

Case 16-G-0257 Rebuttal Testimony of Donald N. Koch

1 Q. Please state your name and business address.

2 A. My name is Donald N. Koch. My business address is 6363 Main
3 Street, Williamsville, New York 14221-5887.

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

5 A. I am employed by National Fuel Gas Distribution Corporation
6 (“Distribution” or “Company”) as a Rate Analyst II in the Rates and
7 Regulatory Affairs Department.

8 Q. Have you testified previously in this case?

9 A. Yes. I provided Direct Testimony, Exhibits and workpapers regarding
10 the Company’s Historic Rate Base, the Rate Year Rate Base, and the
11 Estimated Average Net Plant.

12 Q. What is the purpose of your rebuttal testimony?

13 A. The purpose of my rebuttal testimony is to rebut several adjustments
14 presented by New York State Department of Public Service Staff
15 (“Staff”) Accounting Panel and Staff Gas Rates Panel in regards to
16 Earnings Base in Excess of Capitalization (“EB/CAP”) and Average
17 Net Plant in Service. I will also address other Rate Base adjustments
18 presented by members of Staff.

19 EARNINGS BASE IN EXCESS OF CAPITALIZATION (EB/CAP)

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1 Q. When describing how the Company calculated its EB/CAP
2 adjustment on page 39 of the direct testimony of the Staff Accounting
3 Panel, the Panel states "the Company first took the New York
4 Earnings Base (\$643.923 million) as a percentage of total National
5 Fuel Gas Corporation (or the Parent) earnings base (\$866.880
6 million), or 74.28%." Is this an accurate statement?

7 A. No. First, as a matter of clarification, the name of Distribution's parent
8 is National Fuel Gas Company, not "National Fuel Gas Corporation"
9 as incorrectly stated by Staff. Second, the New York earnings base
10 (\$643.923 million) is taken as a percentage of total National Fuel Gas
11 Distribution Corporation (\$866.880 million), not the total "National
12 Fuel Gas Corporation (or the Parent)" as characterized by the Staff
13 Accounting Panel.

14 Q. Does the Staff Accounting Panel mischaracterize the New York
15 earnings base percentage relationship anywhere else in its direct
16 testimony?

17 A. Yes. The Staff Accounting Panel states on page 43 of its direct
18 testimony "it is necessary to calculate the New York earnings base as
19 a percentage of the Parent's total earnings base". This is not correct;

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1 the calculation should be Distribution's total New York earnings base
2 as a percentage to Distribution's total earnings base, not National
3 Fuel Gas Company's (or "the Parent's") total earnings base.

4 Q. The staff Accounting Panel has proposed an adjustment to EB/CAP
5 to include several "NY Only" items in the **capitalization** calculation of
6 EB/CAP. Do you agree with this adjustment?

7 A. No. The allocation of Distribution's NY earnings base percentage
8 (Distribution's NY earnings base/Distribution's total earnings base) to
9 total capitalization has been well established in previous cases. The
10 Company presented an EB/CAP adjustment based on "NY Only"
11 capitalization in prior rate cases (93-G-0756 and 04-G-1047) but Staff
12 rejected that approach each time.

13 Q. Would you please explain Staff's position presented in the 93-G-
14 0756.

15 A. In Case 93-G-0756, on pages 30 - 31 of Staff witness Wojcinski's
16 direct testimony in that case, Mr. Wojcinski testified that it is
17 necessary to allocate capitalization between the NY and PA divisions
18 of Distribution because "National Fuel Gas Corporation does not
19 keep separate balance sheets for the New York and Pennsylvania

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1 Divisions of the Distribution Corporation. The methodology I propose
2 was accepted by the Commission in Case 26929, National Fuel Gas
3 Distribution Corporation-Gas Rates (Opinion 76-24) as a fair way of
4 allocating capital and has been used since 1976."

5 Q. Did Staff witness Wojcinski further describe his understanding of this
6 allocation in Case 93-G-0756?

7 A. Yes. Staff witness Wojcinski testified further on page 31 of his direct
8 testimony in that case that "It is impossible to charge **capital** directly
9 to either Pennsylvania or New York. However, the jurisdictional
10 identity of **assets** that are financed by capital can be determined. By
11 taking the total of New York jurisdiction's assets and dividing it by the
12 total assets of the Distribution Corporation, a percentage can be
13 calculated. Based on this percentage, **capital** would be allocated to
14 each jurisdiction." (emphasis added). I have provided Mr. Wojcinski's
15 direct testimony from Case 93-G-0756 in Exhibit ____ (DNK-4).

16 Q. What was the result in the final Order in Case 93-G-0756 concerning
17 the Earnings Base/Capitalization Adjustment?

18 A. As provided in Exhibit ____ (DNK-5) the final Order in Case 93-G-0756
19 states on pages 34 - 35 that "In this case the Judge accepted staff's

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1 recalculation of the earning base/capitalization adjustment National
2 Fuel presented. Staff corrected the company's calculation of its **total**
3 **capitalization** and applied a net-of-tax return to the take-or-pay costs
4 that the company has been deferring.

5 The company has not excepted to the Judge's
6 recommendation; however, staff has requested that this matter be put
7 to rest for all time. Staff requests that Judge's finding be expressly
8 endorsed so National Fuel will not relitigate the issue in a future rate
9 case.

10 Staff has properly calculated the earnings base/capitalization
11 adjustment to be applied here." (emphasis added)

12 Q. Would you please explain staff's position presented in Case 04-G-
13 1047.

14 A. As the Company explained in its response to information request
15 DPS-94 in this proceeding, in Case 04-G-1047, Staff once again
16 rejected the Company's proposed approach to allocate "NY Only"
17 items in the Capitalization calculation of EB/CAP. Staff witness
18 Wojcinski's testified in that proceeding (Exhibit ____ (DNK-6) at pages
19 4-5), that the NY Only method "produces an unreasonable allocation

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1 of capital to the New York Division of the Distribution" company. Mr.
2 Wojcinski further explains "[T]he calculation of the EB/CAP requires
3 two steps;(1) the allocation of capital between the New York &
4 Pennsylvania divisions of the Distribution Corporation and (2) a
5 comparison of that allocated New York capital to the New York
6 Division earning's base. Step 1 is necessary because financings of
7 capital are made by the Parent, who transfers the proceeds to the
8 total Distribution Company. Allocations of these Financings (capital)
9 are not made to specific divisions. Since it is possible, however, to
10 determine the level of assets in each division, we use that
11 relationship to allocate capital."

12 Q. How did the Company calculate Capitalization in its last rate case,
13 Case 07-G-0141?

14 A. The Company calculated Capitalization in accordance with the
15 Commission's final Order in Case 93-G-0756, which is to allocate the
16 NY to Total Distribution earnings base percentage to ***total***
17 ***capitalization.***

18 Q. Did Staff agree with this methodology in Case 07-G-0141?

19 A. Yes.

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1 Q. Do you agree with Staff' characterization in this proceeding of how
2 the Company prepared EB/CAP in its last rate case, Case 07-G-
3 0141?

4 A. No. On page 39 of the Staff Accounting Panel testimony, Staff
5 mischaracterizes the Company's response to DPS-94 relating to
6 Case 07-G-0141.

7 Q. Please explain.

8 A. DPS-94 asked the Company to "Provide an explanation why the
9 Company applied the allocation of NY earnings base, to total
10 earnings base (74.28%), to the total capitalization, rather than using
11 the NY Only capitalization in their EB/CAP calculation." The portion of
12 the Company's that related to Case 07-G-0141 states "In Case 07-G-
13 0141, the Company did not employ a NY-only capitalization. See
14 Direct Testimony of Regina L. Truitt at 38-39. Staff witness Wojcinski
15 stated that he agreed with Ms. Truitt's EB/CAP method."

16 Q. In your opinion, how did Staff's testimony mischaracterize the
17 Company's response to DPS-94?

18 A. Instead of using the direct response given by the Company to DPS-
19 94, Staff utilized an excerpt of Ms. Truitt's testimony that first argues

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1 the merits of using a NY only capitalization before stating that was not
2 the methodology she used to calculate capitalization in Case 07-G-
3 0141. In Case 07-G-0141, the Company followed the methodology of
4 total capitalization as Ordered in Case 93-G-0756.

5 Q. Please comment on the Staff Accounting panel's testimony on page
6 41 that the Company presented the EB/CAP adjustment differently in
7 Case 13-G-0136 than it had in the past and that "[t]he Company used
8 a two year average in its EB/CAP adjustment because the Company
9 indicated the EB/CAP adjustment has varied widely since rates were
10 last set in the 2007 Rate Order."

11 A. There are inherent differences between a rate case extension (such
12 as in Case 13-G-0136) than that of a full rate case proceeding (as in
13 this case, 16-G-0257). A rate case extension is much narrower in
14 scope and normally involves settlement between the parties on
15 issues of a smaller scale. A full rate case proceeding is a
16 comprehensive process involving litigated positions between parties.
17 Therefore, Staff's testimony regarding the Company's treatment in of
18 EB/CAP in Case 13-G-0136 is not relevant to this case, 16-G-0257.
19 Also, Staff fails to take in account that the Company calculated the

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1 Capitalization piece of EB/CAP in this case in the same manner as
2 Ordered in 93-G-0756 and in the Company's last filed rate case,
3 Case 07-G-0141.

4 Q. In the current case, did the Company make any adjustments to the
5 methodology or how it calculates the capitalization piece of the
6 EB/CAP calculation from the methodology of Case 93-G-0756 order
7 or Case 07-G-0141?

8 A. No.

9 Q. What are you recommending?

10 A. I recommend that the Commission reject the Staff Accounting Panel's
11 adjustment to include specific "NY Only" adjustments to the
12 Capitalization piece of the EB/CAP calculation. The Commission
13 should follow precedent, utilize the methodology from Case 93-G-
14 0756, Case 04-G-1047, and Case 07-G-0141, and accept the
15 Company's calculation for EB/CAP of \$9,366,000.

16 AVERAGE NET PLANT IN SERVICE

17 Q. The Staff Gas Rates Panel made the following modifications to the
18 Company's Net Plant in Service model: 1) adjustments to the capital
19 budget; 2) adjusted depreciation rates; and 3) staff perceived

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1 "corrections" to the Company's model. Do you agree with these
2 adjustments?

3 A. No, I will address each adjustment separately.

4 Q. The Staff Gas Rates Panel adjusted the capital budget by allocating
5 New York Distribution's portion of \$5mm in cost reduction of the
6 Barcelona CIS project and by reducing Leak Prone Pipe replacement
7 unit costs by \$1.39mm. Why do you disagree with these
8 adjustments?

9 A. While I agree there is a \$5mm in cost reduction of the total Barcelona
10 CIS project and agree with the 71% allocation factor that Staff used to
11 allocate the New York Distribution portion of the cost reduction, Staff
12 utilization of \$59,311,000 for the total project cost of is incorrect. The
13 latest total estimated total project cost is \$60,000,000 of which
14 \$42,600,000 is applicable to New York (Exhibit ___(DNK-7)). As a
15 standalone adjustment, correcting this error would adjust Staff's Net
16 Plant calculation to \$902,934m, an increase of \$465m.

17 In regards to the \$1.39mm reduction in Leak Prone Pipe
18 Replacement unit costs, please refer to the rebuttal testimony of Mr.
19 House.

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1 Q. The Staff Gas Rates Panel adjusted the depreciation rates of 3
2 accounts: 367.10; 375; and 376.4. Please discuss.

3 A. Please refer to the rebuttal testimony of Mr. Spanos for a detailed
4 rebuttal of the adjusted depreciation rates.

5 Q. Staff made adjustments to the Company's Net Plant in Service model
6 that they deemed were "Corrections" to the model's output. These
7 adjustments consisted of reducing depreciation accrual expenses by
8 \$800,000 and reducing the total reserve for depreciation balance by
9 \$5.118mm. Why do you disagree with these adjustments?

10 A. Both depreciation accrual expenses and total reserve for depreciation
11 at March 31, 2018 are calculations provided to the Company by Mr.
12 Spanos of Gannet Fleming. Mr. Spanos was retained by the
13 Company to complete an in depth depreciation study that includes
14 the calculations above and serve as expert witness in the area of
15 depreciation. As an expert in the area of depreciation, the Company
16 relies upon his calculations as inputs in its Net Plant in Service model.
17 In order to properly utilize and match the calculations provided to the
18 Company by Mr. Spanos and to accurately calculate the Net Plant
19 (using ½ of March 2017 and ½ of March 2018 requires monthly

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1 numbers), this required adding an additional \$800,000 of depreciation
2 expense to the Company's model output and an additional \$5.118mm
3 to the total reserve for depreciation. If the Company did not employ
4 these adjustments within its Net Plant in Service model, it would
5 diminish and flaw the results of the work completed by Mr. Spanos.

6 Rate Base

7 Q. Staff adjusted total Working Capital in Rate Base by \$(822)m. Do you
8 agree with this adjustment?

9 A. No. Working Capital is calculated using a 1/8 O&M formula. The
10 value of Working Capital should reflect the O&M included in the final
11 Order in this proceeding.

12 Q. Staff adjusted total Prepayments in Rate Base by \$(408)m for
13 property tax adjustments. Please discuss.

14 A. Please refer to the rebuttal testimony of Mr. Rizzo for a complete
15 discussion of the property tax adjustment affecting prepayments. .
16 This will be updated to properly reflect the amount included in the
17 final Order in this proceeding.

18 Q. Staff adjusted total Accumulated Deferred Income Taxes (ADIT) in
19 Rate Base by \$1.350mm for liberalized depreciation and excess

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1 ADSIT adjustments. Please discuss.

2 A. Please refer to the rebuttal testimony of Mr. Rizzo for a complete
3 discussion of the Accumulated Deferred Income Tax (ADIT)
4 adjustments. This will be updated to properly reflect the amount
5 included in the final Order in this proceeding.

6 Q. Included in the Rate Base adjustments for ADIT was an adjustment
7 to Uncollectibles expense for \$(366)m. Please discuss.

8 A. Please refer to the rebuttal testimony of Ms. Frank for a complete
9 discussion of Uncollectibles expense. This will be updated to
10 properly reflect the amount included in the final Order in this
11 proceeding.

12 Q. The SIR Panel made adjustments to the SIR average balance
13 reducing it by \$(340)m. Do you agree with these adjustments?

14 A. The rebuttal testimony of Ms. Friedrich-Alf provides a complete
15 discussion of SIR average balance adjustments. This will be updated
16 to properly reflect the amount included in the final Order in this
17 proceeding.

18 Q. The Staff Accounting Panel made an adjustment to include the
19 unamortized Rate Case expense in Rate Base in the amount of

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1 \$94m. Do you agree with this adjustment?

2 A. Partially. Staff's adjustment to amortize rate case expense over 3
3 years should be rejected. Please refer to the rebuttal testimony of Ms.
4 Friedrich-Alf for a complete discussion of the amortization period of
5 the Rate Case expense. The Company agrees to include the
6 unamortized balance, if any, in Rate Base.

7 Q. Does this conclude your Rebuttal Testimony?

8 A. Yes, at this time.