ORANGE AND ROCKLAND UTILITIES, INC.

GAS RATE PANEL
REBUTTAL TESTIMONY – GAS

INTRODUCTION

Q. Please state your names.

A. Our names are William Atzl, Yan Flishenbaum, Cheryl Ruggiero, and Eric Caban.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. We previously submitted direct testimony on behalf of Orange and Rockland Utilities, Inc. ("Orange and Rockland," "O&R" or "Company") as the Gas Rate Panel (the "Panel").

Q. What is the purpose of the Panel's rebuttal testimony?

A. We are responding to the testimony of the following parties:

- Department of Public Service Staff ("Staff") Gas Rates Panel ("SGRP");
- Staff Gas Programs and Supply Panel ("SGPSP");
- Staff Policy Panel ("SPP");
- Staff Pipeline Safety Panel ("SPSP");
- Utility Intervention Unit ("UIU"), Division of Consumer Protection witness Danielle Panko;

- Pace Energy and Climate Center (“Pace”) witness Karl R. Rábago; and
- Public Utility Law Project of New York (“PULP”), Inc. witness William D. Yates.

Q. Will you be introducing any exhibits as part of your rebuttal testimony?

A. Yes, we will be introducing two exhibits, which provide Staff’s responses to information requests (“IRs”) from the Company. The IRs that we reference are included as Exhibit __(GRP-5) and Exhibit __(GRP-6).

REBUTTAL

Revenue Allocation and Rate Design

Q. Please summarize the SGRP’s proposal concerning revenue allocation for the Rate Year.

A. The SGRP (p. 21) appears to agree with the Company’s approach to revenue allocation. However, the SGRP goes on to say, “…we applied Staff’s revenue decrease over S.C. groups using a factor derived from our judgement and the results of the ECOS study. Our revenue allocation methodology can be seen in more detail in Exhibit __(SGRP-3).” It is not clear from the SGRP’s testimony and Exhibit __(SGRP-3) what judgments were made and how the factors were derived.

Q. What is the SGRP’s proposal regarding the first block charges (*i.e.*, the monthly charges for the first 3 Ccf or less)?

A. The SGRP recommends that the Service Classification (“SC”) Nos. 1 and 2 first block charges should not increase, and any rate increase should be recovered solely through volumetric delivery rates.

Q. What is the SGRP’s rationale for its proposal?

A. The SGRP states (pp. 23-24):

“Given the implementation of several different policy initiatives in energy efficiency, clean energy and renewables, etc., we are attempting to better determine what the proper rate design should be, holistically. While we understand that rate structures should be designed to permit the Company to recover the allowed revenue requirement at a fair rate of return, it is important to note that rate design is not an exact science. Page 9 of the NARUC Gas

Distribution Rate Design Manual highlights this sentiment, stating '[w]hile cost is an important factor in ratemaking, actual rates are often designed to incorporate numerous other factors, including technological, economic, regulatory, political, promotional and social.' Our rate design seeks to incorporate those factors."

However, the SGRP's testimony does not explain how Staff is attempting to better determine what the proper rate design should be holistically nor does it provide Staff's plan to make this determination. The SGRP states that its rate design seeks to incorporate the factors it cites from the NARUC Gas Distribution Rate Design Manual but does not describe how Staff incorporated those factors in its rate design. In response to IR O&R-9, attached as Exhibit __(GRP-5), Staff discusses electric rate design issues being considered in the Value of Distributed Energy Resources Proceeding (Case 15-E-0751) ("VDER Proceeding") and states, "The NEM electric rate design options that are being developed are likely to also impact the gas market, where similar gas rate design options would benefit gas utility programs, including demand response, energy efficiency, and customer affordability programs.”

Q. Do you agree with the SGRP’s proposal?

A. No, we do not. As stated on page 17 of its testimony, the SGRP agrees with the Company’s Embedded Cost of Service (“ECOS”) study. The SGRP also acknowledges (p. 22) the magnitude of the customer costs resulting from the Company’s ECOS study and states that they “are typically used as a guide to determine the necessity for increasing or decreasing these monthly charges.” The SGRP also acknowledges (p. 22) the current level of first block charges. However, rather than using this evidence, with which the SGRP agrees, to propose the indicated increase in first block charges, the SGRP recommends no increase in such charges. Staff’s rationale, described above, is vague and unsupported. In its response to O&R-9, Staff’s reliance on the electric VDER proceeding as support for delaying gas rate design changes is highly speculative. The potential for future VDER-related electric rate design changes should not preclude the Company from moving its gas first block charge closer to customer cost in the near-term, particularly because there is no time-frame currently established in the VDER proceeding for when rate design changes will be implemented generally for mass market customers. In addition, we are not aware of any Commission plan to apply its findings regarding electric rates in the VDER Proceeding to gas rates. Further, the Staff Statement in Support of the Joint Proposal in Cases 17-E-0459 and 17-G-0460, the electric and gas rate proceedings of Central Hudson Gas and Electric Corporation ("Central Hudson"), acknowledges that the changes made to the customer charges would still allow for the implementation to any changes in the customer charge that may be decided in the VDER proceeding (p. 10). Although the Statement of Support is referencing a decrease in the Central Hudson residential customer charge, there is no reason that such statement should not apply to an increase in a customer charge in a rate case proceeding.

Q. Please continue.

A. Based on the results of the Company’s ECOS study, a large discrepancy remains between the current first block charges and customer costs. To address this discrepancy, additional movement should be made to align the first block charges with the results of the ECOS study. Considering the size of the discrepancy, the Company’s proposals to increase the first block charge by $2.00 for both SC Nos. 1 and 2 equate to modest percentage increases in the customer charges of approximately 10.0 percent and 6.7 percent, respectively.

Q. What is UIU’s recommendation regarding first block charges?

A. UIU recommends that the Commission reject the Company’s proposed increases in first block charges.

Q. What is the rationale for UIU’s proposal?

A. UIU compares the Company’s first block charges to first block charges for other gas utilities throughout the country based on a 2015 report from the American Gas Association (“AGA”). UIU also cites the pending Joint Proposal in the Central Hudson electric and gas rate proceedings as support for UIU’s proposal.

Q. Please comment on UIU’s recommendation regarding first block charges.

A. For the reasons cited above regarding the SGRP’s proposal for first block charges, we also disagree with UIU’s recommendation. In addition, first block charges for the Company should not be set by comparison with other utilities across the country. The cost to provide gas service, and corresponding gas rates, vary significantly across the country, as do the costs of many other products and services. It is the Company’s customer-related costs that should determine the appropriate first block charges for the Company. Notably, in the AGA report that was referenced by UIU (p. 2), there is an acknowledgment that the customer charge would be about $24 per month for the residential sector, on average, in order to recover all of a utility’s typical fixed costs.

Q. What would be the consequences of the SGRP’s and UIU’s proposals regarding first block charges?

A. Using the rate designs proposed by the SGRP and UIU, the overall percentage increase in non-competitive revenues for SC Nos. 1 and 2 resulting from applying the entire revenue change to volumetric charges does not reflect ECOS study cost indications and therefore sends incorrect price signals to customers. This will perpetuate a situation where larger customers are subsidizing smaller customers.

Firm Base Load

Q. Does Staff make any recommendations regarding the firm base load (“FBL”) option under SC No. 8?

A. Yes. The SGPSP proposes a change in the Company’s billing of FBL usage, and the SGRP recommends tariff modifications to implement the SGPSP’s proposal.

Q. Does the Company take issue with Staff’s interpretation of the Company’s FBL option under SC No. 8?

A. Yes. The Company disagrees with Staff’s interpretation of SC No. 8 billing for FBL usage. The testimony of both the SGRP and the SGPSP indicate a misunderstanding of the Company's FBL billing procedure. For example, the SGRP states (p. 28), "This interpretation is causing customer confusion and may be leading to customers paying a firm rate for the delivery of gas that is not used." The SGPSP states (p. 14), "During an interruption, a FBL customer may not use, but will still be charged, for a delivery service that is not provided" and "The customer is thus forced to pay for delivery of gas not delivered or used."

Q. Does the Company bill customers for gas that is not used?

A. No. On a monthly basis, the Company multiplies a customer's daily FBL usage election by the number of days in the billing period to establish the FBL quantity for that billing period. Any usage up to that quantity will be billed the delivery charges of SC No. 2. Any usage above that quantity will be billed at the SC No. 8 interruptible rate. If the total gas usage for a billing period is less than the

FBL quantity for that billing period, the entire usage is billed at the SC No. 2 delivery rates. The Company does not bill a customer for more gas than the customer uses.

Q. What is the Company’s view on the SGPSP’s assertion that the Company’s FBL billing methodology “defeats the purpose of interruption as a demand response tool because it penalizes a customer that has assisted these efforts by using less than the FBL volume?”

A. We disagree that the Company’s methodology defeats the purpose of interruption as a demand response tool. The very nature and purpose of the FBL election is intended to permit an interruptible customer to secure, on a firm basis, a small volume of gas that the customer must use on a daily basis and cannot interrupt. Therefore, if a customer can reduce its usage below the daily FBL volume during periods of interruption, the customer should consider electing a lower FBL volume.

Q. What is the Company’s view of the FBL tariff amendment proposed by the SGRP?

A. The SGRP recommends a tariff revision to state: "A customer electing this option may use, but is not required to use the full amount of, its firm base load volume during periods of gas interruption without incurring the Charge for Unauthorized use of gas." It is important to note again that the Company does not bill FBL customers for more gas than they use. Also, there is no requirement to use a certain amount of gas during an interruption. As noted above in the discussion regarding demand response, a customer that can reduce its usage below the daily FBL volume during periods of interruption should consider electing a lower FBL volume. Therefore, the SGRP's proposed tariff amendment is not necessary.

Revenue Decoupling Mechanism

Q. How is the Company's current gas revenue reconciliation determined under the revenue decoupling mechanism ("RDM")?

A. Under the Company's current gas RDM, the gas revenue reconciliation is determined on a revenue per customer ("RPC") basis, which encourages the Company to add customers to achieve and exceed annual customer target levels.

Q. Does Staff (SPP and SGRP) recommend continuation of this method?

A. No. Staff states the RPC methodology of revenue reconciliation under the Company's current RDM should be replaced by a revenue per service class revenue reconciliation methodology. Essentially, Staff states that the Company should no longer be encouraged to add new gas customers.

Q. How does Staff explain this?

A. The SPP (pp. 41-42) states that O&R should only add customers that can be supported by its existing infrastructure. Staff states that customer additions that require new system buildout, including the need for additional capacity into O&R's city gate, increases the natural gas infrastructure needed to support these new customers. Staff states further than an RDM based on revenues per service class, rather than on revenues per customer, better supports the Commission's goals to promote cost-effective energy conservation, increased use of renewable resources and decreased usage of fossil fuels.

Q. Does the Company agree?

A. No. First, as the Company Policy Panel explains, the Company believes that it remains consistent with the State Energy Plan to encourage customers to convert from petroleum distillates. As explained, in that testimony, the Commission approved Niagara Mohawk’s gas rate plan that contained incentives for gas expansion. The Joint Proposal in that case also contained the RPC revenue reconciliation method for gas.

Q. Please continue

A. As stated above, Staff also states that the Company should not be adding new customers because customer additions may require additional system buildout.

Q. Do you agree with Staff?

A. No. First, as explained in the rebuttal testimony of Company witness Trischitta, the Company has gas pipeline capacity to meet anticipated gas customer load and more.

Q. But doesn’t Staff also point out that gas customers should be considering other sources of energy, such as renewable energy?

A. Yes, but as discussed, in the Company’s Policy Panel testimony, the State Energy Plan maintains that customers should be encouraged to switch from petroleum to natural gas, and an RPC is consistent with that State policy. In addition, as discussed by a number of Company panels, the Company will work with Staff to determine the best method for providing information to customers regarding natural gas efficiency and demand management and other alternatives. But, these initiatives are not justification for eliminating the revenue per customer method, a principal purpose of which is to provide the Company with an incentive to convert petroleum distillate customers to natural gas.

Lost and Unaccounted for Gas

Q. Did Staff recommend changes to the calculation of lost and unaccounted for gas (“LAUF”)?

A. Yes. The SGRP states that usage associated with inactive customer accounts be considered Company use and, as company use, this gas would not be considered as a loss and customers would not pay for this volume of gas through the gas adjustment clause ("GAC") reconciliation as they would for LAUF gas. The SGRP says that by accounting for this gas as company use, the gas would be the fiscal responsibility of the Company to manage. The SPSP provides similar testimony.

Q. Is the cost of Company use gas recoverable by the Company?

A. As a general matter, yes, but that is not Staff's intent in this proceeding.

Q. Please explain.

A. In response to IR O&R-10, attached as Exhibit __(GRP-6), Staff explained that they did not intend for the Company to recover this metered gas through rates as an O&M expense as is the case for all other company use gas, but to consider this gas to be company use gas only in the context of the LAUF and therefore non-recoverable.

Q. What reason does Staff give for denying the Company recovery of these gas costs?

A. Staff says that shutting off these accounts is the responsibility of the Company.

Q. Does the Company agree that this cost should not be recoverable?

A. No, it does not. The rebuttal testimony of the Company's Gas Infrastructure and Operations Panel addresses the Company's management of inactive gas accounts and explains why gas through inactive meters is a reasonable cost of doing business that should be recoverable in rates.

Q. Do you agree that the LAUF mechanism should not be used to recover this company use gas?

A. No we do not. The LAUF is a reasonable vehicle for recovering these costs that satisfies Staff's objective of making this cost the "fiscal responsibility of the Company to manage."

Q. Please explain why.

A. The LAUF is designed to provide the Company with either an incentive or a penalty when the actual LAUF varies beyond the established dead band. Accordingly, the Company has an incentive through the LAUF mechanism to minimize gas through inactive meters in order to avoid a penalty.

Q. If the Commission adopts Staff’s recommendation to remove these gas costs from the LAUF, what should the Commission do in the alternative?

A. Consistent with the testimony of the Company’s GIOP panel, the gas revenue requirement should be increased to reflect an appropriate dollar amount attributable to Company use gas registered on inactive gas meters.

Q. Do you agree with the SGRP’s contention that customers should receive a refund for metered volumes of gas from inactive accounts for the annual reconciliation periods beginning September 2012 through August 2016 in the Company’s next annual reconciliation filing?

A. No. The Company’s LAUF calculations for these prior periods were performed in accordance with the then-existing Commission-approved gas rate plans. Staff does not identify any miscalculations by the Company or provide any other rationale for making an adjustment for a prior five-year period. Accordingly, the Staff proposal is arbitrary, there is no basis for making a retroactive change to the terms of these rate plans, and Staff's proposal should be rejected.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.