

**BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

IN THE MATTER OF THE RATE UNBUNDLING)	BPU Docket Nos.
FILINGS BY GAS PUBLIC UTILITIES)	GX99030121
PURSUANT TO SECTION 10, SUBSECTION A)	
OF THE ELECTRIC DISCOUNT AND)	
ENERGY COMPETITION ACT OF 1999)	
)	
PUBLIC SERVICE ELECTRIC & GAS COMPANY)	GO99030124

DIRECT TESTIMONY OF

RICHARD LELASH

CONCERNING

PUBLIC SERVICE ELECTRIC & GAS COMPANY

Filed on Behalf of

THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

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BEFORE THE NEW JERSEY
BOARD OF PUBLIC UTILITIES
DOCKET NO. GO99030124

IN THE MATTER OF
PUBLIC SERVICE ELECTRIC & GAS COMPANY'S
RATE UNBUNDLING FILING PURSUANT TO
THE ELECTRIC DISCOUNT AND
ENERGY COMPETITION ACT

TESTIMONY OF RICHARD W. LELASH
ON BEHALF OF
THE DIVISION OF THE RATEPAYER ADVOCATE

JULY 1999

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TABLE OF CONTENTS

	<u>PAGE</u>
I. SCOPE AND PURPOSE OF TESTIMONY	1
II. SUMMARY OF FINDINGS AND CONCLUSIONS	2
III. INTRODUCTION	7
IV. PUBLIC SERVICE UNBUNDLING ISSUES	11
- Unbundled Tariff Rates and Cost Functionalization	11
- Societal Benefits Charge and Universal Service Fund	21
- Capacity Assignment and Stranded Costs	25
- Basic Gas Supply Service Characteristics	31
V. SUPPORTING INFORMATION	36

1 I. SCOPE AND PURPOSE OF TESTIMONY

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD?

3 A. My name is Richard W. LeLash, and my address is 18 Seventy Acre Road, Redding,
4 Connecticut.

5 Q. ARE YOU SUBMITTING OTHER TESTIMONY IN THIS PROCEEDING?

6 A. Yes, I am submitting certain generic testimony which has been incorporated into a submission
7 by the Ratepayer Advocate.

8 Q. IF I WERE TO ASK YOU THE SAME QUESTIONS HERE AS WERE POSED TO YOU
9 IN THAT TESTIMONY CONCERNING YOUR QUALIFICATIONS AND THE SCOPE
10 AND PURPOSE OF YOUR TESTIMONY, WOULD THE ANSWERS BE THE SAME?

11 A. Yes, they would with one exception. In this portion of the testimony I have incorporated Mr.
12 Miller's position concerning unbundled tariff rates and cost functionalization for Public
13 Service Electric and Gas Company ("Public Service" or "the Company"). Accordingly,
14 questions concerning these issues should be directed to Mr. Miller.

1 II. SUMMARY OF FINDINGS AND CONCLUSIONS

2 Q. PLEASE SUMMARIZE YOUR ANALYSIS AND PROVIDE THE BOARD WITH YOUR
3 FINDINGS AND CONCLUSIONS.

4 A. In addition to the relevant statutes and Board pronouncements, my review and analysis of the
5 Company's filing was based on several guiding principles. The restructuring of the State's
6 gas industry should provide gas customers with the broadest possible array of service options.
7 However, choice should not be complicated or expensive. Furthermore, all customers --
8 including residential, small commercial and low-income customers -- should have the
9 opportunity to share in the benefits of the new competitive marketplace. To this end,
10 measures should be implemented to ensure full and fair competition in the gas supply market
11 and other areas of gas operations where competition is desirable.

12 A new market structure should be put in place which allows suppliers and customers
13 to make decisions based on marketplace prices and margins. Moreover, these changes must
14 be implemented without compromising the reliability of the gas distribution system.

15 Based upon my review and analysis, I recommend that the Board adopt the following
16 findings and conclusions:

17 1. In line with the principles described above and in order to adhere to the Board's Order
18 of Clarification, Public Service should file separate tariff rates for metering, billing and
19 customer account services. It should also address having balancing charges collected
20 from third party suppliers ("TPSs") for RS and GS transportation service.

- 1 2. Customers currently being served under the Cogeneration Interruptible Gas (CIG),
2 Cogeneration Extended Gas (CEG) and Interruptible Service (ISG) should be
3 grandfathered. However, any new services under these tariffs should be properly
4 unbundled.
- 5 3. A functional analysis of Public Service's costs indicates that \$40.7 million of base rate
6 costs should be assigned to gas supply. Further, of this \$40.7 million amount, \$16.5
7 million is properly allocated to the commodity sales part of gas supply service and
8 \$24.2 million should be assigned to the balancing cost component.
- 9 4. Including the amounts that are now in base rates, Public Service's balancing costs are
10 7.34¢ per therm of balancing use, or 1.79¢ more than the current balancing charge
11 rate of 5.55¢.
- 12 5. Public Service is amortizing \$4.6 million per year of costs from its EDC venture into
13 gas supply activities in the late 1970s and early 1980s. This amount is being
14 recovered as part of the Company's LGAC, but it is not part of the current cost of gas
15 supply and, therefore, not part of the cost of basic gas supply service. It should be
16 recovered from all firm customers, not just those who remain on gas sales service.
- 17 6. Public Service's current cost of gas supply is 40.95¢ per therm, including the gas
18 supply costs now being recovered in base rates but excluding the EDC amortization.

1 This amount is 1.65¢ per therm more than the current gas cost recovery of 39.3¢ per
2 therm in base rates plus the LGAC.

3 7. Public Service’s proposed Societal Benefits Charge (“SBC”) should include a
4 quantification of existing social program costs and they should be incorporated into
5 the SBC in this proceeding. Its SBC should not have a Realignment Adjustment
6 component, even though the component would be initially set at zero. Such a
7 realignment, or stranded cost, component is not authorized by the Act for inclusion
8 in the SBC, and its inclusion would alter the Company’s existing allocation of such
9 costs among customer classes.

10 8. The Company should be required to charge SBC costs to CIG, CEG, ISG, TSG-F
11 and TSG-NF tariff customers. The Act requires the SBC to be charged to all “gas
12 public utility customers” and therefore these customers should be assessed this
13 “non-bypassable charge.”

14 9. The Company should have provided preliminary recommendations regarding the
15 scope and funding for the Universal Service Fund (“USF”) in this proceeding. The
16 USF was developed for new or incremental social programs and there is a real need
17 for such a funding mechanism in the unbundled gas supply environment. Accordingly,
18 the Board should require Public Service to make initial proposals concerning a USF
19 and it should expedite a USF proceeding.

1 10. While Public Service is not seeking any stranded costs at this time, it did include a
2 place-holder in its SBC for stranded costs. Public Service should not, at this time, be
3 able to claim or provide for the recovery of stranded costs related to its gas supply
4 and pipeline capacity contracts.

5 11. Under any Public Service capacity release, assignment, or transfer, the Company
6 should not be allowed to offer any of its gas supply resources directly to an affiliate
7 on a discriminatory basis. Thus, any transactions involving gas supply contracts,
8 pipeline transportation or storage, or in-territory gas resources should be
9 competitively bid, with TPSs having the right of first refusal to use the resources to
10 serve customers in Public Service’s service territory, and a specific Board hearing
11 should be required if a material portion of gas supply assets are proposed to be
12 transferred.

13 12. The Board should conduct a generic proceeding to evaluate existing incentive sharing
14 on capacity release, off-system sales, and capacity reductions, in the context of a
15 competitive market.

16 13. Any gas commodity offerings by the Company, other than for Basic Gas Supply
17 Service (“BGSS”), should be made by a separate affiliate. Public Service’s sales
18 activities in New Jersey Natural’s service territory should be transferred to a separate
19 affiliate or terminated.

1 14. The Company's rates for residential and small commercial customers utilizing
2 Emergency Gas Service, or customers returning to sales service should be uniform
3 with those applicable to Basic Gas Supply Service. The charging of differential prices
4 to returning customers under its Market Price Gas Service ("MPGS") is
5 discriminatory. The uniformity of rates for new and returning customers merely
6 anticipates a prospective Company request for a MPGS gas rate for Basic Gas Supply
7 Service. While Emergency Gas Service should also be at the uniform BGSS rate, the
8 Company should be authorized to charge TPS entities for any incremental gas costs
9 incurred by their non-performance.

10 15. Public Service should be required to offer DCQ delivery and balancing options to the
11 TPS entities. Its current DCQ is based on an average monthly algorithm. By March
12 1, 2000 Public Service should be required to file a proposal for a daily balancing
13 provision, for implementation by October 1, 2000. The Company has questioned the
14 value of a DCQ based on average annual usage and this delivery option should not be
15 required.

1 III. INTRODUCTION

2 Q. ON WHAT BASIS DID PUBLIC SERVICE MAKE ITS UNBUNDLING FILING, AND
3 IS THE FILING IN COMPLIANCE WITH THE ACT?

4 A. Pursuant to the Electric Discount and Energy Competition Act, P.L., c. 23 (the Act), Section
5 10(a) and the Board Order Establishing Procedures, Docket No. GX99030121, issued March
6 17, 1999 (March 17 Order), on May 1, 1999 Public Service submitted a rate unbundling filing
7 for gas services. Unfortunately, Public Service's filing and those of other gas distribution
8 companies (GDCs) did not comply with the requirements of the Act and the March 17 Order.
9 Consequently, on June 25, 1999 the Board issued an Order of Clarification, Docket Nos.
10 GX99030121, GO99030122, GO99030123, GO99030124, and GO99030125 (Order of
11 Clarification) criticizing the unbundling filings and augmented its requirements for the
12 unbundling proceedings. The Board found that the utilities had advanced

13 . . . an unduly narrow and restrictive interpretation of the issues in this
14 proceeding. The gas public utilities' filings set forth neither fully unbundled,
15 embedded cost-based transportation rates nor unbundled rates for metering,
16 billing and customer account services. . . .

17 [I]t . . . is the Board's intent to utilize this proceeding to fully examine
18 unbundled rates for transportation service, gas sales service and all services,
19 such as balancing services and customer account services, that have the
20 potential to be competitively provided. . . . The parties must be permitted to
21 engage in a complete analysis of all cost elements in bundled rates to identify
22 within transportation rates all supply and potentially supply-related costs,
23 including, without limitation, gas commodity costs, upstream transportation
24 costs, upstream storage costs, peaking service costs, and an appropriate
25 allocation of all supply-related overhead, administrative and general costs. .
26 . .

1 The Board intends for this proceeding to be the vehicle to accomplish [the]
2 task [of a complete review of transportation rates and sales rates]. We . . .
3 believe it appropriate in this proceeding to examine the issues addressed
4 hereinabove with respect to the proper apportionment and recovery of costs
5 between transportation charge, sales rates and other competitive or potentially
6 competitive services. . . .

7 Further, in the interest of administrative economy, the Board deems it
8 appropriate to direct at this time that a record be developed and that there be
9 a full examination of the cost of all competitive and potentially competitive
10 customer account services in order to avoid the necessity of having to engage
11 in further rate unbundling proceedings in the future. (Order of Clarification at
12 3-4)

13 Despite the clear instructions of the Board, Public Service's filing remains seriously
14 deficient. The Company sets forth no course of action for the establishment of a competitive
15 gas marketplace, and is silent as to the role it intends to play in the new era of competition.
16 This omission is particularly glaring in that Public Service, as a combined electric and gas
17 company with unregulated affiliates, can have, should have, and undoubtedly does have a
18 scenario (or several alternative scenarios) to establish the Company as a major player in a
19 competitive environment, just as it has been in the regulated environment. The Ratepayer
20 Advocate understands that the Company might be reluctant to reveal its strategies to potential
21 competitors; however, the Board and the Ratepayer Advocate have long had a policy of
22 keeping such documents confidential. Consequently, Public Service should have set forth its
23 vision for the Company with specificity. Instead it filed a petition based on inadequate data
24 and vague statements which fails to address constructively the Company's envisioned role in
25 a deregulated environment.

1 Public Service's unbundling efforts and its filing are deficient in many respects,
2 including but not limited to:

3 1) Its plan is largely backward-looking, with no vision for the future.

4 2) The Company's initial residential pilot program purported to provide choice to 65,000
5 residential customers in four distinct geographical areas in Public Service's service
6 territory. However, no suppliers participated, and no customers ever had choice.

7 3) The Company has yet to initiate its new residential pilot program which would permit
8 300,000 residential customers to choose a gas supplier before the December 31, 1999
9 deadline for full choice for all customers.

10 4) The Company has failed to propose rates for customer service such as meter reading
11 and billing, which are essential to allow TPS efficiencies and promote aggregation and
12 convergence.

13 5) The Company has not comprehensively reviewed its costs of service in order to
14 ensure that unbundled services are priced properly. It has refused to implement a
15 reallocation of costs between commodity and distribution and has failed to respond
16 adequately to discovery requests addressing this issue.

1 6) Barriers to competition persist in the Company's filing. For example, commercial and
2 industrial customers currently must pay a high switching fee of \$50.00, and the
3 Company did not provide any evaluation of the level of those switching fees.

4 7) Public Service refuses to make capacity available to marketers, claiming that it is
5 adequately matching demand and supply and that it needs any available capacity for
6 growth.

7 8) Public Service sets forth no program for maintaining existing service and protections
8 for low-income customers and ignores directives to develop programs targeted to this
9 important customer group.

1 IV. PUBLIC SERVICE UNBUNDLING ISSUES

2 Q. WOULD YOU NOW ADDRESS THE UNBUNDLING ISSUES AS THEY
3 SPECIFICALLY RELATE TO PUBLIC SERVICE?

4 A. Yes. In this section of the testimony, the Public Service filing will be analyzed based on the
5 issues discussed in the Ratepayer Advocate's generic testimony.

6 - Unbundled Tariff Rates and Cost Functionalization

7 Q. ARE THE PUBLIC SERVICE TARIFFS IN COMPLIANCE WITH THE PROVISIONS
8 OF THE ACT AND THE PROCEDURES SPECIFIED BY THE BOARD?

9 A. In unbundling its tariffs, Public Service created separate tariffs for gas distribution and gas
10 commodity service. In the residential category, for example, Residential Service Gas (RSG)
11 was unbundled into Firm Commodity Service (CS-RSG) and Firm Transportation (FT-RSG).
12 As a result, beginning in 2000, residential sales customers will receive service under two
13 tariffs (CS-RSG and FT-RSG) while customers using a TPS will only use only the FT-RSG
14 service. This unbundling meets the requirements of the Act by creating a separate charge for
15 basic gas supply service.

16 As an exception to the overall disaggregation of rates, Public Service has proposed
17 that Cogeneration Interruptible Gas (CIG), Cogeneration Extended Gas (CEG) and
18 Interruptible Service (ISG) remain unbundled. These rates were originally designed as non-
19 cost based rates and, as a result, they effectively cannot be disaggregated at this time. The

1 cogeneration services were designed to fulfill public policy objectives, and ISG is a value-of-
2 service rate based on parity pricing to oil. Accordingly, there is no way to disaggregate these
3 rates without modifying the Board's underlying tariff design. Since customers using these
4 rates can obtain gas supplies from a TPS by using applicable transportation rates, the basic
5 unbundling objective appears to have been met. However, these tariffs need to be reviewed
6 in the context of the new competitive environment. Existing customers taking service under
7 these tariffs should be grandfathered. Public Service should be required to file with its
8 rebuttal testimony a cost-based proposal to address the CIG, CEG and ISG tariffs going
9 forward, for new customers. In addition, as a result of the recent electric restructuring
10 proceeding, it is expected that numerous gas-fired cogeneration facilities should be built,
11 resulting in increased gas use. Gas utilities should establish unbundled rates for these
12 facilities.

13 Q. ARE THERE ANY UNBUNDLING REQUIREMENTS WHICH PUBLIC SERVICE HAS
14 NOT FULFILLED?

15 A. Public Service has not created separately tariffed balancing services, nor will it permit
16 customers to obtain balancing services from alternative providers under the provisions of its
17 unbundling filing. Balancing has the potential to be a competitive service. This status as
18 competitive service should be addressed as part of the contemplated Board proceeding
19 provided for in Section 10 of the Act. Such a proceeding will also address the provision of
20 metering, billing, and customer account services in order to determine their status as
21 competitive services.

1 The Board has determined that each GDC should provide unbundled rates for
2 metering, billing, and customer account services in this proceeding. Public Service has not
3 developed charges for its meter reading, billing services and customer account services. The
4 Board has also required that each GDC determine a credit associated with the TPS providing
5 its own commodity billing. Public Service stated that it believed that there should be no
6 billing credit if a TPS entity separately bills for gas supply.

7 As a policy matter, gas billing should be done as it is being done on the electric side.
8 However, since Public Service refused to submit any cost data concerning customer account
9 services, notwithstanding the Board's June 25, 1999 Order of Clarification, the Company
10 should be required to submit this data with its rebuttal testimony. Also, the Company should
11 be required to file a comprehensive Cost of Service Study by March 1, 2000.

12 Q. WHAT NEEDS TO BE DONE BY PUBLIC SERVICE TO FULLY SATISFY THE
13 REQUIREMENTS OF THE ACT AND THE RELATED BOARD ORDERS?

14 A. The Company should address the issue of unbundled rates for metering, billing, and other
15 customer account services within its rebuttal testimony in order to be in compliance with the
16 Board's Order of Clarification. In making such a filing, it should include its workpapers and
17 supporting documentation for the derivation of its proposed rates and provide an explanation
18 of how the rates were developed.

19 The Company should also offer the option of collecting the balancing charges for
20 residential (RSG), general service (GS), and large volume (LV) firm transportation service
21 from TPSs rather than from customers, and it should remove the balancing charge credit from

1 the corresponding CS rates. Such a change would pave the way for making additional
2 options available to the TPSs in developing their alternative services when Public Service
3 begins to unbundle its balancing services as recommended by the Ratepayer Advocate.

4 Q. HAVE YOU MADE A FUNCTIONAL ANALYSIS OF PUBLIC SERVICE'S COSTS AND
5 DEVELOPED FULLY FUNCTIONALIZED RATES IN ACCORD WITH THE
6 RATEPAYER ADVOCATE'S GENERIC RECOMMENDATIONS?

7 A. Yes. I have done an analysis based on the information available at this time. The two major
8 cost and rate functions identified in the generic testimony are gas supply and gas distribution,
9 and I have functionalized all of Public Service's costs and rates into these two major areas.
10 Within the gas supply function, I then separated the costs and rates for gas commodity service
11 from those for balancing service.

12 Q. HOW IS YOUR FUNCTIONALIZATION OF PUBLIC SERVICE'S COSTS AND RATES
13 ORGANIZED?

14 A. At present, Public Service has two major categories of costs: those recovered in base rates,
15 and those subject to the LGAC. All of the costs in the LGAC proper (*i.e.*, the LGAC itself,
16 excluding the DSM and RAC charges that are being transferred to the SBC) are gas supply
17 costs. I therefore focus first on Public Service's base rate costs, and I begin by identifying
18 those that properly belong to the gas supply function. Next I examine the remaining base rate
19 costs, which constitute all of Public Service's distribution service costs, to identify those
20 which might be applicable only to sales or only to transportation service. In the last stage of

1 this functional analysis, I separate Public Service's total gas supply cost into its gas
2 commodity and its balancing service components.

3 Q. WHICH OF PUBLIC SERVICE'S BASE RATE COSTS PROPERLY BELONG TO THE
4 GAS SUPPLY FUNCTION?

5 A. I identified \$40.7 million of base rate costs that properly belong to the gas supply function.
6 This amount is the same as the \$40.7 million discussed by Public Service witness Schirra at
7 pages 13-17 of his testimony and as summarized in his Schedule GWS-8. My analysis is
8 based on Mr. Schirra's testimony and I have accepted his functionalization of base rate costs
9 between the gas supply and the distribution functions. Table REM-PS-1 shows my
10 calculations. I explain my allocations to commodity sales and to balancing service in the third
11 stage of my functional analysis, when I separate Public Service's total gas supply cost into its
12 gas commodity and its balancing service components.

13 Q. WHERE DID YOU LOOK FOR BASE RATE COSTS WHICH MIGHT BE APPLICABLE
14 ONLY TO SALES OR ONLY TO TRANSPORTATION SERVICE?

15 A. I began with the costs in the administrative and general (A&G) expenses in the "Other gas
16 supply" area, which are functionalized largely to the gas supply function but partly also to the
17 distribution service function. Some of the tasks that Public Service must perform involve
18 coordinating its operations with TPSs. These tasks are similar to the Company's
19 management of its own system supply for its gas sales, which are performed in the "Other
20 gas supply" operational area of the Company. In this connection, Mr. Schirra has allocated

1 5% of the costs of the Vice President for Gas Planning & Planning and 15% of the costs of
2 the Gas Supply Operations group to what he calls the "LDC operations" aspect of distribution
3 service. The total amount of these two cost items is \$343,000. However, it is clear from the
4 Company's discovery responses that these costs relate only to the serving of distribution
5 customers. (See RAR-P-UN-77 and RAR-P-UN-78, which I have attached to this testimony
6 as Table REM-PS-2.) The other costs which Mr. Schirra attributed to the gas distribution
7 function are 50% of the Gas Planning group and all of the costs of the Gas Supply Operations
8 Center. It is my understanding that these costs apply to all gas distribution service, not just
9 transportation or just sales customers, and I have so functionalized them in my Table
10 REM-PS-1.

11 Q. ARE THERE ANY "OTHER GAS SUPPLY" COSTS THAT RELATE ONLY TO
12 DISTRIBUTION SERVICE PROVIDED TO SALES CUSTOMERS?

13 A. No, there are not. All of the "Other gas supply" A&G expenses that can be identified as
14 related to gas sales service but not transportation have been functionalized as gas supply
15 costs, and none of these costs are left for inclusion in the gas distribution function.

16 Q. WHERE ELSE DID YOU LOOK FOR BASE RATE COSTS APPLICABLE ONLY TO
17 SALES OR ONLY TO TRANSPORTATION SERVICE?

18 A. The only other place where I considered it plausible to look for such costs was in the
19 functional areas of Customer Accounts Expenses (accounts 901-905), Customer Service and
20 Informational Expenses (accounts 907-910), and Sales Expenses (accounts 911-916).

1 Q. WHAT DID YOU FIND?

2 A. Except for uncollectibles accounts expense (account 904) and DSM expenses (in accounts
3 908-910), Public Service has not provided any "hard" information about how these expenses
4 might be divided between sales and transportation service. I did not do any further analysis
5 of the uncollectibles expenses because they are part of the SBC analysis, nor did I examine
6 DSM costs, because they are to be recovered in the SBC.

7 Q. WOULD A COMPLETE AND UP-TO-DATE CLASS COST OF SERVICE STUDY
8 HAVE HELPED YOU TO EXAMINE THE ALLOCATION OF CUSTOMER
9 ACCOUNTS, CUSTOMER SERVICE, AND SALES EXPENSES BETWEEN SALES
10 AND TRANSPORTATION SERVICES?

11 A. No, it would not. Again with the exception of uncollectible accounts expense and perhaps
12 DSM costs, the costs in these account categories are almost invariably allocated in a typical
13 class cost of service study in proportion to the number of customers in each customer class.
14 A weighting factor is sometimes used to reflect the average size (*i.e.*, load) of the customers
15 in each class, but I would not expect to see any distinction among smaller customers based
16 on whether they receive sales or transportation service. The only way to see how the
17 customer accounts and similar costs for transportation customers differ from those for sales
18 customers would be for each of the New Jersey gas utilities to do a special study of its
19 departments that perform customer accounting and related functions, similar in concept to the
20 one performed by Public Service to examine the functional allocation of the costs in its "Other
21 gas supply" activities.

1 Q. PLEASE TURN BACK NOW TO THE BASE RATE COSTS YOU HAVE ATTRIBUTED
2 TO THE GAS SUPPLY FUNCTION. WERE YOU ABLE TO DETERMINE HOW THEY
3 SHOULD BE DIVIDED BETWEEN THE COMMODITY GAS SALES AND THE
4 BALANCING COMPONENT OF THE GAS SUPPLY FUNCTION?

5 A. I accepted the analysis of Public Service witness Schirra on the two large items, which are the
6 carrying cost of gas storage inventories and the revenue requirement for gas production plant.
7 Mr. Schirra also attributed \$4.25 million of "Other gas supply" costs to the gas supply
8 function, but he assigned the entire amount to commodity sales, leaving none for the
9 balancing function. This assignment of the gas procurement overheads makes no sense
10 because Public Service uses all of its pipeline storage services and part of its pipeline firm
11 transportation for balancing rather than for commodity gas supply. I have adjusted Mr.
12 Schirra's allocations to attribute slightly less than half of these costs to the balancing
13 component rather than to commodity gas supplies. The details of these calculations are in my
14 Table REM-PS-1. The result is that \$16.5 million of Public Service's base rate costs can
15 properly be functionalized to the commodity sales part of gas supply service, and a further
16 \$24.2 million is properly functionalized to the balancing cost component of gas supply
17 service.

18 Q. HAVE YOU BEEN ABLE TO TRANSLATE THE RESULTS OF YOUR
19 FUNCTIONALIZATION OF PUBLIC SERVICE'S COSTS TO A PER-THERM BASIS?

20 A. I was able to place the gas supply costs on a per-therm basis.

1 Public Service's present balancing charge rate is 5.5520¢ per therm, and it is applied
2 to the excess of November through March average use over June through September average
3 use. The costs underlying this balancing charge are all recovered through the LGAC
4 procedure. The additional \$24.2 million of base rate costs that I have functionalized to
5 balancing is 1.7887¢ per therm of balancing use. When this amount is added to the present
6 balancing charge rate of 5.5520¢, the result is a total balancing cost of 7.3407¢ per therm of
7 balancing use. The details of this calculation are in Table REM–PS-3.

8 Except for the balancing charge revenues from transportation customers, Public
9 Service recovers the rest of its LGAC costs by means of uniform charge of 39.2980¢ per
10 therm on all firm gas sales. This rate is the base rate gas cost of 33.0000¢ plus the LGAC
11 rate of 6.2980¢. To place Public Service's total gas supply costs, as I have functionalized
12 them, on a comparable per-therm basis, I added 2.0890¢ per therm for the \$40.7 million of
13 base rate costs that I functionalized to gas supply. I calculated the 2.0890¢ rate per therm by
14 dividing the \$40.7 million of costs by Public Service's 1998 normal weather forecast gas sales
15 of 1,950 million therms. This calculation is also shown in Table REM–PS-3.

16 To obtain Public Service's total current gas supply costs on a per-therm basis, two
17 other adjustments are also required. First, the LGAC rate includes \$4.6 million per year for
18 the amortization of some costs incurred in connection with Public Service's EDC venture into
19 gas supply activities in the late 1970s and early 1980s. This recovery is not part of Public
20 Service's current cost of gas supply, so I subtracted 0.2364¢ per therm from the LGAC
21 component. Second, the \$40.7 million of gas supply costs in the base rates includes the
22 \$24.2 million of balancing costs in the base rates, and \$3.9 million of that amount is paid by

1 transportation customers that do not purchase sales gas from Public Service. I therefore
2 subtracted 0.2006¢ per therm to avoid a double counting of these costs. The net result is a
3 current gas supply cost of 40.9500¢ per therm, as shown in Table REM-PS-3.

4 Q. CAN YOU EXPLAIN IN MORE DETAIL THE REASON FOR YOUR EDC
5 ADJUSTMENT?

6 A. Yes. As I mentioned, EDC was a venture into gas supply activities by Public Service in the
7 late 1970s and early 1980s. When that activity was sold off at a loss, the costs were shared
8 by shareholders and ratepayers, and the ratepayers' share is now being recovered through a
9 charge to the LGAC of \$4.6 million per year. Because this amortization is recovering costs
10 incurred by Public Service long before it had a transportation program for its firm service
11 customers, it should be the responsibility of all of the Company's present firm customers, not
12 just those who remain on gas sales service. I have therefore removed it from the current cost
13 of gas supply, which relates only to sales customers.

14 Q. WHY WERE YOU UNABLE TO PLACE PUBLIC SERVICE'S DISTRIBUTION COSTS
15 ON A MEANINGFUL PER-THERM BASIS?

16 A. Unlike gas costs, which are recovered almost entirely from all gas sales customers in a
17 uniform per-therm rate, distribution costs are recovered in a variety of different rates. I could
18 not determine where in that rate structure the gas supply costs were being recovered in base
19 rates, so I could not go beyond my identification of the aggregate amount thereof.

1 - Societal Benefits Charge and Universal Service Fund

2 Q. DID PUBLIC SERVICE DEVELOP AN SBC FACTOR, AND IF SO, WAS IT IN
3 COMPLIANCE WITH THE PROVISIONS OF THE ACT?

4 A. Public Service has incorporated all of the Act's SBC components and has requested the
5 addition of a Realignment Adjustment. Its DSM and MGP components are in compliance
6 with the Act's provisions.

7 However, its social program proposal incorporates an uncollectible allowance which
8 is not consistent with the Act. Rather than having some uncollectible allowance provision,
9 Public Service is using the social program component to move uncollectibles out of base
10 rates. It does this by establishing a 0.7644 cents per therm rate which is then subtracted from
11 the current RSG rate to avoid a double count. This has the effect of extending the
12 uncollectible cost to all transportation tariffs while subtracting a like amount from the base
13 rate component of the commodity sales tariffs. Of necessity, the proposed per therm rate is
14 an estimate, based on 1998 results, which would be subject to true-up.

15 The alternative to Public Service's proposal would be to have the uncollectible charge
16 embedded directly in the distribution rate which is generally the procedure utilized by the
17 other GDCs. Within the Act "Social Program" is defined to include uncollectibles associated
18 with customers such as those with low income. The Act does not intend that the SBC be
19 used for rate disaggregation and therefore, the Company's inclusion of uncollectibles within
20 the SBC should not be allowed, and the Company should adjust for them in a manner similar
21 to the adjustments of the other GDCs.

1 Q. DOES THE COMPANY'S SOCIAL PROGRAM COMPONENT ALSO CONTAIN THE
2 COSTS OF OTHER DEFINED SOCIAL PROGRAMS?

3 A. No, it does not. In the Act, Section 12 states that "the societal benefits charge shall be set
4 to recover the same level of social program costs as is being collected in the bundled rates .
5 ." Public Service did not comply with this provision, and therefore, in its rebuttal testimony
6 it should be required to quantify the annual social program costs and derive a charge which
7 can be added to the other SBC component costs and adjusted out of base rates. As discussed
8 in my generic testimony, this component should include an uncollectibles attributable to its
9 low-income customers. The annual amounts should be for any costs approved by the Board
10 prior to the Act's cut-off date of April 30, 1997.

11 Q. ARE THERE ANY OTHER COMPONENTS WHICH PUBLIC SERVICE INCLUDED IN
12 THE SBC WHICH YOU WISH TO ADDRESS.

13 A. Yes. Public Service's SBC also incorporates Realignment Adjustment and Consumer
14 Education components which are initially to be set at zero pending authorization and
15 specification by the Board.

16 Q. WOULD YOU EXPLAIN WHY IT IS INAPPROPRIATE FOR PUBLIC SERVICE'S
17 REALIGNMENT ADJUSTMENT TO BE INCLUDED IN THE SBC?

18 A. Public Service's Realignment Adjustment is not authorized by the Act as part of the SBC and,
19 as proposed, it could ultimately alter the rates between customer classes. The underlying
20 Realignment Adjustment was approved by the Board in a previous proceeding but it was

1 initiated and remains at zero. It was approved as a rider to the transportation rates and was
2 not to be collected from sales customers. As proposed, the new Realignment Adjustment,
3 as part of the SBC, would be collected from all customers if the Company ever claimed
4 transition costs. Another problem involves the make-up of the Realignment Adjustment.
5 Public Service proposes that it include realignment costs and revenue recoupment. As such,
6 it would effectively become a blank check for Public Service and it could be used to collect
7 any number of unbundling related costs including many administrative expenses which have
8 been, and should continue to be, treated as base rate components. The nature of the proposed
9 Realignment Adjustment is such that it should not be included within the SBC regardless of
10 its authorization in a prior proceeding. Components of the SBC may very well be given far
11 greater recovery provisions than should be established for such an open-ended expense
12 component.

13 Q. WHAT DID THE COMPANY PROPOSE CONCERNING ITS COMPONENT FOR
14 CUSTOMER EDUCATION?

15 A. The Company put a placeholder into its SBC but did not describe the types of costs or
16 amounts which it would include within the component. While the Board has not yet specified
17 and quantified what education costs will be subject to SBC recovery, the Company still
18 should specify the types of costs which it will propose for inclusion. Like the other omissions
19 to its filing, this information should be included in the Company's rebuttal testimony.

1 Q. HAS PUBLIC SERVICE PROPOSED HOW THE SBC COMPONENTS WERE TO BE
2 ACCOUNTED FOR WITHIN THE RECOVERY MECHANISM?

3 A. Public Service has proposed that these, and all other SBC components, are to be afforded
4 deferred accounting treatment with accrued interest at Public Service's rate of return. The
5 Board should reject Public Service's proposal. First, there should be no accrued interest on
6 SBC under recoveries in keeping with New Jersey's long-standing precedent. Second, the
7 Company should not be allowed to commence any SBC deferral prior to the Board's
8 authorization of the nature and composition of each component and its level of recovery. The
9 Act specifically states the Board shall determine recovery of "some or all" of the SBC costs
10 and therefore the type of costs and their recovery should be the subject of a proceeding before
11 deferred accounting commences.

12 Q. WITH RESPECT TO YOUR RECOMMENDATION THAT THE SBC SHOULD NOT
13 ACCRUE INTEREST ON UNDER RECOVERED BALANCES, WHY DO YOU
14 BELIEVE THE EXISTING INTEREST MECHANISM IS APPLICABLE?

15 A. The Company itself has stated that, "The SBC has been established as an adjustment clause."
16 The Company goes on to say, "The current practice for the Company's Adjustment Clauses
17 for LEAC, LGAC, and DSAF is to base recovery on forecasted costs, to amortize any over-
18 or under collected balances and to recover these items on a volumetric basis." Currently, the
19 LGAC does not permit interest accrual on under recovered balances and neither should the
20 SBC.

1 Q. IS THE COMPANY’S SBC APPLICABLE TO ALL OF ITS CUSTOMERS, AND IF NOT,
2 SHOULD IT BE?

3 A. As proposed, the SBC is not to be applied to the CIG, CEG, ISG, TSG-F, and TSG-NF tariff
4 rates. This is not an appropriate exclusion since it conflicts with Section 12 of the Act. In
5 that section it states that the SBC is to be “collected as a non-bypassable charge imposed on
6 all . . . gas public utility customers . . .” Accordingly, the SBC should be required to be
7 charged to all customers including those currently proposed to be excluded by the Company.

8 Q. WHAT PROVISIONS DID PUBLIC SERVICE MAKE CONCERNING THE
9 UNIVERSAL SERVICE FUND?

10 A. In its filing the Company did not address either the anticipated objective for incremental USF
11 programs or the basis for their funding. The Company asserted there is no need to pursue the
12 USF until the Board holds hearings or initiates other means to define and fund the USF. As
13 discussed in the Ratepayer Advocate’s generic testimony, Public Service and the other New
14 Jersey GDCs should be required to make specific proposals concerning the USF.

15 - Capacity Assignment and Stranded Costs

16 Q. WHAT HAS PUBLIC SERVICE PROPOSED CONCERNING ITS ASSIGNMENT OF
17 EXCESS CAPACITY?

18 A. The Company has made no provision for the assignment of its capacity to TPS entities. It has
19 stated that its “supply/demand capacity portfolio is in balance . . . and its growth in the market

1 is about 1% per year.” As a result, it believes “Assigning capacity will result in the
2 Company’s need to acquire incremental capacity that may result in higher overall costs to all
3 of its sales customers.” It also cites the fact that previously it had offered to release upstream
4 capacity to marketers and they had rejected the offer.

5 Q. HOW HAS THE COMPANY ADDRESSED ISSUES CONCERNING CONTINUED
6 SUPPLY AND SYSTEM RELIABILITY IN THE RESTRUCTURED GAS
7 ENVIRONMENT?

8 A. Public Service has taken the position that TPS entities should be held responsible for delivery
9 reliability to the same degree as the GDCs. Also, Public Service maintains an extensive and
10 diverse portfolio of pipeline capacity and therefore it is not subject to delivery bottlenecks to
11 the same degree as other GDCs. Finally, it enforces significant penalties against non-
12 deliveries by any TPS and has the ability to “decertify the TPS” if delivery performance is
13 inadequate. However, with respect to its decertification ability, the Ratepayer Advocate
14 believes that decertification should only be permitted with Board oversight and only after a
15 specific Board review and order authorizing such action.

16
17 Q. ARE THERE ANY ADDITIONAL CAPACITY ISSUES WHICH ARE RELEVANT TO
18 PUBLIC SERVICE?

19 A. Yes. Due to the nature of the Company’s capacity resources and its stated position to not
20 offer voluntary assignment to TPS entities, there are issues concerning the ability to establish
21 true universal open access within the Public Service franchise area. If TPS entities are not

1 provided the option of receiving a pro rated share of the capacity based on the migrating retail
2 customers they serve, then the development of a truly competitive market will be constrained.

3 There are logical and practical reasons for allowing TPSs the option of obtaining the
4 capacity which inherently was associated with customers who elect to take transportation
5 service. To the degree that the relevant capacity pool serving the customer demand is
6 constrained, TPS entities will need to take capacity assignment to be able to serve the
7 migrating customers.

8 Q. IS THE COMPANY'S POSITION ON CAPACITY ASSIGNMENT ABSOLUTE, OR
9 DOES IT HAVE ALTERNATIVE ASSIGNMENT PROPOSALS?

10 A. It has not offered any alternatives and it effectively seeks to have full discretion as to what
11 capacity assignment it may provide prospectively. In the Ratepayer Advocate's generic
12 testimony, Mr. Mierzwa specifically addresses the need for voluntary capacity assignment.
13 The principles set forth in that testimony are particularly relevant to Public Service with its
14 very large capacity holdings. Given Public Service's size relative to the other GDCs in New
15 Jersey, its failure to make excess capacity available on a non-discriminatory basis to all TPSs
16 represents an unacceptable barrier to achieving the objectives of the Act to establish a
17 competitive gas marketplace. It appears that Public Service views voluntary capacity
18 assignment as its last rather than its first priority.

19 In support of its position, it has stated that, in response to RAR-P-UN-110, (attached
20 hereto as Table RWL-PS-1) that:

1 Migration in excess of the 1% annual growth rate which could lead to
2 “excess” capacity can be mitigated by both off-system sales and by
3 restructuring (including termination of contracts) the Company’s portfolio.
4 If the rate of migration was well above the 1% per year growth rate and
5 restructuring was not a viable mitigation measure, the Company would not
6 rule out some form of capacity assignment.

7 This stated position is troubling for two reasons. It is clear that the Company sees off-
8 system sales as a preferred alternative to voluntary capacity assignment. Such a position is
9 not compatible with the Act’s objectives of establishing competitive choice in New Jersey.
10 Its potential portfolio restructuring alternative is also problematic. If Public Service is
11 contemplating the need to terminate its contracts, then there should be no opposition to
12 offering such capacity to TPS entities, serving the New Jersey market, on a non-
13 discriminatory, first refusal basis. However, even this creates problems because the decision
14 to terminate contracts is solely in the Company’s control, and TPS entities will have no way
15 to anticipate or plan for the availability of such capacity.

16 Q. PUBLIC SERVICE, IN THE RECENT PAST, HAS PROPOSED TO TRANSFER ITS
17 GAS SUPPLY RESOURCE PORTFOLIO TO AN AFFILIATE. DOES SUCH A
18 POTENTIAL TRANSFER ALSO AFFECT THE CAPACITY ASSIGNMENT ISSUE?

19 A. Yes, it does. Presumably such a portfolio transfer would entail all of the Company’s gas
20 supply, pipeline, and in-territory resources. This would provide one TPS entity (Public
21 Service’s affiliate) with a dominant share of the available capacity with very little regulatory
22 control on how these resources would be used. From a purely competitive perspective, it is
23 preferable that resources not be concentrated so that there are no artificial barriers to TPS

1 entry. Accordingly, some form of voluntary capacity assignment on a non-discriminatory
2 basis would better foster the objectives of the unbundling process.

3 At a minimum, any transfer of supply contracts, pipeline capacity or storage, and in-
4 territory gas supply resources should be competitively bid to TPS entities, including any
5 Public Service fully separated affiliate subject to the affiliate standards of conduct, with
6 preference given to having such resources spread among diverse market participants. While
7 it is recognized that the Company's portfolio has both good and bad components, it is not in
8 the public interest to transfer the entire portfolio to any one entity.

9 Q. AT THE CURRENT TIME, PUBLIC SERVICE HAS INCENTIVES WHICH RELATE
10 TO CAPACITY. HOW DO THESE INCENTIVES AFFECT THE ASSIGNMENT OF
11 CAPACITY?

12 A. Public Service currently receives incentive sharing on capacity release, off-system sales, and
13 capacity reduction. However, under its capacity reduction incentive, it does not qualify for
14 sharing if the reduction is associated with customer migration to transportation service. In
15 the new unbundled gas supply environment these incentives do have a bearing on decisions
16 concerning the disposition of capacity.

17 Existing off-system sales and capacity release incentives provide the Company with
18 a profit motive to retain excess capacity. Such capacity is currently paid for by the sales
19 customers through the LGAC, and the Company retains a portion of the revenues even
20 though it shares no responsibility for the associated capacity costs. Conceptually, these
21 incentives could encourage the Company to retain, rather than assign capacity, since the

1 incentives provide revenues while any proceeds (or cost reductions) associated with capacity
2 assignment would be credited entirely to ratepayers through the LGAC mechanism.

3 When these incentives were initiated, they were designed to have Public Service
4 maximize revenues to offset capacity costs. As the gas market moved toward universal open
5 access, the role of these incentives came into question. In response, the capacity release and
6 off-system incentive rates were lowered and a new incentive was developed to stimulate the
7 elimination of excess capacity. Since the incentives for capacity elimination were higher than
8 the old incentives, the Company gained financially by reducing its overall capacity. This new
9 incentive would conceptually favor capacity assignment were it not for the fact that excess
10 capacity from migration does not qualify for the incentive.

11 With the passage of the Act, the new focus should be the establishment of a
12 competitive marketplace. In my generic testimony, therefore, I propose that the Board open
13 a proceeding by March 1, 2000 to consider the appropriate role of incentives.

14 Q. BASED ON THESE CONSIDERATIONS, WHAT RECOMMENDATION DO YOU
15 HAVE CONCERNING THE COMPANY'S CAPACITY?

16 A. The Company should first be required to offer voluntary capacity assignment any time its new
17 customer growth is less than equal the level of firm sales load which migrates to TPS supply.
18 Such capacity assignment should be on a non-discriminatory basis.

19 The Company should also be required to specifically define what criteria it plans to
20 utilize in determining whether or not it has "excess" capacity available for assignment. In its
21 interrogatory response (RAR-P-UN-113, attached hereto as Table RWL-PS-2), the Company

1 acknowledged that “the greater the migration the greater the need of the TPSs to acquire
2 capacity to serve the market, whether it be from other sources or from the Company’s own
3 capacity which may become excess. What remains uncertain is the economics of capacity
4 assignment . . .” It is strongly recommended that the economic uncertainties be addressed in
5 this proceeding so that all parties can evaluate and define what capacity circumstances will
6 require voluntary assignment.

7 In the event the Company decides to transfer all or a major portion of its gas supply
8 portfolio, which has not been assigned, there should be a required Board proceeding to
9 determine whether such transfer is in the public interest and whether ratepayers should share
10 in any available proceeds. Such a determination should consider the impact of the proposed
11 transfer on competition and the objectives of the Act.

12 - Basic Gas Supply Service Characteristics

13 Q. WOULD YOU NOW ADDRESS THE ISSUE OF SUPPLY OFFERINGS BY PUBLIC
14 SERVICE’S UTILITY OPERATION?

15 A. Under the provisions of the Act, “A public utility holding company may offer a gas
16 competitive service to the retail customers of a gas public utility that is owned by the holding
17 company, but only through a related competitive business segment of the holding company
18 . . .” Since Public Service is owned by such a holding company, it should only provide basic
19 gas supply services as defined in the Act. To the degree the Company’s holding company
20 parent chooses to provide competitive offerings, such as fixed price gas supply or other

1 supply options, these services should be offered through the related competitive business
2 segment.

3 Prior to January 1, 1993 Public Service did not offer gas supply options beyond its
4 LGAC based service. It does not seem that Public Service, as a gas public utility, can
5 grandfather any gas supply options other than BGSS as a fully regulated service.

6 Q. PUBLIC SERVICE IS ALSO PROVIDING GAS SUPPLY SERVICES WITHIN THE
7 SERVICE AREA OF NEW JERSEY NATURAL. WHAT IS YOUR
8 RECOMMENDATION CONCERNING SUCH SERVICES?

9 A. By any reasonable definition, this is a competitive service, albeit within the framework of New
10 Jersey Natural's on-going pilot program. While Public Service is providing this service under
11 a specific and restricted approval by the Board, it should not continue in an unbundled
12 environment. With New Jersey moving to an unbundled market, the on-going Public Service
13 commodity sales should be terminated or transferred to its parent company's competitive
14 business segment. The problems associated with the Company's utilizing its system supply
15 to compete against New Jersey Natural's basic gas supply service and the TPS offerings
16 creates unreasonable problems with cost allocations and regulatory oversight. The relevant
17 gas market and Public Service's holding company will not be disadvantaged by transferring
18 such sales from Public Service to a competitive business segment of the holding company.

1 Q. UNDER THE RECOMMENDATIONS IN THE RATEPAYER ADVOCATE'S GENERIC
2 TESTIMONY, WHAT GAS COMMODITY RATE SHOULD BE CHARGED BY THE
3 COMPANY FOR RETURNING CUSTOMERS?

4 A. In its tariffs, Public Service allows a former sales service customer to return to BGSS, within
5 a period no longer than sixty days from the one year anniversary of the customers' taking
6 service under the FT-RSG tariff. Outside of this grace period, the customer would be subject
7 to the MPGS rate. Similarly, if an FT-RSG customer is dropped by a TPS entity, the
8 customer is charged the Emergency Sales Service (ESS) rate for the remainder of the month
9 of supply termination and then is charged the MPGS rate thereafter (unless the customer is
10 still within the grace period described above).

11 As discussed in my generic testimony, the BGSS rate should be the same for any
12 returning residential or small commercial customer regardless of the timing of the return.
13 Likewise, customers who are dropped by their TPS should be charged the BGSS rate.
14 However, in this latter case, Public Service should have recourse against the TPS for any
15 incremental costs incurred during the month in which Emergency Sales Service rates would
16 have been applicable. Likewise, residential and small commercial customers dropped by a
17 TPS entity should take service take emergency gas service (ESS), but should be charged only
18 the BGSS rate for this service.

19 This uniformity of rates prevents the incremental pricing provisions of ESS or MPGS
20 from becoming impediments to customer choice much like the case when administrative fees
21 are charged for return to sales service. It would be discriminatory to charge these returning
22 customers a higher rate than remaining customers.

1 Q. WHAT RECOMMENDATIONS DO YOU HAVE WITH REGARD TO SWITCHING
2 FEES?

3 A. As required by the Act, Public Service is not proposing switching fees for residential
4 customers. However, it is proposing a \$50.00 switching fee for commercial and industrial
5 customers. This fee would apply to the initial switch to a TPS, changes in TPSs, and returns
6 to BGSS. This could be a substantial deterrent to choice for many commercial customers.
7 In accordance with the recommendations in my generic testimony, switching fees should be
8 eliminated for Public Service's commercial customers.

9 Q. FINALLY, WHAT IS THE IMPACT OF THE RATEPAYER ADVOCATE'S GENERIC
10 TESTIMONY, CONCERNING THE OFFERING OF VARIOUS DCQ DELIVERY AND
11 BALANCING OPTIONS, ON PUBLIC SERVICE'S UNBUNDLING PROPOSAL?

12 A. Public Service proposes to maintain its average monthly DCQ delivery requirement. It has
13 stated that it has not developed the necessary algorithms in order to also offer daily
14 requirements service at this time. However, based on the considerations discussed in the
15 generic testimony, by March 2000 Public Service should be required to submit to the Board
16 for approval a rate for daily delivery requirements, for implementation by October 1, 2000.
17 This additional delivery methodology, and its associated balancing fees, will provide TPS
18 entities greater flexibility which, in turn, should allow them to provide a greater variety of
19 supply service options from which the customers can choose.

1 Q. DOES THIS CONCLUDE THE PUBLIC SERVICE-SPECIFIC PORTION OF YOUR
2 TESTIMONY IN THIS PROCEEDING?

3 A. Yes, it does.

V. SUPPORTING INFORMATION