

DIRECT TESTIMONY
OF
AMY E. HAMILTON

DOCKET NO. R-2008-2028394

**Concerning High Volume Gas Transportation
Rule Changes**

Date: March 31, 2008

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1 **Direct Testimony of Amy E. Hamilton**

2 I. INTRODUCTION

3 1. **Please state your name and business address.**

4 mo My name is Amy E. Hamilton. My business address is PECO Energy
5 Company, 2301 Market Street, Philadelphia, PA 19103.

6 o **Q. What is your educational background?**

7 mo In 1991, I received a Bachelor of Arts degree from Gettysburg College. I
8 received a Juris Doctorate in 1997 from Widener University School of Law.

9 **Please describe your work experience relevant to your testimony.**

10 I have been employed by either PECO Energy Company (PECO or the
11 Company) or its affiliate, Exelon Business Services Company (Exelon BSC)
12 since 1999. I started as an Assistant General Counsel in the Regulatory Group
13 in the legal department of Exelon BSC. In that role, I represented clients
14 across the electric, gas and power organizations in state and federal regulatory
15 proceedings, negotiated regulated and unregulated contracts, and provided
16 regulatory legal advice regarding a variety of business decisions. In May
17 2004, I became the Manager of Gas Regulation and Transportation Services.
18 In that role, I was responsible for managing the financial and service reliability
19 risk of PECO's interstate natural gas transportation and storage contracts
20 through monitoring and actively participating in proceedings at the Federal
21 Energy Regulatory Commission (FERC) that could impact PECO's service or

1 cost of service to its gas customers. That group was also actively involved in
2 global regulatory issues that impact the gas industry through participation in
3 the American Gas Association (AGA), North American Energy Standards
4 Board (NAESB), and the Energy Association of Pennsylvania (EAPA).
5 Additionally, I managed all aspects of PECO's high volume transportation
6 program. In January of 2007, my group was merged with the Gas Acquisition
7 and Planning group, and I became the Manager of the merged group, now
8 called Gas Supply and Transportation.

9 o **Q. Please identify your current job responsibilities.**

10 mo My responsibilities include those described above as well as the day-to-day
11 management and oversight for the natural gas procurement, short-term
12 planning, long-term planning and contract administration functions within
13 PECO's Gas Division.

14 **II. PURPOSE OF TESTIMONY**

15 o **Q. What is the purpose of your testimony?**

16 The purpose of my testimony is to explain the revisions PECO is proposing to
17 the rules for natural gas transportation service set forth in its Tariff Gas-Pa.
18 P.U.C. No. 2 (Gas Service Tariff). Specifically, PECO proposes to revise
19 Rules 1.5, 2.3, 2.4 and 2.6 of the Gas Transportation Service - General Terms
20 and Conditions, which apply to High Volume Transportation (HVT) service

1 furnished under Rates TS-I (Gas Transportation - Interruptible) and TS-F (Gas
2 Transportation - Firm) as follows:

3 **Rule 1.5:** As revised, Rule 1.5 will require that a transportation
4 customer's Transportation Contract Quantity (TCQ) be revised
5 annually by PECO based on customer usage data for twelve months
6 preceding the revision.

7 **Rule 2.3:** The Balancing Charge will be increased from \$0.0196 per
8 Mcf to \$0.0500 per Mcf, and Rule 2.3 will provide that the Balancing
9 Charge is to be recalculated annually.

10 **Rule 2.4:** As revised, the Allowable Daily Variation that a
11 transportation customer is permitted will be 110% of the customer's
12 TCQ rather than the greater of 110% of the customer's TCQ or 50
13 Mcf, as Rule 2.4 currently provides.

14 **Rule 2.6:** As revised, the monthly excess deliveries a customer may
15 carry-over, or "bank," without paying a monthly charge for excess
16 deliveries will be equal to the customer's TCQ rather than the greater
17 of the customer's TCQ or 50 Mcf, as Rule 2.5 currently provides.

18 Additionally, PECO is proposing revisions to Rule 12 of its Rules and
19 Regulations (Gas Service Tariff, page 17) to clarify the permissible scope of
20 System Maintenance Orders and to Rule 3.3 of its Gas Transportation Service
21 General Rules and Regulations (Gas Service Tariff, page 56) to clarify the
22 requirement for Standby Sales Service for Priority i customers.

23 The specific changes in tariff language that PECO is proposing are shown in
24 PECO Exhibit AEH-1. PECO's entire existing and proposed Gas Service
25 Tariffs have been submitted as PECO Exhibit No. 1 and PECO Exhibit No. 2,
26 respectively, and are part of the Company's responses to the minimum filing
27 requirements in this case.

1 **6. Q. Is PECO proposing any changes to the residential CHOICE Program as**
2 **part of this case?**

3 ^{ao} **No**, it is not. The changes discussed in my testimony apply only to the HVT
4 service for large commercial and industrial customers.

III. HIGH VOLUME TRANSPORTATION RULES

6 A. Rule 1.5 - TCQ

7 ^{Qo} **What does Rule 1.5 provide with respect to a transportation customer's**
8 **TCQ?**

9 ^{mo} The TCQ is the maximum daily volume of gas to be transported and delivered
10 to a transportation customer. Rule 1.5 provides that a customer's TCQ will
11 initially be set forth in a customer's Transportation Service Agreement.
12 Additionally, Rule 1.5 provides that a customer's TCQ cannot exceed the
13 lower of: (a) the capacity of the metering and regulating equipment at the
14 customer's location; or (b) 110% of the customer's maximum daily usage
15 during the twelve months before the execution of a Transportation Service
16 Agreement. The Transportation Service Agreement, in turn, provides that
17 PECO has the right to revise the TCQ and any such revision shall be based on
18 the customer's maximum daily usage during the previous twelve months but
19 not to exceed 110% of that usage. A copy of PECO's form Transportation
20 Service Agreement is being provided as PECO Exhibit AEH-2.

21 ^{Qo} **How does PECO propose to revise Rule 1.5?**

1 mo PECO proposes to revise Rule 1.5 to provide that a customer's TCQ will be
2 revisited and revised annually based on changes in the customer's maximum
3 daily usage during preceding twelve-month periods ending September 30 each
4 year. Customers' natural gas suppliers will be notified of revisions in the
5 customers' TCQs by October 25, and the revised TCQs will become effective
6 on November 1. However, the first TCQ change under a revised Rule 1.5
7 would become effective January 1, 2009, based on usage for the twelve
8 months ending September 30, 2008.

9 o **Q. What are the problems with Rule 1.5, in its present form, that have led**
10 **PECO to propose changing that rule?**

11 As I previously explained, under PECO's Transportation Service Agreement,
12 PECO has the authority to revise a customer's TCQ. However, doing so
13 entails amending an exhibit to the existing Transportation Service Agreement.
14 This process imposes a substantial administrative burden on PECO and its
15 customers, because new exhibits to the agreements would have to be prepared
16 and executed. Because of the difficulty in implementing and administering
17 such a process, PECO-initiated TCQ revisions have not generally been made
18 on a consistent basis. As a result, many customers' TCQs are substantially
19 different from and, for the most part higher than, the TCQ level dictated by the
20 criteria in Rule 1.5. As an indication of how far TCQs are out of alignment,
21 the TCQs of all transportation customers, in aggregate, are approximately
22 450,000 Mcf per day, while the maximum peak usage of these customers is

1 currently approximately 110,000 Mcf per day. Improperly stated TCQs
2 directly affect the daily and monthly balancing provisions, which I will
3 address in connection with proposed changes to Rules 2.4 and 2.6.

4 **B. Rule 2.3 Balancing Charge**

5 10. **Q. What is the Balancing Charge?**

6 mo The Balancing Charge is a charge, currently set at \$0.0196 per Mcf, imposed
7 on all transportation deliveries in a billing month for all HVT service
8 customers on PECO's system. The Balancing Charge is designed to
9 compensate customers that pay PECO's Purchased Gas Cost (PGC)
10 adjustment for transportation customers' use of storage services caused by
11 transportation customers' imbalances of receipts and deliveries of gas.
12 Accordingly, all revenue produced by the Balancing Charge is credited to the
13 PGC and reduces the gas costs borne by PGC customers.

14 11. **Q. When was the Balancing Charge adopted?**

15 mo The Balancing Charge became effective in 1994 pursuant to the Commission's
16 Order at Docket No. R-00932935 (September 9, 1994), which approved Rule
17 2.3. In that proceeding, PECO proposed the Balancing Charge and also
18 proposed a specific method for calculating the Balance Charge, which was
19 adopted by the Administrative Law Judge in his Recommended Decision
20 (Page 17-18) and approved by the Commission in its final Order.

21 12. **Q. What are the changes PECO proposes in this case?**

1 ^{AO} PECO is proposing two changes to Rule 2.3. First, PECO proposes to
2 increase the Balancing Charge from \$0.0196 per Mcf to \$0.0500 per Mcf to
3 reflect current storage costs and current aggregate imbalances for
4 transportation customers. Second, PECO proposes that the Balancing Charge
5 be recalculated annually in conjunction with its PGC filing process and that
6 the recalculated Balancing Charge become effective on December 1 of each
7 year.

13. **Q. How was the proposed Balancing Charge calculated?**

9 ^{AO} The proposed Balancing Charge was calculated using the same method
10 approved by the Administrative Law Judge and the Commission at Docket
11 No. R-00932935. PECO Exhibit AEH-3 shows the calculation of the
12 Balancing Charge proposed by PECO.

13 14. **Why is PECO proposing changes to Rule 2.3 to recalculate the Balancing
14 Charge annually?**

15 ^{A°} Providing explicit authority in Rule 1.5 for recalculating the Balancing Charge
16 annually will assure that the charge reflects on a more current basis any
17 changes - - either up or down - - in the costs being recovered, rather than
18 revisiting the Balancing Charge only in connection with base rate changes.
19 Also, annual recalculations should make it more likely that future changes in
20 the Balancing Charge will occur in smaller increments.

1 **C. Rules 2.4 And 2.6 - - Balancing**

2 15. **Q. What part of the Company’s Gas Service Tariff sets forth the balancing**
3 **provisions for HVT service under Rates TS-F and TS-I?**

4 mo The current balancing provisions for HVT service are set forth in Sections 2.1
5 - 2.7 of the General Terms and Conditions for Gas Transportation Service at
6 pages 54 and 55 of the Gas Service Tariff.

7 16. **Qo Briefly summarize the existing daily balancing provision.**

8 Ao As previously explained, under Rule 1.5, each HVT customer must execute a
9 Transportation Service Agreement that, among other things, specifies the
10 customer’ s TCQ, which is the maximum daily volume of gas to be transported
11 and delivered to the customer. The terms of existing Rule 2.4 require
12 transportation customers to balance, on a daily basis, PECO’ s receipts of
13 customer-owned gas with its deliveries of that gas to the customer, subject to
14 an Allowable Daily Variation. Currently, the Allowable Daily Variation is
15 10% of the customer’s TCQ or 50 Mcf, whichever is greater. If receipts
16 exceed deliveries by more that the Allowable Daily Variation, then a penalty
17 of \$0.25 is imposed on the excess. If receipts exceed deliveries by more than
18 twice the customer’s TCQ, then PECO may limit the customer’s receipt of
19 Gas Transportation. If receipts are less than deliveries, PECO has the right to
20 bill the deficiency as a purchase from the Company at the applicable rate for
21 Standby Sale Service, if the customer elected to receive that service, or, if not,
22 at a rate that consists of the sum of PECO’ s Variable Distribution Charge,

1 Commodity Charge, Balancing Service Cost, the Gas Cost Adjustment Charge
2 for Rate GC and an additional \$25.00 per Mcf penalty.

17. **Q. How does PECO propose to change the Allowable Daily Variation?**

4 ^{mo} As I explained above, Rule 2.4 currently provides that the Allowable Daily
5 Variation is the greater of 10% of the customer's TCQ or 50 Mcf. PECO
6 proposes to eliminate the 50 Mcf minimum so that the Allowable Daily
7 Variation will be simply 10% of the customer's TCQ.

8 **18. ^{oo} Why is PECO proposing this change?**

9 ^{mo} The 50 Mcf minimum was made part of Rule 2.4 when the Company first
10 developed its HVT program. At that time, transportation customers were
11 fewer in number and larger in size than today, so that the increment between
12 10% of TCQ and the 50 Mcf minimum Allowable Daily Variation was not
13 material. Since that time, transportation service has expanded significantly
14 among relatively smaller customers. Consequently, experience with the HVT
15 program since its adoption has shown that the 50 Mcf minimum is excessive
16 in light of the usage by HVT customers. In fact, 85% of current HVT
17 customers have TCQs of less than 500 Mcf, and the increment between 10%
18 of these customers' TCQs and the 50 Mcf minimum Allowable Daily
19 Variation amounts to approximately 21,260 Mcf per day. As a result, PECO
20 can experience significant levels of excess or deficient deliveries, particularly
21 on relatively warmer or colder winter days when third-party suppliers and their

1 customers utilize their "bank." This can cause problems and, in fact, has
2 caused problems for the Company in planning for the supply needs of its sales
3 customers and in balancing its system daily. An Allowable Daily Variation
4 equal to 10% of TCQ, along with the changes PECO is proposing to Rule 1.5
5 to align customers' TCQs with changes in their usage, addresses system
6 balancing concerns and is reasonable for customers and suppliers. In fact, the
7 Allowable Daily Variation proposed by PECO is still liberal in light of the
8 permissible variations for imbalances provided in the transportation rules of
9 other major local distribution companies (LDCs).

10 **19. Q. Briefly summarize the existing monthly balancing and "banking"**
11 **provisions.**

12 ^{no} The terms of existing Rule 2.5 provide that, if, in any billing month, PECO's
13 receipts of customer-owned gas are less than its deliveries to that customer, it
14 has the right to bill the deficiency as a purchase from the Company at the
15 applicable rate for Standby Sale Service, if the customer elected to receive that
16 service, or, if not, at a rate that consists of the sum of PECO's Variable
17 Distribution Charge, Commodity Charge, Balancing Service Cost, the Gas
18 Cost Adjustment Charge for Rate GC and an addition \$25.00 per Mcf penalty.
19 The terms of Rule 2.6 provide that the customer is permitted to "bank" (carry-
20 over from one month to the next) a "positive balance" (receipts of customer-
21 owned gas by PECO in excess of deliveries to the customer), subject to
22 monthly charges, based on the amount of excess, as follows:

- | | | |
|-----|---|--------------------|
| (a) | If the monthly excess does not exceed the greater of the TCQ or 50 Mcf | 0 |
| (b) | For a monthly excess greater than the TCQ and less than twice the TCQ | \$1.00/Mcf |
| (c) | For a monthly excess greater than twice the TCQ and less than three times the TCQ | \$5.00/Mcf |
| (d) | For the monthly excess greater than three times the TCQ | \$10.00/Mcf |

20. **Q. How does PECO propose to change Rule 2.6?**

2 PECO proposes to change Rule 2.6(a) to eliminate the words "or 50 Mcf." As
 3 revised, the minimum monthly allowable variation of 50 Mcf would no longer
 4 be provided.

21. **Why is PECO proposing this change?**

6 PECO is proposing this change for the same reasons it proposes changing the
 7 Allowable Daily Variation to eliminate the 50 Mcf minimum.

IV. SYSTEM MAINTENANCE ORDERS

9 22. **What part of the Gas Service Tariff authorizes PECO to issue System
 10 Maintenance Orders?**

11 ^{mo} System Maintenance Orders (SMOs) are authorized under Rules 12.2(c)(12)
 12 and 12.2(e)(1) of the Company's general Rules and Regulations. Rule
 13 12.2(c)(12) authorizes the Company, in its sole discretion, to issue operational
 14 directives:

1 [T]o protect the operational integrity of its systems in terms
2 of line pressure and adequacy of supply, which orders
3 directly affect the quantity of gas to be delivered on the
4 same gas day or other near-term gas days and may require a
5 Customer of class of Customers, or a Customer's natural
6 gas supplier or agent, to maintain or increase the quantity of
7 natural gas delivered to the Company's system.

8
9
10 Rule 12.2(e)(1) permits the Company to impose a penalty, in addition to the
11 actual costs incurred by the Company, for unauthorized usage if a customer
12 violates an SMO.

13 23. **Q Explain PECO's proposed change to Rule 12.2(c)(12).**

14 ^{mo} PECO is proposing a revision to Rule 12.2(c)(12) to make clear that it has
15 authority to issue SMOs to require customers or their natural suppliers to
16 **decrease** the amount of gas delivered to the Company's system, as well as to
17 require them to maintain or increase such deliveries. While the Company
18 believes that this authority already exists in the general language of the rule,
19 this revision will make that authority explicit. It is essential that PECO have
20 the authority to issue SMOs to require customers or their suppliers to reduce
21 deliveries of gas to its system in order to avoid high pressures and resulting
22 operational problems that would result from excessive deliveries. PECO
23 anticipates that SMOs requiring reduced deliveries would be issued only on a
24 highly infrequent, emergency basis. However, if the conditions justifying the
25 issuance of such an SMO were to arise, PECO would face operational issues if
26 it could not invoke that SMO authority.

1 mo The decision whether to elect Standby Sales Service is an economic judgment
2 that each customer should be permitted to make based on its own assessment
3 of the risks of non-performance by its natural gas supplier. By requiring all
4 Priority 1 customers to take Standby Sales Service, this judgment is being
5 preempted by a blanket obligation that may cause some customers to
6 needlessly incur the cost of Standby Sales Service.

7 27. **Why is a customer's decision to elect or not elect Standby Sales Service an**
8 **economic judgment and not a reliability issue?**

9 mo If elected, Standby Sales Service permits the customer to purchase gas at
10 either PECO's Rate L or Rate GC (based on the customer's Standby Sales
11 Quantity (SSQ)), in the event the customer's supplier fails to deliver. If
12 Standby Sales Service is not elected and the customer's supplier does not
13 perform, the customer is **not** without gas service. To the contrary, it is still
14 connected to PECO's distribution system and will receive gas to meet its
15 demands. However, without Standby Sales Service, the customer must
16 purchase gas from PECO to make up its supplier's deficiency and will be
17 charged applicable rates and charges (including the Gas Cost Adjustment) plus
18 a penalty of \$25 per Mcf, as fully delineated in Rule 2.4. A customer has to
19 decide whether to incur the cost of Standby Sale Service - which it would pay
20 every month - as a kind of insurance policy against the higher purchase costs
21 it would incur if its supplier failed to perform and it obtained its gas from the
22 Company at the penalty rate. Customers can reach different decisions based

1 on their assessment of the reliability of their supplier, past performance, their
2 own risk tolerance and other similar factors. That is an economic judgment
3 that should be within the customer's prerogative. Some customers may decide
4 that they are paying a premium for a highly reliable supplier and, therefore, are
5 willing to, in effect, self-insure by foregoing Standby Sales Service. Others
6 may make a different decision. In the final analysis, however, it is a decision
7 that Priority 1 customers, like all other customers, should be allowed to make.

8 **28. Q. Does this conclude your direct testimony?**

9 As Yes, it does.