2019-3008208 (Order Entered April 29, 2020). *See generally* Disposition of Primary Methodology to Determine ROE, pp. 80-81; *Pa. PUC v. Citizens Electric Company of Lewisburg, PA*; Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 91-92. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*; Docket No. R-2020-3018835 (Order Entered February 19, 2021). *See generally* Disposition of Cost of Common Equity, p. 131. *Pa. PUC v. PECO Energy Company – Gas Division*; Docket No. R-2020-3018929 (Order Entered June 22, 2021). *See generally* Disposition of Return of Rate on Common Equity, p. 171.

1 **Q. DOES THE DCF ADEQUATELY FACTOR IN RECENT INFLATIONARY**
2 **TRENDS?**

3 A. Yes. As stated in my direct testimony, my DCF calculation includes a spot stock
4 price when determining the dividend yield and analysts who generate forecasted
5 earnings growth rates almost certainly take inflation into consideration as well;
6 therefore, it contains the most up-to-date projected information of any model. In
7 other words, the inputs of the DCF capture all known economic factors, including
8 inflation. Therefore, any potential concerns that the Commission should consider
9 the overall economic climate and related inflation when deciding the merits of the
10 Company's requested base rate increase are adequately covered by use of the DCF
11 as a primary model for determining an appropriate return on equity (I&E
12 Statement No. 2, pp. 28-29).

13
14 **Q. DO YOU AGREE WITH USING THE AVERAGE OF YOUR DCF AND**
15 **CAPM RESULTS TO DETERMINE THE IMPACT TO RATEPAYERS?**

16 A. No. My calculation was to demonstrate the impact to ratepayers of using the
17 CAPM as the top end of a range in determining a return on equity as the
18 Commission used I&E's CAPM results as a ceiling for a "range of
19 reasonableness" for determining the return on equity as occurred in the 2021 Aqua
20 base rate case.⁵ Additionally, Mr. Moul's average of my DCF and CAPM results

⁵ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

1 of 10.875% is still inappropriate as it is above the recently published DSIC rate
2 authorized by the Commission of 10.15%⁶ for gas distribution companies based on
3 a period ended December 31, 2021. This demonstrates the problem associated
4 with using the CAPM in determining a utility's return on equity and would result
5 in a significant burden to ratepayers during a time of increasing levels of inflation
6 and economic decline. Therefore, I believe that the CAPM should not be used as a
7 primary method and it should only be used as a comparison and not as a check of
8 the DCF for the reasons I have stated in this testimony and in my direct testimony.
9

10 **EVALUATING THE DCF BASED ON INDIVIDUAL RESULTS**

11 **Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY**
12 **REGARDING THE RESULTS OF YOUR DCF.**

13 A. Mr. Moul explains that when some results are unreasonable on their face, the
14 reliability of or the witness' application of that method must be questioned. He
15 points to the results of two companies in my proxy group and claims that they fall
16 into the category of unreasonableness. Mr. Moul attempts to support his theory by
17 arguing that the spread between the cost of debt and the cost of equity is 6.75%
18 (Columbia Statement No. 8-R, p. 18, line 22 through p. 19, line 10).

⁶ PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022 at Docket No. M-2022-3032405.

1 **Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S ATTEMPT TO**
2 **DISAGGREGATE YOUR RESULTS?**

3 A. Mr. Moul derives his suggested 6.75% spread from his RP analysis (Columbia
4 Statement No. 8, p. 36, lines 13-15). However, I have refuted the use of the RP
5 method both in my direct testimony (I&E Statement No. 2, p. 17, line 2 through
6 p. 25, line 11), and again in this surrebuttal testimony, as it is an inferior method
7 for calculating the cost of common equity. Further, the 9.61% result of my DCF
8 analysis offers a 5.10% margin over the undisputed 4.51% cost of debt ($9.61\% -$
9 $4.51\% = 5.10\%$). My recommended cost of equity is more than double, or 213%
10 higher than the Company's cost of debt, which I certainly believe satisfies Mr.
11 Moul's statement that, "It is a fundamental tenet of finance that the cost of equity
12 must be higher than the cost of debt by a meaningful margin to compensate for the
13 higher risk associated with a common equity investment" (Columbia Statement
14 No. 8-R, p. 19, lines 3-5).

15

16 **GROWTH RATE**

17 **Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING**
18 **YOUR GROWTH RATES.**

19 A. Mr. Moul argues that I should have removed the low Yahoo growth rate of One
20 Gas Inc. from my proxy group average. He suggests that had I done this, my DCF
21 result would have increased from 9.61% to 9.75% (3.07% dividend yield + 6.68%
22 growth rate) (Columbia Statement No. 8-R, p. 20, lines 8-18).

1 **Q. DO YOU AGREE WITH MR. MOUL’S RECALCULATION OF YOUR**
2 **DCF RESULTS BASED ON THE REMOVAL OF ONE GAS INC.’S**
3 **YAHOO GROWTH RATE DUE TO WHAT HE DEEMS TO BE AN**
4 **UNREASONABLY LOW GROWTH RATE?**

5 A. No. Mr. Moul removes this company’s Yahoo growth rate from my analysis
6 simply because he believes its growth rate and corresponding DCF result are too
7 low. His recalculation results in a DCF that is 14 basis points (9.75% - 9.61%)
8 higher than my recommendation, yet still 145 basis points (11.20% - 9.75%)
9 below his cost of equity recommendation.

10 Mr. Moul’s suggestion to remove One Gas Inc.’s growth rate only serves to
11 inflate the DCF result as his argument lacks objective rationale and defeats the
12 purpose of using a proxy group. Mr. Moul himself states, “The principal purpose
13 of assembling a barometer group is to avoid relying on data for a single company
14 that may not be representative and to thereby smooth out any abnormalities”
15 (Columbia Statement No. 8-R, p. 18, lines 22-24). This acknowledgement is
16 counterintuitive to his suggestion to remove One Gas Inc.’s growth rate from my
17 analysis. It should also be worth noting that Mr. Moul employs One Gas Inc. in
18 his own proxy group and analysis.

1 **LEVERAGE ADJUSTMENT**

2 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
3 **HIS RECOMMENDED LEVERAGE ADJUSTMENT.**

4 A. First, Mr. Moul clarifies that his “leverage adjustment” is not a traditional
5 “market-to-book” ratio adjustment. Next, he states that credit rating agencies do
6 not measure the market-required cost of equity for a company, nor are they
7 concerned with how it is applied in the rate-setting context. Instead, credit rating
8 agencies are only concerned with the interests of lenders and the timely payment
9 of interest and principal by utilities. Mr. Moul then questions my references to
10 prior Commission Orders. Finally, Mr. Moul disagrees with my assertion that
11 investors base their decisions on book value capitalization (Columbia Statement
12 No. 8-R, pp. 24-26).

13
14 **Q. HAVE YOU CLAIMED THAT MR. MOUL’S ADJUSTMENT IS A**
15 **MARKET-TO-BOOK RATIO ADJUSTMENT?**

16 A. No. As I stated in my direct testimony, Mr. Moul does not propose to change the
17 capital structure of the utility (a leverage adjustment), nor does he propose to
18 apply the market-to-book ratio to the DCF model (a market-to-book adjustment)
19 (I&E Statement No. 2, p. 46, line 20 through p. 47, line 3).

1 **Q. WHAT IS YOUR RESPONSE TO MR. MOUL’S REBUTTAL**
2 **TESTIMONY CONCERNING CREDIT RATING AGENCIES?**

3 A. Mr. Moul has supported the I&E argument that his proposed leverage adjustment
4 is not needed by stating that the credit rating agencies are only concerned with the
5 timely payment of interest and principal by utilities (Columbia Statement No. 8-R,
6 p. 25). Mr. Moul’s stated need for the leverage adjustment is based on his
7 assertion that the difference between the book value capital structure and his
8 market value capital structure causes a financial risk difference (Columbia
9 Statement No. 8, p. 28).

10 Financial risk does relate to the capital structure of a company, but it is
11 created by the financing decisions (the use of debt or equity) and the amount of
12 leverage or debt a company chooses to finance its assets. Financial risk and the
13 book value capital structure of a company are represented in the income statement,
14 part of what is evaluated by rating agencies. Mr. Moul agrees with me that credit
15 rating agencies use a company’s financial statements in their analysis to assess
16 financial risk and determine creditworthiness (Columbia Statement No. 8-R,
17 p. 25).

18
19 **Q. SUMMARIZE MR. MOUL’S RESPONSE TO YOUR REFERENCING**
20 **PRIOR COMMISSION ORDERS.**

21 A. Mr. Moul refers to the discussion in my direct testimony where I point to six
22 recent cases (Aqua Pennsylvania, Inc.’s 2007 base rate case, City of Lancaster –

1 Bureau of Water’s 2010 base rate case, UGI Utilities, Inc. – Electric Division’s
2 2017 base rate case, Columbia’s 2020 base rate case, PECO Energy Company –
3 Gas Division’s 2020 base rate case, and Aqua Pennsylvania, Inc.’s 2021 base rate
4 case) where the Commission has rejected a “leverage adjustment.” He claims that
5 the adjustment proposed in the City of Lancaster case was much different than
6 what he is proposing in this proceeding. Additionally, Mr. Moul explains that
7 even though the Commission declined to make a “leverage adjustment” in the
8 2007 Aqua Pennsylvania case, it does not invalidate its use. Further, Mr. Moul
9 states, “Notably, the Commission did not repudiate the leverage adjustment in the
10 Aqua case, but instead arrived at an 11.00% return on equity for Aqua by
11 including a separate return increment for management performance.” Further, Mr.
12 Moul states that the Commission granted basis points for management
13 performance in the UGI Electric case to arrive at the return on equity of 9.85%.
14 Next, Mr. Moul states that in the 2020 case Columbia accepted I&E’s DCF return
15 without regard to the leverage adjustment or management performance (Columbia
16 Statement No. 8-R, pp. 24-25). Then Mr. Moul states that in the PECO Energy
17 Company – Gas Division’s 2020 base rate case that that the Commission arrived at
18 a 10.24% return on equity without a leverage adjustment as it was already deemed
19 to be on the higher side and no additional adjustment was needed. Finally, Mr.
20 Moul states that in Aqua Pennsylvania, Inc.’s 2021 base rate case that the
21 Commission arrived at a 10.00% return on equity without a leverage adjustment

1 but included an adjustment for management performance (Columbia Statement
2 No. 8-R, pp. 25-26).

3
4 **Q. WHAT IS YOUR RESPONSE TO MR. MOUL’S REBUTTAL**
5 **TESTIMONY REGARDING THE REFERENCED PRIOR COMMISSION**
6 **ORDERS IN YOUR DIRECT TESTIMONY?**

7 A. In this proceeding, Mr. Moul is recommending a 99-basis point “leverage
8 adjustment.” To be clear, the Commission did in fact refuse to accept the leverage
9 adjustment in the 2007 Aqua base rate case by stating “...we reject the ALJ’s
10 recommendation to allow a 65 basis point leverage adjustment.”⁷ The
11 management performance points awarded to Aqua in 2007 base rate case were
12 case-specific and in no way related to the proposed leverage adjustment.
13 Regarding the City of Lancaster case, the Commission did not reject the leverage
14 adjustment based on the manner in which it was calculated, but rather, the
15 Commission stated, “...the ALJ’s recommendation is in error as any adjustment to
16 the results of the market based DCF as we have previously adopted are
17 unnecessary and will harm ratepayers.”⁸ Regarding the UGI Electric case, the
18 Commission concluded that, “...an artificial adjustment in this proceeding is
19 unnecessary and contrary to the public interest. Accordingly, we decline to

⁷ *Pa. PUC v. Aqua Pennsylvania, Inc.*; Docket No. R-00072711, pp. 38-39 (Order entered July 31, 2008).

⁸ *Pa. PUC v. City of Lancaster – Bureau of Water*; Docket No. R-2010-2179103, p. 79 (Order entered July 14, 2011).

1 include a leverage adjustment in our calculation of the DCF cost of equity.”⁹

2 Regarding the Columbia case, the Commission stated, “... we have adopted the
3 ALJ’s recommendation to use I&E’s DCF methodology utilizing I&E’s dividend
4 yield of 3.34% and growth rate of 6.52%. As noted above, the ALJ did not specify
5 a recommended cost of equity for Columbia in her Recommended Decision.

6 However, we note that I&E’s methodology results in an ROE of 9.86%.”¹⁰ The
7 ALJ’s Recommended Decision stated the following:

8 The ALJ agrees with BIE’s reasoning that Columbia Gas’
9 calculated return on equity was flawed for five reasons: (1) the
10 weights given to the results of the Company’s CAPM, RP, and
11 CE analyses; (2) certain aspects of Columbia’s discussion of
12 risk; (3) Columbia Gas’ application of the DCF including the
13 forecasted growth rate and leverage adjustment used; (4)
14 Columbia’s inclusion of a size adjustment, reliance on the 30-
15 year Treasury Bond for the risk- free rate, and the use of a
16 double-adjusted *beta* in the CAPM analysis; and (5) the
17 Company’s request for an additional 20 basis points for “strong
18 management performance” is unjustified.¹¹

19 While the Company accepted I&E’s DCF return without regard to the leverage
20 adjustment or management performance in the last base rate case, in the
21 Recommended Decision, the ALJ clearly rejected the Company’s proposed
22 leverage adjustment and the Commission agreed with the ALJ’s Recommended
23 Decision, which rejected the Company’s proposed leverage adjustment.

⁹ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058, pp. 93-94 (Order entered October 25, 2018).

¹⁰ *Pa. PUC v. Columbia Gas of Pennsylvania; Inc.* Docket No. R-2020-3018835, p. 137 (Order entered February 19, 2021).

¹¹ *Pa. PUC v. Columbia Gas of Pennsylvania; Inc.* Docket No. R-2020-3018835. Recommended Decision, pp. 184-185.

1 In the PECO Energy – Gas Division case, the Commission stated,

2 ... we have adopted the ALJ’s recommendation to use I&E’s
3 DCF methodology and to use I&E’s CAPM calculation as a
4 check on the reasonableness of the DCF determined cost of
5 equity. Therefore, we shall adopt the ALJ’s recommended
6 10.24% cost of equity. In our view, this is an appropriate cost
7 of equity for PECO given the record developed in this
8 proceeding.¹²

9 In the Recommended Decision, the ALJ agreed with I&E’s recommended cost of
10 equity which did not include a leverage adjustment.¹³

11 Finally, regarding the 2021 Aqua base rate case, the Commission did in fact
12 reject the Company’s proposed leverage adjustment:

13 We find I&E’s arguments in opposition to the Company’s
14 position to be persuasive. For example, as I&E observed, credit
15 rating agencies assess financial risk based upon a company’s
16 booked debt obligations and the ability of its cash flow to cover
17 the interest payments on those obligations. The agencies use a
18 company’s financial statements, and not the company’s market
19 capital structure, in conducting their analysis. It is a company’s
20 financial statements that affect the market value of the stock,
21 and, therefore, the financial statements and the book value
22 capital structure are relied upon in an analysis such as that done
23 by rating agencies. I&E St. 2 at 40; I&E St. 2-SR at 10.
24 Accordingly, we find that the record in this proceeding
25 supports rejecting the Company’s requested leverage
26 adjustment.¹⁴

¹² *Pa. PUC v. PECO Energy Company – Gas Division*. Docket No. R-2020-3018929, p. 171 (Order entered June 22, 2021).

¹³ *Pa. PUC v. PECO Energy Company – Gas Division*. Docket No. R-2020-3018929, Recommended Decision, p. 215.

¹⁴ *Pa. PUC v. Aqua Pennsylvania, Inc.* Docket No. R-2021-3027385, pp. 166-167 (Order entered June 22, 2021).

1 **Q. WHAT IS YOUR RESPONSE TO MR. MOUL’S ASSERTION THAT**
2 **INVESTORS DO NOT BASE THEIR DECISIONS ON BOOK VALUE,**
3 **BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS**
4 **THEY INVEST?**

5 A. Mr. Moul’s assertion that an investor is concerned with the return earned on
6 dollars invested and not “some accounting value of little relevance to them,”
7 (Columbia Statement No. 8-R, pp. 26-27) is unsupported. Clearly an investor
8 takes financial risk into consideration when determining a required return. In
9 addition, the market capitalization information included in Value Line’s reports
10 and discussed by Mr. Moul is not the same as market value capital structure
11 (Columbia Statement No. 8-R, pp. 26-27). Market capitalization refers to the
12 number of shares outstanding multiplied by the current price. A market value
13 capital structure refers to the ratio of market debt to market equity, which is not
14 included in Value Line’s reports. Therefore, Mr. Moul’s contention that Value
15 Line includes market capitalization data does not offer any support for his leverage
16 adjustment.

17
18 **Q. HAS MR. MOUL’S RESPONSE IN REBUTTAL TESTIMONY**
19 **CONCERNING HIS PROPOSED LEVERAGE ADJUSTMENT CAUSED**
20 **YOU TO CHANGE YOUR RECOMMENDATION?**

21 A. No. For the reasons discussed above, I continue to recommend that Mr. Moul’s
22 leverage adjustment be rejected.

1 **CAPITAL ASSET PRICING MODEL**

2 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
3 **YOUR APPLICATION OF THE CAPM.**

4 A. Mr. Moul opines that my CAPM analysis understates the cost of equity for several
5 reasons, including my use of the yield on 10-year Treasury Notes for my risk-free
6 rate, failure to use leverage adjusted betas, and rejection of his size adjustment
7 (Columbia Statement No. 8-R, p. 28). Each of these topics are discussed in more
8 detail below.

9

10 **RISK-FREE RATE**

11 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
12 **YOUR USE OF THE YIELD ON THE 10-YEAR U.S. TREASURY NOTE.**

13 A. Mr. Moul claims that by using the 10-year Treasury Note, I introduced a
14 systematic understatement of CAPM returns that can be traced to extraordinary
15 monetary policy actions to deal with the recession created by the pandemic. He
16 opines that his use of the yield on a 30-year U.S. Treasury Bond is more
17 appropriate than my use of the yield on a 10-year Treasury Note because 30-year
18 bonds are “more a reflection of investor sentiment of their required returns...” and
19 are also less susceptible to Federal policy actions. (Columbia Statement No. 8-R,
20 p. 28, line 17 through p. 29, line 5).

1 **Q. DO YOU AGREE WITH MR. MOUL THAT USING THE YIELD OF A 30-**
2 **YEAR U.S. TREASURY BOND IS MORE APPROPRIATE DUE TO A**
3 **LONGER-TERM BOND BEING LESS SUSCEPTIBLE TO FEDERAL**
4 **POLICY ACTIONS?**

5 A. No. As stated in my direct testimony, I chose the 10-year Treasury Note which
6 balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond.
7 Although long-term Treasury Bonds have less risk of being influenced by federal
8 policies, they have substantial maturity risk associated with the market risk. In
9 addition, long-term Treasury Bonds bear the risk of unexpected inflation. As
10 such, my choice of a 10-year Treasury Note is more appropriate (I&E Statement
11 No. 2, pp. 30-31). Further, as also pointed out in my direct testimony, the
12 Commission has agreed with I&E and recognized the 10-year Treasury Note as the
13 superior measure of the risk-free rate of return.¹⁵

14
15 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
16 **YOUR RISK-FREE RATE USED IN THE CAPM FORMULA.**

17 A. Mr. Moul opines that I have incorrectly given weight to the yield on the 10-year
18 Treasury Note for the third quarter of 2022 as I do for the entire five-year period
19 encompassing 2023 to 2027. Then, Mr. Moul incorrectly recalculates the risk-free
20 rate by averaging the 10-year treasury yield forecasts by year from 2022 through

¹⁵ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 p. 99 (Order entered October 25, 2018).

1 2027 to inflate my calculated risk-free rate of 2.88% to 3.40% (Columbia
2 Statement No. 8-R, p. 29, lines 6-16).

3
4 **Q. DO YOU AGREE WITH MR. MOUL’S ANALYSIS OF YOUR RISK-FREE**
5 **RATE?**

6 A. No. Mr. Moul’s new calculation proposes to give equal weight to each separate
7 year from 2022 to 2027. The flaw with this approach is that the further out into
8 the future one forecasts, the less reliable and more speculative the estimates
9 become; therefore, to give the less reliable estimates equal weight would not be
10 prudent. It is more appropriate to weight the quarters and years as I have done in
11 my direct testimony (I&E Exhibit No. 2, Schedule No. 10). My calculation
12 provides a more accurate estimation of the risk-free rate during the Fully Projected
13 Future Test Year, as the further out one forecasts, the less reliable the information
14 becomes.

15
16 **LEVERAGED BETAS**

17 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
18 **THE USE OF LEVERAGE-ADJUSTED BETAS.**

19 A. Mr. Moul simply mentions my “failure to use leverage adjusted betas...”
20 (Columbia Statement No. 8-R, p. 28). He does not offer an explanation beyond
21 what he argued in his direct testimony.

1 **Q. IS THE USE OF LEVERAGE-ADJUSTED BETAS IN CAPM ANALYSES**
2 **APPROPRIATE?**

3 A. No. As stated in my direct testimony, Mr. Moul’s adjustment only serves to
4 inflate the result of his CAPM analysis. Enhancements such as leverage adjusted
5 betas are unwarranted in CAPM analyses for the same reasons that enhancements
6 are unwarranted for DCF results. Until this type of adjustment is demonstrated in
7 academic literature to be valid, such leverage-adjusted betas in a CAPM should be
8 rejected. Furthermore, the Commission found no basis to add leverage adjusted
9 betas in the most recent litigated Aqua Pennsylvania, Inc. base rate case.¹⁶
10 Finally, a stock with a price movement that is greater than the overall stock market
11 will have a beta that is greater than one and would be described as having more
12 investment risk than the market. Due to being regulated and the monopolistic
13 nature of utilities, very rarely do they have a beta equal to or greater than one.
14 Therefore, in this case, to apply an adjusted beta of 1.00 to the entire industry or
15 gas proxy group is irrational (I&E Statement No. 2, pp. 52-53).

16

17 **SIZE ADJUSTMENT**

18 **Q. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING A SIZE**
19 **ADJUSTMENT.**

20 A. In direct testimony, I stated that Mr. Moul’s 102 basis point CAPM size
21 adjustment is unnecessary because none of the technical literature he cited in his

¹⁶ *Pa. PUC v. Aqua Pennsylvania, Inc.*; Docket No. R-2021-3027385 (Order Entered May 16, 2022). *See generally* Disposition of Leverage Adjustment and Management Performance, pp. 166-167.

1 direct testimony supporting investment adjustments related to the size of a
2 company is specific to the utility industry. I also presented an article by Dr. Annie
3 Wong that demonstrated there is no need to make an adjustment for the size of a
4 company in utility rate regulation. Finally, I noted that the Commission has
5 rejected the application of a size adjustment to the CAPM cost of equity
6 calculation where it agreed that the same literature the Company cites is not
7 specific to the utility industry (I&E Statement No. 2, pp. 53-56).

8
9 **Q. SUMMARIZE MR. MOUL’S RESPONSE IN REBUTTAL TESTIMONY**
10 **REGARDING A SIZE ADJUSTMENT.**

11 A. Mr. Moul states that enormous changes have occurred in the industry since the
12 article “Utility Stocks and the Size Effect: An Empirical Analysis” by Dr. Annie
13 Wong was published. He also references the Fama/French study, “The Cross-
14 Section of Expected Stock Returns,” to illustrate that his size adjustment is a
15 separate factor from beta that helps explain systematic risk and returns.
16 Additionally, Mr. Moul opines that external factors, such as loss of larger
17 customers and unexpected changes in expenses, can affect the financial
18 performance of a small company. Finally, he acknowledges that in the 2020
19 PECO Energy – Gas Division rate case (at Docket No. R-2020-3018929), both the
20 ALJs and the Commission determined that an adjustment for size was not
21 necessary in utility rate regulation (Columbia Statement No. 8-R, pp. 30-31).

1 **Q. DOES THE FAMA/FRENCH STUDY REFUTE DR. WONG'S ARTICLE?**

2 A. No. As stated in my direct testimony, Dr. Wong's article presents evidence that
3 although a size effect may exist for industrial stocks, it does not exist for utility
4 stocks. As the Fama/French study is not specific to utility stocks, it does not
5 adequately demonstrate that a size effect exists in the utility industry. In addition,
6 the size effect that exists for industrial stocks varies to such an extent that it is
7 difficult to predict. The difficulty in predicting the effect of size is demonstrated
8 in the variance from year to year of the measurement of difference between the
9 annual returns on the large and small-capitalization stocks of the
10 NYSE/AMEX/NASDAQ in the Ibbotson *Stocks, Bonds, Bills & Inflation: 2015*
11 *Yearbook*. As stated on page 100 of the SBBI Yearbook,

12 While the largest stocks actually declined in 2001, the smallest
13 stocks rose more than 30%. A more extreme case occurred in
14 the depression-recovery year of 1933, when the difference
15 between the first and 10th decile returns was far more
16 substantial. The divergence in the performance of small- and
17 large- cap stocks is evident. In 30 of the 89 years since 1926,
18 the difference between the total returns of the largest stocks
19 (decile 1) and the smallest stocks (decile 10) has been greater
20 than 25 percentage points.

21 Page 109 states,

22 In four of the last 10 years, large-capitalization stocks (deciles
23 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-
24 capitalization stocks (deciles 9-10). This has led some market
25 observers to speculate that there is no size premium. But
26 statistical evidence suggests that periods of underperformance
27 should be expected.

1 Page 112 states,

2 Because investors cannot predict when small-cap returns will
3 be higher than large-cap returns, it has been argued that they
4 do not expect higher rates of return for small stocks.
5

6 **Q. DOES THE TIME WHICH HAS ELAPSED SINCE AN ARTICLE WAS**
7 **WRITTEN NECESSARILY INVALIDATE ITS RESULTS?**

8 A. No. Although Mr. Moul states that enormous changes have occurred in the
9 industry since the 1960s, he presents no evidence that these “changes” have
10 caused the need for a size adjustment. To the contrary, Dr. Wong’s study
11 demonstrated that one does *not* need to be made in the regulated utility industry.
12 As stated in my direct testimony, absent any credible article to refute Dr. Wong’s
13 findings, Mr. Moul’s size adjustment to his CAPM results should be rejected.

14
15 **Q. ARE MR. MOUL’S CONCERNS REGARDING THE IMPACT OF**
16 **LOSING LARGE CUSTOMERS OR UNEXPECTED INCREASES IN**
17 **EXPENSES VALID?**

18 A. No. Regulated utility companies have the option to file a base rate case to address
19 declining revenues and to recover the increasing costs of doing business in
20 addition to emergency rate relief provisions for large unforeseen impacts. In
21 contrast, non-utility businesses that may be significantly impacted by events of
22 this nature due to small operating size do not have these opportunities.
23 Additionally, while a smaller utility may pay higher prices for services and

1 materials just due to volume buying power, the actual costs are part of the revenue
2 requirement presented by that company, so to increase the return to account for the
3 potential size disadvantage would only further unfairly burden ratepayers who are
4 already likely paying higher utility bills to recover the higher operating costs.

5
6 **Q. MR. MOUL HAS RECALCULATED YOUR CAPM RESULTS. DO YOU**
7 **AGREE WITH HIS RECALCULATION?**

8 A. No. Mr. Moul's recalculation is incorrect for a couple of reasons. He used an
9 inaccurate risk-free rate and an unnecessary size adjustment, as stated in both my
10 direct testimony and above. Because of these factors, a recalculation of my
11 CAPM results is imprudent and any recalculation provided by Mr. Moul of my
12 CAPM results is unreliable and unnecessary.

13
14 **Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. MOUL'S**
15 **SIZE ADJUSTMENT?**

16 A. I continue to recommend that his use of the 1.02% size adjustment be disallowed
17 in calculating the CAPM.

18
19 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR**
20 **CAPM ANALYSIS?**

21 A. Yes. My recommended cost of equity is primarily based upon my DCF analysis
22 for the reasons explain above and in my direct testimony. I present a CAPM

1 analysis to the Commission for comparison, not recommendation purposes as the
2 inputs are highly subjective, and other than beta, not company or industry specific.
3 Again, it has traditionally been the preference of the Commission to view both the
4 DCF and CAPM analysis in base rate proceedings.

5
6 **RISK PREMIUM**

7 **Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING**
8 **THE RP METHOD.**

9 A. Mr. Moul opines that the RP approach should be given serious consideration
10 because it is straight-forward, understandable, and uses a company's own
11 borrowing rate. He claims it provides a direct and complete reflection of a
12 utility's risk and return. Mr. Moul also states that I make an unfounded assertion
13 that the RP method does not measure the current cost of equity as directly as the
14 DCF (Columbia Statement No. 8-R, pp. 33-34).

15
16 **Q. DO YOU AGREE WITH MR. MOUL THAT THE RP METHOD**
17 **PROVIDES A DIRECT AND COMPLETE REFLECTION OF A**
18 **UTILITY'S RISK AND RETURN?**

19 A. No. The RP method produces an indirect measure when compared to the DCF
20 method.

1 **Q. PLEASE COMMENT ON THE INDIRECT MEASURE OF THE RP**
2 **METHOD VERSUS THE MORE DIRECT MEASURE OF THE DCF**
3 **METHOD.**

4 A. Mr. Moul claims that my statement that the RP method does not measure the
5 current cost of equity as directly as the DCF is without foundation. In my direct
6 testimony, I have clearly illustrated how the two measures are different (I&E
7 Statement No. 2, pp. 17-23). The main reason is that the RP method determines
8 the rate of return on common equity indirectly by observing the cost of debt and
9 adding to it an equity risk premium. The DCF measures equity more directly
10 through the stock information (using equity information), whereas the RP method
11 measures equity indirectly using debt information.

12
13 **COMPARABLE EARNINGS**

14 **Q. SUMMARIZE MR. MOUL’S REBUTTAL TESTIMONY REGARDING**
15 **THE CE METHOD.**

16 A. Mr. Moul claims that using the CE method satisfies the comparability standard
17 established in the *Hope* case (Columbia Statement No. 8-R, p. 35, lines 7-8).
18 Additionally, he states, “...the financial community has expressed the view that
19 the regulatory process must consider the returns that are being achieved in the
20 non-regulated sector to ensure that regulated companies can compete effectively in
21 the capital markets” (Columbia Statement No.8-R, p. 35, lines 8-11).

1 **Q. DO YOU AGREE THAT COMPANIES USED BY MR. MOUL IN HIS CE**
2 **METHOD ARE COMPARABLE TO COLUMBIA?**

3 A. No. As stated in my direct testimony, the companies in Mr. Moul's analysis are
4 not utilities, and therefore, are too disparate to use in a CE analysis (I&E
5 Statement No. 2, pp. 35-36). For example, the criteria Mr. Moul uses to choose
6 the companies in his CE group results in the selection of companies such as Dolby
7 Laboratories Inc., Graphic Packaging, J and J Snack Foods Corp., Sherwin
8 Williams, and Yum Brands Inc. All these companies operate in industries very
9 different from a utility company and operate under varying degrees of regulation.
10 Also, most, if not all, of the companies Mr. Moul uses in his analysis are not
11 monopolies in the sense that utilities are. This means that they have significantly
12 more competition and would require a higher return for the added risk. Further,
13 the CE method should be excluded because it is entirely subjective as to which
14 companies are comparable and it is debatable whether historic accounting returns
15 are representative of the future.

16
17 **MANAGEMENT PERFORMANCE POINTS**

18 **Q. SUMMARIZE MR. MOUL'S AND MR. KEMPIC'S REBUTTAL**
19 **TESTIMONY REGARDING MANAGEMENT PERFORMANCE POINTS.**

20 A. Mr. Moul simply states that the Company has performed in an exemplary manner
21 and that it should be recognized in this case (Columbia Statement No. 8-R, p. 35,
22 lines 19-21). He does not offer an explanation beyond what he argued in his direct

1 testimony. Mr. Kempic states the Company has taken immediate action regarding
2 the recommendations made in the Management and Operations Audit for
3 Columbia Gas of Pennsylvania, Inc. that I reference in my direct testimony and
4 that should be favorably considered by the Commission. Mr. Kempic opines that
5 the Commission should consider the Company's desire to replace its aging
6 distribution system which should warrant the management performance points
7 requested in this proceeding. Finally, he acknowledges the most recent litigated
8 Aqua Pennsylvania, Inc. (Aqua) base rate case (at Docket No. R-2021-3027385)
9 where the Commission awarded Aqua 25 basis points for its management
10 performance efforts by stating troubled systems are not as prevalent in the gas
11 industry and notes that Aqua did something the Commission requested them to do
12 (Columbia Statement No. 1-R, pp. 1-5).

13
14 **Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S AND MR. KEMPIC'S**
15 **REBUTTAL TESTIMONY REGARDING MANAGEMENT**
16 **PERFORMANCE?**

17 A. My position remains unchanged from the arguments made in my direct testimony.
18 Mr. Kempic is correct that the Company addressed the recommendations in the
19 Management and Operations Audit; however, by awarding the Company
20 management effectiveness points, it adds an increased cost to ratepayers for the
21 Company addressing recommendations in its Management and Operations Audit
22 during a time of increasing levels of inflation and economic decline. Furthermore,

1 any savings from effective operating and maintenance cost measures should flow
2 through to ratepayers and/or investors. These claimed savings would likely be
3 offset by the addition of basis points for management effectiveness as ratepayers
4 would have to fund the additional costs. This defeats the purpose of cutting
5 expenses to benefit ratepayers.

6 Finally, as I discussed in my direct testimony, true management
7 effectiveness is earning a higher return through its efficient use of resources and
8 cost cutting measures. The greater net income resulting from cost savings and true
9 efficiency in management and operations is available to be passed on to
10 shareholders. Columbia, or any utility should not be awarded additional basis
11 points for doing what they are required to do in order to provide adequate,
12 efficient, safe, and reasonable service under 66 Pa C.S.A. §1501.

13
14 **OVERALL RATE OF RETURN**

15 **Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION**
16 **CHANGED FROM YOUR DIRECT TESTIMONY?**

17 **A.** No. I continue to support each recommendation made in I&E Statement No. 2.

18
19 **Q. PLEASE RESTATE YOUR OVERALL RATE OF RETURN**
20 **RECOMMENDATION.**

21 **A.** I recommend the following rate of return for Columbia:

1

| Type of Capital | Ratio | Cost Rate | Weighted Cost Rate |
|------------------------|--------------|------------------|---------------------------|
| Long-Term Debt | 43.23% | 4.51% | 1.95% |
| Short-Term Debt | 2.39% | 1.65% | 0.04% |
| Common Equity | 54.38% | 9.61% | 5.23% |
| Total | 100.00% | | 7.22% |

2

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

4 A. Yes.

**I&E Statement No. 3-SR
Witness: Ethan H. Cline**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2022-3031211

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

**Fully Projected Future Test Year Reporting Requirements
Revenue Normalization Adjustment
Present Rate Revenue
Cost of Service Study
Scale Back of Rates**

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Ethan H. Cline. My business address is Pennsylvania Public Utility
4 Commission, 400 North Street, Harrisburg, PA 17120.

5

6 **Q. ARE YOU THE SAME ETHAN H. CLINE WHO IS RESPONSIBLE FOR**
7 **THE DIRECT TESTIMONY AND EXHIBITS CONTAINED IN I&E**
8 **STATEMENT NO. 3 AND I&E EXHIBIT NO. 3, SUBMITTED ON JUNE 7,**
9 **2022, AND THE REBUTTAL TESTIMONY CONTAINED IN I&E**
10 **STATEMENT NO. 3-R, SUBMITTED ON JULY 6, 2022?**

11 A. Yes.

12

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony
15 submitted by witnesses on behalf of Columbia Gas of Pennsylvania, Inc.
16 (“Columbia” or “Company”): Judith Siegler (Columbia Statement No. 3-R),
17 Kevin L. Johnson (Columbia Statement No. 6-R), and Julie Covert (Columbia
18 Statement No. 11-R). I will also address the rebuttal testimony submitted on
19 behalf of the Pennsylvania Office of Consumer Advocate (“OCA”) by witness
20 Jerome D. Mierzwa (OCA Statement No. 3-R), the rebuttal testimony submitted
21 on behalf of the Pennsylvania Office of Small Business Advocate (“OSBA”) by
22 witnesses Mark D. Ewen and Robert D. Knecht (OSBA Statement No. 1-R), and

1 the rebuttal testimony submitted on behalf of the Pennsylvania State University
2 (“PSU”) by James L. Crist, P. E. (PSU Statement No. 1-R). My surrebuttal
3 testimony specifically addresses the following issues:

- 4 • Fully Projected Future Test Year Reporting Requirements;
- 5 • Revenue Normalization Adjustment;
- 6 • Present Rate Revenue;
- 7 • Cost of Service allocation;
- 8 • Customer Charges; and
- 9 • Scale back of rates.

10
11 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?**

12 A. No. However, I will refer to my direct and rebuttal testimonies and exhibits in this
13 surrebuttal testimony.

14
15 **Q. DID THE COMPANY AGREE WITH ANY OF YOUR**
16 **RECOMMENDATIONS?**

17 A. Yes. The Company agreed with my recommendation regarding Fully Projected
18 Future Test Year (“FPFTY”) Reporting Requirements as presented on pages 3-5
19 of I&E Statement No. 3 (Columbia Gas Statement No. 11-R, pp. 6-7).

1 **REVENUE NORMALIZATION ADJUSTMENT**

2 **Q. WHAT IS THE REVENUE NORMALIZATION ADJUSTMENT?**

3 A. A revenue normalization adjustment (“RNA”) is a tariff provision that is
4 “designed to ‘break the link’ between residential non-gas revenue received by the
5 Company and gas consumed by non-CAP residential customers.” (Columbia St.
6 No. 6, p. 29).

7
8 **Q. DID YOU AGREE WITH THE COMPANY’S PROPOSED RNA?**

9 A. No. On page 6 of I&E Statement No. 3, I recommended that the proposed RNA
10 not be approved for three reasons. First, the Commission recently issued its Order
11 in Columbia’s prior base rate proceeding at Docket No. 2020-3018835 (Order
12 entered, February 19, 2021) (“2020 Columbia Gas Rate Case Order”) where it
13 determined that the proposed RNA was unnecessary. Second, the policy statement
14 cited by the Company as support for its position does not allow Columbia to
15 abandon the necessity to charge just and reasonable rates. Lastly, the use of the
16 FPFTY already provides projected lower usage levels and the Company has not
17 demonstrated a need for such revenue stabilization in the instant proceeding.

18
19 **Q. DID THE COMPANY RESPOND TO YOUR POSITION?**

20 A. Yes. The Company did not agree with my recommendation regarding the RNA.

1 **Q. WHY DID THE COMPANY NOT AGREE WITH YOUR**
2 **RECOMMENDATION REGARDING THE RNA?**

3 A. The Company did not agree with my recommendation regarding the RNA for all
4 three reasons. First, the Company claimed that the Commission did not determine
5 that the RNA was not necessary. Second, Columbia claimed that the introduction
6 of the RNA does not abandon the Company’s necessity to charge just and
7 reasonable rates. Third, the Company claimed that the FPFTY mitigates, but does
8 not eliminate, the need for the RNA (Columbia St. No. 3-R, pp. 41-44).

9
10 **Q. WHY DID THE COMPANY CLAIM THAT THE COMMISSION DID NOT**
11 **DETERMINE THAT THE RNA WAS NOT NECESSARY?**

12 A. On page 42 of Columbia Statement No. 3-R, the Company cited to pp. 264-265 of
13 the 2020 Columbia Gas Rate Case Order , which stated that the ALJ recommended
14 that the Commission deny the RNA proposal because “Columbia failed to prove
15 the RNA Rider is *needed* and reasonable, or that the RNA Rider will result in rates
16 that are just, reasonable, and in the public interest. Further, the Company did not
17 show its current rates and systems of revenue streams will fail to provide revenue
18 stability.” (Docket No. R-2020-3018835, Order entered, February 19, 2021)
19 (emphasis added). Witness Johnson then attempted to claim that the 2020
20 Columbia Gas Rate Case Order applied only to the RNA in that specific case and
21 also noted that “Columbia did not file any Exceptions to this issue in the 2020

1 case, and thus did not present full argument to the Commission on this issue.”

2 (Columbia St. No. 3-R, p. 42)

3
4 **Q. DID THE COMMISSION, IN ITS 2020 COLUMBIA GAS RATE CASE**
5 **ORDER, GIVE ANY INDICATION THAT ITS DECISION APPLIED TO**
6 **THE RNA ONLY IN THAT CASE?**

7 A. No. The disposition of this issue, on page 264 of the 2020 Columbia Gas Rate
8 Case Order simply stated that “[w]e find that the ALJ’s recommendation is
9 supported by ample record evidence and is just and reasonable. Accordingly, we
10 shall adopt it without further comment.”

11
12 **Q. DID COLUMBIA GAS PROVIDE ANY SUPPORT IN THE PRESENT**
13 **PROCEEDING TO COUNTER THE COMMISSION’S RULING THAT**
14 **THE RNA IS NOT NEEDED, NOT JUST AND REASONABLE, AND NOT**
15 **IN THE PUBLIC INTEREST?**

16 A. No. As I stated on page 6 of I&E Statement No. 3, the Company did not make any
17 substantial changes to the RNA proposal that was denied in Columbia’s 2020 base
18 rate case. Therefore, because the Company’s current proposal is unchanged from
19 the Company’s proposal in the 2020 base rate case that was recently rejected by
20 the Commission as not needed, not just and reasonable, and not in the public
21 interest, there is no reason or expectation that the Commission would change its
22 decision to deny the RNA in this case.

1 **Q. WHY DID COLUMBIA CLAIM THAT THE INTRODUCTION OF THE**
2 **RNA DOES NOT ABANDON THE COMPANY’S NECESSITY TO**
3 **CHARGE JUST AND REASONABLE RATES?**

4 A. On page 43 of Columbia Statement No. 3, witness Johnson stated that the
5 Company did not abandon its necessity to charge just and reasonable rates because
6 the base rates established by the Commission in this case will be just and
7 reasonable. Witness Johnson then claimed that the RNA would complement the
8 residential rate design to better ensure the revenue requirement assigned to the
9 residential class is not over or under recovered due strictly to rate design.

10

11 **Q. DO YOU AGREE THAT THE INTRODUCTION OF THE RNA WOULD**
12 **LEAD TO RATES THAT ARE JUST AND REASONABLE?**

13 A. No. As I stated on page 7 of I&E Statement No. 3, and above, the Commission
14 ruled in the 2020 Columbia Gas base rate case that the RNA would not result in
15 rates that are just, reasonable, and in the public interest. As the Company has
16 proposed essentially the same RNA proposal in this case with no adjustments
17 introduced to counter the Commission’s ruling, then that ruling clearly states that
18 the proposal would necessarily lead to rates that are not just, reasonable, or in the
19 public interest.

1 **Q. WHY DOES COLUMBIA CLAIM THAT THE NEED FOR THE RNA IS**
2 **MITIGATED, BUT NOT ELIMINATED, BY THE USE OF THE FPFTY?**

3 A. On page 43 of Columbia Statement No. 3-R, witness Johnson states that the RNA
4 is needed because “Columbia’s financial health directly relies upon its ability to
5 recover the cost of service approved by the Commission through the base non-gas
6 revenues upon which its base rates were previously established.”

7

8 **Q. IS THE PROBLEM OF REVENUE STABILITY AN ISSUE THAT**
9 **REQUIRES ELIMINATION, RATHER THAN MITIGATION, AS THE**
10 **COMPANY SUGGESTS?**

11 A. No. Every utility in the Commission’s jurisdiction must deal with the issue of
12 balancing revenue stability with rate affordability and conservation efforts. Even
13 though Columbia has proposed the RNA and not been granted the RNA in several
14 rate cases, the Company has continued to provide its customers with safe and
15 reliable service while maintaining an aggressive main replacement program. The
16 Company has not provided any evidence to support its claimed need for additional
17 rate stability beyond what is provided through the FPFTY.

18

19 **Q. DOES THE COMPANY’S CLAIM THAT IT DID NOT FILE**
20 **EXCEPTIONS TO THE RECOMMENDED DECISION IN THE 2020 BASE**
21 **RATE PROCEEDING SUPPORT ITS POSITION IN THIS CASE?**

22 A. No. The Company’s decision not to file exceptions on the RNA in the 2020 case

1 does not change the fact that the Commission rejected the RNA as it was proposed
2 in that case, and the Company has not altered its proposal in any meaningful
3 manner in this proceeding. Therefore, stating that the proposal was not fully
4 described by the Company in the most recently litigated case does not support
5 approving it in this case.

6
7 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?**

8 A. No. I continue to recommend that the RNA be denied.

9
10 **COST OF SERVICE**

11 **Q. DID THE COMPANY PROVIDE AN ALLOCATED COST OF SERVICE**
12 **STUDY IN THIS PROCEEDING?**

13 A. Yes. The Company performed and provided three allocated cost of service
14 (“ACOS”) studies in its filing sponsored by Columbia witness Johnson as
15 described on pages 2-3 of Columbia Statement No. 3-R. The first is a customer-
16 demand ACOS study (Columbia Exhibit No. 111, Schedule 1), the second is a
17 peak and average ACOS study (Columbia Exhibit No. 111, Schedule 2), and the
18 third ACOS study is an average of the customer-demand studies and the peak and
19 average studies (Columbia Exhibit No. 111, Schedule 3).

1 **Q. WHICH OF THE THREE ACOS STUDIES DID THE COMPANY**
2 **UTILIZE TO ALLOCATE THE PROPOSED REVENUE INCREASES?**

3 A. The Company utilized the second ACOS study, which is the peak and average
4 study, presented on Columbia Exhibit No. 111, Schedule No. 2 to allocate the
5 proposed revenue increases (Columbia St. No. 3-R, p. 3). However, the Company
6 indicated in rebuttal testimony that it also relied upon the other studies to allocate
7 additional cost to the residential rate class.

8
9 **Q. WHICH ACOS STUDY DID YOU RECOMMEND THE COMMISSION**
10 **USE?**

11 A. I agreed with the Company's use of the peak and average ACOS study provided
12 by the Company on Columbia Exhibit No. 111, Schedule 2 to allocate the final
13 revenue increases among the different customer classes (I&E St. No. 3, p. 13).

14
15 **Q. DID THE COMPANY PROVIDE ANY CORRECTIONS TO ITS ACOS IN**
16 **REBUTTAL TESTIMONY?**

17 A. Yes. On pages 14-16 of Columbia Statement No. 6-R, the Company described
18 several technical corrections that were found during the discovery process. Mr.
19 Johnson further indicated that the result of the changes does not warrant an
20 adjustment to the Company's proposed revenue apportionment and rate design in
21 this case.

1 **Q. DO YOU ACCEPT THE COMPANY'S CORRECTIONS?**

2 A. Yes. The corrections outlined by the Company are reasonable.

3

4 **Q. DO YOU WISH TO REVISE ANY OF YOUR RECOMMENDATIONS**
5 **THAT WERE BASED UPON THE COMPANY'S COSS?**

6 A. No. The results of the corrections do not warrant an adjustment to my
7 recommendation regarding the revenue reallocation and scale back discussed
8 below.

9

10 **Q. DID THE COMPANY USE ONLY THE PEAK AND AVERAGE ACOS TO**
11 **DETERMINE ITS PROPOSED ALLOCATIONS IN THIS PROCEEDING?**

12 A. No. Based on the testimony provided in Columbia Statement No. 6-R, pp. 7-12,
13 the Company took into consideration several other factors and cost of services
14 studies when determining its proposed revenue allocations.

15

16 **Q. HOW DID PARTIES RESPOND TO YOUR RECOMMENDATION THAT**
17 **ONLY THE PEAK AND AVERAGE ACOS SHOULD BE USED IN THIS**
18 **PROCEEDING?**

19 A. The Company disagreed with my recommendation and stated that it does not
20 believe that basing the revenue allocation in this case entirely on the Peak and
21 Average ACOS would produce a reasonable result, particularly with respect to the
22 mains cost to the LDS/LGSS rate class (Columbia Gas St. No. 6-R, p. 7). PSU

1 Witness Crist opposed my use of only the peak and average ACOS in allocating
2 costs in this proceeding stating that I did not address that the ALJ in the Columbia
3 2020 base rate case preferred the customer-demand ACOS but did not use it due to
4 errors (PSU St. No. 1-R, p. 2). OSBA witnesses Knecht and Ewen disagreed with
5 my recommendation and instead expressed a preference for their own adjusted
6 Peak and Average allocation (OSBA St. No. 1-R). OCA witness Mierzwa also
7 expressed a preference for its own allocation methodology but indicated that it is
8 not opposed to my recommendation should the Commission not agree with the
9 OCA methodology (OCA St. No. 3R, p. 2).

10
11 **Q. PLEASE RESPOND TO THE COMPANY’S POSITION THAT THE**
12 **INCREASES BY CLASS SUPPORTED BY THE PEAK AND AVERAGE**
13 **STUDY WOULD NOT PRODUCE REASONABLE RESULTS.**

14 A. On page 12 of Columbia Statement No. 6-R, the Company stated that it used the
15 Peak and Average methodology for its cost of service study, but it “must ensure
16 that the allocation to the rate classes are fair and reasonable.” It then pointed to
17 the allocation of mains cost to the LDS/LGSS rate class as support for its belief
18 that using the Peak and Average methodology as the sole basis of determining the
19 allocation of revenue is not fair or reasonable. However, the Company’s proposal
20 to increase the allocation to the residential class based on factors not included in
21 the Peak and Average study is inconsistent with the 2020 Columbia Gas Rate Case
22 Order, which stated that the Peak and Average methodology is “the most

1 appropriate allocation methodology to use in this proceeding because it is based on
2 the premise of load-based investment.” (Docket No. R-2020-3018835, p. 215
3 (Order entered February 19, 2021). Additionally, it is inconsistent with the
4 Commonwealth Court’s decision in *Lloyd v. Pennsylvania Public Utility*
5 *Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006). Specifically, on page 18, the
6 *Lloyd* decision stated that gradualism concerns do not trump the need to move
7 costs towards cost of service. Therefore, the Company’s proposal to shift cost
8 from the LDS/LGSS rate class to the residential rate class, contrary to the Peak
9 and Average cost of service study, is not reasonable.

10
11 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
12 **REGARDING THE ACOS?**

13 A. No. I continue to recommend that the Company use only the Peak and Average
14 cost of service methodology to determine its revenue allocations rather than a mix
15 of factors as described above.

16
17 **Q. PLEASE RESPOND TO THE PSU OPPOSITION TO THE USE OF THE**
18 **PEAK AND AVERAGE ACOS IN COST ALLOCATION.**

19 A. As I stated in I&E Statement No. 3-R, the purpose of which was to rebut PSU
20 witness Crist’s position regarding the ACOS, Mr. Crist’s analysis of the 2020
21 Columbia Gas Rate Case Order is inaccurate and misleading (I&E St. No. 3-R, p.

1 4). Therefore, I continue to recommend that the Peak and Average methodology
2 be used to allocate costs in this proceeding.
3

4 **Q. WHAT IS THE BASIS FOR THE OSBA'S ADJUSTMENT TO THE PEAK**
5 **AND AVERAGE ACOS?**

6 A. As stated on page 2 of OSBA St. No. 1-R, OSBA witnesses Knecht and Ewen
7 stated that they adjusted their ACOS recommendation based on "what appears to
8 be a significant shift in either the behavior of customers or in the Company's
9 method for deriving design day demands." The OSBA also recommended
10 adjustments to the ACOS based on technical corrections which I addressed above.
11

12 **Q. PLEASE RESPOND TO THE OSBA ADJUSTMENT TO THE PEAK AND**
13 **AVERAGE ACOS.**

14 A. The Company provided a response to OSBA's claim regarding the design day
15 demand shift on pages 16-30 of Columbia Gas Statement No. 6-R. The
16 Company's response to OSBA's claim appears to be reasonable, therefore I
17 support the Company's position that the OSBA's adjustment should be denied.
18

19 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION**
20 **REGARDING THE COMPANY'S ACOS?**

21 A. No. I continue to recommend that the Commission use only the peak and average

1 ACOS study provided by the Company on Columbia Exhibit No. 111, Schedule 2
2 to allocate the final revenue increases among the different customer classes.
3

4 **REVENUE ALLOCATION**

5 **Q. WHAT DID YOU RECOMMEND REGARDING REVENUE**
6 **ALLOCATION?**

7 A. I recommended that \$600,000 of revenue be reallocated from the RSS/RDS class
8 to the SDS/LGSS class (I&E St. No. 3, p. 17).
9

10 **Q. WHY DID YOU RECOMMEND A REALLOCATION OF \$600,000 FROM**
11 **THE RSS/RDS RATE CLASS TO THE SDS/LGSS RATE CLASS?**

12 A. As I stated on pages 15-17 of I&E Statement No. 3, the SDS/LGSS class is the
13 only customer class that has had its relative rate of return move further away from
14 the system average relative rate of return following recent base rate cases. This,
15 along with its relative rate of return being below the system average relative rate
16 of return shows that the SDS/LGSS rate class is being subsidized by the RSS/RDS
17 rate class under present rates and that subsidization was not being sufficiently
18 reduced under proposed rates in this base rate case. I also recommended that the
19 first \$20 million of any scale back be applied to the RSS/RDS class. I will discuss
20 the parties' response to my scale back recommendation below.

1 **Q. DID ANY PARTIES DISAGREE WITH YOUR REALLOCATION**
2 **RECOMMENDATION?**

3 A. Yes. The Company and the OSBA objected generally to my reallocation
4 recommendation based on their disagreement with my use of the Peak and
5 Average ACOS, as discussed above, without specifically addressing my
6 recommendation to reallocate \$600,000.

7

8 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?**

9 A. No. As I discussed above, I continue to recommend the Commission use solely
10 the Peak and Average ACOS to determine revenue allocations. Therefore, I
11 continue to recommend \$600,000 be reallocated from the RSS/RDS class to the
12 SDS/LGSS rate class as described in my direct testimony.

13

14 **CUSTOMER COST ANALYSIS**

15 **Q. WHAT DID YOU RECOMMEND REGARDING THE COMPANY'S**
16 **CUSTOMER COST ANALYSES?**

17 A. I recommended the Company's customer cost analysis that includes the cost of
18 mains should not be considered (I&E St. No. 3, pp. 16-17).

19

20 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

21 A. Yes. Mr. Johnson stated on page 33 of Columbia Statement No. 6-R that "[a]
22 customer charge should include at a minimum the incremental cost the utility

1 incurs in connecting a customer to the distribution system.” He also stated that the
2 customer cost analysis shows a minimum floor in which fixed costs should be
3 recovered.

4
5 **Q. DO YOU AGREE WITH THE WITNESS JOHNSON’S STATEMENTS**
6 **REGARDING THE CUSTOMER COST ANALYSIS?**

7 A. No. First, the Commission has previously determined the costs that should be
8 allowed in a customer cost analysis. The cost of mains is not included in those
9 costs. In fact, on page 218 of the 2020 Columbia Gas Rate Case Order, the
10 Commission used Columbia’s acknowledgement of the Commission’s preference
11 that no portion of fixed costs or depreciation expense associated with mains should
12 be allocated to the customer cost function as further support for its conclusion that
13 the allocation of mains should not be based on the number of customers.
14 Therefore, witness Johnson’s statement regarding the customer cost analysis
15 including the incremental cost to serve does not comport with Commission
16 precedent.

17 Second, the Company’s position that the customer cost analysis provides a
18 minimum floor for which fixed costs should be recovered is entirely incorrect.
19 Specifically delineating costs that are approved by the Commission to be
20 recovered through the customer cost and then setting rates that recover more than
21 those costs, as the Company suggests, makes no sense. The customer cost

1 analysis, in my experience, has always been set as the maximum limit of the
2 customer charge.

3

4 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?**

5 A. No. For the reasons described above, I continue to recommend the Company's
6 customer cost analysis that includes the cost of mains should not be considered.

7

8 **CUSTOMER CHARGES**

9 **Q. WHAT DID YOU RECOMMEND REGARDING THE COMPANY'S**
10 **PROPOSED CUSTOMER CHARGE?**

11 A. On pages 22-23 of I&E Statement No. 3, I recommended that the entire \$20
12 million first dollar relief I discuss in my scale back proposal below be applied to
13 the residential customer charge. I also indicated that based on the customer cost
14 analysis, not including the cost of mains, the customer charges for the SGS1,
15 SGS2, and SDS/LGSS classes are too high. I recommended those customer
16 charges be adjusted to be consistent with the customer cost analysis as follows:

| Rate Schedule (Therms, annually) | Customer Cost Analysis | Company Present Rate | Company Proposed Rate | Change | I&E Proposed Rate |
|-------------------------------------|------------------------------|----------------------------|-----------------------------|-----------|-------------------------|
| SGSS1, SCD1, SGDS1 | | | | | |
| <6,440 | \$28.36 | \$29.92 | \$34.23 | (\$5.87) | \$28.36 |
| SGSS2, SCD2, SGDS2 | | | | | |
| >6,440 to ≤64,440 | \$57.00 | \$57.00 | \$65.36 | (\$8.36) | \$57.00 |
| SDS/LGSS | | | | | |
| >64,400 to ≤110,000 | \$267.11 | \$265.00 | \$319.30 | (\$52.19) | \$267.11 |
| >110,000 to <540,000 | \$1,403.41 | \$1,050.11 | \$1,265.29 | \$0.00 | \$1,265.29 |

1

2

3 **Q. DID ANY PARTIES RESPOND TO YOUR CUSTOMER CHARGE**
4 **RECOMMENDATION?**

5 A. Yes. First, Columbia witness Johnson, on page 17 of Columbia Statement No. 3-
6 R, disagreed with my recommendation based on his assumptions regarding the
7 customer cost analysis as discussed above. Second, OCA witness Mierzwa
8 opposed my customer charge recommendations because he claimed the
9 Company's customer charge is already the highest in the Commonwealth,
10 Columbia's proposed residential customer charge and a high fixed customer
11 charge is inconsistent with the Commission's general goal of fostering energy
12 conservation (OCA St. No. 3R, p. 3-4).

1 **Q. DO YOU BELIEVE THE COMPARISON OF CUSTOMER CHARGES OF**
2 **THE OTHER PENNSYLVANIA NATURAL GAS DISTRIBUTION**
3 **COMPANIES SHOULD BE A DETERMINING FACTOR IN**
4 **COLUMBIA’S CUSTOMER CHARGES?**

5 A. No. Each Pennsylvania NGDC has their own specific costs and allocation of these
6 costs which in turn produces different results. Therefore, the rates of each
7 company should be determined based on the facts and data specific to that
8 company. The customer charges I recommend are based on the customer cost
9 analysis using the data specific to this case.

10

11 **Q. DO YOU AGREE WITH OCA WITNESS MIERZWA THAT A HIGH**
12 **FIXED MONTHLY CUSTOMER CHARGE COULD BE INCONSISTENT**
13 **WITH THE COMMISSION’S GENERAL GOAL OF FOSTERING**
14 **ENERGY CONSERVATION?**

15 A. Yes. However, I believe that my recommendation to include the customer charge
16 in the scale back of rates would serve to mitigate the impact to low usage customer
17 and be consistent with the Commission’s general goal of fostering energy
18 conservation while recognizing that the Company’s allowed fixed costs are
19 increasing as shown in the customer cost analysis.

1 **Q. DO YOU WISH TO CHANGE YOUR CUSTOMER CHARGE**
2 **RECOMMENDATION?**

3 A. No. For the reasons discussed above, I continue to recommend the customer
4 charges shown in the table above.

5

6 **CUSTOMER CHARGE – MISCELLANEOUS**

7 **Q. WHAT WAS YOUR RECOMMENDATION REGARDING THE**
8 **PRORATION OF COLUMBIA’S CUSTOMER CHARGE?**

9 A. I recommended that Columbia begin prorating its customer charge for customers
10 who begin or end service prior to the end of the billing period and adjust its tariff
11 to reflect this practice (I&E St. No, 3, p. 24).

12

13 **Q. WHY DID YOU RECOMMEND COLUMBIA GAS BEGIN PRORATING**
14 **ITS CUSTOMER CHARGE FOR CUSTOMERS WHO BEGIN OR END**
15 **SERVICE PRIOR TO THE END OF THE BILLING PERIOD?**

16 A. As I stated on I&E Statement No. 3, p. 25, this recommendation will rectify the
17 current Company policy of charging customers for service not received.
18 Columbia’s explanation that the customer charge is designed to recover certain
19 costs in a month whether or not a customer receives service for the entire month is
20 without merit. It is simply not reasonable to charge customers for services that
21 they do not receive.

1 **Q. HOW DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?**

2 A. The Company provided additional information regarding the impacts of my
3 recommendation regarding the proration of customer charges (Columbia Gas St.
4 No. 6-R, pp. 30-32 and St. No. 3-R, pp. 1-6).

5

6 **Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?**

7 A. Yes. Based upon the new information provided by the Company, I would like to
8 withdraw my recommendation regarding the proration of the customer charge in
9 this case.

10

11 **SCALE BACK OF RATES**

12 **Q. WHAT SCALE BACK METHODOLOGY DID YOU RECOMMEND IF**
13 **THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?**

14 A. If the Commission grants less than the Company's requested increase, I
15 recommended that the first \$20,000,000 reduction be applied to the RSS/RSD
16 class (I&E Ex, No. 3, Sch. 6, p. 2, line 13). Any remaining reduction should be
17 applied on a proportional basis to the percentage increases shown on I&E Ex. No.
18 3, Sch. 6, p. 2, line 16, except for the SDS/LGSS and LDS/LDSS class (I&E St.
19 No. 3, p. 26).

1 **Q. PLEASE SUMMARIZE THE RATIONALE OF YOUR SCALEBACK**
2 **RECOMMENDATION.**

3 A. As I stated on pages 26-27 of I&E Statement No. 3, under the Company's
4 proposed revenue allocation, the residential class is providing an approximately
5 \$20 million subsidy to the other rate classes. Therefore, it is reasonable to remove
6 that subsidy prior to any further scale back of rates. Additionally, because the
7 LDS/LGSS class relative rate of return is significantly under the system average
8 relative rate of return (taking into account the flex rate revenue shortfall), it makes
9 sense that the LDS/LGSS does not receive a scale back.

10

11 **Q. DID THE COMPANY OPPOSE YOUR PROPOSED SCALE BACK**
12 **METHODOLOGY?**

13 A. Yes. Mr. Johnson, on page 16 of Columbia Statement No. 6-R, stated that my
14 recommendation is trying to get to parity in one rate case but by doing so I am
15 exceeding any reasonable definition of gradualism.

16

17 **Q. DOES YOUR PROPOSAL RESULT IN UNREASONABLE RATES?**

18 A. No. Since I'm starting with the rates proposed by the Company. It makes no
19 sense for the Company to now claim that those exact rates will somehow become
20 unreasonable if the Commission grants less than the full increase. The higher
21 percentage increase for the LDS/LGS class is necessary to move the relative rate

1 of return of this class towards one under proposed rates. If these rates were
2 reasonable to begin with, they will be reasonable after the final order.

3
4 **Q. DID ANY OTHER PARTIES OPPOSE YOUR PROPOSED SCALE BACK**
5 **METHODOLOGY?**

6 A. Yes. OSBA witnesses Knecht and Ewen opposed my recommendation and
7 concluded that my scale back proposal is inconsistent with rate gradualism
8 constraints in Pennsylvania, exacerbates subsidies provided by the SGS1 class,
9 and assigns inequitable rate increases to the Medium and Large General Service
10 rate classes (OSBA St. No. 1-R, p. 7).

11
12 **Q. DO YOU AGREE WITH OSBA?**

13 A. No. My recommendation is reasonable because, as shown on Table IEC-3R on
14 page 6 of OSBA Statement No. 1-R, under proposed rates the highest percentage
15 increase for a class is 22.5% or approximately 2.1 times the system average
16 increase. This is a reasonable increase given the low relative rate of return for
17 these classes based on the appropriate Peak and Average ACOS.

18
19 **Q. DO YOU WISH TO CHANGE YOUR SCALE BACK**
20 **RECOMMENDATION?**

21 A. No.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes.

**I&E Statement No. 4-SR
Witness: Tyler Merritt**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2022-3031211

Surrebuttal Testimony

of

Tyler Merritt

Bureau of Investigation & Enforcement

Concerning:

**DISTRIBUTION INTEGRITY MANAGEMENT PLAN
PIPELINE REPLACEMENT
LONG TERM INFRASTRUCTURE IMPROVEMENT PLAN
CURB VALVES IN SERVICE LINES**

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Tyler Merritt. My business address is Pennsylvania Public Utility
4 Commission, 400 North Street, Harrisburg, PA 17120.

5

6 **Q. ARE YOU THE SAME TYLER MERRITT WHO SUBMITTED I&E
7 STATEMENT NO. 4 AND I&E EXHIBIT NO. 4 ON JUNE 7, 2022?**

8 A. Yes.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of
12 Columbia Gas of Pennsylvania, Inc.'s ("Columbia" or "Company") witness C.J.
13 Anstead (Columbia St. No. 14-R) and Mark Kempic (Columbia St. No. 1-R).

14

15 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

16 A. No. However, I will refer to my direct testimony and exhibits in this surrebuttal
17 testimony.

18

19 **Q. WHAT ISSUES WILL YOU ADDRESS IN COMPANY REBUTTAL
20 TESTIMONY?**

21 A. I will address Witness Anstead's explanation of how the Company selects sections
22 of pipeline for replacement and why the Company proposes to add first-

1 generation, or pre-1982, plastic to its replacement schedule. I will also address
2 witness Kempic's discussion of the Company's use of curb valves.

3
4 **FIRST GENERATION PLASTIC PIPE REPLACEMENT AND LTIP GOALS**

5 **Q. DID COLUMBIA RESPOND TO YOUR RECOMMENDATION THAT**
6 **THE INSTALLATION YEAR OF PLASTIC PIPE SHOULD BE TRACKED**
7 **WHEN A LEAK IS DISCOVERED?**

8 A. Yes. Witness Anstead clarified that the installation date of pipe may not be
9 possible to obtain from the leaking material; however, the Company "will be
10 educating employees on the importance of capturing all available data including
11 date of installation when completing the leak clearance information."¹

12
13 **Q. DO YOU AGREE WITH THE COMPANY'S RESPONSE REGARDING**
14 **THE TRACKING OF PIPELINE INSTALLATION DATES WHEN A**
15 **LEAK IS DISCOVERED?**

16 A. Yes, I agree that Columbia employees should track all available information
17 including installation date when a leak is discovered. Further, I would like to
18 emphasize the importance of Company employees attempting to obtain a
19 manufacture date on the plastic pipe when it is exposed during leak repair, when
20 possible. In my opinion, identifying the total number of first-generation plastic

¹ Statement No. 14-R, p. 10.

1 failures each year is a valuable data point when accurately assigning a risk score to
2 that asset.

3 I would also like to add that one of the aspects of the Distribution Integrity
4 Management Plan (“DIMP”) is capturing all information on the system. Capturing
5 as much information as possible upon the discovery of a leak enhances DIMP.

6
7 **Q. DID COLUMBIA RESPOND TO YOUR RECOMMENDATION THAT**
8 **THE COMPANY INCREASE REPLACEMENT EFFORTS TO MEET THE**
9 **GOALS ESTABLISHED IN THE 2012 AND 2017 LTIIP’S?**

10 A. Yes. Witness Anstead stated the Company plans to continue replacement of bare
11 steel, cast iron, and wrought iron, at an accelerated rate; however, the Company
12 also identifies first-generation plastic as a high asset category risk. - Pipeline
13 segments are identified for replacement based on risk. Columbia engineers then
14 analyze the surrounding area to determine the appropriate scope of the project.
15 This allows Columbia to replace infrastructure in a cost-effective manner. First-
16 generation plastic will continue to be part of the evaluation process moving
17 forward.²

² Statement No. 14-R, pp. 6-7.

1 **Q. DO YOU AGREE WITH THE COMPANY’S RESPONSE REGARDING**
2 **INCREASED PIPELINE REPLACEMENT EFFORTS TO MEET THE**
3 **GOALS ESTABLISHED IN THE 2012 AND 2017 LTIIIP’S?**

4 A. No. I believe that the Company should continue to prioritize the goal of having all
5 bare steel, cast iron, and wrought iron removed from the system by 2029 and first-
6 generation plastic replacement should be done in addition to meeting that goal.
7 Bare steel, cast iron, and wrought iron pipe was identified for replacement by the
8 Company in NC-30-07³ and the goal to have all of it removed from the system by
9 2029 was established in the 2012 LTIIIP⁴ and NC-30-07. The Company has been
10 aware of its commitment to meet this goal for approximately ten years and should
11 have properly allocated the funds to meet this goal. I acknowledge that first
12 generation plastic is a threat, but Columbia is not able to provide a leak rate on
13 first-generation plastic pipe. The Company has not provided enough evidence to
14 support that first-generation plastic poses the same level of risk as bare steel.
15 Columbia should take all available measures to manage risks associated with first
16 generation plastic; however, Columbia should also increase replacement efforts to
17 meet the goals stated in its 2012 and 2017 LTIIIPs.

³ I&E Exhibit No. 7, Schedule 3 at Docket No. R-2012-2321748.

⁴ Petition of Columbia Gas of Pennsylvania, Inc. for Approval of its Long Term Infrastructure Improvement Plan at Docket No. P-2012-2338282, p. 6.

1 **Q. WITNESS ANSTEAD RAISES CONCERNS THAT “LEAKS PER MILE IS**
2 **NOT THE OPTIMAL METRIC TO EVALUATE THE RISK ASSOCIATED**
3 **WITH PRE-1982 PLASTIC PIPE.” DO YOU AGREE?**

4 A. No. I believe that leaks per mile of first-generation plastic or a leak history
5 showing how many leaks are caused by brittle-like cracking, rock impingement,
6 and shear/bending stress is a very effective data point in quantifying risk and
7 comparing risky assets. I believe that Columbia should use all available
8 information when quantifying risk on its system and that leak history or leak per
9 mile trends should be considered in that process.

10 On page 10, lines 5-9, Witness Anstead states “Failure of this type of pipe –
11 similar to cast iron - does not always exhibit a leak history prior to failure. The
12 failure on this pipe is not due to corrosion like that of bare steel and it is not as
13 predictable, but instead pre-1982 plastic with no leak history can fail due to
14 premature brittle-like cracking caused by rock impingement, shear/bending or
15 squeeze-off stress.” While I acknowledge that bare steel usually shows signs of
16 leakage before failure and pre-1982 plastic pipe is unpredictable and can fail
17 without indication of any leaks, bare steel main or any other material can also fail
18 in the same manner and be unpredictable. Since bare steel main typically leaks
19 before total failure and has shown a much higher hazardous leak rate, bare steel
20 main could pose a greater risk to public safety. Witness Anstead also states that
21 the Company does not anticipate seeing a significant decrease in the bare steel
22 leak rate “because the remaining miles of bare steel mains continue to age and

1 deteriorate even though the overall mileage of bare steel pipe is reduced year over
2 year.”⁵ In my opinion, this statement exemplifies that despite the Company’s
3 efforts to replace bare steel main, the remaining bare steel pipeline is deteriorating
4 as it ages and the leak rate is increasing. Columbia has not replaced the
5 deteriorating bare steel mains fast enough to keep up with the increasing leak rate
6 in the existing mains. While both first-generation plastic and bare steel main are
7 prone to failure at any time and without any indication of leaks, bare steel main
8 continues to exhibit a high leak rate which poses a greater threat risk to the public.

9
10 **Q. IN DIRECT TESTIMONY DID YOU GIVE AN ESTIMATED**
11 **TIMEFRAME FOR COLUMBIA TO REPLACE ALL BARE STEEL,**
12 **CAST IRON, AND WROUGHT IRON PIPE?**

13 A. Yes. In my direct testimony, I stated that it would take Columbia 15 years to
14 replace all bare steel, cast iron, and wrought iron. This estimation was based on
15 at-risk main percentages replaced per year rather than miles replaced per year.

16
17 **Q. DO YOU HAVE A CORRECTION TO THAT ESTIMATION?**

18 A. Yes. Using miles replaced per year instead of the at-risk main percentages, my
19 estimation is that it will take Columbia approximately 12.8 years to replace all
20 bare steel, cast iron, and wrought iron main. Even with my updated estimation,

⁵ Statement No. 14-R, p. 8.

1 this would still be significantly later than the 2029 goal set in the first and second
2 LTIPPs.

3
4 **Q. DID THE COMPANY AGREE THAT IT WOULD TAKE**
5 **APPROXIMATELY 15 YEARS TO REPLACE ALL BARE STEEL, CAST**
6 **IRON, AND WROUGHT IRON IN ITS SYSTEM?**

7 A. No. Witness Anstead stated that, because cast iron's failure rate is not as
8 predictable as the failure rate of bare steel and due to the relatively low amount of
9 remaining mileage, Columbia advanced the removal of cast iron to eliminate the
10 risk from this asset group entirely. Witness Anstead also states that first-
11 generation plastic pipe is growing in risk and that the purpose of the annual DIMP
12 reviews is to evaluate the riskiest assets to take appropriate risk reduction
13 measures. Columbia believes that it is more important to replace the riskiest assets
14 rather than adhere to a plan that may no longer be the optimal plan to reduce risk.
15 Witness Anstead also notes that Columbia plans to continue increasing its
16 investment in replacing aging infrastructure.⁶

17
18 **Q. WHAT IS YOUR RESPONSE?**

19 A. As of January 1st, 2022, Columbia's distribution system contained 997.4 miles of
20 bare steel, 45.4 miles of wrought iron, and 1.3 miles of cast iron. When totaled,

⁶ Statement No. 14-R, pp. 11-12.

1 there were 1,044.1 miles of bare steel, cast iron, and wrought iron in their system
2 at the beginning of 2022.⁷ In the last five years, Columbia has replaced an average
3 of 81.7 miles of bare steel, cast iron, and wrought iron per year.⁸ If Columbia
4 continues at this replacement rate, it will take 12.8 years to replace all bare steel,
5 cast iron, and wrought iron in its system.

6
7 **Q. HOW LONG WOULD IT TAKE COLUMBIA TO REPLACE ALL**
8 **PRIORITY PIPE IF FIRST GENERATION PLASTIC WAS ADDED TO**
9 **THE PRIORITY PIPE CATEGORY?**

10 A. Columbia's distribution system contained 633.5 miles of first-generation plastic in
11 its system at the beginning of 2022.⁹ If first generation plastic was added to the
12 bare steel, cast iron, and wrought iron replacement schedule and Columbia
13 continued to replace pipe at the same rate as the last five years, it would take 20.5
14 years to replace all the priority pipe identified by the Company.

⁷ I&E Exhibit No. 4, Schedule No. 4, p. 2.

⁸ I&E Exhibit No. 4, Schedule No. 3, p. 2.

⁹ I&E Exhibit No. 4, Schedule No. 4, p. 2.

1 **Q. SINCE YOU BELIEVE COLUMBIA SHOULD MEET THE GOAL**
2 **STATED IN ITS LTIP'S, DOES THAT MEAN THAT COLUMBIA**
3 **SHOULD FOCUS SOLELY ON THE LTIP GOAL AND STOP**
4 **REPLACING FIRST GENERATION PLASTIC?**

5 A. In my opinion, Columbia should always prioritize public safety and replacing its
6 riskiest assets. Any first-generation plastic replacement should be done in addition
7 to meeting the replacement schedule established in the 2012 and 2017 LTIPs.

8

9 **CURB VALVES IN SERVICE LINES**

10 **Q. BRIEFLY EXPLAIN THE CONCERNS RAISED AT THE PUBLIC INPUT**
11 **HEARING BY MR. GEORGE MILLIGAN REGARDING THE**
12 **INSTALLATION OF CURB VALVES ON COLUMBIA'S SYSTEM.**

13 A. In the public hearing on June 1, 2022, Mr. Milligan raised concerns that Columbia
14 was not installing curb box safety shutoff valves on low pressure to 10 pound per
15 square inch gauge (psig) systems. Mr. Milligan believes that the lack of
16 installation of curb box safety shutoff valves poses a risk when first responders
17 arrive at an emergency and need to shut off gas flow to the house. Mr. Milligan
18 also claimed that he submitted a CAP (Corrective Action Program) on Columbia's
19 system to address the issue.¹⁰

¹⁰ Transcript, p. 34.

1 **Q. IN STATEMENT NO.1, WITNESS MARK KEMPIC ADDRESSED MR.**
2 **MILLIGAN’S CONCERNS REGARDING THE INSTALLATION OF**
3 **CURB VALVES ON COLUMBIA’S SYSTEM. PLEASE SUMMARIZE**
4 **COLUMBIA’S RESPONSE.**

5 A. Witness Kempic stated that Mr. Milligan has submitted two CAPs on the matter,
6 and after a thorough analysis, Columbia determined that a curb shutoff valve was
7 not required because “less than 0.3% of priority calls require a cub valve to be cut
8 in for emergencies and the Company’s installation of excess flow valves which
9 automatically shut off the flow of gas when a line ruptures.” Columbia states that
10 its procedures require a shut off valve outside of the home and outline when a curb
11 valve should be installed. A meter valve provides quicker shutoff in the event of
12 an emergency due to the valve being above ground, next to the meter, and easily
13 locatable.¹¹

14
15 **Q. DO YOU AGREE THAT COLUMBIA’S PRACTICE COMPLIES WITH**
16 **THE REGULATIONS?**

17 A. Yes. According to §192.365, “each service line must have a shutoff valve in a
18 readily accessible location that, if feasible, is outside of the building.” §192.365
19 also states, “Each service line valve must be installed upstream of the regulator or,
20 if there is no regulator, upstream of the meter.” §192.365 does require a “covered

¹¹ Statement No. 1-R, pp. 18-19.

1 durable curb box or standpipe” for each underground service line valve, but it does
2 not specify that an operator must install the upstream shutoff valve at the curb. It
3 is a common practice for operators to install an upstream valve at the riser and not
4 at the curb. This practice is satisfactory according to §192.365.

5

6 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

7 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | | |
|--|---|------------|----------------|
| Pennsylvania Public Utility Commission | : | | |
| | : | | |
| v. | : | Docket No: | R-2022-3031211 |
| | : | | |
| Columbia Gas of Pennsylvania, Inc. | : | | |

VERIFICATION OF D. C. PATEL

I, **D. C. Patel**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 1 (Proprietary), I&E Statement No. 1 (Non-Proprietary), I&E Exhibit No. 1 (Proprietary), I&E Exhibit No. 1 (Non-Proprietary), I&E Statement No. 1-R, I&E Exhibit No. 1-R, I&E Statement No. 1-SR (Proprietary), and I&E Statement No. 1-SR (Non-Proprietary)** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Harrisburg, Pennsylvania, this 2nd day of August, 2022.

/s/DCPATEL
D. C. Patel

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|--|---|---------------------------|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | Docket No: R-2022-3031211 |
| | : | |
| Columbia Gas of Pennsylvania, Inc. | : | |

VERIFICATION OF CHRISTOPHER KELLER

I, **Christopher Keller**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 2, I&E Exhibit No. 2 and I&E Statement No. 2-SR** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in New Cumberland, Pennsylvania, this 2nd day of August, 2022.

/s/ Christopher Keller
Christopher Keller

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

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Docket No: R-2022-3031211

VERIFICATION OF ETHAN H. CLINE

I, **Ethan H. Cline**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 3, I&E Exhibit No. 3, I&E Statement No. 3-R and I&E Statement No. 3-SR** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in New Bloomfield, Pennsylvania, this 2nd day of August, 2022.

/s/ Ethan H. Cline

Ethan H. Cline

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|--|---|---------------------------|
| Pennsylvania Public Utility Commission | : | |
| | : | |
| v. | : | Docket No: R-2022-3031211 |
| | : | |
| Columbia Gas of Pennsylvania, Inc. | : | |

VERIFICATION OF TYLER MERRITT

I, **Tyler Merritt**, on behalf of the Bureau of Investigation and Enforcement, hereby verify that **I&E Statement No. 4, I&E Exhibit No. 4 and I&E Statement No. 4-SR** were prepared by me or under my direct supervision and control.

Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same if called to the stand at any evidentiary hearing held in this matter.

This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Signed in Pittsburgh, Pennsylvania, this 2nd day of August, 2022.

/s/Tyler Merritt
Tyler Merritt