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FILE NO 049556.0000047

December 2, 2022

By Hand

Hon. Bernard J. Logan, Clerk
State Corporation Commission
Document Control Center
Tyler Building – First Floor
1300 East Main Street
Richmond, Virginia 23219

Roanoke Gas Company
Application for an expedited increase in rates
Case No. PUR-2022-00205

Dear Mr. Logan:

Enclosed for filing in accordance with the State Corporation Commission's Rules Governing Utility Rate Increase Applications, 20 VAC 5-201-10, are an unbound original and twelve copies of the Application of Roanoke Gas Company for an expedited increase in rates.

The required electronic spreadsheet versions of the Company's filing schedules are being provided through an electronic dataroom to the Divisions of Public Utility Regulation and Utility Accounting and Finance. Copies of Schedules 29 and 40 are being included in each copy of the Application and therefore are not being provided separately.

Copies of the Company's Application are being provided to local governmental officials under separate cover, in accordance with 20 VAC 5-201-10 J.

If you have any questions or need further information, please feel free to contact me.

Sincerely,

Timothy E. Biller

Enclosure
cc: William H. Chambliss, Esq.
Ms. Kimberly B. Pate
Mr. David Essah
C. Meade Browder, Jr., Esq.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

APPLICATION OF	)	
	)	
ROANOKE GAS COMPANY	)	CASE NO. PUR-2022-00205
	)	
For an expedited increase in rates	)	

APPLICATION

Filed: December 2, 2022

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

APPLICATION OF	)	
	)	
ROANOKE GAS COMPANY	)	**CASE NO. PUR-2022-00205**
	)	
For an expedited increase in rates	)	

APPLICATION

Pursuant to Chapter 10 of Title 56 of the Code of Virginia, and the State Corporation Commission's ("Commission") Rules Governing Utility Rate Applications and Annual Informational Filings of Investor-Owned Gas and Water Utilities (20 VAC 5-201-10, *et seq.*, including 20 VAC 5-201-20 D providing for expedited increases in rates) and 5 VAC 5-20-80, Roanoke Gas Company ("Roanoke Gas" or "Company") respectfully files this application seeking an expedited increase in rates ("Application"). In support of this Application, Roanoke Gas shows as follows:

1. The name and address of the applicant is Roanoke Gas Company, 519 Kimball Avenue, N.E., P.O. Box 13007, Roanoke, Virginia 24030. The names and address of its counsel are Timothy E. Biller and James G. Ritter, Hunton Andrews Kurth LLP, 951 East Byrd Street, Richmond, Virginia 23219-4074.

Background

2. Roanoke Gas is a public utility company engaged primarily in the retail distribution and sale of natural gas to residential, commercial, and industrial customers in southwestern Virginia. The Company's gas utility markets in Virginia include the Cities of Roanoke and Salem, and the surrounding regions, including Roanoke and Franklin Counties and portions of Bedford, Botetourt, and Montgomery Counties.

3. The Commission last authorized an adjustment to the Company's rates in Case No. PUR-2018-00013 by the Final Order dated January 24, 2020 ("Final Order").[1] The Final Order provided a $7.25 million increase in Virginia jurisdictional non-gas base rate revenue, based on a return on equity of 9.44%.

4. By Final Order dated August 28, 2012 in Case No. PUE-2012-00030, the Commission approved the Company's Steps to Advance Virginia's Energy ("SAVE") Plan. The Company's original SAVE Plan has been updated and modified each year, most recently in Case No. PUR-2022-00086 ("2022 SAVE Case"). In the 2022 SAVE Case, the Company projected a spend amount for the 12-months ended September 30, 2023, of $6,900,000 and the Commission approved a SAVE Projected Factor revenue requirement of $4,050,506.

5. On September 30, 2022, the Company filed notice of its intent to file a rate application on or after November 29, 2022.

Rate Request

6. Since January 1, 2019, Roanoke Gas has made significant investments in its system to better serve customers. As Company President Paul W. Nester testifies, since 2019 the Company has invested over $75 million to improve the overall safety, reliability and integrity of its system. The Company is projecting to invest another $20 million more during the twelve months ending December 31, 2023 ("Rate Year").

7. Since the last rate case, the Company has sought to use revenue from new customers added to the system coupled with efficiency gains, to allow it to continue to invest in its system and delay the need for seeking rate relief. However, as with nearly all businesses, the Company is experiencing significant inflationary pressure on costs and prices for labor and benefits,

[1] *Application of Roanoke Gas Company, For a general increase in rates,* Case No. PUR-2018-00013, 2020 S.C.C. Ann. Rept. 213, Final Order (Jan. 24, 2020).

insurance, pension, and bad debt, among other operating and maintenance expenses. It is this upward inflationary pressure on seemingly all expenses that has necessitated this proposed increase in rates.

8. In this Application, the Company is seeking an expedited increase in its base rates to provide an additional $8.55 million in annual revenue, of which $4.05 million currently is being recovered through the Company's SAVE Rider. The requested net increase in revenues of $4.49 million represents an overall revenue increase of 4.17%. This annual increase in rates will allow Roanoke Gas the opportunity to earn a 9.44% return on its common equity.

9. As described by Company witness Banka, the rates proposed in this Application include the cumulative capital expenditures and related expenses incurred by the Company on SAVE-eligible investment through September 30, 2022, in addition to the $6,900,000 in SAVE eligible spending approved by the Commission in the 2022 SAVE Case. Previously, the Company has been recovering this investment through its SAVE Rider. The Company seeks to terminate its SAVE Plan effective with the implementation of interim rates as requested in this Application. Accordingly, the Company intends to reduce the Projected Factor of its approved SAVE Rider to zero effective December 31, 2022, as the subsequent SAVE-eligible investments will be recovered through the interim rate. The Company will continue to bill the True-up Factor under its SAVE Rider as approved by the Commission in the 2022 SAVE Case.

10. The Company is not proposing any significant change in its rate design in this Application. However, the Company is proposing a new meter cost allocator to address concerns raised by Staff in the Company's last rate proceeding as well as a similar allocator for service-related costs. Accordingly, the Company has allocated its increase in rates among the customer

classes consistent with the methodology previously approved by the Commission in the 2018 Final Order, with the exception of the new meter and services cost allocators.

11. The Company's need for additional revenues is supported by the testimonies of the following witnesses, which are filed with this Application:

a. Paul W. Nester, President and Chief Executive Officer, introduces the Company's Application and describes the investments and other changes in the cost of service that are reflected in this Application.

b. Niklas E. Banka, Director of Rates and Regulatory Affairs, describes the Company's rate base, roll-in of its SAVE Rider, and the Company's accounting adjustments.

c. Lawrence T. Oliver, Vice President Regulatory Affairs and Strategy, describes the Company's Capital Structure and Cost of Capital as well as the Company's cost of service study and rate design.

d. Greg L. Abbott, an expert independent consultant, describes the Company's cost allocations and rate design and introduces the Company's proposed new rate schedule for large industrial transportation customers.

12. As permitted pursuant to Rule 20 VAC 5-201-20 D, Roanoke Gas requests that the Commission allow it to place the proposed changes to its rates and terms and conditions into effect for service rendered on and after January 1, 2023, on an interim basis, subject to refund, until the Commission issues its final order in this proceeding.

13. This Application is filed in accordance with the provisions of Article 2 of Chapter 10 of Title 56 of the Code of Virginia and the Commission's rules applicable to general and expedited rate increases, 20 VAC 5-201-10 *et seq.*

WHEREFORE, the Company requests that the Commission (i) permit Roanoke to implement its proposed rates as set forth in its revised tariffs for service rendered on and after January 1, 2023, consistent with 20 VAC 5-201-20 D; (ii) order appropriate notice be given and set this Application for hearing; (iii) after such hearing, affirm the justness and reasonableness of the proposed rates on a permanent basis; and (iv) grant any other relief that the Commission determines is necessary or appropriate in this proceeding.

Respectfully Submitted,

ROANOKE GAS COMPANY

By: ______________________
Counsel

December 2, 2022

Timothy E. Biller, Esq.
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CERTIFICATE OF SERVICE

I hereby certify on this 2nd day of December 2022, a copy of the foregoing Application was delivered by-hand, electronic mail, or mailed, first-class postage prepaid to:

William H. Chambliss, Esq.
State Corporation Commission
Tyler Building, 10th Floor
1300 E. Main Street
Richmond, Virginia, 23219

C. Meade Browder, Jr., Esq.
Division of Consumer Counsel
Office of Attorney General
202 N. 9th Street, 8th Floor
Richmond, Virginia 23219

Paul W. Nester

RGC Exhibit No. __
Direct Testimony of Paul W. Nester
Case No. PUR-2022-00205

SUMMARY OF DIRECT TESTIMONY OF PAUL W. NESTER

In my direct testimony, I give an overview of Roanoke Gas Company and its service territory. I review the major investments the Company has made since it last raise its base rates and also give an overview of the major projects the Company expects to undertake during the rate year. Lastly, I explain the Company's need for the base rate relief increase it is seeking in this proceeding.

**DIRECT TESTIMONY
OF
PAUL W. NESTER
ON BEHALF OF
ROANOKE GAS COMPANY
BEFORE THE
VIRGINIA STATE CORPORATION COMMISSION
CASE NO. PUR-2022-00205**

Q. PLEASE STATE YOUR NAME, POSITION YOU HOLD WITH THE COMPANY AND DESCRIBE ANY RELATED WORK EXPERIENCE.

A. My name is Paul W. Nester. I am President and Chief Executive Officer of Roanoke Gas Company ("Company" or "Roanoke Gas"). I served as the Company's Chief Financial Officer from May of 2012 to January 2020, at which time I was named President and CEO. Prior to my employment with the Company, I worked just over 2 years as a Chief Financial Officer for UXB International, Inc., a privately held business. Prior to UXB, I worked for 3 public companies: ITT, Altria and Massey Coal, over a span of 14 years, in a variety of accounting and finance positions. I received a Bachelor of Business Administration degree, with a concentration in accounting, from Radford University in 1995 and an MBA from the University of Richmond in 2000. I am also a licensed (inactive status) Certified Public Accountant in the Commonwealth of Virginia.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE COMMISSION?

A. Yes. I submitted direct and rebuttal testimony in the Company's most recent rate case, Case No. PUR-2018-00013, and more recently I filed testimony in the

Company's application for approval of a Renewable Natural Gas Facility, Case No. PUR-2022-00125.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide an overview of the Company, its recent capital investments and capital investments it expects to make during the calendar year ended December 31, 2023, the proposed rate year in this proceeding. In addition, I explain why the Company is seeking rate relief in this proceeding.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S OPERATIONS.

A. The Company is a public service corporation that provides natural gas service to approximately 63,500 customers in Southwest Virginia's Roanoke Valley. Roanoke Gas is one of the oldest utilities in Virginia, with operations beginning in 1883. The Company's gas distribution services and operations are regulated by the State Corporation Commission ("Commission") and it provides service in a certificated service area that covers the City of Roanoke, City of Salem, Town of Vinton, Roanoke County, Franklin County, and portions of Bedford, Botetourt, and Montgomery counties. Roanoke Gas is a wholly owned subsidiary of RGC Resources, Inc. ("Resources").

Q. WHO ARE THE COMPANY'S OTHER DIRECT WITNESSES AND WHAT ARE THEIR AREAS OF RESPONSIBILITY IN THIS CASE?

A. The Company's other direct witnesses and their areas of responsibility are as follows:

- Niklas E. Banka, Director - Regulatory Affairs, testifies on the Company's rate base, roll-in of its SAVE Rider, and accounting adjustments.
- Lawrence T. Oliver, Vice President, Regulatory Affairs and Strategy and Corporate Secretary, testifies on the Company's capital structure and cost of capital.
- Greg L. Abbott, an independent energy consultant, testifies on the Company's cost allocations, rate design and the Company's new tariff designed for large, interruptible industrial customers.

Q. PLEASE DESCRIBE THE REGULATORY BACKGROUND FOR THIS PROCEEDING.

A. The Company last adjusted its base rates in 2019, as authorized by the Commission in Case No. PUR-2018-00013. In its Final Order, the Commission authorized the Company an increase in its annual jurisdictional non-gas base rate revenue requirement of $7.25 million.

However, since 2019, the Company has invested over $75 million in its system to improve safety, reliability, and to lessen the environmental impact our system has on the greater Roanoke area. These investments include over $40 million made through its Steps to Advance Virginia's Energy Plan ("SAVE Plan") pursuant to Virginia Code Sections 56-603 and 56-604. The Commission approved the Company's current SAVE Plan in its Order dated August 29, 2012, in Case No. PUE-

2012-00030. Since that time, the Commission has approved numerous updates and modifications to the Company's SAVE plan, most recently in Case No. PUR-2022-00086 ("2022 SAVE Case").

The Company's proposed increase in rates in this proceeding is driven primarily by the increase in the Company's rate base since 2019, the forecasted capital spend through the end of the rate year, December 31, 2023, and upward pressure on seemingly all costs the Company has incurred and expects to incur during the rate year.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S SIGNIFICANT UTILITY PLANT INVESTMENTS SINCE THE COMPANY"S LAST RATE CASE.

A: The Company is committed to the safe and reliable operation of its distribution system. In addition, the Company has worked to reduce fugitive emissions from its natural gas distribution system and its overall carbon footprint. Some of the major initiative the Company has undertaken include:

- the renewal of approximately 25 miles of pre-1973 Adyl-A plastic and 1,850 related services;

- the renewal of the remaining two transmission to distribution pressure gate stations, completing a safety and operational milestone that started in 2014 to renew and modernize all of the Company's gate stations;

- supporting customer growth by installing approximately 16 miles of new gas carrying main and adding over 1,750 new customers;

- supporting economic development through system reinforcements to support to the Virginia Tech - Carilion Medical hub and other industrial growth as well as relocations related to many VDOT road improvement projects.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S PROPOSED UTILITY PLANT INVESTMENTS IN THIS CASE.

A. The Company's proposed utility plant investments include replacing its 30 year old enterprise resource planning ("ERP", i.e., financial and customer service) software systems as well as performing a loop-line relocation due to a VDOT bridge replacement. The Company will continue with the strategy of making its distribution system as safe and as reliable as possible by continuing with the pre-1973 plastic renewals and installing a large, new main to support Carilion Roanoke Memorial Hospital's crystal tower expansion.

Q. HAS THE COMPANY INCLUDED ANY APPROVED SAVE PLAN SPENDING IN THE 2023 RATE YEAR?

A. Yes, as discussed in greater detail by Company witness Banka, the Company is proposing to terminate its current SAVE Plan and zero out its SAVE Rider projected factor, which was approved in the 2022 SAVE Case, effective December 31, 2022, to coincide with the implementation of interim rates in connection with this Application. The Company will continue to bill the SAVE Rider True-up factor as approved by the Commission.

The revenues and expenses associated with the capital investments that have been made under its SAVE Plan from October 1, 2022 through December 31, 2022 will be trued up in a subsequent SAVE filing. The Company proposes to recover the costs associated with the capital investments expected to be made from January

1, 2023 through September 30, 2023, as approved in the 2022 SAVE Case, in its base rates proposed in this rate case.

Q. WHAT RATE RELIEF DOES ROANOKE GAS SEEK IN THIS CASE?

A. In this filing, the Company requests an increase in its revenue of $8.55 million. Of this amount approximately 48% or $4.05 million is revenue related to investments currently being recovered through the Company's SAVE Rider. The Company is not seeking an increase in its authorized return on equity of 9.44% in this proceeding, as such, the revenue requirement in this case is based on a return on equity of 9.44%. The net increase is due to non-SAVE rate base growth and cost of service increases largely resulting from the historic inflation being experienced in all facets of the economy and other cost increases the Company has experienced like any other Company.

Q: PLEASE SUMMARIZE THE REASONS THE COMPANY IS SEEKING A RATE INCREASE AT THIS TIME.

A: The Company believes that the foundation of our obligation to our customers is providing safe and reliable service at just and reasonable rates. As discussed above, the Company has invested a significant amount of capital to ensure we are meeting our obligations to our customers. Moreover, since the Company's last base rate increase in 2019, the Company has worked diligently to reduce costs and increase efficiencies in order to lessen the base rate increase.

The Company intends to continue to invest in modernizing our system through prudent replacement of distribution pipe and related facilities. In order to achieve these goals, however resources, including personnel and capital, are required. Despite our best efforts to keep costs down, the Company has experienced substantial increases in costs along our entire supply chain for capital, goods, services and personnel which has resulted in the need to seek a base rate increase.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Niklas E. Banka

SUMMARY OF DIRECT TESTIMONY OF NIKLAS E. BANKA

In my testimony I support the Company's adjustments to rate base, revenues and expenses. Based on a rate year beginning on January 1, 2023, the Company is proposing an increase in base rates of $8,545,048, which includes over $4 million currently reflected in the SAVE Rider.

I also explain how the Company proposes to reflect in base rates, the current revenues being collected through its SAVE Rider.

**DIRECT TESTIMONY OF
NIKLAS E. BANKA
ON BEHALF OF
ROANOKE GAS COMPANY
BEFORE THE
VIRGINIA STATE CORPORATION COMMISSION
CASE NO. PUR-2022-00205**

Q. PLEASE STATE YOUR NAME AND PRESENT POSITION.

A. My name is Niklas E. Banka and I am the Director of Rates and Regulatory Affairs for Roanoke Gas Company ("Roanoke Gas" or the "Company").

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I received a Bachelor of Science degree in Economics from Virginia Polytechnic Institute and State University in 2003. From June 2005 to April 2015, I was employed by the Virginia State Corporation Commission ("Commission") as a Public Utility Analyst, Senior Utility Analyst, and Principal Utility Analyst in the Division of Utility Accounting and Finance. I have been employed by Roanoke Gas in my current position since April 2015.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY WITH THE COMMISSION?

A. Yes. I filed testimony in Case Nos. PUE-2011-00112, PUE-2013-00052, and PUE-2013-00124 as a member of the Commission Staff. I also filed testimony on behalf of Roanoke Gas in Case Nos. PUE-2015-00076, PUE-2016-00073, PUR-2018-00102, PUR-2018-00030. I also filed direct and rebuttal testimony in the

Company's last general rate case, Case No. PUR-2018-00013 ("2018 Rate Case").[1] Most recently I filed direct and rebuttal testimony in the Company's application for approval of a renewable natural gas facility and associated rate adjustment clause, docketed as Case No. PUR-2022-00125.

Q. BRIEFLY DESCRIBE THE COMPANY'S REQUEST IN THIS PROCEEDING.

A. Based on the Company's proposed test year ending September 30, 2022 and rate year of January 1, 2023 – December 31, 2023, the Company is seeking an increase in its base rates of $8.55 million. Of this total, $4.05 million is attributable to the Company's proposal to roll certain costs into base rates currently being recovered through the Company's SAVE Rider most recently approved in Case No. PUR-2022-00086. As permitted by 20VAC5-201-20 D of the Administrative Code of Virginia, the Company proposes to make the change in base rates effective for service rendered on and after January 1, 2023 on an interim basis, subject to refund.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to support the Company's rate base, revenue, and expense adjustments that underlie the Company's proposed rate increase in this Application.

[1] *See Application of Roanoke Gas Company, For a general increase in rates,* Case No. PUR-2018-00013, 2020 S.C.C. Ann. Rept. 213, Final Order (Jan. 24, 2020).

Q. ARE THE SCHEDULES YOU SPONSOR PREPARED BY YOU OR UNDER YOUR SUPERVISION AND ARE THEY TRUE AND ACCURATE TO THE BEST OF YOUR KNOWLEDGE?

A. Yes.

Q. WHAT IS THE COMPANY'S PROPOSED TEST YEAR AND RATE YEAR IN THIS PROCEEDING?

A. The Company is proposing to use it fiscal year ended September 30, 2022 as its test year in this proceeding. The Company is also proposing to use the calendar year beginning on January 1, 2023 as its rate year. The Company is proposing to place its rates into effect for service rendered on and after January 1, 2023.

RATE BASE ADJUSTMENTS

Q. WHAT IS THE COMPANY'S TOTAL RATE BASE AS OF SEPTEMBER 30, 2022, THE END OF THE TEST YEAR?

A. As shown on Schedule 24, the Company's jurisdictional rate base totaled \$173,967,404 net of depreciation. Of this total, \$30,556,450 is related SAVE-eligible investments. For comparison purposes, the Company's rate base as of September 30, 2017, the test year used in the Company's 2018 rate case was \$ \$97,059,820, inclusive of SAVE related investments.

Q. WHAT RATE BASE IS THE COMPANY USING TO CALCULATE ITS PROPOSED RATES IN THIS PROCEEDING?

A. The Company is using a 13-month average rate base consistent with the methodology approved in the Company's last rate case. The average balance is $176,959,518.

SAVE PLAN

Q. PLEASE PROVIDE A BRIEF HISTORY OF THE COMPANY'S SAVE PLAN.

A. The Company's SAVE Plan was initially approved by the Commission in Case No. PUE-2012-00030.[2] The Company began billing the SAVE rider on January 1, 2013, pursuant to the Commission's August 29, 2012 Order approving the SAVE Plan and Rider in that case. The SAVE Plan has been subsequently amended/updated in Case Nos. PUE-2013-00091, PUE-2014-00067, PUE-2015-00076, PUE-2016-00073 and PUR-2018-00102, PUR-2019-00102, PUR-2020-00080, PUR-2021-00120 and most recently in Case No. PUR-2022-00086.

Q. WHAT IS INCLUDED IN THE COMPANY'S SAVE PLAN?

A. The Company's SAVE Plan and Rider is designed to recover the costs of its infrastructure replacement program as approved by the Commission in Case No. PUE-2012-00030 and as subsequently amended. The projects approved under the

[2] *Application of Roanoke Gas Company, For approval of a SAVE Plan and Rider pursuant to Virginia Code §§ 56-603 et seq.*, Case No PUE-2012-00030, Doc. Con. No. 120830275, Order Approving SAVE Plan and Rider (Aug. 29, 2012).

SAVE Plan, as amended, include the replacement of bare steel and cast iron mains and services, first generation plastic (pre-1973) mains and services, steel coated tubing services, coated steel mains and services, and associated meter bar and regulator installations. The Company has also received approval to renew several gate stations as well as certain regulator stations. The SAVE Plan is currently approved through September 2024.

Q. PLEASE REVIEW THE COMPANY'S MOST RECENT SAVE CASE.

A. On May 26, 2022, Roanoke Gas filed its annual update to its SAVE Plan to update the Projected Factor Rate and the True-Up Factor Rate for the SAVE Plan year that runs October 1, 2022 through September 30, 2023. On August 23, 2022, the Commission issued its Order Approving SAVE Rider in which it approved the Company's updated SAVE Rider, which included a revenue requirement of $4,138,273[3]; a spending limit of $8,294,383; and new rates to be effective October 1, 2022. The Company began billing the 2023 SAVE Rider on October 1, 2022 as approved.

Q. WHAT DOES THE COMPANY PROPOSE RELATED TO ITS SAVE PLAN IN THIS PROCEEDING?

A. The Company proposes that it will terminate its current SAVE Plan effective January 1, 2023. Consistent with this, the Company proposes to cease billing the

3 The SAVE revenue requirement includes $4,050,506 related to the project factor.

SAVE Projected Factor rate on that date as well. The Company, however, will continue billing the True-Up Factor as previously approved by the Commission.

Q. WILL THE COMPANY ESTABLISH A NEW SAVE PLAN?

A. Yes, the Company will file for a new SAVE Plan in early 2023 so that the new SAVE Plan and related SAVE Rider can become effective October 1, 2023. The new SAVE Rider will reflect SAVE-eligible capital expenditures made, and related O&M expenses incurred, between October 1, 2023 and September 30, 2024. To ensure that collections made through the SAVE Rider through December 31, 2022, remain subject to true-up, the Company's proposal will include a True-Up Factor rate for these collections as well as any residual over/under-balances.

Q. HOW DOES THE COMPANY PROPOSE TO INCLUDE SAVE-RELATED CAPITAL AND OPERATING AND MAINTENANCE EXPENSES IN THE COMPANY'S RASE RATES PROPOSED IN THIS APPLICATION?

A. For establishing a revenue requirement in this case, the Company has included cumulative SAVE capital expenditures and related expenses through September 30, 2023. The Company used actual SAVE capital through September 30, 2022, and used the forecasted SAVE capital approved by the Commission in Case No. PUE-2022-00086 for the period of October 1, 2022 through September 30, 2023. The Company is anticipating the forecasted SAVE balances will be updated during this rate proceeding as actuals become available. The Company is not requesting to include any SAVE Plan investments expected to be made, or related O&M

expenses incurred, after September 30, 2023, as part of this rate proceeding. Rather, as discussed below, the Company expects to file for approval of a new SAVE Plan for recovery of related capital and O&M costs incurred subsequent to October 1, 2023.

Q. CAN YOU PROVIDE MORE DETAIL ON HOW THE COMPANY WILL BILL THE SAVE RIDER BEFORE AND AFTER INTERIM RATES GO INTO EFFECT?

A. The Company is requesting interim rates to be effective for service rendered on and after January 1, 2023, which is the start of the rate year. Prior to this, the Company will continue to bill both the SAVE Projected Factor and the True-Up Factor rates as approved in Case No. PUR-2022-00086. Effective January 1, 2023, the Company is proposing to terminate its existing SAVE Plan and accordingly will cease billing the Projected Factor rate when interim rates that include those SAVE investments become effective. The Company will continue billing the True-Up Factor through September 31, 2023, as approved in the last SAVE case.

<u>INVESTMENT IN THE RENEWABLE NATURAL GAS FACILITY</u>

Q. HOW IS THE COMPANY TREATING ITS INVESTMENT RELATED TO ITS PROPOSED RENEWABLE NATURAL GAS FACILITY?

A. On August 3, 2022, the Company filed an application with the Commission for approval of a rate adjustment clause under which it would recover the cost associated with its investment in a renewable natural gas facility ("RNG"). The application has been docketed as Case No. PUR-2022-00125. The case is pending before the Commission with a final order expected before January 31, 2023.

Since Roanoke Gas is seeking recovery of the costs associated with the RNG Facility through a rate adjustment clause, the Company is proposing to remove the capital and the associated expense related to the RNG Facility from construction work in progress ("CWIP") so that none of the costs associated with the RNG Facility is included in the base rates proposed in this case.

Q. HAS THE COMPANY MADE ANY ADDITIONAL ADJUSTMENTS TO ITS RATE BASE IN THIS PROCEEDING?

A. Yes. The Company is projecting that the two gate stations that are under construction in Franklin and Montgomery Counties in Virginia will go into service during the fourth quarter of 2023. Therefore, the Company has included these facilities in plant in service and has made adjustments to it CWIP balance to reflect the anticipated in service date.

Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO ITS DEPRECIATION RATES OR METHODOLOGY FOR CALCULATING DEPRECIATION EXPENSE?

A. No. The Company's current depreciation rates were approved in 2019 based on plant and accumulated depreciation balances as of September 30, 2018. The Company's next deprecation study will be based on plant and accumulated depreciation balances as of September 30, 2023.

REVENUE ADJUSTMENTS

Q. WHAT ARE THE COMPANY'S PROJECTED TOTAL REVENUES ON A JURISDICTIONAL BASIS FOR THE RATE YEAR?

A. The Company's total revenues on a jurisdictional basis for the rate year are projected to be $108,030,680.

Q. IN CALCULATING THE RATE YEAR REVENUES, HOW DID YOU DETERMINE CUSTOMER GROWTH?

A. I calculated customer growth adjustments generally consistent with the methodologies used by Staff in the 2018 Rate Case. In making these adjustments, I used a five year average annual growth rate for the Residential, GS-1, and GS-2 rate classes.

EXPENSE ADJUSTMENTS

Q. WHAT ARE THE LARGEST OPERATING AND MAINTENANCE EXPENSES ADJUSTMENTS?

A. The largest operating and maintenance adjustments are customer bad debt; customer support fees; computer support fees; payroll and employee benefits; including retirement plan costs; and corporate insurance. I will discuss each of these adjustments below. Company witness Oliver will discuss the Company's capital structure and interest expense adjustments.

Q. WHAT IS THE COMPANY'S PROJECTED BAD DEBT EXPENSE FOR THE RATE YEAR?

A. The Company is projecting a rate year level of bad debt expense of $862,863. This reflects an increase of approximately $320,000 from the average level of bad debt expense over the prior three years, adjusted for one-time Federal stimulus monies received in fiscal year 2021.

As shown on Schedule 29-E, the Company's bad debt expense unadjusted was $556,112, ($407,546), and $492,875 for fiscal years ended 2020, 2021 and 2022, respectively. The fiscal year 2021 bad debt "income" was driven by the $1.3 million in CARES Act and ARPA funds received in that fiscal year. The Company does not expect to receive any further Federal stimulus money in the rate year. Therefore the Company has removed the $1.3 million in stimulus funds from the 2021 bad debt expense, which results in a three year average of bad debt of $647,147.

As has been widely publicized, natural gas prices have risen sharply from last year going into the upcoming winter heating season. Although gas costs are directly passed through to customers without any margin, this increase in gas costs will result in higher customer bills. In fact, the Company conservatively estimates that customer bills will likely increase by at least 25% compared to last year and well over that compared to the prior year. This increase in gross bill amounts unfortunately will result in an increase in the amount of bad debt expense the Company will incur when customers fail to pay these bills. Therefore, the Company has "grossed up" the three year average of bad debt expense by 25% to arrive at the Company's rate year level of bad debt expense.

Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO PAYROLL AND EMPLOYEE BENEFITS EXPENSE.

A. As shown in Schedule 29F, the Company is proposing an adjustment to total payroll in the amount of $819,367. As with most organizations, the Company has had difficulty attracting and retaining qualified persons to fill critical roles. As of September 30, 2022, the Company has ten unfilled positions. Historically, the Company only had one or two unfilled positions, if any. Based on its difficulty attracting qualified employees as well as the wage inflation experienced across the United States, and the Roanoke area, the Company adjusted its starting pay upward beginning October 1, 2022, which should enable the Company have success in attracting qualified employees prior to the beginning of the rate year. Moreover, the Company also adjusted current employees' salaries and wages upward to retain these employees who provide excellent customer service and keep the public safe. The Company's payroll adjustment reflects these realities.

Q. WHAT IS THE COMPANY'S ADJUSTMENT FOR MEDICAL INSURANCE FOR THE RATE YEAR?

A. In addition to increasing wages as discussed above, the Company has seen the costs associated with employee benefits increase dramatically. For example, the Company's health insurance premiums increased by 6.1% over the prior annual premiums. Schedule 29-I adjusts medical insurance expense to reflect an increase due to these higher premiums and additional employees.

Q. PLEASE EXPALIN THE COMPANY'S ADJUSTMENT TO COMPUTER SUPPORT FEES.

A. The Company is experiencing material increases in vendor costs that support the Company's computer and information systems. Adjustment 29-U makes an adjustment to reflect these increases. In addition, the Company is replacing some of its legacy systems, which will result in higher support fees.

Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO PENSION AND OPEB EXPENSE.

A. The Company's adjustment to its pension and OPEB expense is based on its actuarially determined cost for these items during fiscal year 2023. Based on the results the actuary study, the Company made an adjustment to increase pension expense by $388,291 and increase OPEB expense by $247,587.

Q. WHAT IS THE COMPANY'S ADJUSTMENT TO BUSINESS INSURANCE EXPENSE?

A. The Company's adjustment to non-medical insurance expense is approximately $67,000. This adjustment reflects the insurance market and the dramatic increase in most of the Company's insurance coverages, particularly its excess liability and cyber security lines.

Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO OUTSOURCED CUSTOMER SERVICE FEES.

A. As discussed in the Company's 2018 Rate Case, Roanoke Gas outsourced its customer service functions to Faneuil. Until recently, Faneuil was able to retain tenured agents for Roanoke Gas's call center. Faneuil, like many employers, experienced significant employee turnover and attrition throughout the pandemic in 2020 and 2021. However, the effect of this turnover was not as costly as call volumes were low due to the disconnect moratorium. In an effort to attract and retain employees, Faneuil increased wages with support from Roanoke Gas. Faneuil has continued to struggle with employee turnover, losing critical supervisory team in 2022. The average handle time for a customer call is significantly higher. In addition, call volumes and the complexity of customer calls have increased, as the disconnect moratorium was lifted. We anticipate these issues and related costs to continue increasing for the foreseeable future.

Q. CAN YOU PLEASE EXPLAIN HOW THE COMPANY'S RECENTLY OBTAINED RESEARCH AND DEVELOPMENT TAX CREDITS ARE BEING TREATED IN THIS CASE?

A. During fiscal years 2022 and 2021, the Company engaged an outside firm to conduct a study of its activities that would qualify for the Research and Development credit under 26 U.S. Code § 41 - *Credit for increasing research activities* ("R&D Tax Credits"). Upon completion of the 2021 study, the Company filed amended federal income tax returns for the 2017, 2018 and 2019 fiscal years to claim the R&D tax credit, as well as filed for the R&D tax credit on its fiscal

2020 federal income tax return. The total credits claimed on the income tax returns amounted to $3,169,656, which was offset by an increase of $636,694 in income tax resulting from the add back to taxable income of an amount equal to the total tax credits claimed for the 2017, 2018 and 2019 fiscal years. During 2022, the Company filed for the R&D tax credit on its fiscal 2021 federal income tax return. The total R&D tax credits claimed on the fiscal 2021 income tax return amounted to $659,920. The Company deferred the tax credits as a regulatory liability because they related to utility plant.

In the Company's most recent SAVE case, Case No. PUR-2022-00086, the Company proposed amortizing the SAVE-related R&D tax credits over a 20 year period and amortizing the related professional fees over a five year period.

As the Company disclosed in its recently filed Securities and Exchange Commission 10-K, which is provided in Schedule 6, the IRS is currently examining the Company's 2018 and 2019 federal tax returns. The Company does not have any indication at this time of the outcome of this review. However, until this examination is concluded the Company will not receive the cash associated with the claimed R&D tax credits. Therefore, the Company has not reflected the R&D tax credits in its rate of return schedule in this case. Once the Company receives the cash associated with the tax credits, the Company will reflect the tax credits in its cost of service.

Since the Company has incurred consulting costs, and has expended cash for such costs, the Company proposes to reflect the amortization of these fees in the cost of service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.