



17 North Second Street  
12th Floor  
Harrisburg, PA 17101-1601  
717-731-1970 Main  
717-731-1985 Main Fax  
www.postschell.com

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Michael W. Hassell

mhasell@postschell.com  
717-612-6029 Direct  
717-731-1985 Direct Fax  
File #: 154502

July 1, 2013

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.  
Docket No. R-2013-2351073, C-2013-2354079 and C-2013-2354106**

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Petition for Settlement of Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

MWH/skr  
Attachment

cc: Honorable Joel H. Cheskis  
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

### VIA E-MAIL AND FIRST CLASS MAIL

Charles Daniel Shields, Senior Prosecutor  
Bureau of Investigation & Enforcement  
PO Box 3265  
Commonwealth Keystone Building  
400 North Street, 2nd Floor West  
Harrisburg, PA 17105-3265

Erin L. Gannon, Esquire  
Aron J. Beatty, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place 5th Floor  
Harrisburg, PA 17101-1923

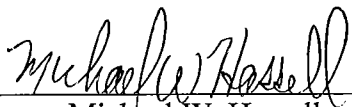
Elizabeth Rose Triscari, Esquire  
Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101

Charis Mincavage, Esquire  
Elizabeth P. Trinkle, Esquire  
McNees Wallace & Nurick LLC  
100 Pine Street  
PO Box 1166  
Harrisburg, PA 17108-1166

Ralph Miller  
5502 Western Avenue  
Chevy Chase, MD 20815  
*Consultant for OCA*

Robert D. Knecht  
Industrial Economics Incorporated  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
*Consultant for OSBA*

Date: July 1, 2013

  
\_\_\_\_\_  
Michael W. Hassell

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
Office of Consumer Advocate	:	
Office of Small Business Advocate	:	Docket Nos. R-2013-2351073
	:	C-2013-2354079
v.	:	C-2013-2354106
	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	

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**JOINT PETITION FOR SETTLEMENT OF RATE  
INVESTIGATION PURSUANT TO 66 Pa.C.S. § 1307(f)**

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**TO ADMINISTRATIVE LAW JUDGE JOEL H. CHESKIS:**

**I. INTRODUCTION**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”) and Columbia Gas of Pennsylvania, Inc. (“Columbia”), parties to the above-captioned proceeding (hereinafter, collectively “Parties”) hereby file this Joint Petition For Settlement of Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) (“Settlement”).<sup>1</sup> As explained below, the Parties have agreed to a settlement of all issues in the above-captioned proceeding and, therefore, respectfully request that Administrative Law Judge Joel H. Cheskis (“ALJ”) and the Commission approve this Settlement as set forth below. In support of this Settlement, the Parties state the following:

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<sup>1</sup> The Columbia Industrial Intervenors (“CII”) are not a party to the Settlement but have indicated that they do not object to the Settlement.

## **II. BACKGROUND**

1. Columbia is a natural gas distribution company providing sales, transportation, and supplier of last resort services to approximately 415,000 customers in 26 counties in western, central, and south-central Pennsylvania, subject to the regulatory jurisdiction of the Commission.

2. On February 28, 2013, Columbia filed with the Commission the pre-filing data required under the Commission's regulations concerning annual changes to rates for the recovery of purchased gas costs. That pre-filing data reflected a proposed decrease of \$0.00412/Therm from Columbia's then-effective rate for recovery of purchased gas costs ("PGC") to sales customers. On April 1, 2013, Columbia filed with the Commission Supplement No. 199 to Tariff Gas - Pa. P.U.C. No. 9, to become effective for service rendered on and after October 1, 2013. In Supplement No. 199, Columbia proposed a decrease in its rates for recovery of purchased gas costs of \$0.00412/Therm.

3. Supplement No. 199 was docketed by the Commission at Docket No. R-2013-2351073 and was assigned to the ALJ. Timely complaints and/or notices of intervention were filed by I&E, OCA, and OSBA. In addition, CII filed a Petition to Intervene on March 28, 2013.

4. An initial prehearing conference was held before the ALJ on April 15, 2013. The Parties who participated in the prehearing conference filed prehearing memoranda identifying potential issues and witnesses. A litigation schedule was established at the initial prehearing conference.

5. The Parties undertook formal and informal discovery prior and subsequent to the initial prehearing conference.

6. Columbia served written direct testimony on April 1, 2013. I&E and OCA served written direct testimony on May 10, 2013.<sup>2</sup>

7. Columbia served rebuttal testimony on June 3, 2013.

8. The Parties held several settlement conferences. As a result of these conferences and the efforts of the Parties to examine the issues raised in this proceeding, a Settlement in Principle of all issues was achieved prior to the date scheduled for the submission of surrebuttal testimony. The Settlement agreed to, or not objected to, by all of the active parties to this proceeding is as follows:

### **III. PROPOSED FINDINGS OF FACT**

The Parties request that the Commission make the following findings of fact and such other findings of fact, if any, as may be required or appropriate.

9. Columbia's Exhibit No. 3 lists FERC proceedings through calendar year 2012 affecting Columbia's ratepayers. Exhibit No. 3 outlines Columbia's participation in these FERC proceedings. Columbia has intervened and actively participated in proceedings of the interstate pipelines serving Columbia.

10. Columbia was active in relevant FERC cases involving Columbia Gas Transmission Corporation ("Columbia Transmission"), Columbia Gulf Transmission Company ("Columbia Gulf"), Equitrans, L.P. ("Equitrans"), National Fuel Gas Supply Corporation ("National Fuel"), Tennessee Gas Pipeline Company, L.L.C. ("Tennessee"), and Texas Eastern Transmission, L.P. ("Texas Eastern"). (Columbia St. No. 1, pp. 23-24, Ex. No. 3.)

11. In 2012, Columbia was active before the FERC in rulemakings and policy statements that have the potential to significantly impact Columbia's efforts to provide reliable gas service at the least cost. (Columbia St. No. 1, pp. 20-23.) Columbia was involved in a rate

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<sup>2</sup> OSBA and CII did not serve written direct testimony.

case involving National Fuel (RP12-88). (Columbia St. No. 1, p. 23.) Columbia was also an active participant in settlement talks which led to Columbia Transmission filing its Capital Cost Recovery Mechanism. (Columbia St. No. 1, p. 24.)

12. Columbia will continue its policy of active participation in individual pipeline supplier rate and certificate proceedings before the FERC, along with FERC generic type rulemaking and policy proceedings which could have a material impact on Columbia's costs or operations, as fully described in Columbia Statement No. 1, pp. 20-24.

13. Numerous Columbia Transmission facilities are used to transport and store Columbia's supply purchases. Because Columbia's local market areas are spread across Pennsylvania and are connected primarily, and in many cases exclusively, to Columbia Transmission facilities, the vast majority of Columbia's peak day supply is delivered by Columbia Transmission. (Columbia St. No. 1, pp. 12-13.)

14. Columbia has full responsibility for purchasing all of its gas supplies directly from producers and marketers. To the extent that affiliated interests offer Columbia gas supplies under competitive terms and conditions, Columbia will consider those supplies like all others in accordance with its policy of purchasing gas supplies from reliable sources at the lowest cost. (Columbia St. No. 1, pp. 12-13; Ex. No. 8-C.)

15. Columbia's gas purchasing objectives and strategies seek a portfolio of least cost supply from both Pennsylvania and interstate producers. Columbia also seeks capacity that is flexible and reliable. These efforts will continue. (Columbia St. No. 1, pp. 24, 29.)

16. Columbia contracts for firm transportation and storage services to meet customers' requirements in its diverse market areas. (Columbia Ex. No. 5, pp. 13-15; Columbia St. No. 1, p. 12.) Columbia's firm peak day capacity provides it with sufficient supply to meet

the human needs demand of firm sales customers under design weather conditions. (Columbia St. No. 1, p. 25.)

17. Columbia's current day design temperature reflects a 6.67% risk level which translates to the capacity necessary to meet firm customer requirements when there is an average temperature of -5°F on the design day. (Columbia St. No. 1, pp. 8-9; Ex. No. 5, p. 7.)

18. Pursuant to a contract renewal approach that was presented to, and approved by, the Commission in Columbia's 2004 1307(f) proceeding, Columbia has created a tiered approach in renewing its Columbia Transmission Firm Transportation Service ("FTS") contracts. Columbia exercised its right to renew a Columbia Transmission FTS contract having capacity of 13,332 Dth that was subject to termination on October 31, 2013 (Columbia St. No. 1-R, p. 17). Columbia also exercised its annual rollover right and retained the capacity under existing contractual provisions on a total of 7,500 Dth of M-3 FTS capacity provided by Texas Eastern and 4,244 Dth of FTS capacity on National Fuel. (Columbia St. No. 1, pp. 19-20.)

19. Columbia holds a contract for Firm Storage Service ("FSS") with Columbia Transmission and a contract for Storage Service Transportation ("SST"). Columbia uses the FSS service to provide daily injection and withdrawal capacity into or out of storage, along with firm peak day deliverability and seasonal storage capacity. The SST capacity provides firm transportation of storage volumes from storage fields to Columbia's city gates, and also transports flowing gas supplies to fill storage during the summer. The use of FSS in conjunction with SST provides Columbia with its primary daily no-notice balancing service. (Columbia St. No. 1, p. 12.)

20. In addition to its contracts for transportation and storage from Columbia Transmission, Columbia has access to various other pipelines. These arrangements currently include the following:

- (a) Columbia has two firm transportation contracts and one storage contract with DTI. The transportation contracts move storage supplies from DTI's storage fields to Columbia's city gates. The first transportation contract provides 6,000 Dth per day, and the second provides 3,000 Dth per day November through March and 2,000 Dth per day April through October. Columbia's storage contract with DTI provides it with 9,000 Dth per day of peak day deliverability and approximately 941 MDth of seasonal supply. Columbia utilizes these DTI contracts to provide supplies to its customers in Beaver County through its Darlington interconnect and in Cranberry Township through its Warrendale interconnect. (Columbia St. No. 1, pp. 14-15.)
- (b) Columbia contracts for firm transportation and storage service with Equitrans. The storage service provides a peak day deliverability of 19,130 Dth and 2,000,000 Dth of seasonal capacity. The firm transportation service has a winter season Transportation Quantity ("TQ") of 19,130 Dth per day and a summer season TQ of 10,000 Dth per day. Columbia utilizes this storage service, and the 19,130 Dth per day of the winter season FTS TQ, to provide service to General Distribution Service customers under Columbia's Elective Balancing Service Option 1 and its peak day service to its Sales and



CHOICE<sup>SM</sup> customers. (Columbia St. No. 1, p. 15; Columbia Ex. 5, p. 17.)

(c) Columbia contracts for firm transportation service with Tennessee totaling 36,100 Dth per day. When the gas supply available through Tennessee is not needed to serve daily demand in Columbia markets that are directly served by Tennessee, Columbia can direct the supply to interconnections with Columbia Transmission for injection into storage or to serve other local markets, thereby increasing Columbia's operating flexibility. (Columbia St. No. 1, pp. 15-16.)

(d) Columbia also has contracts for long-haul firm transportation service with Texas Eastern, totaling 22,335 Dth per day. A total of 19,253 Dth per day is required to serve peak day firm customer demand in Columbia markets directly connected to Texas Eastern, while 3,082 Dth per day must be delivered to Columbia Transmission as an upstream supply in order to meet peak day demand in Columbia markets served by Columbia Transmission. Similar to operations on Tennessee, on days when the 19,253 Dth per day delivered directly to Columbia cannot be absorbed by those markets, Columbia can divert that supply to secondary delivery points off Texas Eastern or to Texas Eastern interconnects with Columbia Transmission for injection into storage or delivery to other Columbia markets served by Columbia Transmission. Columbia also contracts for 10,000 Dth per day of winter season, market-area firm backhaul transportation capacity. Columbia

utilizes this capacity to satisfy cold weather requirements behind the city gates connected to Texas Eastern. (Columbia St. No. 1, pp. 16-17.)

- (e) Columbia also contracts for 4,271 Dth per day of city gate capacity under the FTS rate schedule of National Fuel. This capacity provides service to Columbia's Warren market area and also can be redirected to deliver supplies to Columbia Transmission. (Columbia St. No. 1, p. 17.)

21. In order for Columbia to meet its objective of securing and delivering competitively-priced, reliable gas supplies, Columbia has developed a portfolio of long-term, short-term, and spot-market purchase contracts. (Columbia St. No. 1, p. 25.)

22. Columbia maintains a program for purchasing local production. In addition to local gas purchases delivered directly into Columbia's system, Columbia purchased Appalachian pool gas delivered by producers into Columbia Transmission's system and redelivered to Columbia under transportation agreements. Although it is certain that Pennsylvania production enters the Appalachian production pools, once the gas is part of pool supplies it is commingled with other sources of supply. Thus, the portion of these supplies coming from Pennsylvania production is not known. (Columbia St. No. 1, p. 29.)

23. Columbia has followed its Commission-approved Gas Price Hedging Plan procedures to enter into contracts to hedge the price for a portion of its expected winter season non-storage supply. Pursuant to the Plan, Columbia utilized financial contracts to hedge future gas purchase volumes. (Columbia St. No. 1, pp. 43-45.)

24. As of March 7, 2013, Columbia established fixed prices on 3,780,000 Dth for the winter of 2013-14 at an average price of \$4.1864 per Dth, and established fixed prices on

1,140,000 Dth for the winter of 2014-15 at an average price of \$4.4102 per Dth. (Columbia St. No. 1, p. 46.)

25. Columbia annually submits a Request For Proposal (“RFP”) to numerous suppliers identified as capable and willing to provide firm gas supplies to Columbia. Columbia requests proposals for supplies with varying term lengths, nomination flexibility and innovative pricing options. (Columbia St. No. 1, p. 26.)

26. Columbia’s gas purchases were a least cost supply mix during the historic reconciliation period, consistent with reliable service. (Columbia Ex. No. 8-C.)

27. In the twelve months ended January 31, 2012, Columbia did not shut in or withhold from the market any gas supply or transportation or storage capacity other than for the purposes of retaining sufficient supply to assure reliable supply and balancing services under colder than normal conditions. (Columbia Ex. No. 8-E.)

28. Neither Columbia nor its affiliates withheld any gas from the market or caused any gas supplies to be withheld from the market that should have been utilized as part of a least-cost fuel procurement policy. (Columbia Ex. No. 8-E.)

29. Columbia retains firm contractual rights to all storage, other upstream pipeline and capacity, if any (Columbia St. No. 1, p. 39), and all capacity assignments made to Natural Gas Suppliers (“NGSs”) participating in Columbia’s Customer Choice program are made on a recallable basis. This allows Columbia to maintain service in the event an NGS fails to deliver supplies under Columbia’s Customer Choice Program. (Columbia St. No. 1, p. 43.)

#### **IV. SETTLEMENT**

30. The Parties agree to resolve the following issues as set forth below:

##### **A. Hedging**

1. Effective October 1, 2013, Columbia will suspend the acquisition of further financial hedges pursuant to its current Gas Price Hedging Plan. All financial hedges acquired to that date will continue to be reflected in Columbia's Purchased Gas Cost ("PGC") rates in accordance with existing procedures. With its 2015 PGC pre-filing, Columbia will file and provide all parties with its recommendation whether to resume its Gas Price Hedging Plan, establish some other hedging plan, or continue the suspension of gas price hedging.

##### **B. Unified Sharing Mechanism**

1. The following procedures will be adopted for modifying the Unified Sharing Mechanism ("USM"):
  - a. Projected USM credits will be established in the PGC first quarter filing to be effective October 1, and will remain in effect for 12 months.
  - b. The Projected USM credits shall be based on customers' 75% share of net proceeds, actual and projected, realized by Columbia for the immediately preceding 12-month period ended September 30.
  - c. The credits received by customers during the 12-month period ending September 30 shall be reconciled with the customers' share of net proceeds actually received during that same 12-month

period. Any difference shall be reconciled in E-factor rates beginning October 1.

- d. Columbia's tariff provisions related to the USM shall be modified to provide as follows:

The sharing mechanism for the off-system sales and capacity release revenues shall be as follows. Customer shall receive 75% of all net proceeds through credits in the PGC rates. The Company will establish the credit for each PGC application period (October through the following September) in its October PGC filing, based upon the customer share of the net proceeds received in the preceding PGC application period. Each September, the credits actually received by customers in the PGC application period then ending will be reconciled to the customers' share of the net proceeds actually realized during that period, and any difference will be included in the E-factors for the following PGC application period.

The projected and reconciled off-system sales and capacity release margins credited to the PGC will be divided between the Purchased Gas Demand Cost (PGDC) and the Purchased Gas Commodity Cost (PGCC). The PGDC will be credited with 40% of the margins. The PGCC will be credited with 60% of the margins.

- e. All other aspects of the USM, not modified above or in Section IV.D below, shall remain unchanged.

**C. Supplier Refunds**

- 1. On or before July 1, 2013, Columbia shall file a Petition with the Commission regarding its proposal to use a portion of the \$3.3 million refund from Columbia Gas Transmission, LLC for its Hardship Fund. The Petition shall be served on all active parties to this proceeding. All parties reserve their rights to respond to such Petition.

**D. Peak Day Capacity**

1. In response to issues raised regarding peak day capacity, Columbia agrees as follows:
  - a. In developing its Peak Day Forecast of firm demand, beginning in 2013, Columbia agrees to exclude from its firm design day requirements any adjustments for non-Priority 1 General Distribution Service (“GDS”) customers that are eligible for but have not converted to service under Rate SCD – Small Commercial Distribution.
  - b. In calculating the design day capacity available to meet its firm design day requirements, Columbia may continue to exclude 5,215 Dth of capacity released at the applicable maximum rate to a large industrial customer on Columbia’s system and not subject to recall. Effective October 1, 2013, Columbia will not include the proceeds from this capacity release in the USM mechanism, and 100% of such capacity release revenues received will flow through the PGC.
  - c. Columbia will continue its policy to have sufficient capacity to be within a range of up to 103% of the highest of its projected design day firm requirements for the five-year period of its Peak Demand Forecast. If the results of Columbia’s Peak Day Forecast indicate that Columbia has peak day capacity in excess of this policy, Columbia agrees to reduce its peak day capacity portfolio as

appropriate to the extent that any components of its portfolio are not operationally required and can contractually be reduced.

- d. In future 1307(f) pre-filings, Columbia will file and provide to all parties a report identifying: (1) the level of peak day capacity retained consistent with its policy and this Stipulation and the results of the Peak Day Forecast; and (2) any adjustment in capacity taken pursuant to Columbia's policy and available contractual opportunities. If Columbia retains or renews any capacity in excess of its policy because it deems that capacity "operationally required" as that term is used in paragraph "c)" above, the report will include an explanation of the reason(s) Columbia considers such retained or renewed capacity to be operationally required.
- e. These provisions are not intended to limit the parties' ability to propose changes in future proceedings.

## **V. STANDARDS AND FINDINGS**

31. This proceeding is a consolidation of two reviews that the Commission is required to undertake pursuant to Sections 1307 and 1318 of the Public Utility Code. Pursuant to Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f), the Commission must determine whether Columbia has met the standards of Section 1318, 66 Pa.C.S. § 1318, with regard to the gas costs Columbia has incurred during a historic 12-month period. In addition, because Columbia has filed a tariff proposing a new rate reflecting a change in its natural gas costs, the Commission must determine whether the specific findings of Section 1318 can be made with regard to the period that rates will be in effect in the Application Period. This finding is a

condition precedent to the Commission's approval of the Company's proposed rates. 66 Pa.C.S. § 1318. It is to be noted that the provisions of Section 1318(a) are applicable to all gas utilities that recover their gas costs pursuant to Section 1307(f).

32. Columbia purchases various transportation and storage services from an affiliate, Columbia Transmission, that are necessary to serve Columbia's diverse local market areas. Thus, it is also necessary that the Commission make the findings under Section 1318(b). The historic period reviewed in the proceeding is the 12 month reconciliation period ended January 31, 2013. The new tariff rate is intended to become effective October 1, 2013.

**A. Historic Reconciliation Period Standards.**

33. With respect to Columbia's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ended January 31, 2013, it is requested that the Commission find that Columbia has met the standards set out in Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1318, and required by Section 1307(f)(5) of the Public Utility Code, 66 Pa.C.S. § 1307(f)(5), as to all actual purchased gas costs in the historic period. It is requested that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Parties in this case, that, during the twelve months ended January 31, 2013: (1) Columbia met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers; and (2) Columbia met the requirements of Section 1318(b) of the Public Utility Code relating to its purchases of gas, transportation and storage services from affiliates.

**B. Projected and Interim Period Findings.**

34. With respect to the twelve-month period beginning October 1, 2013, which is the period of time during which the proposed rates contained in this Settlement would be in effect, it



is requested that the Commission make the findings under Section 1318 of the Public Utility Code, including Sections 1318(a)(1) through (a)(4), and 1318(b)(1) through (b)(3), based upon information presently available and based upon evidence of record in this proceeding concerning Columbia's purchasing policies.

35. The Parties agree that, based upon evidence of record in this proceeding concerning Columbia's projected gas purchases and gas purchasing policies, it appears that Columbia's projected gas purchases and projected gas purchasing policies will comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that the findings relating to the rate to become effective October 1, 2013, are made solely for the purpose of setting prospective rates that shall be subject to the standards of Section 1318, and further review in an appropriate future proceeding. This Section of the Settlement is not intended to limit or prevent in any way present or future complainants from reviewing, after such projected gas purchases actually have been made and gas purchasing practices actually have been implemented, whether Columbia's gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period October 1, 2013, through September 30, 2014, are challenged, the Commission's findings in this Section of the Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of, or reductions to, such costs during the one-year period commencing October 1, 2013.

36. The Parties agree that future examination of the gas costs relating to the period February 1, 2013, through September 30, 2013, to determine whether Columbia's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in

Section 1318 of the Public Utility Code shall be permitted and that the Commission's adoption of the findings under this Section of the Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs.

## **VI. CONDITIONS OF SETTLEMENT**

37. The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification. If the Commission modifies the Settlement, any Party may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an Order modifying the Settlement.

38. This Settlement is proposed by the Parties to settle all issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue, the Parties reserve their respective procedural rights to briefing, and to argue their respective positions. The Settlement is made without any admission against, or prejudice to, any position that any Party may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.

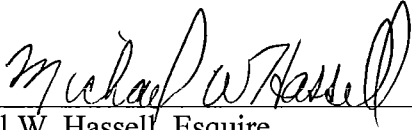
39. The Parties acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any party's position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

40. Attached as Appendices "A" through "D" are Statements of Support submitted by Columbia, I&E, OSBA and OCA, setting forth the bases upon which they believe the Settlement is in the public interest. Appendix "E" is CII's Statement of Non-Opposition to the Settlement.

**VII. CONCLUSION**

WHEREFORE, the Parties, by their respective counsel, respectfully request that the Honorable Administrative Law Judge Joel H. Cheskis and the Commission approve this Settlement including all terms and conditions thereof, and that the Commission enter an Order consistent with this Settlement and mark the complaints at C-2013-2354079 and C-2013-2354106 closed.

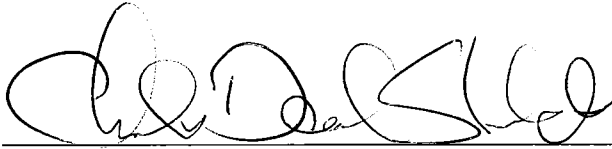
Respectfully submitted,



Michael W. Hassell, Esquire  
Jessica R. Rogers, Esquire  
Post & Schell, P.C.  
17 North Second Street, 12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
*For Columbia Gas of Pennsylvania, Inc.*

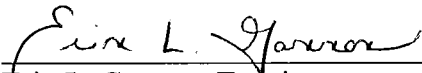
Date: July 1, 2013

Theodore J. Gallagher, Esquire  
Kimberly S. Cuccia, Esquire  
Columbia Gas of Pennsylvania, Inc.  
121 Champion Way, Suite 100  
Canonsburg, PA 15317



Charles Daniel Shields, Esquire  
Senior Prosecutor  
Bureau of Investigation and Enforcement  
PO Box 3265  
Commonwealth Keystone Building  
400 North Street, 2nd Floor West  
Harrisburg, PA 17105-3265  
*For the Bureau of Investigation and Enforcement*

Date: 7/1/13



Erin L. Gannon, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place 5th Floor  
Harrisburg, PA 17101-1923  
*For Office of Consumer Advocate*

Date: July 1, 2013



Elizabeth Rose Triscari, Esquire  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North Second Street  
Harrisburg, PA 17101  
*For Office of Small Business Advocate*

Date: July 1, 2013

# Appendix A

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
Office of Consumer Advocate	:	
Office of Small Business Advocate	:	Docket Nos. R-2013-2351073
	:	C-2013-2354079
v.	:	C-2013-2354106
	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	

**COLUMBIA GAS OF PENNSYLVANIA, INC.  
STATEMENT IN SUPPORT**

Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) submits this Statement in Support of the Joint Petition for Settlement of Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) in the above-captioned proceedings (“Settlement”). Signatories to the Settlement are Columbia, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”), parties to the above-captioned proceeding (hereinafter collectively referred to as the “Parties”).<sup>1</sup>

The Parties have reviewed Columbia’s purchased gas costs (“PGC”) and purchasing practices and have concluded that both are consistent with the standards set forth in the Public Utility Code. Several issues were raised by the parties, and the Settlement resolves any and all issues in the above-captioned proceeding.

The Settlement was achieved after a comprehensive investigation of Columbia’s gas purchasing practices, including extensive discovery and discussion among the Parties. Columbia

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<sup>1</sup> The Columbia Industrial Intervenors (“CII”) are a party to this case, and do not object to the Settlement.

submits that the Settlement fairly balances the interests of the Company and its customers and, therefore, is in the public interest. Columbia respectfully requests that Administrative Law Judge Joel H. Cheskis (the “ALJ”) and the Commission approve the Settlement in its entirety, without modification. Columbia notes that by resolving all issues in this proceeding through settlement, the Parties were able to successfully avoid the additional costs associated with litigation.

For the reasons set forth below, the Settlement is just and reasonable and should be approved.

## **I. SETTLEMENT**

### **A. Hedging**

In its 1997 1307(f) proceeding, Columbia filed a proposal to begin setting a portion of future gas purchase prices using the natural gas futures market and related tools in order to mitigate the impact that volatile winter season gas prices might have on gas costs charged to customers. Columbia St. No. 1, p. 42. As part of that 1307(f) case, it was agreed that Columbia could utilize such tools as part of its gas-purchasing program and that the costs associated with such gas procurement techniques would be recoverable as gas costs. *Id.* In each year since the 1997 order, hedging has been accomplished under the process defined by Columbia’s Gas Price Portfolio Guideline, later renamed Columbia’s Gas Price Hedging Plan, which has been shared with the statutory parties as part of the 1307(f) filing. *Id.* at p. 43. Beginning in 2005, pursuant to Commission Order, Columbia began using NYMEX Natural Gas Futures contracts to hedge pursuant to the Plan, instead of fixing the price of gas within a physical gas contract. *Id.*

As part of a settlement of Columbia’s 2012 1307(f) proceeding, Columbia agreed to undertake a study of its Hedging Program. The results of that study were submitted with Columbia’s pre-filing requirements on February 28, 2013. Over the span of four winter periods,

which were the subject of the study, the winter season volumes hedged ranged from a low of 6,000 MDth for the 2012-2013 winter to a high of 7,400 MDth for the 2010-2011 winter with the incremental hedging costs ranging from a low of \$6.5 million for the 2012-2013 winter to a high of \$22.6 million for the 2009-2010 winter. Columbia St. No. 1, p. 46. In sum total, 27,360 MDth was hedged for these four winters at an incremental incurred cost of \$65.5 million with winter season average unit incremental hedging costs ranging from \$3.13/Dth in the 2009-2010 winter to \$1.09/Dth in the 2012/2013 winter. *Id.*

Following review of the results of the study, the Company proposed a modified hedging plan that would reduce the total amount of hedges. As noted in its rebuttal testimony, after much deliberation about the concept of an abbreviated version of the current program versus not hedging at all, Columbia chose the first alternative. Columbia St. No. 1-R, pp.1-2. The Company therefore proposed a plan that would reduce the number of months and volumes hedged, with the hedging window period reduced from 24 to 12 months. *Id.* I&E proposed that Columbia suspend its hedging program, given the current large supply of low cost of gas. I&E St. No. 1, pp.6-7. In settlement, the parties adopted the I&E proposal. As indicated in Columbia's hedging study, even under the proposed modified plan, customers would still have paid more for hedged gas for the historic periods that were studied than they would have if no hedging had been done. Based upon the foregoing, Columbia supports a suspension of its hedging plan as being in the best interest of its customers.

#### **B. Unified Sharing Mechanism**

Columbia's Unified Sharing Mechanism ("USM"), as revised by the Commission's Order in Columbia's 2009 1307(f) proceeding, and as further approved in Columbia's 2012 1307(f) proceeding, provides for customers to receive 75% of the net USM proceeds while Columbia receives the remaining 25% as an incentive to undertake off system sales and capacity



release opportunities. Columbia St. No. 2, p. 5. Under the current mechanism, Columbia projects an \$8,000,000 credit to be received by customers, and reconciles that projected credit to the actual amount to be provided to customers. *Id.*

In this proceeding, Columbia requested, and the Parties have agreed, to base the annual projected credit for the USM on the net revenues to be received by customers from the preceding application period. For example, the Company estimates the customers' share of Off System Sales and Capacity Release net revenues for the application period of October 2012 to September 2013 to be approximately \$5,700,000 and therefore included a projected credit in that amount in the calculation of the proposed PGC for October 2013 to September 2014. *Id.* at p. 7. The projected amount will ultimately be reconciled to the actual net proceeds credited under the unified mechanism in Columbia's January 2015 quarterly PGC filing. *Id.*

The purpose of this change is to avoid the creation of a large overcollection each year. The reconciliation feature ensures that the net revenues are accurately flowed to the customers. *Id.* at p. 5. As evidenced by the data contained in Columbia St. No. 2, p. 6, while the projected credit of \$8,000,000 historically minimized the creation of a large overcollection, the USM credits have been declining since 2007 and for the experienced 2012 period, the revenues to be received by customers totaled just under \$4.2 million. The projected \$8,000,000 credit therefore passed too much to customers and the over-refund is currently being recouped from customers. *Id.* The modification agreed to in the Settlement is intended to adjust the projected credit in future PGCs so that the projected credit more closely tracks the actual USM amount to be provided to customers based on recent Company experience.

In addition to the foregoing change to the projection of USM credits, the parties also agreed to a prospective change in amounts to be reflected in the USM mechanism. This additional change is explained in Section D, below.

### **C. Supplier Refunds**

On March 11, 2013, Columbia received a refund from Columbia Transmission (“Transmission”) pursuant to the FERC-approved settlement at FERC Docket RP12-1021 in the amount of \$5,985,293.23. Columbia St. No. 2, p. 23. Of that amount, \$2,620,854.29 is a demand refund related to a change in depreciation rates effective January 1, 2012. *Id.* This portion is a supplier refund in the traditional sense, based upon billing determinants and actual amounts paid. The PGC filed to be effective October 1, 2013 will reflect this refund and associated interest on Exhibit No. 1-E, Schedule 5. *Id.*

The balance of \$3,364,468.94 represents a payment negotiated as part of the settlement of the referenced proceeding. Columbia did not include this refund in the E-Factor in this case, and stated that it intended to petition the Commission to authorize Columbia to allocate a portion of this amount to its Hardship Fund. *Id.* The Hardship Fund is a Columbia-sponsored fuel fund that provides financial assistance through grants to low-income (0%-200% of the Federal Poverty Level), payment-troubled customers, and is administered by the Dollar Energy Fund. The Commission has authorized Columbia to use portions of several supplier refunds to provide further funding to its residential Hardship Fund. *Id.* at 24. As recently as June 13, 2013, the Commission approved Columbia’s allocation of supplier refunds to the Hardship Fund, in the Petition filed at Docket No. P-2012-2314912.

I&E challenged the proposed ratemaking treatment of these credits, and proposed that the entire amount of the credits be reflected in the PGC. I&E St No. 2, p. 4. No other party took a position on the issue in direct testimony.

In settlement, the parties have agreed that on or before July 1, 2013, Columbia will file a Petition with the Commission regarding its proposal to use a portion of the \$3.3 million refund from Transmission for its Hardship Fund.<sup>2</sup> Columbia will serve the Petition on all active parties to the 1307(f) proceeding. All parties to the 1307(f) proceeding will then have the opportunity to respond to the Petition. A separate petition proceeding is a more appropriate forum for determining the allocation of the refund than the current 1307(f) proceeding, and does not deprive any party of their opportunity to be heard on this issue.

#### **D. Peak Day Capacity**

Columbia's design peak day demand forecast is based upon the following conditions and considerations: (1) the "design" conditions of (a) current day design temperature, (b) prior day design temperature, (c) current day design wind speed and (d) occurrence of the design peak day on a weekday; (2) an estimate of the number of customers to be served each January for the term of the forecast; (3) an estimate of the price of gas for each November for the term of the forecast; and (4) the assumption that normal temperatures will be experienced in each December and January for the term of the forecast because these are the two months when Columbia's design conditions are most likely to occur. Columbia St. 1, p. 8. All of the above factors influence customer demand on Columbia's system on the current day. *Id.*

Columbia utilizes a multiple variable, linear regression analysis of (1) historic daily demand, temperature and wind speed data to determine the design actual daily demand estimate for the most recent year; and (2) a second multiple variable, linear regression analysis of the estimated historic design actuals, January customer counts (historic and forecast),

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<sup>2</sup> Columbia filed *Petition of Columbia Gas of Pennsylvania, Inc. for Approval to Contribute Columbia Gas Transmission, LLC Refund Proceeds to Residential Hardship Fund and Provide Credits to Non-Residential PGC Customers* on June 28, 2013. The petition has been assigned Docket No. P-2013-2371147.

December/January degree days (actual and normal) and retail gas prices (historic and forecast) to develop its peak day forecast. *Id.* at p. 9. The Company's policy in regard to its peak day supply and capacity is to be within 103% of the highest of its projected design day firm requirements for the five-year period of its Peak Demand Forecast. Columbia St. 1-R, p. 7.

In direct testimony, OCA presented several challenges to Columbia's calculation of its design day requirements, and proposed that Columbia reduce its interstate pipeline capacity at the next available opportunity. OCA St. No. 1, pp. 5-22. In rebuttal, Columbia presented several arguments in opposition to OCA's contentions. Columbia St. 1-R, pp. 3-21. As explained below, the Settlement represents a compromise of OCA's and the Company's respective positions.

One challenge presented by OCA concerned Columbia's inclusion in its peak day forecast firm demand for customers who could take service under Rate SCD – Small Commercial Distribution. Columbia St. 1-R, p. 3. Rate SCD, which is part of Columbia's CHOICE program, provides suppliers with firm capacity to deliver supplies to customers. Columbia began to include customers who were eligible for Rate SCD in its design day forecast following the settlement of Columbia's 2011 base rate proceeding, wherein it was agreed to expand the eligibility criteria for Rate SCD, in response to proposals by suppliers. *Id.* A total of 13,160 Dth is attributable to these customers. OCA argued that Columbia should not retain firm capacity for these customers who could elect Rate SCD. OCA St. No. 1, p. 12. In rebuttal, the Company explained that 6,400 Dth of the 13,160 Dth is attributable to Small General Distribution Service ("SGDS") Priority 1 customers who, because of their rate structure, must be classified as firm. Columbia St. 1-R, p. 4. Under Columbia's tariff, if gas service is used for "essential human needs" such as an apartment complex, the distribution service customer is

deemed a Priority 1 customer. *Id.* Such customers are required to pay the purchased gas demand charge (“PGDC”), and the Company must hold firm capacity to serve them. *Id.* These customers are not otherwise included in Columbia’s firm demand shown in Exhibit 13. *Id.* at p. 5. In Settlement, the parties have agreed that Columbia’s design day capacity requirements should include capacity for customers who are SGDS Priority 1 customers.

OCA’s second challenge concerned the Company’s deduction from its interstate capacity available to serve firm customers an amount of 5,215 Dth of capacity that is released to a large industrial customer. OCA St. No. 1, pp. 7-9. As Columbia explained in rebuttal, it is appropriate to exclude this capacity from the capacity available to serve firm customers because this capacity is released on a non-recallable basis, and thus is not available to serve firm customers on a design day. *Id.* Columbia explained that this capacity release has been excluded from its available design day capacity for more than 10 years. Columbia St. 1-R, p. 5. The proceeds of that release have been flowed through the USM mechanism.

In Settlement, the parties have agreed that Columbia will be permitted to continue to exclude the 5,215 Dth of capacity released to the large industrial customer from the calculation of available design day capacity. Columbia further agrees that beginning October 1, 2013, Columbia will no longer reflect the revenues received from this capacity release in the USM mechanism. As a result, in the future, 100% of the capacity release revenues associated with that customer will flow through the PGC. This compromise credits firm customers with the full value received from this long-term, non-recallable release, while properly excluding the capacity from the calculation of firm capacity available to serve firm customers.

OCA’s final challenge concerned Columbia’s policy for determining the amount of capacity retained to serve firm customers on a peak day. OCA St. No. 1, pp. 13-21. Columbia

explained in rebuttal that its policy, which looked at projected capacity requirements for the five year term of its annual peak day forecasts, was a prudent approach designed to better assure Columbia's ability to fulfill its firm service requirements now and in the future. Columbia St. 1-R, p. 11. Columbia further explained that projections of future requirements are difficult to prepare, and that Columbia's forecast did not include any reserve margin for unanticipated growth in demand or failure of delivery of supplies on a design day. *Id.* at pp. 13-15. Columbia further explained that the complexity of its design network and its reliance on interstate capacity to deliver supplies across its system to over 370 points of delivery require that Columbia manage its upstream capacity and supply to meet its firm service obligations throughout all of the Company's discrete service areas. *Id.* at pp. 16-20.

In Settlement, the parties agreed that Columbia would be permitted to continue its policy to have sufficient capacity to be within a range of up to 103% of the highest of its projected design day firm requirements for the five-year period of its Peak Day Forecast. If the results of Columbia's Peak Day Forecast indicate that Columbia has peak day capacity in excess of this policy, the Company has agreed to reduce its peak day capacity portfolio as appropriate to the extent that any components of its portfolio are not operationally required and can contractually be reduced. In future 1307(f) pre-filings, Columbia will file and provide to all parties a report identifying: (1) the level of peak day capacity retained consistent with its policy and the results of the Peak Day Forecast; and (2) any adjustment in capacity taken pursuant to Columbia's policy and available contractual opportunities. If Columbia retains or renews any capacity in excess of its policy because it deems that capacity "operationally required," the report will include an explanation of the reason(s) Columbia considers such retained or renewed capacity to be operationally required.

These adjustments will ensure that Columbia has sufficient capacity to meet its design day projections and to continue to provide reliable service to the Company's firm service customers in the future. The compromises contained in the Settlement are reasonable and should be adopted.

## **II. Conclusion**

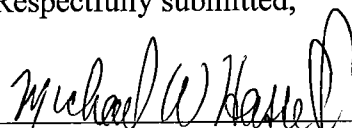
The Settlement resolves all issues raised during this proceeding. For the reasons explained above, and those set forth in the proposed findings in the Settlement, the resolution of this proceeding in accordance with the terms of the Settlement is in the public interest. The Settlement should be approved without modification.

Theodore J. Gallagher (ID # 90842)  
Kimberly S. Cuccia (ID # 308216)  
Columbia Gas of Pennsylvania, Inc.  
121 Champion Way, Suite 100  
Canonsburg, PA 15317  
Phone: 724-416-6355  
Fax: 724-416-6384  
E-mail: [tjgallagher@nisource.com](mailto:tjgallagher@nisource.com)  
[kscuccia@nisource.com](mailto:kscuccia@nisource.com)

Post & Schell, P.C.

Date: July 1, 2013

Respectfully submitted,

  
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Michael W. Hassell (ID # 34851)  
Jessica R. Rogers (ID # 309842)  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: [mhassell@postschell.com](mailto:mhassell@postschell.com)  
E-mail: [jrogers@postschell.com](mailto:jrogers@postschell.com)

Attorneys for Columbia Gas of Pennsylvania, Inc.

# Appendix B



**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2013-2351073
	:	
v.	:	[Section 1307(f) Proceeding]
	:	
Columbia Gas of Pennsylvania, Inc.	:	

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**STATEMENT IN SUPPORT OF  
THE BUREAU OF  
INVESTIGATION AND ENFORCEMENT**

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**TO ADMINISTRATIVE LAW JUDGE JOEL H. CHESKIS:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”) respectfully requests that the terms and conditions of the foregoing Joint Petition for Settlement of Rate Investigation in the instant Section 1307(f), 66 Pa.C.S. § 1307(f), proceeding involving Columbia Gas of Pennsylvania, Inc. (“Columbia” or “Company”) be approved by Your Honor and the Commission. I&E submits that the proposed settlement and termination of the rate investigation is in the public interest and, in support thereof, avers as follows:

1. On April 1, 2013, Columbia duly filed copies of its definitive filing under Section 1307(f), 66 Pa.C.S. § 1307(f), of the Public Utility Code and the corresponding Commission regulations. As is typical of the procedure in these Columbia Gas annual Section 1307f proceedings, I&E counsel signed a Stipulated Protective Agreement on

March 25, 2013, with Columbia counsel establishing conditions for the treatment of certain identified confidential and/or proprietary information to be provided to I&E during the case.

2. The filing was docketed by the Commission at R-2013-2351073 and was eventually assigned to Administrative Law Judge Joel H. Cheskis (“ALJ Cheskis”) for investigation and the scheduling of hearings to consider the justness and reasonableness of the rate to recover legitimate gas costs from customers through the Section 1307(f) surcharge.<sup>1</sup>

3. I&E filed its Notice of Appearance on March 6, 2013. Columbia Industrial Intervenors (“CII”) filed a Petition to Intervene, the Office of Consumer Advocate (“OCA”) filed a Formal Complaint and the Office of Small Business Advocate (“OSBA”) filed a Formal Complaint.

4. ALJ Cheskis conducted the Prehearing Conference on April 15, 2013, at 10:00 a.m. in Hearing Room 3 in the Keystone Building. Counsel representing Columbia, I&E, OCA, OSBA and CII participated in the Prehearing Conference. During this proceeding, I&E and a number of the other active parties served interrogatories upon Columbia and Columbia provided timely responses. I&E’s review of the filing and the provided interrogatory responses identified two (2) issues of particular concern, and those

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<sup>1</sup> I&E received the Hearing Notice of the Office of Administrative Law Judge (“OALJ”) dated April 3, 2013, identifying the presiding Administrative Law Judge as Dennis J. Buckley (“ALJ Buckley”). ALJ Buckley issued a First Prehearing Conference Order on April 1, 2013. Subsequently, ALJ Cheskis was assigned to preside in the case.

issues were the subject of the distributed I&E direct testimony and exhibits – identified as (1) I&E Statement No. 1, the Direct Testimony of Jeremy B. Hubert and his accompanying I&E Exhibit No. 1 and (2) I&E Statement No. 2 the Direct Testimony of Rachel Maurer and her accompanying I&E Exhibit No. 2. Both I&E testimonies and related exhibits have or will be entered into the record in this proceeding by collective motion of the parties.

5. The settlement discussions held among all active parties eventually produced an agreement in principle, including the amicable resolution of the two issues of particular interest to I&E that, inter alia, are now embodied in the foregoing Joint Petition for Settlement of Rate Investigation.

6. Based upon I&E's analysis, acceptance of this proposed settlement is in the public interest for the following reasons:

a. Resolution of this case by settlement rather than litigation will avoid the substantial time and expense involved in continuing litigation of certain issues in this proceeding. In particular, acceptance of this settlement will negate the need for the parties to submit surrebuttal testimony, for any direct and cross-examination of witnesses at evidentiary hearing(s), the preparation of main briefs, reply briefs, exceptions and reply exceptions, and potential appeals on matters contained in the settlement petition. I&E respectfully submits that the avoidance

of further and unnecessary rate case expense by settlement of this case serves the interests of both Columbia Gas of Pennsylvania, Inc. and its customers.

b. The purchased gas cost recovery rates contained in the settlement have been properly calculated, adhere to all applicable rules and regulations, and are thus fair and reasonable.

c. Approval of the Joint Petition does not preclude future Commission investigation and/or litigation of Columbia's fuel procurement policies, in accordance with the Commission's obligations mandated by 66 Pa.C.S. §§ 1307(d) and (f) and other pertinent law.


d. As noted above, the settlement contains the resolution of two issues of particular interest to I&E. The I&E Direct Testimony recommended the suspension of the Company's present gas price hedging program. This issue is addressed in the Joint Petition at Paragraph 30. A. entitled "Hedging," that provides that, effective October 1, 2013, Columbia will suspend the acquisition of further financial hedges pursuant to its current Gas Price Hedging Plan. All financial hedges acquired to that date will continue to be reflected in Columbia's PGC rates in accordance with existing procedures. With its 2015 Section 1307(f) pre-filing, Columbia will file and provide all parties with its recommendation whether to resume its Gas Price Hedging Plan, establish some other hedging plan, or continue the suspension of gas price hedging.

e. The second issue of particular interest to I&E relates to the filing of a subsequent petition by Columbia seeking certain authorized distribution of a \$3.3 million refund from its supplier Columbia Gas Transmission, LLC. This forthcoming filing of a supplier refund petition is referenced in the Joint Petition at Paragraph 30. C., entitled, "Supplier Refunds." That section of the Joint Petition identifies and establishes that the filing of the Columbia petition regarding the proper distribution of the supplier refunds shall be made by with the Commission on or before July 1, 2013, and that I&E and each of the other parties to this instant proceeding shall be served with the petition and have the expressly reserved right to individually respond to the petition at their discretion.

7. If for whatever reason this matter proceeds to full litigation, I&E is prepared to take one or more positions that may differ from the terms and conditions embodied in the present settlement petition.

**WHEREFORE**, for the reasons set forth above and those contained in the Joint Petition, the Bureau of Investigation and Enforcement respectfully requests that Administrative Law Judge Cheskis and the Commission approve the foregoing Joint Petition for Settlement of Rate Investigation in this present Section 1307(f), 66 Pa.C.S. § 1307(f) proceeding, docketed at R-2013-2351073, as submitted by all active parties.

Respectfully submitted,



A handwritten signature in black ink, appearing to read "Charles R. Stille", is written over a horizontal line.

Charles Daniel Shields  
Senior Prosecutor

Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
Post Office Box 3265  
Harrisburg, Pennsylvania 17105-3265

Dated: June 27, 2013

# Appendix C

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
<b>v.</b>	:	<b>DOCKET NO. R-2013-2351073</b>
	:	
<b>COLUMBIA GAS OF PENNSYLVANIA, INC.</b>	:	

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

**I. INTRODUCTION**

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. In order to discharge this statutory duty, the Office of Small Business Advocate (“OSBA”) is participating as a party to this proceeding to ensure that the interests of small commercial and industrial (“Small C&I”) customers of Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) are adequately represented and protected.

**II. PROCEDURAL BACKGROUND**

On February 28, 2013, pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. Section 1307(f), Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) submitted pre-filing supporting information concerning its annual Purchased Gas Cost (“PGC”) Rate filing. The Company made its annual PGC filing on April 1, 2013.



On March 6, 2013, the Commission's Bureau of Investigation and Enforcement ("I&E") entered a notice of appearance.

The OSBA filed a Complaint on March 20, 2013. The Office of Consumer Advocate ("OCA") filed a Complaint on March 22, 2013.

A Petition to Intervene was filed by the Columbia Industrial Intervenors ("CII") on March 28, 2013.

A Prehearing Conference was held on April 15, 2013, before Administrative Law Judge ("ALJ") Joel Cheskis, at which time the parties agreed to a procedural schedule and certain discovery modifications. In addition, ALJ Cheskis granted CII's Petition to Intervene.

Both before and after the Prehearing Conference extensive discovery was conducted by the parties.

Direct Testimony was submitted by OCA and I&E on May 10, 2013. The Company submitted Rebuttal Testimony on June 3, 2013.

The parties engaged in discussions that led to a settlement of all issues. By agreement of the parties, and with the consent of ALJ Cheskis, the procedural schedule was suspended by order dated June 7, 2013, and the evidentiary hearings scheduled for June 13-14, 2013, were cancelled. The parties have concurrently submitted a joint motion requesting that testimony be admitted into the record by stipulation.

The OSBA actively participated in the negotiations that led to the proposed settlement, and is a signatory to the Joint Petition For Settlement of Rate Investigation Pursuant to 66 Pa.C.S. § 1307(f) ("Joint Petition"). The OSBA submits this statement in support of the Joint Petition.

### **III. STATEMENT IN SUPPORT**

On April 11, 2013, the OSBA filed its Prehearing Memorandum in this proceeding. In the Prehearing Memorandum, the OSBA identified the following specific issues of concern:

1. Whether the Company's proposed treatment of pipeline refunds is just and reasonable;
2. Whether the Company's proposed reduction in gas supply price hedging is reasonable;
3. Whether the Company's proposed method for calculating and sharing off system sales margins and capacity release revenues in the USM remains reasonable;
4. Whether the Company's claims for unaccounted-for gas costs are reasonable;
5. Whether the Company's proposed gas retainage rates for transportation customers are reasonable;
6. Whether the Company's design day demand forecasting method is reasonable; and
7. Whether the Company's upstream capacity is reasonably consistent with the design day demand forecast.

Through discovery and settlement discussions, the OSBA determines that its concerns have generally been addressed, and that the settlement is therefore reasonable and in the interest of Columbia's Small C&I customers.

#### **A. Suspension of Hedging Program (Joint Petition at page 10, ¶30(A))**

With respect to specific issues in the Joint Petition, the OSBA notes that the parties have agreed to suspend Columbia's hedging program for "locking in" prices for future gas purchases, in order to reduce the Company's exposure to periodic gas price spikes during high gas purchase periods. In its filing in this proceeding, pursuant to the settlement in last year's PGC filing at Docket No. R-2012-2293303, the Company submitted a study of the historical performance of its hedging program. Because natural gas prices have generally been flat or declining for the past

several years, as a result of expanded drilling in the Marcellus Shale formation and a very weak economy, Columbia's hedging program resulted in higher costs for PGC customers in the recent past. In response to the findings of its study, Columbia proposed to reduce the level of its hedging on a going forward basis. While OCA found this proposal to be acceptable, I&E submitted analysis and expert testimony opposing continuation of the program. I&E's expert concluded, "For the foreseeable future then, the likelihood for more stable gas prices is significantly greater and the risk of dramatically higher natural gas prices is significantly lower than it has been in many years."<sup>1</sup> Based on the analysis and expert testimony of I&E, the OSBA does not object to the suspension of the hedging program.

**B. Supplier Refunds (Joint Petition at page 11, ¶30(C))**

In addition, the OSBA does not object to the provision of the Joint Petition in which parties agree that Columbia will file a petition to use a portion of its upstream supplier refunds for its Hardship Fund, to benefit certain low-income residential customers. As it has consistently done in the past, the OSBA will oppose any effort by the Company to apply refunds that would otherwise be allocated to non-residential customers for its Hardship Fund. Established Commission policy mandates that residential low-income assistance programs be financed by residential customers.

**C. Peak Day Demand Calculation (Joint Petition at pages 11-13, ¶30(D))**

With respect to the issues surrounding the peak day demand calculation, the OSBA fully endorses the settlement language, and commends the OCA for its efforts in this respect on behalf of all PGC ratepayers. The Joint Petition makes two important adjustments to Columbia's

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<sup>1</sup> I&E Statement No. 1 at 7.

proposed calculation of its design day capacity requirements. First, the OCA correctly recognized that the Company was being unduly conservative in assuming that it would need to retain capacity to meet the design day demand needs of all customers who currently take regular transportation service, but who become eligible for “Choice” retail service as a result of a tariff change in the Company’s last base rates case. The Joint Petition correctly recognizes that it would be unreasonable to assume that all such customers will convert to Choice supply. Second, the OCA correctly recognized that Columbia was excluding 5,215 Dth/day of capacity from its available design day capacity, because that capacity was released to a large industrial customer on a non-recallable basis. In effect, Columbia was retaining that capacity for PGC customers, releasing it to a large industrial customer, pocketing its 25 percent of capacity release revenues through the “USM” sharing mechanism, claiming that the capacity was not available to meet PGC customer peak demands, and then implicitly retaining additional capacity to meet PGC customer needs. In the OSBA’s view, natural gas distribution company (“NGDC”) sharing mechanisms for capacity release revenues were intended to apply only to capacity that is necessary to meet PGC customer requirements. They were not intended to allow NGDCs to retain excess capacity and then use it to their shareholders’ benefit at the expense of PGC ratepayers. This issue is reasonably resolved in the Joint Petition by excluding this excess 5,215 Dth/day of capacity from the sharing mechanism.

**D. Benefits of Settlement**

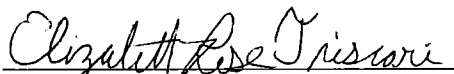
Lastly, settlement of this proceeding avoids the litigation of complex, competing proposals and saves the possibly significant costs of further administrative proceedings. Such costs are borne not only by the Joint Petitioners, but ultimately by the Company’s customers as

well. Avoiding further litigation of this matter will serve judicial efficiency, and will allow the OSBA to more efficiently employ its resources in other areas.

**IV. CONCLUSION**

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in this statement, the OSBA supports the proposed Joint Petition and respectfully requests that ALJ Cheskis and the Commission approve the Joint Petition in its entirety without modification.

Respectfully submitted,



Elizabeth Rose Triscari  
Assistant Small Business Advocate  
Attorney ID No. 306921

For:

John R. Evans  
Small Business Advocate

Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101

Dated: June 27, 2013

# Appendix D

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2013-2351073
	:	
Columbia Gas of Pennsylvania, Inc.	:	

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STATEMENT OF THE OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF THE PROPOSED JOINT PETITION FOR SETTLEMENT OF  
RATE INVESTIGATION PURSUANT TO 66 Pa. C.S. § 1307(f)

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The Office of Consumer Advocate (OCA), one of the signatory parties to the Proposed Joint Petition for Settlement of Rate Investigation pursuant to 66 Pa. C.S. § 1307(f) (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

**I. Background**

On February 28, 2013, Columbia Gas of Pennsylvania, Inc. (Columbia or Company) submitted its purchased gas cost (PGC) pre-filing information in support of its annual reconciliation of PGC rates pursuant to § 1307(f) of the Public Utility Code. 52 Pa. Code §53.64, 53.65; 66 Pa. C.S. § 1307(f). On April 1, 2013, Columbia submitted its definitive filing, in which it proposed a PGC rate of \$0.53454/therm for services rendered on and after October 1, 2013.

The Company's 1307(f) filing was assigned to the Office of Administrative Law Judge and was further assigned to the Honorable Administrative Law Judge Joel H. Cheskis (ALJ) for investigation and scheduling of hearings to determine whether Columbia's gas costs comply with the standards set forth in the Public Utility Code. On March 6, 2013, the Bureau of Investigation &

Enforcement (I&E) filed a Notice of Appearance. On March 20, 2013, the Office of Small Business Advocate (OSBA) filed a Complaint against the Columbia filing. On March 29, 2013, the OCA filed a Formal Complaint against Columbia's proposed PGC rates.

A Prehearing Conference was held on April 15, 2013 before ALJ Cheskis, at which time a procedural schedule was adopted. Consistent with that schedule, the OCA served written testimony by Ralph E. Miller on May 10, 2013 (OCA Statement No. 1). I&E also served written direct testimony.

The parties were able to reach a comprehensive agreement in principle prior to the deadline for filing surrebuttal testimony. The evidentiary hearings were cancelled and all parties agreed to stipulate to the admission of testimony. Columbia, OCA, I&E and OSBA entered into the proposed Settlement, which the OCA submits is in the public interest for the reasons set forth below.

## **II. Terms and Settlement**

The OCA raised three issues regarding Columbia's PGC filing. They relate to the Company's Gas Price Hedging Plan, the Unified Sharing Mechanism (USM) and Columbia's peak day capacity.

### Hedging Plan

Pursuant to the Settlement approved in Columbia's 2012 PGC proceeding, the Company analyzed its hedging strategy and provided the results of its analyses with its 2013 pre-filing. Based on its study, the Company recommended certain changes to its plan that would reduce the quantity of gas purchases that Columbia hedges and limit the hedging period. The OCA found these modifications to be an appropriate response to current gas market conditions. OCA St. 1 at 5. I&E recommended, however, that the Company suspend hedging altogether. The Company agreed to



suspend hedging effective October 1, 2013, with the clarification that financial hedges acquired to that date will continue to be reflected in Columbia's PGC rates.

For purposes of settlement, Columbia agreed to provide a further recommendation at the time of its 2015 pre-filing whether to resume its Gas Price Hedging Plan, establish some other hedging plan, or continue the suspension of gas price hedging. Because markets are dynamic, the OCA submits that it is appropriate for Columbia to regularly assess its hedging strategy and that having the Company's recommendation by March 1, 2015 will provide adequate time for interested parties to consider the information during their review of the 2015 PGC filing.

#### USM

Regarding the USM, Columbia proposed to change the way it calculates the amounts of the USM credits to the Purchased Gas Commodity Cost (PGCC) and Purchased Gas Distribution Cost (PGDC) rates. The changes affect the credit rate, but not the amount eventually credited to customers through the USM, because the actual credits have been and will continue to be reconciled to the actual USM proceeds.

The OCA supports the changes but recommended certain clarifications to the tariff language describing the USM that were agreed to by the Company and are adopted in the proposed Settlement. The clarifications emphasize that this year's USM credits will be reconciled with this year's net proceeds, even though the credit rates are designed on the basis of last year's proceeds.

#### Capacity

The OCA raised several issues related to Columbia's capacity. The proposed Settlement provides a reasonable, comprehensive resolution to these issues.

First, Columbia adjusted its forecast of firm customer demand on a design peak day to reflect the design day demand for General Distribution Service (GDS) customers having actual

annual throughput between 4,000 Mcf and 6,000 Mcf who became eligible for the Company's Choice service as of October 18, 2011 and, as a result, can opt for firm (Choice) service without advance notice. The OCA noted that, as of February 2013, no more than 3 of 170 eligible transportation customers had actually migrated to Choice service. Further, Columbia had potential supplier of last resort responsibility for (non-firm) transportation customers in this throughput range on Rate SGDS before October 18, 2011 because those customers could have migrated from there to firm sales service under Rate SGSS. Columbia responded that its firm demand forecast did not previously reflect 6,400 Dth of the 13,460 Dth adjustment at issue, which is attributable to SGDS Priority 1 customers for whom Columbia must hold firm capacity.

Proposed Settlement term IV.30.D.1.a recognizes both positions and provides that Columbia will exclude adjustments for non-Priority 1 GDS customers that are eligible for but have not converted to Choice service. Accordingly, PGC customers, including Choice customers (all of whom pay the PGC demand charge) will avoid paying for pipeline capacity that Columbia would otherwise hold for non-Priority-1 GDS (end-user transportation service) customers.

The OCA also raised an issue 5,215 Dth of additional capacity that Columbia has not been factoring into its available capacity to serve firm customers. Columbia has historically released this capacity at the pipeline's maximum rate to a large industrial customer. The Company's position is that this capacity is a marketed release not available to Columbia. The OCA observed that Columbia remains financially responsible for the reservation charges, even during the period of the release, and the right to use the capacity returns to Columbia at the end of the release term.

For settlement purposes, the parties agreed that the Company can continue to exclude 5,215 Dth of capacity from its calculation of the design day capacity available to meet its firm design day requirements. Columbia will not, however, include the proceeds from this capacity release in the

USM mechanism, and 100% of such capacity release revenues received will flow through the PGC. In other words, in the future, 25% of the cost of the 5,215 Dth at issue will go to customers rather than Columbia through the USM.

The third capacity issue raised by the OCA concerns Columbia's standard for determining its peak day capacity requirement. The OCA recommended that the upper limit of Columbia's peak day capacity should be ". . . 103% (one hundred three percent) of the design peak day demand established for the Projected Period of each Section 1307(f) proceeding, or 100% (one hundred percent) of the accepted design peak day demand forecast for the winter season three years after the Projected Period, whichever is larger." Columbia maintains that incorporation of a 3% reserve margin for capacity planning is reasonable and appropriate due to the uncertainty inherent in projections reaching out into the future, its potential need to serve new, unanticipated growth and protect service to existing customers.

For purposes of Settlement, the OCA accepted Columbia's position on this aspect of the capacity issue. If the results of its forecast show that Columbia has capacity in excess of this cap, the Company will reduce its peak day capacity portfolio with the exception of any components of its portfolio extent that any components of its portfolio are not operationally required and can contractually be reduced. Moreover, the proposed Settlement provides that with future PGC filings, Columbia will report the level of peak day capacity retained, the results of the Peak Day Forecast, and any adjustment in capacity taken pursuant to Columbia's policy and available contractual opportunities. If Columbia deems any "excess capacity" to be operationally required, it will explain why retaining or renewing such capacity is operationally required. These provisions will assist the parties in their annual review of Columbia's capacity policy and its application.

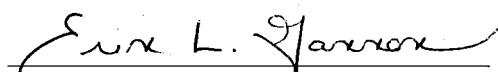
TCO Refunds

The proposed Settlement also addresses a fourth issue – the Company’s proposal to allocate a portion of the refund from Columbia Gas Transmission Company, LLC (TCO) to its Hardship Fund. The OCA did not take a position on the proposal in the PGC case. The Settlement clarifies that Columbia’s proposed treatment of the TCO refund will be addressed in a separate Petition proceeding with notice to all parties and opportunity to respond. See Docket No. P-2013-2371147.

**III. Conclusion**

For the foregoing reasons, the Office of Consumer Advocate submits that terms and conditions of the proposed Settlement are in the public interest and the interest of Columbia’s ratepayers and should be approved.

Respectfully submitted,



Erin L. Gannon  
Assistant Consumer Advocate  
Pa. Attorney I.D. No. 83487  
E-mail: egannon@paoca.org

Aron J. Beatty  
Assistant Consumer Advocate  
Pa. Attorney No. 86625  
ABeatty@paoca.org

Office of Consumer Advocate  
5<sup>th</sup> Floor, Forum Place  
555 Walnut Street  
Harrisburg, PA 17101-1923  
Telephone: (717) 783-5048  
Fax: (717) 783-7152

Counsel for:  
Tanya McCloskey  
Acting Consumer Advocate

Date: July 1, 2013  
171075

# Appendix E

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :  
Office of Consumer Advocate :  
Office of Small Business Advocate : Docket Nos. R-2013-2351073  
 : C-2013-2354079  
v. : C-2013-2354106

Columbia Gas of Pennsylvania, Inc.

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**STATEMENT IN NON-OPPOSITION TO  
JOINT PETITION FOR SETTLEMENT**

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The Columbia Industrial Intervenors ("CII") hereby submits this Statement in Non-Opposition to the Joint Petition for Settlement ("Joint Petition") filed on July 1, 2013, with the Pennsylvania Public Utility Commission ("PUC" or "Commission") in the above-captioned proceeding. As indicated in Footnote Number 1 of the Joint Petition, although CII is not a signatory to the Settlement, CII does not oppose the Joint Petition. Specifically, CII does not oppose the terms and conditions of the Joint Petition, as these issues do not detrimentally impact CII members.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By   
Charis Mincavage (Pa. I.D. No. 82039)  
Elizabeth P. Trinkle (Pa. I.D. No. 313763)  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
Phone: (717) 232-8000  
Fax: (717) 260-1688

Counsel to Columbia Industrial Intervenors

Dated: July 1, 2013