IECPA STATEMENT NO. 1-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2019-3015162
	:	
UGI Utilities, Inc. – Gas Division	:	

REBUTTAL TESTIMONY

OF

RICHARD A. BAUDINO

ON BEHALF OF THE
INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA

J. Kennedy and Associates, Inc.
570 Colonial Park Drive, Suite 305
Roswell, GA 30075

JUNE 19, 2020

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Q. Please state your name and business address.

A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Did you submit Direct Testimony in this proceeding?

A. Yes. I submitted Direct Testimony on behalf of the Industrial Energy Consumers of Pennsylvania ("IECPA").

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to respond to the Direct Testimonies of Mr. Jerome Mierzwa, witness for the Office of Consumer Advocate ("OCA") and Mr. Robert Knecht, witness for the Office of Small Business Advocate ("OSBA"). For purposes of my Rebuttal Testimony in this case, my not addressing a particular issue in the Direct Testimony of these witnesses should not imply that I agree with or do not oppose that issue. My Rebuttal Testimony will instead focus on certain issues relating to the cost and revenue allocation proposals set forth in the Direct Testimony of each of these witnesses, as well as the recommendation from OCA witness Mr. Roger D. Colton regarding allocation and recovery of universal service program costs, which are discussed in the following sections.

<u>Allocation of Manufactured Gas Facilities Remediation Costs</u>

Q. Please summarize Mr. Knecht's and Mr. Mierzwa's recommendations with respect to the allocation of the costs of remediation of manufactured gas facilities.

A. Both Mr. Knecht and Mr. Mierzwa recommend that all costs associated with remediation of manufactured gas facilities be allocated to all customers. On pages 27 and 28 of his Direct Testimony, Mr. Knecht testified that UGI Utilities, Inc. – Gas Division's ("UGI" or "Company") class cost of service study ("CCOSS") allocated plant costs in Account 305 to all classes using Factor 2 and that it also allocated $1.2 million of environmental operation and maintenance ("O&M") costs in Account 930 using Factor 12. Factor 2 is based on average daily throughput volumes for each service classification. Factor 12 is based on the allocation of operation and maintenance expenses and has both volumetric and customer-related components. However, Mr. Knecht noted that most of the O&M costs in Accounts 740-742 were assigned to Rates R/RT and N/NT. Mr. Knecht recommended allocating the costs in these accounts based on allocation Factor 2, the average daily throughput volumes for each customer class.

Q. Is UGI's allocation of manufactured gas remediation costs in Accounts 740-742 consistent with its approach in the last UGI rate case (Docket No. R-2018-3006814)?

A. Yes. I reviewed Mr. Herbert's CCOSS in the last docket and he classified and allocated these costs in the same way that he allocated them in this case, which is to Rates R and N.

Accounts 740-742 (Total Gas Raw Materials Expenses) are included as part of Manufactured Gas Production Expenses in UGI's CCOSS.

Q. Should the manufactured gas production expenses in Accounts 740-742 be allocated to all customer classes, including interruptible and transportation customers, based on average daily throughput?

A. No, definitely not. Gas-related production expenses should be allocated to the firm sales gas customers in Rates R and N. There is no sound basis for allocating gas-related costs to transportation and interruptible customers that do not purchase firm gas supplies from UGI. Allocating these costs on the basis of throughput fails to properly track cost responsibility.

It should be noted that $1.2 million of remediation costs in Account 930 was allocated on the basis of allocation Factor 12 in UGI's CCOSS, while the plant costs in Account 305 that were allocated using Factor 2 were only $14,821, a fraction of the amount in Account 930. Yet, Mr. Knecht chose to allocate $6.8 million in Accounts 740-742 based on Factor 2, not Factor 12. This had a radical impact on cost allocation in Mr. Knecht's alternative CCOSS. Rebuttal Table 1 below presents a comparison of Factors 2 and 12 from the Company's CCOSS.

Rebuttal Table 1
Allocation Factors 2 and 12

		Factor 12		
	Factor 2	Volumetric	Customer	Total
Rate R	15.06%	33.00%	37.03%	70.03%
Rate N	9.28%	10.00%	6.85%	16.85%
Rate DS	3.10%	2.50%	1.04%	3.54%
Rate LFD	6.62%	2.95%	0.58%	3.53%
Rate XD Firm	49.35%	3.80%	0.17%	3.97%
Interruptible	16.59%	1.73%	0.35%	2.08%
Total	100.00%	53.98%	46.02%	100.00%

The allocation factor differences between Factors 2 and 12 are striking and show the excessive allocation of manufactured gas facilities costs that occur under Mr. Knecht's recommended allocation. Under Mr. Knecht's analysis, Rate R receives a 70.03% allocation of the Account 930 remediation costs in the Company's CCOSS, but would only receive 15.06% of the remediation costs in Accounts 740-742. Stated differently, Rate R's share of manufactured gas facilities costs in Accounts 740-742 declines to only 15.05%, while Rate XD Firm and Interruptible customers' allocation go from 0% to 65.94% (49.35% plus 16.59%). From a dollar allocation standpoint, XD Firm and Interruptible customers would be allocated $4.48 million of the $6.8 million of manufactured gas remediation costs in Accounts 740-742. This would indeed be a drastic and unjustified shift of cost responsibility from Rates R and N to XD Firm and Interruptible customers.

The impact of Mr. Knecht's reallocation of manufactured gas facilities costs in Accounts 740-742 is unreasonable, unsupportable, and would have a highly detrimental impact on customers in the XD Firm and Interruptible classes. The Pennsylvania Public Utility

Commission ("Commission") should reject such an allocation of manufactured gas facilities remediation costs and, in so doing, reject Mr. Knecht's alternative CCOSSs.

Q. How did Mr. Mierzwa allocate the costs of manufactured gas facilities remediation costs?

A. My review of Mr. Mierzwa's CCOSS indicates that he allocated all manufactured gas remediation costs based on the Company's allocation of volumetric O&M costs, which is shown in my Rebuttal Table 1. This resulted in about 51% of these costs being allocated to Rate R customers, compared to Mr. Knecht's 15.06% allocation. Although not as radical as Mr. Knecht's proposal using Factor 2, Mr. Mierzwa's allocation proposal should also be rejected.

<u>Interruptible Customers</u>

Q. On page 27 of his Direct Testimony, Mr. Knecht testified that he also conducted a CCOSS that treated Rate IS customers as firm. Should interruptible customers on UGI's system ever be considered firm loads?

A. Absolutely not. Interruptible transportation customers must invest in alternate fuel capability and be ready to interrupt their gas consumption when needed. Simply because system conditions may have precluded the need for interruptions over the last several years does not mean that interruptible customers will never be interrupted and that, therefore, they are receiving firm service.

UGI's tariff clearly states that IS and XD Interruptible ("XD-I") services are interruptible and, therefore, by their very nature are not firm. According to UGI's IS tariff, the IS rate shall only be provided when sufficient system capacity is available. IS customers must: (1) have the ability to maintain qualified alternative fuel facilities; (2) have 24-hour notification capability: and (3) maintain operable Automatic Temperature Control ("ATC") equipment. These are express conditions borne by participating customers at their cost and risk, and are not the sort of conditions placed on firm service customers.

Interruptible customers provide valuable capacity on UGI's system in that they are willing to be interrupted when needed by the Company. The requirements for interruptible service and its lower reliability relative to firm service obviously show that XD-I and IS customers should not be treated as firm customers. The Commission should reject Mr. Knecht's CCOSS that treats these customers as firm.

Q. Please summarize Mr. Mierzwa's position with respect to the allocation of mains costs to interruptible customers.

A. Mr. Mierzwa disagreed with Mr. Herbert's exclusion of interruptible loads from an allocation of peak (excess) demand capacity. On page 25 of his Direct Testimony, Mr. Mierzwa testified that interruptible customers benefit from the use of UGI's peak demand component of mains when not required to meet the demands of firm customers on a design day. Instead, Mr. Mierzwa recommended allocating peak demand costs to interruptible customers based on average daily usage.

Q. Please respond to Mr. Mierzwa's recommended allocation of peak demand costs to interruptible customers.

A. Mr. Mierzwa's recommendation should be rejected based on my arguments above for not treating interruptible customers as firm loads. Mr. Mierzwa failed to recognize that interruptible loads actually *provide* capacity at the system peak so that firm customers may be served without interruption during the winter peak. This is additional capacity that UGI can plan for and call upon without having to invest in additional system capacity. This being the case, Mr. Herbert's exclusion of interruptible loads from an allocation of peak capacity is correct and should be approved by the Commission.

Q. On page 27 of his Direct Testimony, Mr. Knecht explained that he combined XD-F and XD-I customers into one rate class for purposes of his cost of service studies, thus treating all XD customers as a single class. Please address Mr. Knecht's proposed combination of XD-F and XD-I customers.

A. I disagree with combining interruptible and firm customers in the XD rate class and support Mr. Herbert's CCOSS presentation, which instead combines XD-I and IS customers into a single Interruptible rate class. It is not a good idea to combine firm tariff customers and interruptible customers, whose rates are structured differently. The interruptible portion of XD customers' service is provided under the same tariff conditions as IS customers, making it logical to combine IS and XD-I customers for purposes of a CCOSS, as Mr. Herbert did.

<u>**Classification and Allocation of Distribution Mains**</u>

Q. Please briefly summarize the positions of the witnesses with respect to the allocation of distribution mains in the Company's CCOSS.

A. Mr. Mierzwa supported the Peak and Average ("P&A") approach to classifying and allocating distribution mains in his recommended CCOSS. In these studies, class contribution to peak demand and average demands, or throughput, are each weighted 50%. Mr. Knecht developed a separate CCOSS based on his formulation of an average and excess approach to the classification and allocation of distribution mains and my understanding is that he accepted Mr. Herbert's CCOSS approach with respect to the classification and allocation of mains.

Q. Is it appropriate to classify and allocate a portion of the costs of mains on the basis of total throughput as Mr. Mierzwa recommends?

A. No. Peak winter demands and the number of customers drive investment in distribution mains, not gas consumption throughout the year. Peak winter demand is one of the primary drivers of UGI's investment in gas distribution mains. The Company must have sufficient capacity available on its system to satisfy the peak winter heating demand, which is caused mainly by residential customers. If the peak winter demand increases, the Company may need to invest in additional mains to serve the load. During the non-winter months, substantial excess capacity exists on the system. Use of the Company's distribution system during these months does not cause additional fixed costs to be incurred by the Company. In fact, high load factor customers provide valuable margins to the Company during off-peak months when the demands of residential heating customers are very low. In a similar manner to peak winter demand, if the number of customers increases, the Company may need to expand its distribution system investment. Thus, the number of customers connected to the distribution system is another important causative factor in distribution main investment. In my view, this is just obvious common sense in terms of the two factors that drive a gas distribution company's costs of distribution mains. Throughput, which varies substantially during the year, is not what causes UGI's investment in the *fixed costs* of distribution mains.

Moreover, Mr. Mierzwa's recommended P&A allocation of mains is arbitrary in that he presented no basis for the classification of mains based on a 50% weighting of yearly throughput.

Q. On page 16, lines 23 through 24 of his Direct Testimony, Mr. Mierzwa testified that "UGI could not meet its customers' annual gas demands with a system capability any smaller than 767,000 Mcf" per day. Please respond to Mr. Mierzwa's testimony.

A. Mr. Mierzwa's argument is irrelevant with respect to cost allocation and obscures the paramount importance of meeting the winter peak demand, which in fact does drive the Company's investment in distribution mains. Attachment SDR-COS-18 provided by UGI shows the monthly sales in Mcf for the test year ending September 2021. This attachment shows the following:

- The peak sales month was January with Mcf sales of 34,392,170 excluding interruptible sales.

- The lowest sales month was June with Mcf sales of 16,250,779 excluding interruptible sales. This translates to an average daily consumption of 541,693 for June.

The average daily consumption for the system in the off-peak month of June, 541,693 Mcf, is substantially less than the average daily consumption of 767,000 Mcf presented by Mr. Mierzwa. This comparison shows that average daily demand does vary substantially by month and that, by far, the highest monthly demands occur during the winter heating season. This also demonstrates that there is substantial excess capacity on the system during off-peak months.

In my opinion, Mr. Mierzwa has made a series of unsupported and conclusory statements in support of using average demands to classify and allocate distribution mains costs. He presented no concrete analysis that shows UGI considers annual throughput or demands in the design and construction of its distribution mains system. The Commission should reject Mr. Mierzwa's proposed P&A CCOSS and its 50% weighting of annual throughput and/or annual demands to classify and allocate mains costs in UGI's CCOSS.

Rates NNS and MBS

Q. Please summarize Mr. Mierzwa's proposals regarding Rate NNS and MBS.

A. Mr. Mierzwa is proposing substantial increases to Rates NNS and MBS, compared with UGI's proposed decreases to these rates. Mr. Mierzwa claimed that demand charges related to interstate pipeline storage resources should be included in Rate NNS on a 100% load factor basis. Mr. Mierzwa's proposal would increase Rate NNS from $0.0244 per Mcf to $0.0893 per Mcf, an increase of 266%.

Regarding Rate MBS, Mr. Mierzwa recommended that the average capacity charge for storage be adjusted to include storage daily deliverability demand charges. He also recommended the transportation customer monthly imbalance be increased to 5 percent to reflect the additional 5 percent monthly imbalance tolerance provided under Rate MBS. Mr. Mierzwa's recommended Rate MBS is shown in his Schedule JDM-3 and the charges are substantially higher than UGI's proposed charges.

Q. Are Mr. Mierzwa's proposals for Rates NNS and MBS reasonable?

A. No. Mr. Mierzwa is repeating similar proposals for these rates to those he made in UGI's last rate case. In his Rebuttal Testimony[1] in that proceeding UGI witness David Lahoff explained why Mr. Mierzwa's proposals should be rejected by the Commission and his arguments still apply in this case. Regarding Mr. Mierzwa's proposal for NNS, Mr. Lahoff provided the following explanation and response:

> With regard to Rate NNS, it would be inappropriate to include firm service demand costs as the service provided under Rate NNS, in excess of the base amount of 4.5%, is provided on an interruptible basis. If Mr. Mierzwa's cost allocation were adopted, the provision of NNS would need to be transformed into a firm service offering and the Company would need to acquire additional balancing assets.[2]

[1] Pennsylvania Public Utility Commission v. UGI Utilities Inc. – Gas Division, Docket No. R-2018-3006814, Rebuttal Testimony of David E. Lahoff, pp. 23-24.
[2] *Id.* at 24.

In UGI's current Rate NNS tariff, it is noted that after November 1, 2020, all Rate NNS service elections in excess of 4.5% are interruptible. Given this tariff condition, it is my view that Mr. Lahoff's explanation still applies in this case and that firm service demand charges definitely should not be included in Rate NNS. Mr. Mierzwa's proposal should be rejected.

With respect to Mr. Mierzwa's proposal for Rate MBS, Mr. Lahoff responded as follows:

> In addition, Mr. Mierzwa's proposed change to Rate MBS to reflect the costs that would be incurred if customers fully utilized the 5% tolerance for monthly imbalances reflected in UGI' Gas proposed tariff is also inappropriate. The Company believes it is more appropriate to reflect actual customer behavior in deriving cost causation, and not a hypothetical maximum usage. The Company utilized the actual historic average monthly imbalance for the development of the charge. Currently that imbalance percentage is 1.54%, and this percentage was used to develop the proposed Rate MBS. A 5% percentage would significantly overcharge Rate MBS customers for the service being provided.[3]

In this case, UGI's proposed Rate MBS includes an anticipated average monthly imbalance of 2.0608%. As a result of the settlement in the last rate case, storage demand charges are included on a 100% load factor basis. Mr. Mierzwa presented no evidence that daily deliverability demand charges should be included in a monthly balancing service such as Rate MBS or that such demand charges are incurred by customers under Rate MBS. Mr. Mierzwa's proposal for Rate MBS should be rejected by the Commission.

[3] *Id.*

Class Revenue Allocation

Q. Please summarize Mr. Knecht's revenue allocation proposal to the Commission.

A. Mr. Knecht presented his revenue allocation proposal on pages 31 through 32 of his Direct Testimony. Mr. Knecht explained that his revenue allocation proposal had modest changes to UGI's proposal. His only proposed modification was to allocate a revenue increase of $1.5 million to his combined Rate XD class. Mr. Knecht's Table IEc-4 showed that this resulted in a 5.0% increase to his combined XD rate class.

Q. Please comment on Mr. Knecht's revenue allocation proposal.

A. Mr. Knecht's modified revenue allocation should be rejected. First, it is based on his alternative CCOSSs, the defects of which I described earlier. Mr. Knecht's studies are not based on sound cost allocation assumptions and, as such, should not be used to guide the Commission's revenue allocation decisions in this case.

Second, it is not clear how or if the $1.5 million revenue increase that Mr. Knecht imposed on XD customers can be collected, given that XD-I rates are set based on contracts that are negotiated between these customers and UGI. A portion of the XD Firm ("XD-F") rates, namely the customer charge and the maximum demand charge, are also determined by negotiation. XD-F customers must also enter into a contract with UGI for three years and Mr. Knecht did not state whether these contracts would allow any changes in the negotiated rates that are included in those contracts. Given this uncertainty regarding collection of the $1.5 million revenue increase recommended by Mr. Knecht, the Commission should reject his proposal.

Q. Please summarize the revenue allocation proposals offered by Mr. Mierzwa.

A. Mr. Mierzwa presented his revenue allocation proposals beginning on page 31 of his Direct Testimony. As I understand Mr. Mierzwa's revenue allocation recommendations, his preferred alternative is an across-the-board equal percentage increase to all customer classes. This recommendation is based on Mr. Mierzwa's conclusion regarding the customer class annual usage and peak demands reflected in UGI's CCOSS. On page 29, lines 11 through 19, Mr. Mierzwa stated the following:

> As a result of the COVID-19 pandemic and the resulting significant decline in economic activity, customer usage and peak demands during the FPFTY are likely to be significantly lower than that reflected in the Company's cost of service study. These declines are likely to be most significant for UGI Gas' commercial and industrial customer which are served under Rate Schedules DS, LFD, XD, and IS. These declines in usage and peak demand are not reflected in UGI Gas' cost of service study and, therefore, revenues at present rates for the commercial and industrial classes are likely overstated in the cost of service study, and the rate of return for these classes would also be overstated.

Although Mr. Mierzwa suggested that declines in usage and peak demands are likely in Rates DS, LFD, XD, and IS, Mr. Mierzwa went on to state that it would be "inappropriate to reflect the declines in annual usage and peak demands in the cost of service study because it would shift the costs associated with UGI Gas' investments to serve commercial and industrial customers to other customers."[4]

Mr. Mierzwa's alternative revenue allocation recommendation is presented on his Table 7, page 33 of his Direct Testimony, and is based on his alternative CCOSS. Mr. Mierzwa's

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[4] Direct Testimony of Jerome Mierzwa, p. 30, lines 3-6.

alternative CCOSS still shows residential customers far below their allocated cost to serve and would receive by far the largest revenue increase of any rate class.

Q. Please address Mr. Mierzwa's position on an across-the-board increase and on UGI's annual usage and demand allocations.

A. Mr. Mierzwa's recommended across-the-board increase should be rejected, as well as his arguments for rejecting a cost of service based approach for revenue allocation.

Mr. Mierzwa's remarks on page 29 of his Direct Testimony regarding the effect of COVID-19 on the usage and demands of the commercial and industrial customers are highly speculative and unsupported. No one can be sure at this point whether the effect from the pandemic on economic activity in UGI's service territory will be temporary or permanent. If the downward impact on commercial and industrial customers is permanent, then the decline in usage and demands will be permanent as well and it would be completely unfair not to reflect this decline in the allocation factors for these customers. Mr. Mierzwa fails to recognize that UGI built its system to serve ***all*** of UGI's customers, including the winter demands of residential heating loads.

We do not really know the effect on future customer usage and demand from the current pandemic and, this being the case, I recommend that the Commission go forward with the customer class usage and peak demands used by UGI in its CCOSS. Under UGI's CCOSS, it is apparent that, if anything, the IS and XD rate classes should receive a *decrease* in rates rather than any increase at all. But regardless, an across-the-board increase is unwarranted, unsupported, and unreasonable. Moreover, Mr. Mierzwa failed to explain how UGI could or would collect an across-the-board increase from XD and IS customers whose rates are set by contract.

Q. Should the Commission use Mr. Mierzwa's CCOSS as a guide to revenue allocation in this proceeding?

A. No. I recommend that the Commission reject Mr. Mierzwa's defective CCOSS. I described the problems associated with using the P&A method to allocate distribution mains, allocating interruptible customers a portion of peak distribution main costs, and allocating all customers manufactured gas remediation costs based on volumetric O&M costs. Mr. Mierzwa's CCOSS does not reasonably allocate cost responsibility to UGI's customer classes because of the aforementioned major defects.

<u>Capacity Assignment</u>

Q. On page 42 of his Direct Testimony, Mr. Mierzwa objected to UGI long-standing practice of releasing Columbia Gas Transmission ("Columbia") pipeline capacity to Rate XD customers in the South District. Please address Mr. Mierzwa's position on this issue.

A. Mr. Mierzwa's recommendation on this issue is that Rate XD customers in the South District should continue to be assigned Columbia capacity until their current service contracts expire, then be assessed charges for released capacity based on the revised Weighted Average Cost of Demand ("WACOD") calculation he recommended.

Mr. Mierzwa's recommendation regarding the pricing of released pipeline capacity for XD customers in the South District should be rejected. As Mr. Mierzwa pointed out on pages 42 and 43 of his Direct Testimony, these Rate XD customers have service contracts that specifically provide for the release of Columbia capacity. This is a long-standing practice and Mr. Mierzwa's objection to it is not based on proper evidence or support. He provided no evidence that this released capacity could be available to the rest of UGI's system or that this practice was in any way unreasonable or harmful to the rest of UGI's ratepayers. Mr. Mierzwa's only argument seems to be that since the released Columbia pipeline capacity is lower priced than the WACOD, it should be taken away from XD customers and somehow redistributed to other ratepayers.

Allocation of Universal Service Costs

Q. Please summarize Mr. Colton's testimony with respect to the allocation of Universal Service Costs ("USC").

A. Beginning on page 11 of his Direct Testimony, Mr. Colton recommended that USC be allocated among all customer classes. In support of his position, Mr. Colton cited the Commission's September 19, 2019 Final Policy Statement and Order ("2019 Final Policy Statement and Order") in Docket No. M-2019-3012599. Specifically, on page 13 of his Direct Testimony, Mr. Colton cited the following from the 2019 Final Policy Statement and Order:

> [T]he Commission finds it appropriate to consider recovery of the costs of CAP costs from all ratepayer classes. Utilities and stakeholders are advised to be prepared to address CAP cost recovery in utility-specific rate cases consistent with the understanding that the Commission will no longer routinely exempt non-residential classes from universal service obligations[.]

Mr. Colton went on to describe how USC represent a public good and that its costs should be collected from all ratepayers as a public benefit. Mr. Colton also evaluated "various underlying economies" within UGI's service territory in pages 19 through 24 of his Direct Testimony. Mr. Colton provided his views on how universal service benefits businesses on pages 26 through 35 of his Direct Testimony. Finally, on page 37 of his Direct Testimony Mr. Colton recommended that "universal service costs actually collected in each fiscal year be distributed amongst all customer classes based on the average percentage of customers by class for the two years beginning October 2017 and ending September 2019."

Q. Do you agree with Mr. Colton's recommendation that USC be allocated to all customer classes?

A. No. As a preliminary matter, it is important to note that UGI has not proposed any change in its current allocation and recovery of these costs. I support UGI's current approach and recommend that Mr. Colton's proposed allocation of USC costs be rejected. Instead, these costs should be assigned to and collected from the residential class as has always been done in past UGI cases and for all utilities in Pennsylvania.

Q. Why should the USC continue to be assigned to and collected from residential customers?

A. Contrary to Mr. Colton's views regarding benefits to businesses, USC directly benefits only customers of the residential class. Commercial and industrial ratepayers cannot and will not take advantage of the programs that comprise universal service. As the Commission noted on page 3 of the 2019 Final Policy Statement and Order:

> "Universal service and energy conservation" is a collective term for the "policies, protections and services that help low-income customers to maintain service" as mandated by statute. The four universal service programs are: (1) CAPs, which may provide discounted pricing, arrearage

> forgiveness, and/or other benefits for enrolled low-income residential customers; (2) Low-Income Usage Reduction Programs (LIURPs), which provide weatherization and usage reduction services to help customers reduce their energy utility bills; (3) Customer Assistance and Referral Evaluation Services (CARES), which provide information and referral services for low-income, special needs customers; and (4) Hardship Fund programs, which provide grants to help customers address utility debt, restore service, or stop a service termination.

The plain language that describes the programs covered by USC clearly defines them as residential-only programs. Therefore, I recommend that the Commission continue to assign the costs of these programs the class that receives the benefits, namely the residential class. This is a basic element of the cost-to-serve principle that guides utility ratemaking. USC should not be allocated to all customers of UGI.

Q. Did the Commission make a final determination as to how USC should be collected from ratepayers in its 2019 Final Policy Statement and Order?

A. No. In fact, the Commission stated that "[w]e are not making a final precedential decision regarding cost recovery in this docket. We are merely providing that the recovery of CAP costs in particular can be fully explored in utility rate cases henceforth. Decisions regarding cost recovery will remain the province of utility-specific proceedings."[5]

My understanding of the 2019 Final Policy Statement and Order is that the Commission is willing to evaluate collecting USC from all customer classes, which would be a change from its past precedent generally and from UGI's past practice. Based on my understanding of the 2019 Final Policy Statement and Order, the Commission's willingness to "consider" allocation and recovery of USC from all customers is simply that -- a willingness to

[5] *See* 2019 Final Policy Statement and Order, p. 97, n. 150.

"consider" -- and is not an affirmative statement that these costs *should* or *must* be recovered from all customers, otherwise, the Commission would have definitively stated as much. It appears to me that the final determination of such recovery will be a case-by-case determination, made on the basis of evidence presented in each case. As I explain below, while I believe in principle that these costs should continue to be recovered only from the residential class and that rates should not be set on the basis of intangible or indirect "public benefits," the specific facts of this case also do not justify shifting this cost responsibility from UGI's residential class to all ratepayers.

Q. Based on your review of the CCOSSs filed in this case, what is the situation with respect to cost recovery from the residential class at current rates?

A. All of the cost of service studies presented in this proceeding show that the residential class, Rate R, is receiving significant subsidies from the non-residential classes. Rebuttal Table 2 shows the current Rate R rate of return ("ROR") on rate base and the relative rate of return ("RROR") based on the current system average rate of return.

Rebuttal Table 2

Residential Class Rates of Return
In Filed Class Cost of Service Studies

	Rate of Return	Relative ROR
OSBA		
RDK Alternative	3.43%	0.58
RDK Alt. with Firm IS	3.49%	0.59
OCA		
Mierzwa CCOSS	3.67%	0.62
UGI		
Herbert CCOSS	3.23%	0.54
UGI Current Rate of Return	5.95%	

It is clear from Rebuttal Table 2 that the residential class is not presently paying close to its allocated cost to serve under any of the CCOSS filed in this case. Although Messrs. Knecht and Mierzwa used several different cost allocation assumptions from Mr. Herbert, the residential class rate of return in their CCOSSs still was only 58%-62% of the system average. What this means is that non-residential customers, including small and large businesses in UGI's service territory, are already picking up a substantial amount of the residential class's cost responsibility and providing significant subsidies to all residential customers, including those customers who take advantage of universal service programs.

Q. Considering the current subsidies being received by UGI's residential customers, please address the argument that the public benefit from universal service programs supports the collection of USC from all ratepayers.

A. I maintain that cost responsibility, not public benefits, should continue to form the bedrock of the Commission's decision with respect to the allocation of USC. However, if the

Commission agrees with the public benefit, or public good argument, regarding universal service programs, then I recommend the Commission carefully balance that consideration with the public disbenefit of having UGI's non-residential customers subsidizing the current rates of residential customers. Allocating USC to non-residential customer classes that are paying substantial subsidies in their current rates would only make the situation worse for these customers. Economic efficiency and fundamental fairness support eliminating subsidies and basing rates on the cost to serve. And in UGI's case, I believe these principles continue to support assigning USC to UGI's residential customers.

Furthermore, to the extent that the OCA or the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA")[6] argue that some intangible or indirect public benefits may inure to non-residential customers as a result of universal service programs, these arguments ignore the fact that utility costs -- whether in the form of natural gas rates or electricity rates -- typically constitute one of the highest components, if not the single highest component, of operational costs for these non-residential customers. This is particularly true for the largest industrial and manufacturing businesses in Pennsylvania, many of whom are members of IECPA and are also some the largest employers within the state. Any upward pressure on the utility rates that these customers pay necessarily requires these businesses to make fiduciary decisions that impact other operational aspects and costs of those businesses, including decisions related to payroll and whether to hire or retain employees. The incursion of additional costs to the customers for

[6] CAUSE-PA witness Mr. Miller echoes many of Mr. Colton's arguments, and suggests that UGI should propose a different method of allocating USC. Given that UGI has not made this proposal, I will not address in detail Mr. Miller's arguments.

the purpose of funding universal service programs, which these customers *do not cause* and *cannot control on their own*, could create the unintended consequence of requiring businesses to reduce or eliminate employment and payroll opportunities. This by nature could impact residential utility ratepayers who need those jobs and payroll opportunities and thus, potentially, the benefits of universal service programs of those job opportunities are not realized.

It would be an illogical and unfortunate result in any economic environment for USC recovery to actually result in additional hardship for customers (both residential and non-residential), but most assuredly would be so during the current economic crisis imposed on Pennsylvania as a result of the novel-coronavirus and COVID-19 pandemic. And while OCA witness Mr. Colton and CAUSE-PA witness Mr. Miller proclaim that the current economic environment justifies such a major shift in USC policy, I believe the opposite is true. Now is certainly not the time to place greater rate pressure on non-residential ratepayers, particularly when those customers are responsible for maintaining current employment and payroll levels and struggling to do so.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2019-3015162
	:	
UGI Utilities, Inc. – Gas Division	:	

VERIFICATION

I, Richard A. Baudino, hereby state that the facts in my Rebuttal Testimony, are true and correct to the best of my knowledge, information, and belief, and that I expect to be able to prove the same at any hearing held in this matter. I understand the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to falsification to authorities).

Date: June 19, 2020

Richard A. Baudino
J. Kennedy & Associates, Inc.