

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates,
Charges, Rules and Regulations of National Fuel Gas
Distribution Corporation for Gas Service

Case 16-G-0257

REBUTTAL TESTIMONY
OF
UIU RATE PANEL

Dated: September 16, 2016
Albany, New York

UTILITY INTERVENTION UNIT
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1 **I. INTRODUCTION AND OVERVIEW**

2

3 Q. Would the Utility Intervention Unit (“UIU”) Rate Panel please state their
4 names and business address?

5 A. **(Johnson)** My name is Ben Johnson, and my business address is 5600
6 Pimlico Drive, Tallahassee, FL 32309.

7 **(Panko)** My name is Danielle M. Panko and my business address is 99
8 Washington Avenue, Suite 640, Albany, NY 12231.

9

10 Q. Are you the same panel members that filed direct testimony on August 26,
11 2016?

12 A. Yes, we are.

13

14 Q. What is the scope of this testimony?

15 A. We are providing UIU's response to the direct testimonies of Jeffry Pollock on
16 behalf of Multiple Intervenors (“MI”) and of the Department of Public Service’s
17 Staff Gas Rates Panel. In the event that we do not respond to specific issues
18 raised by, or statements made by these witnesses (or others), that should not
19 be construed as agreement with those statements.

20

21 Q. Have you prepared any exhibits to be filed with your rebuttal testimony?

22 A. Yes, Exhibit ____ (URP–2) accompanies our testimony.

23

24 Q. Would you please describe your Exhibit?

1 A. Exhibit ____ (URP-2) contains five schedules. Schedule 1 compares the
2 results of the proposed Embedded Cost of Service (“ECOS”) studies
3 presented by National Fuel Gas (“the Company”), MI, and Utility Intervention
4 Unit (“UIU”). Schedule 2 shows the effects of using MI's and the Company's
5 revenue allocation proposals, as well as the effects of using MI's general
6 revenue allocation approach in conjunction with UIU's proposed ECOS study
7 (as shown in Exhibit ____ (URP-1)) and Staff's proposed revenue requirement.
8 Schedule 3 displays the current and proposed customer charges and
9 volumetric delivery rates for SC-1 residential and SC-3 commercial in
10 comparison with the rates proposed by the Company and Staff, as well as
11 rates we developed to illustrate the effect of our rate design
12 recommendations. Schedules 4 and 5 provide similar comparisons in the
13 context of typical monthly bills. These schedules show the monthly delivery
14 and total bill impacts for residential and small commercial customers,
15 respectively – thereby providing further insight into the impact of the positions
16 taken by the Company, the Staff Gas Rates Panel, and UIU.

17 **II. EMBEDDED COST OF SERVICE**
18

19 Q. A significant portion of your direct testimony concerned the Company's ECOS
20 study. Did other witnesses also discuss the Company's ECOS study?

21 A. Yes. Both Mr. Pollock (on behalf of MI) and the Staff Gas Rates Panel
22 discussed the Company's ECOS study.
23

1 A. Would you please briefly explain Mr. Pollock's position concerning the
2 Company's ECOS study?

3 Q. Mr. Pollock generally agrees with the Company's ECOS study, with one minor
4 exception – he contends the Company made a mistake in classifying FERC
5 Accounts 378 (Measurement and Regulation Station Equipment), 385
6 (Measurement and Regulation Industrial Station Equipment), and the
7 corresponding expense accounts. In response to MI's Information Request
8 MI-I-1, which the Company provided prior to Mr. Pollock's filing of his direct
9 testimony, the Company acknowledged that Account 385 "should have been
10 classified as customer related since these are installations in place at large
11 customers' premises, in order to provide service to specific customers."
12 However, the Company explained that "the allocations to classes does [sic]
13 not change since it was completed via a special study" and that allocation of
14 the corresponding O&M costs also "does not change." Similarly, in its IR
15 response, the Company acknowledged that Account 378 should have been
16 classified as demand-related, since this account includes the costs of
17 equipment used in measuring gas other than the measurement of gas
18 deliveries to customers. However, the Company argued that "Account 378
19 was also properly allocated to customer classes, since it used the peak
20 demand allocator."

21 In his testimony, Mr. Pollock does not mention the Company's
22 explanation that Account 385 was allocated using a special study, so the
23 misclassification has no direct impact, nor does he elaborate on the

1 Company's explanation that Account 378 was "properly allocated to customer
2 classes, since it used the peak demand allocator." He does, however,
3 acknowledge on page 5 that his proposed correction does "not change how
4 these specific accounts are allocated to service classes" so any potential
5 impact is limited to indirect effects through "internal allocation factors that are
6 used to allocate general and intangible plant, labor expenses and other
7 'downstream' plant and expenses."

8

9 Q. Did Mr. Pollock provide an alternative to the Company's ECOS study,
10 reflecting his proposed changes to these internal allocators?

11 A. Yes. The rate of return results are nearly identical for all classes, as shown in
12 Schedule 1 of Exhibit ____ (URP-2). A comparison of the results in the first
13 two columns shows that MI's modification to the internal allocators has no
14 practical significance, because all of the classes with a below-average return
15 in the Company's study has a similar below-average return in MI's version,
16 and all of the classes with an above-average return in the Company's study
17 have similar above-average returns in MI's version. The lack of any
18 significant difference between the Company's originally filed study and MI's
19 "corrected" version is clear from a comparison of the class unitized rates of
20 return, as shown in the same schedule.

21

22 Q. What conclusions can be drawn from these rate of return comparisons?

1 A. First, the Company and MI class rate of returns are very similar. The only
2 nominal differences are in the internal allocators in both ECOS studies. As
3 such, we refer to the Company and MI ECOS studies together as the
4 “Company/MI study.” Second, the Company/MI study and the UIU study both
5 show an above-average return for the SC-3 General Service class, and a
6 below average (negative, in fact) return for the Cogen class. Third, the
7 returns for the other classes are, in a sense, mirror images. For instance, the
8 Company/MI study shows a moderately below-average return for the SC-1
9 Residential class, while the UIU study shows a slightly above-average return
10 for this same class. Similarly, each of the Transportation Charge (“TC”)
11 subclasses within the SC-13 class show well above-average returns in the
12 Company/MI study, and each of these subclasses show well below-average
13 returns in the UIU study.

14

15 Q. What conclusions did Mr. Pollock draw from the Company/MI study?

16 A. Primarily, Mr. Pollock claims the SC-1 Residential class is “producing returns
17 that only are 60% of the system average” and “all of the SC-13 subclasses
18 are producing returns well in excess of the system average.”

19

20 Q. Do you agree?

21 A. No. These conclusions are dependent upon the Company’s inappropriate
22 treatment of distribution mains which, as we discussed in our direct testimony,
23 is invalid. If distribution mains were instead allocated based 100% on

1 demand – as we recommended in our direct testimony and Staff has
2 recommended in other New York gas rate cases – the disparity in class rates
3 of returns from the system average is generally reduced, with the SC-1
4 Residential class showing a rate of return that is similar to the system
5 average. As well, all of the SC-13 TC subclasses show rate of returns well
6 below the system average, rather than above the average.

7

8 Q. What comments did the Staff Gas Rate Panel testimony offer regarding the
9 Company's ECOS study?

10 A. Staff did not discuss the Company's ECOS study in detail, instead stating:
11 "Generally speaking, we believe the [E]COS study to be reasonable."
12 However, Staff then went on to express concerns regarding the Company's
13 ECOS, including as follows:

14 Q. Do you agree with use of a zero intercept
15 study to determine the allocator to classify
16 distribution mains?

17 A. Not necessarily. We believe that the results
18 may under-allocate costs to classes that
19 have large demands placed on the system
20 and few customers.

21

22

Direct Testimony of Staff Gas Rates Panel at p. 74.

1 The Panel also suggested at page 75 of its testimony that the Company's
2 ECOS was not to be relied upon for the purposes of revenue allocation. We
3 discuss the role of the ECOS in revenue allocation in Part III of this testimony.

4

5 Q. Did Staff further articulate why the zero intercept approach may under-
6 allocate costs to customers with large demands?

7 A. No; however, as we explained in our direct testimony, the zero intercept
8 approach suffers from many shortcomings – both in concept and in the
9 context of the Company's ECOS study. The overall impact of the combined
10 flaws of the Company's approach would be to allocate an excessive share of
11 the cost of distribution mains on a uniform per-customer basis, thereby under-
12 allocating costs to customers with large demands.

13

14 Q. Can you please explain why you believe this approach tends to under-
15 allocate costs to customers with large demands?

16 A. Yes. To understand the problem, consider a hypothetical example of a small
17 business owner who operates a 1,000 square foot retail store. In this
18 example, the small retailer competes with several other retailers, including a
19 50,000 square foot department store down the street. In this example, the
20 department store uses about 50 times more natural gas to heat its store
21 (compared to the small retailer), but its peak demand is only 40 times as
22 large. This translates into a moderate cost advantage for the department
23 store, when comparisons are made on an apples-to-apples, per-square foot

1 basis – a pattern that applies to most of the items included in their respective
2 utility bills. This would also hold true for the cost of distribution gas mains if
3 they are allocated using the demand-based ECOS methodology – the
4 department store would be allocated a share of the distribution gas mains in
5 proportion to its larger peak demand, which works out to a net 20% cost
6 savings on a per-square foot basis.

7 In contrast, under the Company's approach, the department store
8 would be allocated the same "zero-intercept" portion of distribution main costs
9 as its much smaller competitor, despite using 50 times more energy and
10 having a peak demand that is 40 times larger. This would clearly be
11 inequitable, as one store receives 50 times as much natural gas from the
12 system. The inequitable nature of this cost allocation methodology becomes
13 even clearer when their respective shares of these fixed infrastructure costs
14 are compared on an apples-to-apples basis: the department store would pay
15 98% less per square foot than its smaller competitor. Considering that the
16 fixed overhead costs of the distribution main system cannot be directly
17 attributed to, and are not caused by, either store, this extreme disparity in cost
18 burden is clearly inequitable.

19 To consider a similar analogy, it is hard to imagine anyone arguing that
20 the smaller store (or its landlord) should pay the same dollar amount of
21 property taxes as the department store. The fact that the smaller retailer
22 would be required to pay 50 times more per square foot than its larger
23 competitor would surely dissuade the taxing authorities. In reality, of course,

1 the tax burden is spread much more equitably, because virtually all local,
2 state and federal taxes are calculated as a function of property value, sales
3 volume, income, or some other appropriate factor that varies with the size of
4 the taxpayer – thereby ensuring that the tax burden is equitably spread
5 across small and large firms.

6

7 Q. Does the same concern apply to residential gas customers?

8 A. Yes. If the Company's approach were fully implemented, the Company would
9 collect at least the same amount for its "minimum system" costs from a
10 hypothetical 400 square foot studio apartment as it would collect from a 3,500
11 square foot house – even if the latter residence uses more than five times as
12 much gas.

13 Indeed, the Company's zero intercept approach may lead the
14 Company to collect more in "minimum system" costs from a two-family
15 building than from a twenty-unit building down the street. This inequitable
16 result would occur if the landlord of the larger building obtains gas for all of its
17 tenants through a single meter, so each tenant counts as only 1/20th of a
18 "customer," while the owner of the smaller building installs separate meters
19 for each unit, so that each apartment in the smaller building is billed as a
20 separate individual customer.

21 It is thus easy to see why the Staff Gas Rate Panel might have
22 concerns about the potential for under-allocating costs to customers that

1 place large demands on the system (like the hypothetical department store
2 and master-metered apartment building) under the Zero Intercept approach.

3

4 Q. Has Staff expressed similar concerns in any other recent cases?

5 A. Yes. In the Central Hudson rate cases 08-E-0887 and 08-G-0888, Staff
6 proposed the same approach we are recommending in this case for Central
7 Hudson's gas ECOS study. On pages 14-15 of its direct testimony in that
8 case, the Staff Gas Rates Panel rejected Central Hudson's zero intercept
9 analysis, stating:

10 For the purpose of revenue allocation and rate
11 design, we propose that all mains be allocated as
12 demand in the classification step. The purpose of
13 this change is to more closely identify the
14 minimum customer costs for each service class.
15 In the Panel's view, the result of the revised study
16 will more closely indicate costs associated with a
17 basic level of service, which is more
18 representative of the costs saved when a
19 customer leaves the system.

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Similarly, in the recent Orange and Rockland rate case (15-G-0494),
Staff proposed to allocate gas distribution mains as 100% demand, rather
than utility's proposed customer/demand split. Staff's approach was
ultimately adopted by the Commission Order in that case. Staff also
supported a similar allocation in the recent NYSEG and RG&E rate cases
(15-G-0283 and 15-G-0286), where the Staff Gas Sales and Revenue Panel
accepted NYSEG and RG&E's proposal to allocate 100% of gas distribution
mains to demand.

1 **III. REVENUE ALLOCATION**

2

3 Q. How did the Company use its ECOS study in developing its revenue
4 allocation proposals?

5 A. The Company largely disregarded the results of its ECOS study for the
6 purposes of revenue allocation.

7

8 Q. How did Staff respond to this approach?

9 A. The Staff Gas Rates Panel accepted the Company's revenue allocation
10 proposal because that proposal did not rely on the Company's ECOS study.

11 At page 75 of its direct testimony, the panel stated:

12 The Company did not propose to shift revenues
13 to correct for return imbalances as shown in the
14 [Company's E]COS study. We, therefore, believe
15 the [revenue allocation] methodology is
16 reasonable.

17

18 This is similar to Staff's approach in the recent Keyspan Gas East
19 Corporation d/b/a National Grid ("KEDLI") and Brooklyn Union Gas Company
20 d/b/a National Grid ("KEDNY") (or combined "the Companies") gas rate cases
21 (16-G-0058 and 16-G-0059), where Staff gave no weight to the Company's
22 ECOS study and instead advocated a uniform percentage rate increase for
23 firm gas customers.

24

25 Q. How did MI respond to this approach?

1 A. Mr. Pollock advocated stricter adherence to the Company's ECOS study for
2 the purposes of revenue allocation, in conjunction with a +-15% tolerance
3 band around the system average rate of return. He urged the Commission to
4 impose higher rate increases to classes with rates of return below the 15%
5 tolerance band and much lower increases to classes with rates of return
6 above the 15% tolerance band.

7 Specifically, Mr. Pollock proposed to increase rates for the SC-1
8 Residential and the Cogen class by at least 1.25 times the system average
9 percentage increase, and to increase rates for other classes by only 0.25
10 times the system average percentage. The bill impacts of this approach
11 depend somewhat on the magnitude of the revenue requirement, but the
12 general effect would be to increase rates for residential (and Cogen)
13 customers by at least five times more than for other classes. On page 14 of
14 his direct testimony, Mr. Pollock further proposed an even larger discrepancy
15 between the rate increase applied to SC-1 and that applied to other classes if
16 the Commission reduces the Company's requested revenue requirement by
17 50% or more. As Page 2, Schedule 2 of Exhibit ____ (URP-2) shows, if the
18 Company's proposed revenue requirement and Mr. Pollock's revenue
19 allocation proposal were both accepted by the Commission without
20 modification, SC-1 rates would increase by 19.23%, while rates for most other
21 classes would increase by just 3.63%.

22

1 Q. What is your response to Mr. Pollock's revenue allocation approach?

2 A. We strongly disagree with his proposal because it is based on a flawed ECOS
3 study and it is too extreme. Even if one were to accept the results of the
4 Company's flawed ECOS study, Mr. Pollock's proposal to increase rates for
5 SC-1 customers by five times more than for other customers would be
6 excessive.

7

8 Q. What would be the impacts of Mr. Pollock's general revenue allocation
9 approach if it were applied in a less extreme manner in conjunction with a
10 more reasonable ECOS study?

11 A. In Exhibit ___ (URP-2), Schedule 2, Page 1, we compare the effect of using
12 Mr. Pollock's revenue allocation proposal to that of the Company. Then, in
13 Exhibit ___ (URP-2), Schedule 2, Page 2, we illustrate the effect of using a
14 more moderate version of Mr. Pollock's general approach in conjunction with
15 the results of the ECOS study we presented in our direct testimony and the
16 Staff's adjusted revenue requirement of approximately \$1.9 million. Since this
17 ECOS study shows that SC-1 and SC-13 TC 1.1 have class rates of return
18 that are close to the system average, these classes would be given a rate
19 increase that is approximately equal to the system average percentage
20 increase. Since the rate of return for SC-3 is above average, this class would
21 receive an increase of 0.75 times the average percentage rate increase
22 (rather than 0.25 times, as Mr. Pollock proposed). The remaining classes
23 would receive above-average percentage increases in order to bring them

1 closer to the system average rate of return. Importantly, under this much less
2 extreme approach, no service class would receive a rate increase that differs
3 widely from that of any other service class, consistent with the principle of
4 gradualism.

5

6 **IV. RATE DESIGN**

7

8 Q. Can you please briefly respond to the testimony of Staff with respect to the
9 rate design applicable to residential and small commercial customers?

10 A. The Staff Gas Rates Panel accepted many of the Company's rate proposals
11 with minimal explanation or commentary, modified to fit Staff's revenue
12 requirement. We disagree with the Staff's proposed rate design for
13 essentially the same reasons we disagree with the Company's proposed gas
14 rate design – we do not think those proposals go far enough toward improving
15 price signals.

16

17 Q. Have you developed exhibits that can help clarify your rate design
18 recommendations as compared to the rates proposed by the Company and
19 Staff?

20 A. Yes. Schedule 3 of Exhibit ___ (UGRP-2) illustrates our rate design
21 recommendations, under the assumption that Staff's revenue requirements
22 and billing determinants will be adopted by the Commission. Our

1 recommended rates can therefore be compared directly to the rates proposed
2 by the Staff Gas Rates Panel.

3 Our rate design recommendations are illustrated in the far right column
4 of each page of Schedule 3. Our illustrative delivery rates can be compared
5 to the Company's existing and proposed delivery rates (shown in the first and
6 second columns) and the delivery rates developed by the Staff witnesses
7 (shown in the fourth column).

8

9 Q. If customer charges are reduced, as you recommend, will they still be in
10 excess of your estimate of the corresponding customer costs?

11 A. Yes. For convenience, the following table directly compares our cost
12 estimates, as shown on Schedule 5 of Exhibit ____ (UGRP-1) accompanying
13 our direct testimony, to our recommended customer charges, as well as the
14 current charges, as set forth on Schedule 3 of Exhibit ____ (UGRP-2).

Customer Class	Current Rate	Estimated Cost	UIU Recommended Rate
SC-1 Residential	\$15.54	\$7.49	\$14.75
SC-3 General Service	\$17.86	\$16.93	\$17.00

15

16 As this table demonstrates, our recommendations take a reasonable step
17 toward setting customer charges closer to the level of actual customer costs,
18 while also recognizing the principle of rate continuity.

19

1 Q. Have you developed exhibits that illustrate the impact of your recommended
2 rate design on monthly customer bills?

3 A. Yes. Schedules 4 and 5 of Exhibit ____ (UGRP-2) illustrate the impact of our
4 rate design recommendations on monthly bills (delivery and total) for SC-1
5 residential and SC-3 commercial customers. On pages 1 through 2 we
6 present bill impacts that are primarily focused on the portion of the delivery
7 charges that we discussed in our direct testimony. These comparisons
8 include the majority of the delivery portion of the bill and the billing and
9 payment charge, and exclude portions of the bill that recover commodity
10 costs, gross receipt taxes, and other miscellaneous items that are not the
11 primary focus of our testimony. This approach provides a clear
12 representation of the true impact of the different rate designs presented by
13 the Company, Staff, and UIU with respect to these rate elements. Pages 3
14 through 4 of Schedules 4 and 5 compare current and proposed total monthly
15 bill impacts excluding sales tax based on the rates presented by the
16 Company, Staff, and UIU.

17

18 Q. Does this conclude your rebuttal testimony, which was prefiled with the
19 Commission on September 16, 2016?

20 A. Yes.