

Appendix G

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket Nos. R-2010-2215623
	:	R-2010-2201974
	:	
COLUMBIA GAS OF PENNSYLVANIA, INC.	:	

**STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT**

I. BACKGROUND

The Small Business Advocate is authorized and directed to represent the interests of small business consumers in proceedings before the Pennsylvania Public Utility Commission (“Commission”) under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50.

II. PROCEDURAL HISTORY

A. BTU Proceeding

On September 29, 2010, Columbia Gas of Pennsylvania (“Columbia” or the “Company”) filed Supplement No. 156 to Columbia’s Tariff Gas, Pa. P.U.C. No. 9 (“Supplement No. 156”) with the Commission. The Company stated that “Supplement No. 156 proposes a modification to Tariff Rule No. 15 – Measurement, to provide for a

BTU content adjustment to the monthly determination of customers' billing MCFs in addition to existing adjustments for pressure and temperature.”¹

On October 22, 2010, the Office of Small Business Advocate (“OSBA”) filed a Complaint against Supplement No. 156 (the “BTU Case”).

On January 11, 2011, the OSBA filed the Direct Testimony of its witness, Robert D. Knecht, in the BTU Case, marked as OSBA Statement No. 1, Direct Testimony of Robert D. Knecht.

B. Base Rate Proceeding

On January 14, 2011, Columbia filed Supplement No 163 to Tariff Gas Pa. P.U.C. No 9 (“Supplement No. 163”) with the Commission. Supplement No. 163 seeks an annual distribution revenue increase of \$37.8 million.

On February 3, 2011, the OSBA filed a Complaint against Supplement No. 163 (the “Base Rate Case”).

C. Consolidated Proceedings

On January 24, 2011, Administrative Law Judge (“ALJ”) Katrina L. Dunderdale issued an order consolidating the BTU Case and the Base Rate Case.

The parties to the Consolidated Cases include the Commission’s Office of Trial Staff (“OTS”) and numerous complainants and intervenors. In addition to the Complaints filed by the OSBA, Complaints were filed by the Office of Consumer Advocate (“OCA”); the Pennsylvania State University (“Penn State”); the Columbia Industrial Intervenors (“CII”); and the Pennsylvania Communities Organizing for Change d/b/a ACTION United (“PCOC”). Interventions were filed by Hess Corporation

¹ Supplement No. 156, Cover Letter at 1.

("Hess"); Dominion Retail, Inc. ("Dominion"); and Interstate Gas Supply, Inc. ("Interstate") (collectively, the "NGSs").

In the Consolidated Cases, the OSBA filed the Direct, Rebuttal, and Surrebuttal Testimony of Mr. Knecht, on April 25, 2011, May 20, 2011, and June 1, 2011, respectively. These were marked as OSBA Statement No. 2, the Direct Testimony of Robert D. Knecht; OSBA Statement No. 3, the Rebuttal Testimony of Robert D. Knecht; and OSBA Statement No. 4, the Surrebuttal Testimony of Robert D. Knecht.

The parties successfully negotiated a settlement in principle of most issues.

By agreement of the parties, and with the consent of ALJ Dunderdale, the evidentiary hearings scheduled for June 7-9, 2011, were cancelled, and the testimony of the parties was admitted into the record by stipulation during a hearing held for that purpose on June 10, 2011.

The Company and other parties are filing the Joint Petition for Partial Settlement ("Settlement"). The OSBA actively participated in the negotiations that led to the Settlement and is a signatory to portions of the Settlement, as outlined below. The OSBA is filing this statement to support those portions of the Settlement to which it is a signatory.

The issues related to residential rate design and the Company's CAP Plus program were reserved for briefing. On June 27, 2011, the Company, the OCA, the OTS, and PCOC filed Main Briefs on one or both of the reserved issues. The OSBA did not file a Main Brief, but the OSBA reserves the right to file a Reply Brief.

III. OVERVIEW

This Overview section reviews only the portions of the BTU Case and Base Rate Case that were addressed by OSBA witness Mr. Knecht in his testimony.

Columbia's Supplement No. 156 proposed a billing adjustment mechanism designed to reflect the relative energy content of the gas delivered to different regions within Columbia's service territory. Specifically, the Company proposed to adjust the customer's actual metered volume of gas by the ratio of the BTU content of the gas at the Pipeline Scheduling Point ("PSP") in the customer's region to the average system BTU content used in the Company's last base rate case.²

The Company's Supplement No. 163 proposed an overall increase in distribution revenues of approximately \$37.8 million per year.³ Columbia's proposed \$37.8 million revenue requirement was based in part on a return on equity ("ROE") of 11.6 percent.⁴

Columbia submitted two class cost of service studies ("COSSs") that allocate costs among the various rate classes. These COSSs are based on different methods for classifying and allocating distribution mains costs.⁵ The Company proposed a revenue allocation that was purportedly based on consideration of both COSSs.⁶ In addition, Columbia proposed to tighten the rules governing discounted (or "flex") rates.

² Columbia Statement No. 2, Direct Testimony of Erich A. Evans at 7-9.

³ Columbia Statement No. 6, Direct Testimony of Jeffrey T. Gore at 3.

⁴ Columbia Statement No. 10, Direct Testimony of Paul R. Moul at 2.

⁵ Columbia Statement No. 12, Direct Testimony of Russell A. Feingold at 3-4; *see also* Exhibit 111.

⁶ Columbia Statement No. 12, Direct Testimony of Russell A. Feingold at 24-32.

Finally, Columbia proposed a Distribution System Improvement Charge (“DSIC”) mechanism that would be automatically implemented if the enabling legislation were enacted.⁷

IV. STATEMENT IN SUPPORT OF SETTLEMENT

A. BTU Adjustment

Columbia currently bills customers by the volume of gas used, *i.e.*, on an Mcf basis. As noted above, on September 29, 2010, Columbia submitted Supplement No. 156, at Docket No. R-2010-2201974, which proposed to adjust Mcf billings by a BTU factor adjustment. The BTU factor adjustment was intended to reflect the varying heat content of gas used by customers in different areas of Columbia’s service territory. As proposed, the BTU adjustment factor would be based on a six-month rolling average of the energy content of gas delivered to each PSP.

There were two reasons for this proposed change. The first was that Columbia observed that the energy content of the gas it delivers to its customers has increased materially since the Company’s last base rate case. This means that for a specific amount of energy (BTUs) delivered to a customer, the volume of the gas has declined. Because the Company bills on the basis of volume, this change reduces Columbia’s distribution revenues.⁸

The second reason for the proposed billing change was that Columbia had also observed that the BTU content of the gas delivered by the Company varies considerably

⁷ Columbia Statement No. 1, Direct Testimony of M. Carol Fox at 4-5.

⁸ OSBA Statement No. 1, Direct Testimony of Robert D. Knecht at 2.

depending on the location of the customer, and that the geographic variation is increasing.⁹ In that regard, OSBA witness Mr. Knecht testified as follows:

Columbia distinguishes customer geographic location by the Pipeline Scheduling Point (“PSP”) through which the customer is served. Thus, two small business customers in different PSPs which consume the same energy in a particular year, say 500 Dth (i.e., 500 million BTU), will pay different rates for that energy. The customer with access to the higher-BTU gas will pay less than the customer which does not have that access, both in terms of distribution rates and (if they are non-shopping customers) PGC rates. The Company argues that the current approach is inequitable.¹⁰

Mr. Knecht conceptually agreed with the Company’s assessment that there are billing inequities related to geographical differences in energy content. He testified that the value of natural gas is in the energy that it contains, not the volume of gas delivered.¹¹ Therefore, to bill customers on a purely volumetric basis is not equitable. Customers in regions with gas that has a lower BTU content must use more volume, and therefore are paying more than customers in another region with gas that has a higher BTU energy content.¹²

However, Mr. Knecht, labeled the Company’s BTU Case as “single-issue ratemaking.” Specifically, Mr. Knecht testified as follows:

Columbia’s proposal in this case would appear to be a textbook example of single-issue ratemaking, in that it proposes to increase rates in response only to a recent upturn in the energy content of the gas it delivers. While Columbia may have lost volume relative to its last base rates case as a result of increasing average energy content, it may have gained volume from new customers or load

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

growth at existing customers, and it may have been able to reduce its operating costs in other areas. None of these potential offsets is reflected in the Company's proposal.¹³

Mr. Knecht's objection was resolved by the subsequent consolidation of the BTU Case with the Company's Base Rate Case.¹⁴

The Company initially proposed to adjust the customer's actual metered volume by the ratio of the BTU content of the PSP for the region in which the customer is located to the average system BTU content used in the Company's last base rate case (1.053 BTU/Mcf).

In the Consolidated Cases, Columbia changed its proposal from using the average base BTU content of gas from the *last* base rates case (1.053.5 BTU/Mcf) to using the *current* base rate case test year (1.097 BTU/Mcf). Mr. Knecht agreed that it was appropriate and necessary to set the base BTU content equal to the average test year BTU content assumed for load forecasting in this proceeding. However, he took no position as to whether 1.097 was the correct test year BTU content.¹⁵

OCA witness Mr. Ralph E. Miller proposed in his direct testimony that it would be preferable for Columbia to establish rates directly on a per-Dth basis rather than retain per-Mcf billing with the BTU adjustment mechanism as the Company had proposed. Mr. Knecht agreed with Mr. Miller on this point. Furthermore, Mr. Knecht agreed with Mr. Miller that BTU content should be set

¹³ OSBA Statement No. 1, Direct Testimony of Robert D. Knecht at 4 (footnote omitted).

¹⁴ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 34.

¹⁵ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 34-35.

on the basis of the most recent month's information for each PSP, in that Mr. Knecht had made the same proposal.¹⁶

In its rebuttal testimony, Columbia proposed a material change to its BTU adjustment in response to the recommendations by OCA witness Mr. Miller. Specifically, Columbia proposed to bill on a Dth basis using the BTU content from each PSP to derive Dth billing loads, rather than to apply a BTU adjustment factor to Mcf meter reads as originally proposed. Mr. Knecht opined in surrebuttal that this change would result in a simpler and more straightforward process. However, Columbia proposed to continue to rely on Mcf billing for up to one year before Dth billing would go into effect, to allow for systems development and customer education.¹⁷

Although Mr. Knecht agreed with Columbia's proposal to adopt a per-Dth billing approach, he had concerns with how the average BTU content of gas would be determined during the interim period while customers continued to be billed on a volumetric basis. Columbia had based its test year billing determinants on a BTU adjustment factor of 1.097 Dth/Mcf, which Mr. Knecht believed to be unreasonably high compared to historical trends. Therefore, he recommended that the Commission direct Columbia to modify its Mcf billing determinants to be consistent with a gas energy content of no more than 1.079 Dth per Mcf.¹⁸ Mr. Knecht also recommended that when Columbia converts to per-

¹⁶ OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 18.

¹⁷ OSBA Statement No. 4, Surrebuttal Testimony of Robert D. Knecht at 12.

¹⁸ OSBA Statement No. 4, Surrebuttal Testimony of Robert D. Knecht at 12-13.

Dth billing, the same energy content should be used to convert to per-Dth tariff charges.¹⁹

The Settlement satisfactorily resolves the concerns of the OSBA. Specifically, the Settlement accepts the OCA's proposal to bill base rates and commodity costs on a Dth basis, beginning no later than June 2012, with the Dth per Mcf conversion to be determined for each PSP area on a monthly basis. This resolution is consistent with Mr. Knecht's testimony.

The Settlement also modifies Columbia's pro forma future test year volumes to reflect 1.073 Dth per Mcf, which will be used to develop volumetric rates to be applied from the implementation of the rate increase to the conversion to per-Dth billing. Base rates on a Dth basis will be designed by converting Mcf quantities to Dth at 1.073 Dth per Mcf.²⁰ Using 1.073 Dth per Mcf is consistent with Mr. Knecht's recommendation that the average gas energy content be set below 1.079 Dth per Mcf.

Consequently, the OSBA supports the Settlement proposal with respect to billing on the basis of heat content rather than on the basis of the volume of gas delivered.

B. Reduction in Revenue Requirement

OSBA witness Mr. Knecht testified that the 11.6 percent ROE proposed by Columbia was excessive. Specifically, Mr. Knecht stated:

Columbia's proposed return on equity of 11.6 percent is excessive when compared to third-party industry equity cost estimates, the

¹⁹ OSBA Statement No. 4, Surrebuttal Testimony of Robert D. Knecht at 13.

²⁰ Settlement, Paragraph 47.

allowed returns in other jurisdictions, recent Pennsylvania Commission precedent, and the rates of return that Columbia uses for expected return on its pension fund.²¹

Mr. Knecht recommended an ROE of no higher than 10.0 percent. Mr. Knecht's proposed ROE would reduce the revenue requirement by \$11.6 million, from \$37.8 million to \$26.2 million.²²

The Settlement decreases the revenue requirement to \$17 million. The OSBA is not a signatory to those provisions of the Settlement that resulted in the \$17 million revenue requirement. However, the OSBA is not objecting to those provisions.

C. Cost of Service

In its filed case, Columbia submitted two COSSs that allocated costs among the various rate classes. These COSSs were based on significantly different methods for classifying and allocating distribution mains costs.²³

One method, the "Customer-Peak Demand Method" ("C-D Method") COSS, was the method upon which the Company primarily relied for its revenue allocation.²⁴ Mr. Knecht testified that this method was theoretically the more consistent with the principle of cost causation because it "*classifies* mains costs into demand-related and customer-related components, and then *allocates* the demand-related component of costs based on design day peak demands."²⁵

²¹ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 1.

²² OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 1-2.

²³ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 2.

²⁴ *Id.*

²⁵ *Id.* at 16.

The second methodology did not classify any costs as customer-related and allocated all mains costs on the basis of peak and average demand. Mr. Knecht referred to this method as the “P&A COSS.”²⁶

Mr. Knecht preferred the C-D Method. Specifically, Mr. Knecht testified:

While the methods used by cost of service analysts for classifying costs between customer and demand components are only approximations, it is preferable to use a reasonable approximation than to adopt a methodology that is certain to be incorrect. Therefore, in the absence of a detailed modeling of the gas distribution network itself, and if care is used, I generally recommend that an estimated customer-demand classification split be used in gas distribution COSSs. The American Gas Association’s Gas Rate Fundamentals text supports this approach.²⁷

Despite his preference for the C-D Method, Mr. Knecht explained that the Commission had previously ruled that there should be no customer component in the classification and allocation of mains costs in a gas utility COSS.²⁸ He also explained that the Commission had approved classifying mains costs as entirely demand-related and allocating those costs using variants of the average and excess (“A&E”) demand allocator. Therefore, at the request of the OSBA, Mr. Knecht prepared an A&E version of the Company’s COSS.²⁹

The comparison of the class rates of return under the Company’s C-D and P&A COSSs to the A&E COSS are shown below in Table IEC-1 from Mr. Knecht’s testimony.³⁰

²⁶ *Id.*

²⁷ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 17.

²⁸ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 21.

²⁹ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 21.

³⁰ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 21-22.

Table IEc-1			
Comparison of COSS Study Results			
Class Rates of Return at Current Rates			
	<i>Columbia C-D Method</i>	<i>Columbia P&A Method</i>	<i>Average & Excess Method</i>
Residential (RS/RDS)	4.9%	6.5%	5.5%
Small General (SGS/SGDS)	6.8%	7.1%	5.8%
Medium C&I (LGS/SDS)	7.7%	3.1%	5.4%
Large Transport (LDS)	15.1%	1.0%	11.8%
Mainline Transport (MDS)	840.7%	743.5%	839.1%
Total	6.0%	6.0%	6.0%
Sources: Columbia Exhibits 110 and 111, Exhibit IEc-4			

In addition to these three COSSs, OCA witness Glenn A. Watkins submitted his version of a P&A COSS.³¹

The Settlement does not adopt any specific COSS.³²

D. Revenue Allocation

Because it was based primarily on the C-D COSS, Mr. Knecht endorsed Columbia's proposed revenue allocation.³³ However, he pointed out that Columbia's revenue allocation proposal was not consistent with the A&E COSS methodology previously approved by the Commission.³⁴ Therefore, at the request of the OSBA, Mr.

³¹ OCA Statement No. 5, Direct Testimony of Glenn A. Watkins.

³² Settlement, Paragraph 41.

³³ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 26.

³⁴ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 27.

Knecht developed a proposal for revenue allocation based upon the A&E COSS approach. The results of that proposal are shown in Table IEC-3, copied below.³⁵

Table IEC-3				
Comparison of Revenue Allocation Proposals				
	Columbia Proposal		OSBA A&E Proposal	
	<i>Increase (\$000)</i>	<i>Revenue-Cost Ratio</i>	<i>Increase (\$000)</i>	<i>Revenue-Cost Ratio</i>
Residential (RS/RDS)	\$30,989	101.4%	\$27,803	99.5%
Small General (SGS/SGDS)	\$ 5,858	94.4%	\$ 8,032	99.5%
Medium C&I (LGS/MDS)	\$ 999	90.3%	\$ 2,009	99.5%
Large Transport (LDS)	\$ --	104.0%	\$ --	104.0%
Mainline Transport (MDS)	\$ --	399.9%	\$ --	399.9%
Total	\$37,845	100.0%	\$37,845	100.0%
Revenue-cost ratios are measured at proposed rates, using the A&E COSS methodology.				
Sources: Exhibit IEC-4				

This proposal was based on the following considerations:

1. A zero rate change for the LDS and MDS classes, because both of those classes are over-recovering costs under the A&E COSS method.
2. Revenue allocation for the remaining three classes set at the rate necessary to achieve cost-based rates under the A&E method, minus a share of the excess revenues produced by the LDS and MDS classes (which is distributed to the RS, SGS, and LGS classes in proportion to each class' current rate revenues).
3. In recognition of gradualism, no class receives an increase that exceeds 1.5 times the system average.

³⁵ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 28.

In addition to the proposals by Columbia and the OSBA for allocating the full revenue requirement, OCA witness Mr. Watkins submitted a proposal based on his version of a P&A COSS. Furthermore, Mr. Knecht submitted an alternative based on Columbia's P&A COSS.

The following table copied from Mr. Knecht's Rebuttal Testimony compares the revenue allocation proposals at the full revenue requirement.

<p align="center">Table IEc-R3 Comparison of Revenue Allocation Proposals \$mm</p>								
	<i>Columbia Filed¹</i>		<i>OCA</i>		<i>OSBA A&E</i>		<i>Company P&A²</i>	
	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>
RS/RDS	\$30.99	18.6%	\$23.88	14.3%	\$27.80	16.7%	\$26.15	15.7%
SGS/SGDS	\$ 5.86	17.2%	\$ 8.74	25.6%	\$ 8.03	23.5%	\$ 6.47	19.0%
LGS/SDS	\$ 1.00	11.3%	\$ 2.27	25.5%	\$ 2.01	22.6%	\$ 2.27	25.6%
LDS	\$ 0	0.0%	\$ 2.96	25.6%	\$ 0	0.0%	\$ 2.96	25.6%
MDS	\$ 0	0.0%	\$ 0	0.0%	\$ 0	0.0%	\$ 0	0.0%
Total	\$37.84	17.0%	\$37.84	17.0%	\$37.84	17.0%	\$37.84	17.0%
<p>¹ Methodology supported by OSBA if C-D COSS is approved, and supported by OTS. ² Revenue allocation based on Company P&A COSS with OCA revenue allocation algorithm Sources: OSBA Statement No. 2 Tables IEc-3, OCA Statement No. 5, page 5, Table IEc-R2</p>								

The following table scales back the revenue allocation proposals shown in Table IEc-R3 (above) to the \$17 million Settlement amount and compares them to the Settlement revenue allocation.

**Comparison of Scaled-Back Revenue Allocation Proposals and Settlement
\$mm**

	<i>Columbia Filed¹</i>		<i>OCA</i>		<i>OSBA A&E</i>		<i>Company P&A²</i>		<i>Settlement</i>	
	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>	<i>Increase</i>	<i>Percent</i>
RS/RDS	\$13.91	8.4%	\$10.73	6.5%	\$12.49	7.5%	\$11.74	7.1%	\$12.70	7.6%
SGS/SGDS	\$ 2.64	7.8%	\$ 3.93	11.6%	\$ 3.61	10.7%	\$ 2.91	8.6%	\$ 3.20	9.5%
LGS/SDS	\$ 0.45	4.9%	\$ 1.02	11.1%	\$ 0.90	9.9%	\$ 1.02	11.2%	\$ 0.90	9.9%
LDS	\$ 0.00	0.0%	\$ 1.33	11.5%	\$ 0.00	0.0%	\$ 1.33	11.5%	\$ 0.20	1.7%
MDS	\$ 0.00	0.0%	\$ 0.00	0.0%	\$ 0.00	0.0%	\$ 0.00	0.0%	\$ 0.00	0.0%
Total	\$17.00	7.7%	\$17.00	7.7%	\$17.00	7.7%	\$17.00	7.7%	\$17.00	7.7%

¹ Methodology supported by OSBA (if C-D COSS is approved) and supported by OTS.

² Revenue allocation based on Company P&A COSS with OCA revenue allocation algorithm.

Sources: Table IEC-R3 (with proportional scaleback) and Settlement Appendix A (for current revenues).

The percentage increase for each class under the Settlement is within the range of the parties' proposals.³⁶ Therefore, the OSBA supports the revenue allocation in the Settlement as a reasonable compromise that is consistent with the range of COSSs presented.

E. Gas-on-Gas Proceeding

In discovery, Columbia explained how it sets discounted (or "flex") distribution rates where it risks the loss of customers to competition. Due to overlapping service territories in Western Pennsylvania, one such competitive threat is from one or more

³⁶ As the table (above) shows, each class rate increase under the Settlement is smaller than the increase proposed by at least one party and larger than the increase proposed by at least one other party.

other regulated natural gas distribution companies (“NGDCs”). This threat is known as “gas-on-gas competition.”³⁷

Mr. Knecht testified that “gas-on-gas competition” is really not competition. Rather, “gas-on-gas competition” is only cross-subsidization from those ratepayers that do not have multiple NGDC options to those ratepayers that do have multiple NGDC options.³⁸ He recommended that the Commission undertake a generic proceeding to restrict or eliminate “pseudo” competition among NGDCs, testifying as follows:

In the T.W. Phillips Gas & Oil Company (‘TWP’) 1995 base rates case, I testified:

As a general matter, I am a strong supporter of introducing more competition into the business of public utilities. In many cases, unbundling services and deregulating some aspects of utility business has brought substantial benefits to all ratepayers. However, the ‘competition’ between [NGDCs] that gives rise to TWP’s extensive use of its CRA Rider is not the type of competition that leads to lower cost, more efficient service. From an economic perspective, the discounting behavior of [NGDCs] with overlapping service territories is not competition at all -- it is price discrimination. Those customers who are fortunate enough to have access to more than one [NGDC] are awarded lower rates, while those customers who have no such options are discriminated against. There is no net benefit. Few non-regulated businesses in a competitive environment have such an option. Unlike [NGDCs], they have no monopoly customers from whom they can recover the special discounts offered to specific customers. . . .

I recommend that [NGDCs] be allowed to compete between each other only on the basis of posted tariff rates that are paid by customers in both the monopoly and overlapping service territories. However, I do not think that this recommendation can or should be unilaterally applied to TWP in this proceeding. To do so would have grave financial implications for TWP. Instead, I suggest that the Commission undertake a formal investigation into the costs and benefits of its policy for allowing competition between [NGDCs].³⁹

³⁷ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 39; Columbia response to OTS-RS-40-D.

³⁸ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 39.

³⁹ OSBA Statement No. 1, Direct Testimony of Robert D. Knecht, Docket No. R-00953406, October 13, 1995, at 41-43, quoted in this proceeding from OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 39-40.

In regard to “gas-on-gas competition,” the Settlement states:

Columbia agrees to join with OTS, OCA and/or OSBA in a request that the Commission initiate a generic investigation or rulemaking to address whether flex discounts solely as a result of competition from other NGDCs should be permitted to continue and, if permitted to continue, under what circumstances it will be considered appropriate. Other Parties reserve the right to challenge the necessity for any such investigation or rulemaking. The terms and conditions of this Settlement proposal are in no way conditioned upon the Commission commencing the requested generic investigation or rulemaking.⁴⁰

The OSBA respectfully requests that the Commission promptly undertake this generic investigation in order to remedy an inequity that has continued for decades.

F. DSIC Proposal

Columbia proposed that it be permitted to adopt a DSIC in the event that the Pennsylvania legislature authorizes such a mechanism.⁴¹ OSBA witness Mr. Knecht opposed Columbia’s proposal, testifying as follows:

Because no legislative approval has been granted at this writing, it is not clear exactly what form such legislation might take or what specific conditions might be incorporated. At this stage in the proceedings, even if the General Assembly were to enact legislation, Columbia would have no reasonable opportunity to modify its proposal to insure compliance with the legislation. Similarly, the parties would have no ability to conduct discovery regarding whether Columbia’s proposal is consistent with the specifics of the legislation. Thus, for all practical purposes, the evaluation of Columbia’s proposal is best deferred to a future proceeding, if enabling legislation is adopted.⁴²

⁴⁰ Settlement, Paragraph 66.

⁴¹ Columbia Statement No.1, Direct Testimony of M. Carol Fox at 4-5.

⁴² OSBA Statement No. 1, Direct Testimony of Robert D. Knecht at 42.

Mr. Knecht also identified numerous flaws in the specifics of the Company's DSIC proposal.⁴³

In the Settlement, Columbia has agreed to withdraw its DSIC proposal from this proceeding, but has reserved its right to propose a DSIC in the future if such a mechanism is authorized by the General Assembly. The Settlement also preserves the OSBA's right to contest such a DSIC proposal, as well as to contest the specific characteristics of such a proposal.⁴⁴ The OSBA supports this result, in that it is consistent with Mr. Knecht's recommendation.⁴⁵

G. Flex Rates and Burner Tip Cost Comparisons

Flex rates permit a utility to negotiate a rate discount with certain customers in order to keep those customers from leaving the utility's system, *e.g.*, by bypassing to transmission pipelines or NGDCs, substituting an alternative fuel, relocating production to other jurisdictions, and/or closing a plant for economic reasons.⁴⁶

Mr. Knecht testified that "Columbia, like other NGDCs, requires flex rate customers to submit an affidavit affirming that but for the rate discount, the flex rate customer would cease taking distribution service from the Company."⁴⁷

CII witness Mr. Frank Plank testified that, prior to May 2010, customers which have alternative fuel options (which Knouse Foods does) were required to state in the

⁴³ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 42-48.

⁴⁴ Settlement, Paragraph 57.

⁴⁵ OSBA Statement No. 2, Direct Testimony of Robert D. Knecht at 47.

⁴⁶ OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 23.

⁴⁷ *Id.*

affidavit that the discount was necessary for the delivery cost of natural gas to be competitive with the delivery cost of the alternative fuel. However, since May 2010, the affidavit has required Knouse Foods and other similar customers to demonstrate that the discount is necessary for the burner tip cost of natural gas to be competitive with the burner tip cost of the alternative fuel.⁴⁸ Mr. Plank objected to basing the comparison on the cost at the burner tip.⁴⁹ Mr. Plank also expressed concerns about requiring customers to provide confidential natural gas costs to Columbia in making the burner-tip cost comparison.⁵⁰

As summarized by Mr. Knecht, “Mr. Plank testifies that (a) the change is not reasonable because Columbia is only providing distribution service; (b) the change will result in an annual increase of some \$300,000 to Knouse Foods; and (c) the burner tip comparison will require Knouse Foods to disclose competitive information to the Company that is business confidential to natural gas suppliers that compete with Columbia.”⁵¹

In response to Mr. Plank’s testimony, Mr. Knecht noted that no customer has an entitlement to discounted flex rates.⁵² Further, he testified that when a customer such as Knouse Foods evaluates whether to leave the Columbia system, it compares the cost of delivered natural gas to the cost of delivered fuel oil. When Knouse compares those options, it does not limit itself to a comparison of delivery costs. Rather, it compares the

⁴⁸ CII Statement No. 1, Direct Testimony of Frank Plank at 8-9.

⁴⁹ CII Statement No. 1, Direct Testimony of Frank Plank at 10.

⁵⁰ CII Statement No. 1, Direct Testimony of Frank Plank at 12.

⁵¹ OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 23.

⁵² OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 24.

burner tip costs.⁵³ Mr. Knecht, therefore, supported Columbia's tariff, which requires a burner-tip cost comparison, as well as Columbia's more recent interpretation of its tariff as it applies to Knouse Foods.⁵⁴

In addition, Mr. Knecht recommended "that the affidavit be revised to specify: [T]hat any distribution rate greater than that specified in this Agreement would result in [the customer] ceasing to take natural gas distribution service from Columbia and using an alternative fuel as its energy source."⁵⁵ This change would require that a discount be needed to retain the load and that the discount be no more than the maximum amount necessary.

In the Settlement, Columbia agreed to clarify the requirements of the affidavit, to keep all customer information confidential, and to continue requiring a burner tip price as part of the affidavit, subject to review of the facts to determine the reasonableness of the asserted price.⁵⁶ The Settlement does not mandate the language Mr. Knecht proposed for inclusion in the affidavit. However, the Settlement preserves the OSBA's right to review flex rate agreements and to challenge recovery by Columbia if the discounts appear unnecessary or too generous.

⁵³ OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 24.

⁵⁴ OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 24-25.

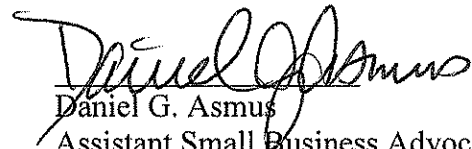
⁵⁵ OSBA Statement No. 3, Rebuttal Testimony of Robert D. Knecht at 26

⁵⁶ Settlement, Paragraph 67.

V. **CONCLUSION**

Although the OSBA is not a signatory to all of the provisions of the Settlement, it does not object to any of them. Therefore, the OSBA respectfully requests that the Commission approve the Settlement in its entirety without modification.

Respectfully submitted,



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