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February 25, 2014

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
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VIA ELECTRONIC FILING

RE: Joint Petition for Generic Investigation or Rulemaking Regarding "Gas-on-Gas" Competition Between Jurisdictional Natural Gas Distribution Companies; Docket No. P-2011-2277868

Generic Investigation Regarding Gas-On-Gas Competition Between Jurisdictional Natural Gas Distribution Companies; Docket No. I-2012-2320323

Dear Secretary Chiavetta:

Please find enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") the Main Brief of the Industrial Energy Consumers of Pennsylvania ("IECPA") in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to the proceeding are being duly served with a copy of this document.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 
Teresa K. Schmittberger

Counsel to the Industrial Energy Consumers of Pennsylvania

TKS/sar

Enclosures

c: Administrative Law Judge Elizabeth H. Barnes (via E-mail and First Class Mail)
Certificate of Service

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CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Dated this 25th day of February, 2014, at Harrisburg, Pennsylvania

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I. INTRODUCTION

A. Procedural History

On December 8, 2011, the Bureau of Investigation and Enforcement ("I&E"), Office of Consumer Advocate ("OCA"), Office of Small Business Advocate ("OSBA"), Peoples TWP LLC ("Peoples TWP"), and Peoples Natural Gas Company LLC ("Peoples") filed with the Pennsylvania Public Utility Commission ("PUC" or "Commission") a Petition requesting that the Commission institute an investigation or rulemaking into gas-on-gas competition. Specifically, each of these parties requested that the Commission evaluate the practice of rate flexing by natural gas distribution companies ("NGDCs") with overlapping service territories. On December 28, 2011, the Industrial Energy Consumers of Pennsylvania ("IECPA") filed an Answer not opposing an investigation or rulemaking regarding gas-on-gas competition, asserting that current public utility law and policy supports the continued use of customer-specific discount rates based on overlapping NGDC service territories.

Approximately seven months later, on July 25, 2012, the Commission issued a Secretarial Letter instituting a generic investigation regarding gas-on-gas competition issues and assigning this matter to the Office of Administrative Law Judge ("OALJ") for disposition and resolution. Administrative Law Judge ("ALJ") Elizabeth H. Barnes held an initial prehearing conference on August 31, 2012, during which she requested that parties submit comments regarding the proposed procedural and substantive scope of the gas-on-gas proceeding. On December 11, 2012, the ALJ issued an Order determining that the investigation should include an analysis of the full impact of flexing distribution rates in order to address whether gas-on-gas competition should be allowed to continue, and if so, whether any modifications to the current practice were necessary.

On January 23, 2013, Peoples filed a Motion to hold this proceeding in abeyance pending Commission action on the application for approval of its acquisition of Equitable Gas Company, LLC ("Equitable") to which IECPA and OSBA responded. The ALJ subsequently denied Peoples' Motion on February 5, 2013.

A second prehearing conference was held on January 24, 2013, at which time a procedural schedule was established.

On April 3, 2013, Peoples filed a Motion for Protective Order. IECPA submitted an Answer in Opposition on April 10, 2013. On May 2, 2013, ALJ Barnes issued the Protective Order of this proceeding.

On May 16, 2013, ALJ Barnes issued an Order amending the Protective Order and modifying the procedural schedule of this proceeding.

Pursuant to the procedural schedule, IECPA submitted Direct Testimony on August 8, 2013. IECPA received Direct Testimony from the following parties: Peoples/Peoples TWP; OCA; OSBA; I&E; and Equitable. On October 17, 2013, IECPA submitted Rebuttal Testimony and received Rebuttal Testimony from the following parties: Peoples/Peoples TWP; OCA; OSBA; I&E; Equitable; Columbia Gas of Pennsylvania, Inc. ("Columbia"); National Fuel Gas Distribution Corporation ("NFGDC"); and the Pennsylvania State University ("PSU"). IECPA submitted Surrebuttal Testimony on November 26, 2013, and received Surrebuttal from the following parties: Peoples/Peoples TWP; OCA; OSBA; I&E; and Columbia.¹

¹ Peoples/Peoples TWP filed Supplemental Testimony on January 23, 2014, that is still under consideration by ALJ Barnes.

An evidentiary hearing was held in this proceeding on December 10, 2013, for the purpose of presenting testimony.² During the hearing, the parties confirmed the process for submitting Briefs.

On January 23, 2014 and February 7, 2014, ALJ Barnes further modified the procedural schedule of the instant proceeding in response to a request by OCA, OSBA, and I&E to allow for additional time to pursue settlement. Pursuant to this modified schedule, IECPA presents this Main Brief in accordance with the ALJ's directives.

II. SUMMARY OF ARGUMENT

This investigation presents an opportunity for the Commission to evaluate whether the practice of gas-on-gas competition is just and reasonable. Gas-on-gas competition exists in Western Pennsylvania due to the unique overlap of NGDC service territories. Unlike utilities in other parts of the Commonwealth, NGDCs in Western Pennsylvania may offer service to the same customers because the customers are located within multiple service territories. With respect to the Large Commercial and Industrial ("C&I") customers in particular, NGDCs will actively compete with each other in an attempt to procure and/or retain Large C&I customers who will contribute additional load and revenues to an NGDC's system. "Gas-on-gas competition" is the term commonly-used to describe this process in Western Pennsylvania.

Beginning in the 1980s, gas-on-gas competition was viewed by the Commission and many stakeholders as beneficial for both customers and NGDCs. NGDCs benefit because they retain additional load and contributions to their overall costs, which would otherwise be lost if the gas-on-gas customer switched to a competing NGDC. Other non-gas-on-gas customers benefit from the increased revenues to the NGDC, which reduce the total costs they are required to remit for

² Prior to the hearing, all parties agreed to waive cross-examination and stipulate the testimonies into the record.

natural gas service. Finally, gas-on-gas customers benefit from lower natural gas rates, which are reduced by NGDCs in order to provide the more competitive rate to customers in comparison to other overlapping NGDCs. *See* Section III.A.1., *infra*.

The benefits of rate discounting due to gas-on-gas competition were acknowledged by the PUC when the Commission implemented regulations that refer to an NGDC's "range" of transportation rates that could exist below a "maximum" tariff rate. 52 Pa. Code § 60.2. In approving these regulations, the Commission outlined the benefits of rate discounting for natural gas service to ensure that customers remain on particular NGDC systems (as opposed to other alternatives, *e.g.*, other NGDCs, bypass, or alternative fuel arrangements). *See* 17 Pa. B. 548. Consistent with these Commission regulations and Order, rate discounting to Large C&I customers due to gas-on-gas competition or other reasons has existed ever since. *See* Section III.A.2., *infra*.

Gas-on-gas rates are not only consistent with public utility law and regulations, but also supported by ratemaking principles. Specifically, gas-on-gas rates are justified based on value of service principles, which are frequently used to determine utility rates. Moreover, gas-on-gas rates do not offend cost-of-service principles because Large C&I customers generally remit costs in excess of their cost of service. *See* Section III.A.3., *infra*.

As part of this investigation, other parties have suggested that additional forms of rate discounting (*e.g.*, other NGDCs, bypass, or alternative fuel arrangements) should continue while gas-on-gas competition should be eliminated. As discussed further herein, however, there is no legitimate distinction between gas-on-gas discounting and discounting for other reasons. Due to the similarities between all forms of discounting, there is no reason for gas-on-gas discounting to be eliminated. *See* Section III.A.4., *infra*.

Moreover, gas-on-gas competition continues to exist in the same format as it did when it was originally championed by the Commission. All forms of rate discounting continue to promote the retention of large businesses as customers of NGDCs for the benefit of other customers of NGDCs. There has been no relevant change in circumstances related to gas-on-gas competition, including the merger of Peoples and Equitable, that warrant its elimination or modification at this time. *See* Section III.A.5., *infra*.

Although IECPA strongly supports the continuation of gas-on-gas competition, IECPA also provides recommendations herein in the event that the Commission chooses to modify or eliminate gas-on-gas competition. First, assuming, *arguendo*, that gas-on-gas competition is modified, all gas-on-gas contracts must be continued under existing terms until their contract expiration dates. Second, in order to ensure a fair transition from gas-on-gas competition, all NGDCs should be required to file base rate cases at the Commission and allow gas-on-gas customers to choose from which NGDCs they will continue to receive service. Third, the transition from gas-on-gas rates must also include a just and reasonable transition period during which customers can migrate to their newly adopted rates. *See* Section III.B., *infra*.

III. ARGUMENT

A. **Gas-on-Gas Competition Is a Beneficial Practice that Must Be Preserved in its Current Form for Several Just, Reasonable, and Regulatory-Based Reasons.**

Since its outset, gas-on-gas competition has existed for the benefit of NGDCs and all customers. The Commission has repeatedly held that gas-on-gas rates are just and reasonable, which remain consistent with public utility law and the Commission's regulations. In addition, gas-on-gas rates are supported by a number of important ratemaking principles. Moreover, discounted rates due to gas-on-gas competition are no different from other forms of discounted

rates, which similarly have been approved by the Commission and are supported by the OCA, OSBA and I&E. In addition, no party to this proceeding has presented any evidence that new circumstances have arisen warranting modification of gas-on-gas competition. For each of these reasons outlined further below, gas-on-gas competition should be preserved in its present form.

1. Gas-on-Gas Rates Are Justifiably Offered for the Benefit of NGDCs and Customers Due to the Unique Configuration of NGDC Service Territories and Economic Circumstances in Western Pennsylvania.

Gas-on-gas competition arose due to the unique configuration of NGDC service territories and economic conditions in Western Pennsylvania. Due to these circumstances, NGDCs compete with each other to retain Large C&I customers on their systems. NGDCs benefit from this arrangement because they can attract and retain large volume customers to reduce their overall costs. Other customers benefit because, without the additional Large C&I customers, their other customers would be responsible for remitting higher distribution costs to their NGDC, which are shared among the entire customer base. Finally, Large C&I customers benefit from the option to receive a lower natural gas rate, which, in turn, reduces their overall operating costs and promotes continued viability in Western Pennsylvania. From all viewpoints, gas-on-gas competition in Western Pennsylvania is a beneficial practice that must be preserved.

Gas-on-gas competition has existed for many decades due to the unique historical configuration of NGDCs' distribution systems in Western Pennsylvania. Direct Testimony of Diane Meyer Burgraff, IECPA Statement No. 1 ("IECPA St. No. 1"), p. 3; *see also* Rebuttal Testimony of James L. Crist, PSU Statement No. 1 ("PSU St. No. 1"), p. 4. The systems of multiple Western Pennsylvania NGDCs were built in close proximity to, and in some cases, to overlap each other, which resulted, after the onset of utility regulation, in certain customers being located in more than one NGDC service territory. As a result of this overlap, NGDCs began to

compete with each other to obtain the load and revenues provided by Large C&I customers in their service territories.

In addition to this unique configuration of service territories, Western Pennsylvania has experienced challenging economic circumstances for its larger businesses and industries, in particular, the basic iron and steel industry. After the fall of the basic iron and steel industry, Western Pennsylvania experienced the closure of a number of major steel plants and the pressure of high inflation, causing NGDCs to seek any potential option for retaining customers to contribute to NGDCs' overall costs. IECPA St. No. 1, p. 3; *see also* PSU St. No. 1, pp. 6-7. Moreover, these difficult economic conditions in Western Pennsylvania, which continue to persist today, IECPA St. No. 1, pp. 11-12, forced Large C&I customers to reduce their operating costs to the largest extent possible in order to stave off layoffs and bankruptcy. As a result, natural gas rate discounting is of significant importance to NGDCs and customers alike.

Gas-on-gas rates, *i.e.*, discounted rates due to gas-on-gas competition, were the solution for these competing NGDCs and their customer bases. With respect to NGDCs, gas-on-gas rates establish a level playing field in which load is more evenly dispersed among NGDCs based on which NGDC provides the most competitive rate to the gas-on-gas customer. IECPA St. No. 1, p. 4. An NGDC will offer a gas-on-gas rate to a customer based on the importance of the contribution of the customer's load to the NGDC's system. *See* Direct Testimony of Carol A. Scanlon, Equitable Statement No. 1 ("Equitable St. No. 1"), p. 6; *see also* IECPA St. No. 1, p. 4. In other words, gas-on-gas competition ensures that customers remain on systems where they will present the greatest benefit.³

³ Two of the three NGDCs, Equitable and Columbia, who participated in the instant proceeding support the continuation of gas-on-gas competition in their testimony. Equitable St. No. 1, p. 5 ("In Equitable's view, competition between natural gas distribution companies with overlapping service territories should continue with ratemaking impact addressed in each NGDC's base rate proceeding as has been done in the past."); *see also*

By contrast if gas-on-gas competition is eliminated and customers must choose between NGDCs, then one NGDC may benefit from additional load at the expense of another NGDC. Specifically, the "loser" NGDC could lose a sizeable amount of large volume load, causing the rates for remaining customers of the "loser" NGDC to increase. *Id.* at 6. As a result, allowing NGDCs to continue providing competitive rates to gas-on-gas customers will ensure that NGDCs have a means for retaining customers to contribute to the costs of their system when necessary.

In addition, all customers of the NGDC benefit from the additional contribution to incremental costs of the system provided by gas-on-gas customers. *Id.* at 5. OSBA clearly explained this phenomenon in a recent base rate case:

In general, the incremental cost incurred by an NGDC to serve a particular customer is typically less than the fully allocated cost to serve that customer, as measured by the COSS [Cost of Service Study]. If the customer leaves the system, the NGDC's overall revenue will decline by more than its costs. This shortfall would need to be made up by remaining customers. Thus, as long as that customer is paying rates that exceed the NGDC's incremental cost of providing service, the rest of the customers are better off retaining the customer, even if it means discounting rates below regular tariff rates. Thus it is not uncommon to see regulators allowing "flex" rates or "load retention" or "economic development" rates in order to keep customers from leaving the system.

Surrebuttal Testimony of Diane Meyer Burgraff, IECPA Statement No. 1-S ("IECPA St. No. 1S"), p. 10. "Moreover, since NGDCs are attempting to maximize revenues from competitive customers, NGDCs are, in the majority of cases, charging rates well above incremental

Surrebuttal Testimony of Nancy J. D. Krajovic, Columbia Statement No. 1-SR ("Columbia St. No. 1-SR"), p. 5 ("In the meantime, IECPA's advocacy for the status quo would appear to be a reasonable suggestion."). Moreover, Peoples acknowledges its long-standing support for gas-on-gas competition in its testimony as well, a position that Peoples only slightly modified in the instant investigation. *See* Rebuttal Testimony of Joseph A. Gregorini, Peoples/Peoples TWP Statement No. 1-R ("Peoples/Peoples TWP St. No. 1-R"), pp. 13-14 ("[I]f my recommendation that gas-on-gas competition at full margin rates is not accepted, then continuation of gas-on-gas competition in its present form is preferable to the alternatives of having to establish non-overlapping service territories and addressing the issues that flow from that process.").

costs....to the benefit of captive customers." *Id.* at 4.⁴ Therefore, other customers are benefitting because, without this contribution by gas-on-gas customers, the remaining customers of the NGDC would be responsible for remitting higher costs associated with their natural gas service. *Id.* at 7. Thus, both customers and NGDCs benefit from the continuation of gas-on-gas competition.

Finally, gas-on-gas customers themselves benefit from the lower, competitive rates established by gas-on-gas competition. *See* IECPA St. No. 1, p. 6; PSU St. No. 1, pp. 6-7. In these difficult economic times, businesses must reduce their operating costs to remain viable. Lower natural gas costs resulting from gas-on-gas competition promote industry viability and growth in Western Pennsylvania, which facilitates job growth and a greater overall economy in the Commonwealth. *See* PSU St. No. 1, p. 8. Since its inception, gas-on-gas competition has existed as a creative and essential solution for addressing NGDCs' overlapping service territories and challenging economic conditions in Western Pennsylvania. *See id.* at 6-7. Because all relevant parties, NGDCs and customers alike, benefit from gas-on-gas competition, this practice should continue in Western Pennsylvania. To ensure that NGDCs and customers retain these benefits, the Commission should hold that gas-on-gas competition must continue without modification.

⁴ NGDCs do not dispute as part of the instant investigation that gas-on-gas customers are offered rates that exceed their incremental cost of service. *See, e.g.,* Equitable St. No. 1, p. 6 ("As a general matter, Equitable presently believes that the concept of discounted or negotiated rates is beneficial to the overall customer base when the discounted or negotiated rates enable the Company to retain a customer or economically add new load resulting in a contribution to fixed cost recovery."); *see also* Direct Testimony of Joseph A. Gregorini, Peoples/Peoples TWP Statement No. 1 ("Peoples/Peoples TWP St. No. 1), p. 7 ("[I]t would be in a competing NGDC's interest to add a customer at any rate that exceeds the incremental costs it will incur to serve that customer.").

2. Public Utility Law and Regulation Support Gas-on-Gas Competition As It Currently Exists.

Current public utility law and regulations promote gas-on-gas competition. First adopted in the 1980s, the PUC's regulations regarding transportation rates provide for flexible rates for Large C&I customers. Moreover, the subsequent Natural Gas Customer Choice and Competition Act ("Competition Act") supports continuation of pre-restructuring rate practices, such as rate discounting due to gas-on-gas competition. This investigation provides an opportunity for the Commission to once again endorse the practice of gas-on-gas competition.

The Commission first acknowledged the importance of rate discounting within regulations adopted in 1986 that continue to be enforced by the Commission today. *See* 17 Pa. B. 546. Within these regulations, there exists a presumption that discounted rates for any purpose, including gas-on-gas competition, are appropriate. Specifically, the regulations state that an NGDC's tariff must include "a range of rates for transportation service," but also establish a "maximum rate allowed for transportation service." 52 Pa. Code § 60.2(2)-(3). The PUC's recognition of a "maximum rate" is an acknowledgement that rates may be offered below this rate. In addition, the PUC's regulations require NGDCs to "maximize system throughput," which arguably requires NGDCs to pursue every opportunity to increase system load. *Id.* § 60.2(7).

The Commission's support for rate discounting is reinforced by the regulatory history associated with the implementation of these regulations. The Commission explains that "it is preferable to keep these customers on the system [of an NGDC], albeit at a lower rate, than to lose all contribution to the company's fixed costs." 17 Pa. B. 548. As a result, the Commission authorizes NGDCs to offer a "range of rates" to large customers, to give them [NGDCs] more flexibility to respond to particular situations. *Id.* at 547. Importantly, neither the Commission nor its regulations limit the application of discounted rates to only certain large transportation

customers or circumstances of discounting. Accordingly, the Commission has historically approved and endorsed the practice of offering discounted rates for any number of purposes, including as a result of gas-on-gas competition between NGDCs with overlapping service territories.

These Commission regulations were further legitimized upon adoption of the Competition Act. Arguably the most sweeping change to the regulatory landscape for natural gas rates since the implementation of the Commission's regulations, the Competition Act provided new requirements for natural gas competition in Pennsylvania. With respect to prior practices that existed before the passage of the Competition Act, such as rate discounting due to gas-on-gas competition, the Competition Act states that "[t]he natural gas distribution company may continue to provide natural gas service to its customers under all tariff rate schedules and riders incorporated into its tariff, and policies or programs, existing on the effective date of this chapter." 66 Pa. C.S. § 2203(14). Rather than override any aspect of the Commission's regulations related to natural gas rate discounting, the legislature endorsed all current practices of NGDCs at the time the Competition Act was passed. As a result, gas-on-gas competition, a practice that was adopted long before passage of the Competition Act, is supported under both public utility law and regulations in the Commonwealth.

Finally, since passage of the Competition Act, neither the Commission nor the legislature has seen a need to review gas-on-gas competition with respect to multiple NGDCs. Although rate discounting due to gas-on-gas competition has been addressed in individual NGDC base rate cases, many of these base rate cases have been resolved via PUC approval without addressing the merits of gas-on-gas competition.⁵

⁵ Because gas-on-gas competition has been repeatedly approved by the Commission as a component within base rate settlements, the Commission has arguably already deemed the practice of rate discounting due to gas-on-gas

Gas-on-gas competition, as it currently exists, is promoted under current Pennsylvania law and regulations. Considering the legislative and regulatory support for this practice, there is no reason to modify gas-on-gas competition at this time. As a result, at the conclusion of the instant investigation, IECPA urges the Commission to hold once again that gas-on-gas competition is a just and reasonable practice and should continue.

3. Gas-on-Gas Competition Is Consistent With Ratemaking Principles.

In addition to the support of gas-on-gas competition within the black letter law of the Commonwealth, gas-on-gas competition is fully consistent with utility ratemaking principles. Rate discounting due to gas-on-gas competition is justified under the ratemaking principle of "value of service." Moreover, gas-on-gas competition neither offends the principle of "cost of service," nor the rule against "undue price discrimination." As a practice that complies with these important elements of ratemaking, gas-on-gas competition should continue to occur among NGDCs.

As the Commission is fully aware, rates may be established based on a number of principles, including cost of service, value of service, gradualism, and ability to pay. IECPA St. No. 1, p. 9. Any of the foregoing principles may motivate the adoption of a certain rate or practice by an NGDC. Value of service, in particular, is arguably the main principle that justifies rate discounting due to gas-on-gas competition. *See id.*

When establishing rates based on value of service, NGDCs will identify the value a customer contributes to their system and determine the highest rate that may be charged to the

competition just and reasonable. Rebuttal Testimony of Diane Meyer Burgraff, IECPA Statement No. 1R ("IECPA St. No. 1R"), p. 11. In fact, the just and reasonableness of gas-on-gas rates has been specifically acknowledged as part of base rate settlements: "That proceeding, which was concluded by settlement, included a specific settlement term providing that '[a]ll existing negotiated delivery service agreements are accepted as just and reasonable.'" Equitable St. No. 1, pp. 6-7.

customer without losing the customer.⁶ Gas-on-gas rates are established based on value of service principles because gas-on-gas customers are charged below an NGDC's maximum tariff rate due to the NGDC's assessment that the value of the gas-on-gas customer to the system warrants a lower rate. *See* IECPA St. No. 1, p. 10. Gas-on-gas rates provide a tangible benefit and value to NGDCs by retaining customers of the NGDC and not having customers switch to a competitor, which is reflected in the specific rates established by the NGDCs. *See* PSU St. No. 1, p. 7 ("From a ratemaking perspective, all customer classes benefit from the ability of a utility to retain a customer on its system without closing its doors or moving off the system to either a nearby utility or out of Pennsylvania altogether."). The Commission has employed value of service principles as a basis for setting rates for many years. *See* IECPA St. No. 1, pp. 4-5.

Although gas-on-gas competition is consistent with value of service principles, the Statutory Advocates (*i.e.*, OCA, OSBA, and I&E) allege that gas-on-gas rates violate another aspect of ratemaking, namely, the polestar criterion for ratemaking, *i.e.*, cost of service principles. *See* Direct Testimony of Glenn A. Watkins, OCA Statement No. 1 ("OCA St. No. 1"), p.14; Direct Testimony of Robert D. Knecht, OSBA Statement No. 1 ("OSBA St. No. 1"), p. 4., Rebuttal Testimony of Ethane H. Cline, I&E Statement No. 1-R ("I&E St. No. 1-R"), p. 7. Due to this purported violation of cost of service principles, the Statutory Advocates similarly argue that gas-on-gas competition results in undue price discrimination against smaller customer classes. *See* OCA St. No. 1, p. 3; *see also* OSBA St. No. 1, p. 4. For the following reasons, gas-on-gas rates offend neither of these ratemaking concepts.

The Statutory Advocates contend that gas-on-gas competition should be modified or eliminated because smaller customer classes, *i.e.*, residential and small commercial customers,

⁶ All NGDCs explained that they maximize the revenues received from gas-on-gas customers. IECPA St. No. 1S, Ex. DMB-1S.

are required to remit higher costs than they otherwise would if Large C&I customers with gas-on-gas rates were subject to maximum tariff rates. The Statutory Advocates claim that these allegedly excessive rates for smaller customer classes violate cost of service principles and result in undue price discrimination. Further analysis of the Statutory Advocates' claims, however, indicates that the costs remitted by smaller customer classes are, in general, just and reasonable, even with the existence of gas-on-gas rates. IECPA St. No. 1S, p. 10.

Evidence submitted as part of Peoples' most recent base rate case shows that smaller customers are remitting costs to Peoples that are below their cost of service despite the existence of gas-on-gas customers who are remitting costs below their maximum tariff rate. *Id.* at 12. Peoples' blended Cost of Service Study ("COSS") indicated that residential and small commercial customers were paying rate of return percentages of 5.25% and 5.10%, respectively, as compared to an overall system rate of return of 6.07%. *Id.* By contrast, medium and Large C&I customers were paying rate of return percentages of 8.68% and 9.93%, despite the inclusion of customers within these classes who receive rate discounts due to gas-on-gas competition. *Id.* This COSS clearly indicates that the rates for Large C&I customers do not violate cost of service principles; in fact, Large C&I customers are arguably paying above their cost of service while residential and small commercial classes are paying below their cost of service.⁷

In the foregoing example, gas-on-gas rates are factored into the total revenues provided by Large C&I customers to Peoples. Therefore, it cannot be concluded that gas-on-gas rates are contrary to the polestar criterion for ratemaking, *i.e.*, cost of service principles, when it is Large

⁷ Although Peoples' proposal to decrease rates for Large C&I customers in Peoples' base rate proceeding to reduce this customer class rate of return percentage, the final settlement of the proceeding resulted in no change to the revenues remitted by Large C&I customers, indicating that Large C&I customers continue to pay rates above their cost of service. IECPA St. No. 1S, p. 10.

C&I customers rather than small commercial and residential customers who remit costs in excess of their cost of service. As explained by IECPA in surrebuttal testimony:

Simply because there is a difference between the revenue received by an NGDC at discounted rates, as compared to the revenue that could be received by an NGDC at the maximum tariff rate, does not necessarily mean that any other customer classes are suffering harm or are burdened with any costs above that class' cost of service.

Id. at 13. In other words, although gas-on-gas rates may be below an NGDC's maximum tariff rate, they do not violate cost of service principles.

Similarly, gas-on-gas rates do not result in undue price discrimination for smaller customer classes. Price discrimination among customer classes is perfectly acceptable when there is a legitimate ratemaking principle that justifies the discrimination. IECPA St. No. 1R, p. 6. By contrast, undue price discrimination among customer classes rises to the level of unjust and unreasonable rates and must be prevented.

To that end, OCA alleges that gas-on-gas "discounting is inappropriate as it is uneconomically justified and results in undue price discrimination to captive ratepayers that are unable to enjoy discounted rates." OCA St. No. 1, p. 6. Yet, OCA fails to provide any support or evidence for why gas-on-gas rates are "undue" price discrimination as opposed to acceptable price discrimination. There are a variety of legitimate factors in ratemaking, *e.g.*, value of service principles or proximity to service alternatives, such as another NGDC, that allow for discrimination in utility pricing. IECPA St. No. 1R, p. 6. Moreover, as just explained, smaller customers may be paying rates below their cost of service, which undermines the Statutory Advocates' position that smaller customers are paying unduly discriminatory rates. Because gas-on-gas discounts are offered to Large C&I customers based on their assessed value to an

NGDC's system, any price discrimination between Large C&I customers and smaller customers should be considered just and reasonable.

As a result, it is just and reasonable for NGDCs to offer discounted rates due to gas-on-gas competition based on the ratemaking principle of value of service. In addition, as evidenced above, gas-on-gas competition does not violate cost of service principles or result in undue price discrimination for other customer classes. Because gas-on-gas competition is consistent with these fundamental principles of ratemaking, there is no reason the practice should be discontinued.

4. Gas-on-Gas Rates Are Substantially Similar to Other Discounted Rates, Which Are Endorsed by the Statutory Advocates.

Discounted rates are offered by NGDCs for a number of reasons in addition to gas-on-gas competition. Although the circumstances for offering discounted rates are often analogous to those presented by gas-on-gas competition, OCA argues that only gas-on-gas competition should be eliminated. OCA St. No. 1, p. 5. Because OCA supports other types of rate discounting, and rate discounting due to gas-on-gas competition is not materially different from other types of rate discounting, gas-on-gas discounting should continue.

Discounted rates may exist for a number of reasons other than gas-on-gas competition. Similar to choosing to offer gas-on-gas rates, NGDCs may offer lower, flexible rates due to threat of bypass or alternative fuel to retain customers on their systems. *See* IECPA St. 1R, p. 5. Alternatively, if Large C&I customers are facing difficult economic or budgeting challenges, NGDCs may offer an economic development rate to ensure the customers continue operating and contributing to the NGDC's incremental system costs. *See id.* at 6. The results achieved from rate discounting in each of these foregoing situations are identical to the results of discounting

due to gas-on-gas discounting, specifically, "load and therefore revenue is preserved on the utility's system." *Id.* at 5.

Despite these similarities between other forms of rate discounting and gas-on-gas competition, the OCA argues that while all other forms of discounting are appropriate, gas-on-gas discounting is not. OCA St. No. 1, p. 5. OCA provides very little justification for this differentiation. OCA argues that "no price (rate) should be higher than the customer's 'stand alone' cost, or the cost of providing a regulated product or service by another means." *Id.* Under this theory, OCA presumably believes that a customer should pay no higher rate than the rate offered "by another means," *i.e.*, via a bypass or alternative fuel arrangement. Yet, by this same reasoning, another competing NGDC should also qualify as service "by another means." IECPA St. No. 1R, p. 5. OCA provides no explanation for why a competing rate by another NGDC is qualitatively different from other forms of rate discounting.

Moreover, although OCA endorses economic development rates, economic development rates are inconsistent with the OCA's "stand alone" cost argument. IECPA St. 1R, p. 6. Customers are offered economic development rates to ease their financial concerns and promote their continued viability within the NGDC's service territory. In such a case, the customer's rate is not based on its rate for service "by another means," but instead based on what a customer is able to pay. In fact, an NGDC's only basis for offering a lower rate is to ensure the customer remains on the NGDC's system. Thus, OCA's support for economic development rates but not gas-on-gas rates, which similarly promote the preservation of load on an NGDC's system, is illogical. *See id.*

Rate discounting due to gas-on-gas competition is equivalent to rate discounting due to bypass, alternative fuels, or economic development. Similar to rates offered by NGDCs to

prevent a customer's switch to bypass and alternative fuel options, discounted rates are offered to gas-on-gas customers to prevent their switch to another NGDC. In addition, like economic development rates, gas-on-gas rates are provided to retain load on an NGDC's system. Thus, because the OCA supports rate discounting due to bypass, alternative fuels, and economic development, the OCA should support rate discounting due to gas-on-gas competition to the same extent. Along these same lines, because the OCA does not oppose the continued offering of rate discounting under other circumstances, rate discounting due to gas-on-gas competition should continue to be offered as well.

5. Despite Circumstantial Changes in Western Pennsylvania, Including the Recent Merger of Peoples and Equitable, There Has Been No Change in Circumstances That Justifies Modification to the Reasonable Format of Gas-on-Gas Competition.

As already identified in the foregoing sections, gas-on-gas competition arose due to the overlapping service territories and economic conditions in Western Pennsylvania; benefits NGDCs and customers; is promoted by Pennsylvania law and regulations; is consistent with ratemaking principles, and is no different from other forms of discounting that are supported by parties to the instant investigation. In fact, the only recent change that results in some impact on the NGDCs currently offering gas-on-gas rates is the recent merger of Peoples and Equitable.⁸ Although Peoples may argue this merger impacts the need for gas-on-gas competition, in actuality, the merger does not change the circumstances (*e.g.*, economic conditions) that gave rise to and continue to justify gas-on-gas competition in Western Pennsylvania.⁹

⁸ As noted in Section I, *supra*, the admission of Peoples' Supplemental Testimony regarding this merger is currently under consideration by the ALJ.

⁹ As discussed in Section III.A.1., *supra*, economic conditions remain very similar today to the 1980s when gas-on-gas competition began.

On December 17, 2013, Peoples and Equitable consummated a merger that eliminates Equitable as an independent NGDC. As a result of this merger, only Peoples, which absorbed Equitable, and Columbia will continue to compete for gas-on-gas customers. As part of this investigation, Peoples has argued that because only two NGDCs will now be competing for customers, gas-on-gas competition should be phased out and eliminated. Peoples/Peoples TWP St. No. 1, p. 13.

It is unclear how Peoples' extreme recommendation related to gas-on-gas competition is appropriate when, despite the recent merger, there will continue to be overlapping NGDCs competing for load in Western Pennsylvania that will have an incentive to retain customers on their respective systems. *See* IECPA St. No. 1, p. 12. Likewise, gas-on-gas competition would continue to provide a benefit to gas-on-gas customers who would otherwise be subject to drastically increasing energy costs. Even if the number of customers eligible for gas-on-gas discounting were to decrease, there would still be a significant amount of load subject to gas-on-gas competition, which continues to justify the existence of the practice.¹⁰ *See, e.g.*, Rebuttal Testimony of Carol A. Scanlon, Equitable Statement No. 1R ("Equitable St. No. 1R), pp. 2-3; *see also* IECPA St. No. 1S, pp. 22-23; *see also* OSBA St. No. 1, p. 5.

Moreover, if gas-on-gas competition is phased out or eliminated, it is likely that either Peoples or Columbia would benefit at the other's expense.¹¹ Depending on the means by which gas-on-gas competition is eliminated, customers will be allocated between Peoples and Columbia, which could result in one NGDC procuring Large C&I customers who were previously being served by another NGDC. IECPA St. No. 1, p. 6. If an NGDC suffers

¹⁰ In addition to Peoples and Columbia customers, former Equitable customers could also choose to switch to Columbia, which increases the total number of possible gas-on-gas customers.

¹¹ Because one NGDC could experience a direct negative impact if gas-on-gas competition is eliminated, it is arguably even more important to retain gas-on-gas competition in its present form.

significant load loss as a result of the elimination of gas-on-gas competition, then all other customers of the NGDC will be subject to higher rates in order to account for the difference. *Id.* There is no reason that warrants elimination of gas-on-gas competition when either Peoples or Columbia could experience load loss to the detriment of its customers.

In addition, all of the other circumstances that justify gas-on-gas competition continue to exist. There continue to be stagnant or declining numbers of Large C&I customers in Western Pennsylvania, who likely depend on discounted rates to remain profitable. *See* IECPA St. No. 1, pp. 11-12. Gas-on-gas rates are consistent with public utility law and ratemaking principles. Analogies to other forms of rate discounting continue to run in favor of the continuation of rate discounting due to gas-on-gas competition. Simply put, the Peoples-Equitable merger has no impact on these factors that weigh in favor of continued gas-on-gas competition.

The Peoples-Equitable merger does not provide sufficient justification to modify or eliminate gas-on-gas competition. Overlapping service territories still exist, which motivate NGDCs to offer discounted rates. Economic challenges continue to demonstrate the importance of gas-on-gas rates for customers. No change in law or ratemaking policy has occurred in opposition to gas-on-gas competition. Accordingly, the status quo should be preserved and gas-on-gas competition should remain unchanged.

B. To the Extent the Commission Authorizes Modification to Gas-on-Gas Competition, if Necessary, Current Gas-on-Gas Customers Should Be Fairly Transitioned Away From Their Gas-on-Gas Rates.

As discussed in Section III.A., *supra*, IECPA is strongly in favor of continuing gas-on-gas competition in its current format. To the extent that the Commission disagrees with IECPA's position and gas-on-gas competition is modified or eliminated, however, there are three elements that must be adopted to ensure a fair transition from gas-on-gas to newly adopted rates for Large

C&I customers. First, gas-on-gas contracts between customers and NGDCs must continue under their current terms until their agreed-upon expiration dates. Second, to the extent gas-on-gas competition is eliminated and customers would be transitioned to tariff rates, NGDCs that previously provided gas-on-gas rates must be required to conduct base rate cases to determine just and reasonable tariff rates for previous gas-on-gas customers. Third, if gas-on-gas competition is eliminated, there should be a transition period between the expiration of gas-on-gas rates and tariff rates to allow gas-on-gas customers to reallocate resources to natural gas costs. Each of these important elements is discussed in more detail below.

1. All Gas-on-Gas Contracts Must Be Retained "As Is" Until Their Expiration Dates Rather Than Modified or Terminated On a Specific End Date.

To the extent that the Commission authorizes any changes to the current format of gas-on-gas competition, all current gas-on-gas contracts between NGDCs and customers should be honored. Gas-on-gas customers and NGDCs entered into good faith, arms-length negotiations, which produced their gas-on-gas contracts. It would be unjust, unreasonable, and likely a violation of gas-on-gas customers' due process rights if their gas-on-gas contracts were voided on a specific date before their conclusion.

As part of this investigation, OSBA recommended that all gas-on-gas contracts terminate by 2016. OSBA St. No. 1, p. 8. In making this recommendation, OSBA acknowledges that NGDCs are currently party to gas-on-gas contracts with customers that were drafted to continue beyond 2016. *Id.* at 7. Nevertheless, OSBA submits that the Commission should require all gas-on-gas contracts to extinguish by 2016.

OSBA's proposal to establish a uniform end date of 2016 for all gas-on-gas contracts must be rejected by the Commission. As explained by multiple parties in their surrebuttal testimony,

this proposal would interfere with private contracts between NGDCs and customers that were negotiated at arm's length and in good faith. *See* IECPA St. No. 1R, p. 19; PSU St. No. 1, pp. 11-12; Rebuttal Testimony of Nancy J. D. Krajovic, Columbia Statement No. 1R ("Columbia St. No. 1-R"), p. 4. Moreover, the gas-on-gas rates agreed to in these contracts have been relied upon by customers in projecting their energy costs over the duration of their contracts. PSU St. No. 1, pp. 11-12. As a result, any attempt to interfere with the terms of these contracts could constitute an unlawful taking from the customer who anticipated and agreed upon lower natural gas rates for a defined period of time. Columbia St. No. 1-R, p. 5.

Whatever the outcome of the instant proceeding, in order to protect the contractual and due process rights of customers and NGDCs, all gas-on-gas contracts must be preserved until their expiration dates. *See* Equitable St. No. 1, p. 7.

2. All NGDCs with Overlapping Service Territories Should File for and Receive PUC Approval of Base Rate Cases Before Gas-on-Gas Rates May Expire to Allow Gas-on-Gas Customers to Choose Their Eventual NGDC Provider of Service.

If gas-on-gas competition is eliminated altogether, gas-on-gas customers will be forced to transition from negotiated rates to tariff rates. Because the rates of gas-on-gas customers are currently derived based on principles outside of the NGDC's tariff, it is unclear what the just and reasonable tariff rate would be for these customers. Although a number of alternatives have been presented for determining the appropriate rate for gas-on-gas customers, the best alternative would be for all NGDCs that currently offer gas-on-gas rates to hold a base rate case before they may begin charging gas-on-gas customers a new rate.

Gas-on-gas rates currently represent the value the NGDC believes a Large C&I customer provides to the system, which is generally the maximum level an NGDC can charge in order to retain the customer. *See* Section III.3, *supra*. This rate is governed to a certain extent by

competitive market principles, specifically, the rate that would be offered by a competitor NGDC. If gas-on-gas competition is eliminated, however, there is no clear basis for what mechanism would be utilized to establish new rates for current gas-on-gas customers.

OCA recommended three options for developing these new rates for Large C&I customers; however, each option is flawed. OCA first recommends that NGDCs divide their service territories until only a single and exclusive NGDC is available in each service territory. OCA St. No. 1, p. 7. "Such a proposal is unworkable, however, because it ignores the fact that each of the overlapping investor-owned utilities has millions of dollars of utility plant invested in their current service territories that already overlap." IECPA St. No. 1R, p. 9. If ordered to abandon their utility plant, NGDCs arguably would be justified in receiving significant stranded costs from their customers to compensate for this loss.¹² *See id.* at 9-10. In addition, "NGDC participation in such divvying [of service territories] may have antitrust implications." Columbia St. No. 1-R, p. 6. Due to these potentially negative impacts on customers and NGDCs, the development of exclusive NGDC service territories should be rejected.

Alternatively, the OCA recommends that gas-on-gas customers should be assigned to particular NGDCs that would then offer their tariff rates to customers. OCA St. No. 1, pp. 7-8. In addition to raising similar antitrust concerns to OCA's first option, this option would unfairly impact gas-on-gas customers who may be assigned to an NGDC they otherwise would not have chosen under gas-on-gas competition. *See* Columbia St. No. 1-R, p. 6; *see also* IECPA St. No. 1R, p. 10. Moreover, if an assigned customer begins receiving subpar service from its new NGDC, this assignment could be considered unduly discriminatory. Because the assignment of

¹² These stranded costs would then be allocated among all customers, as all customers receive the benefits from the overlapping distribution systems.

customers to NGDCs reduces competitive market choices for customers, this OCA recommendation is unworkable.¹³

OCA's final recommendation would be the creation of both captive and competitive business segments that would share cost and revenue responsibility. OCA St. No. 1, p. 8. This final proposal by OCA would be logistically unworkable because it is unclear how the new captive and competitive segments would share costs and what the appropriate mechanism for determining this allocation would be. IECPA St. No. 1R, p. 11; *see also* Columbia St. No. 1-R, p. 6. Because this proposal would add an unnecessary level of complexity to the ratemaking process for NGDCs with overlapping service territories, this final OCA proposal should be rejected.

The optimal solution for ratemaking after the elimination of gas-on-gas competition is the currently existing procedure for establishing new rates, *i.e.*, a base rate proceeding. *See* IECPA St. No. 1R, p. 19; Columbia St. No. 1-R, p. 8; Equitable St. No. 1, p. 7 ("Any change in rates or regulations as a result of a new approach or policy should not be implemented until the NGDCs' next base rate proceeding.").¹⁴ Each NGDC already is familiar with the base rate process, which would limit the additional complexity associated with this chosen course of action. Moreover, as part of a base rate case, all customer classes could weigh in on the appropriate rates for former gas-on-gas customers. The participation of many stakeholders will increase the likelihood that just and reasonable rates would be established. Because requiring all NGDCs to conduct base

¹³ By way of comparison, it would be unreasonable "[t]o tell a business, for example, that the business must stay with one NGDC when it has a competitor distribution pipeline in the field right next to its building that may have a lower rate....". IECPA St. No. 1R, p. 10.

¹⁴ If gas-on-gas competition is eliminated, PSU also supports holding base rate proceedings and specifically recommends that these proceedings "move the class rates of return to the system average at the same time." PSU St. No. 1, p. 11.

rate cases would avoid the pitfalls associated with the OCA's recommendations, base rate cases are the best solution for ratemaking upon elimination of gas-on-gas competition.¹⁵

Each base rate case should be structured under current statutory and regulatory procedures, but a few aspects of each base rate case would be critical if gas-on-gas competition is eliminated. First, the cost of service study adopted by the NGDC must be analyzed closely to ensure those Large C&I customers who were previously receiving negotiated rates are offered just and reasonable, cost-based rates. *See, e.g.*, PSU St. No. 1, p. 11. Because moving Large C&I customers to cost-based rates may require significant decreases in current Large C&I rates, it is also crucial that the Statutory Advocates are prepared to ignore the principle of gradualism with respect to smaller customer classes in each of these base rate cases. As indicated in Section III.A.3., *supra*, it will likely be necessary to increase residential and small commercial rates to ensure that all customer classes would be receiving cost-based rates.

In addition, due to the agreements within NGDCs' last base rate cases, gas-on-gas rates must be preserved until NGDCs' next base rate cases. All NGDCs that offer gas-on-gas discounts were authorized to provide discounts at a certain level within their prior base rate cases. "Any attempt to disallow rate discounts between rate cases is an attempt to renege prospectively on the rates and revenues agreed to in the NGDC's last base rate case." IECPA St. No. 1S, p. 8. As a result, in order to ensure that NGDCs comply with the requirements of their last base rate cases, gas-on-gas rates must be preserved until subsequent base rate cases establish a new set of rates.

¹⁵ Although Peoples originally argued that a statewide proceeding to investigate cost-based rates should follow the elimination of gas-on-gas rates, Peoples modified its position in surrebuttal testimony to also support individual base rate cases if gas-on-gas competition is eliminated. Surrebuttal Testimony of Joseph A. Gregorini, Peoples/Peoples TWP Statement No. 1-S ("Peoples/Peoples TWP St. No. 1-S"), p. 9.

Finally, at the conclusion of NGDCs' base rate cases, gas-on-gas customers should be given the opportunity to choose the NGDC from whom it would like to be served. *See, e.g., Peoples/Peoples TWP St. No. 1-S, p. 7.* By allowing customers to choose their NGDC, the Commission is advancing customer choice and avoiding potential undue discrimination against customers. In addition, NGDCs are incentivized to reduce their costs of service in order attract customers. As a result, former gas-on-gas customers should be permitted to choose their NGDCs after gas-on-gas competition is eliminated.

Out of all the potential ratemaking options available, assuming, *arguendo*, the elimination of gas-on-gas competition, requiring NGDCs to conduct base rate cases is the best option. IECPA St. No. 1R, p. 19. Individual base rate cases will promote the involvement of stakeholders and the establishment of just and reasonable rates. Moreover, to promote customer choice and prevent undue discrimination, after the NGDCs' base rate cases conclude, gas-on-gas customers should be permitted to choose their next and final NGDC.

3. A Transition Period Must Be Provided Before Gas-on-Gas Competition Customers Begin Receiving Service Via Other Agreed Upon Rates.

Assuming *arguendo* that gas-on-gas competition is eliminated, as a final element to ensure a fair transition from gas-on-gas rates, the Commission should implement a transition period between the expiration of gas-on-gas rates and the onset of new tariff rates. The application of increased natural gas rates to gas-on-gas customers could result in significant financial hardship to gas-on-gas customers. This financial hardship would be eased if the customer is given long-term notice of the potential increase. Accordingly, it would be optimal for a transition period to occur, which would include the process of a base rate case, to provide former gas-on-gas customers with the opportunity to prepare for higher rates.

To ensure a just and reasonable transition for gas-on-gas customers to tariff rates, there should be a transition period between the expiration of gas-on-gas contracts and the imposition of tariff rates. IECPA St. No. 1R, p. 19; IECPA St. No. 1S, p. 26; *see also* Equitable St. No. 1, p. 7 ("If the Commission decides to adopt a different approach or policy than what is presently in place in regard to gas-on-gas competition, NGDCs that deal with this type of competition should be given time to implement this new approach or policy."). Gas-on-gas customers have become accustomed to negotiated rates below tariff levels and are currently guaranteed these reduced rates until the expiration of their contracts. At that time, if gas-on-gas competition were to be eliminated, gas-on-gas customers' rates could significantly increase. The best way to reduce the negative economic consequences of this increase would be to adopt a transition period before the onset of tariff rates.

Gas-on-gas customers would benefit from the advance notice provided by a transition period. Gas-on-gas customers are often large businesses with high energy usage that rely on long-term energy price information to make other operational and budgeting decisions. IECPA St. No. 1, p. 12.; *see also* IECPA St. No. 1S, p. 26. As a result, a swift conversion from elimination gas-on-gas pricing to tariff pricing could result in severe budgetary challenges for current gas-on-gas customers. *See id.* If, instead, gas-on-gas customers are notified that their rates will significantly increase at a later date, then they will have an opportunity to make appropriate budgeting decisions in light of the future increased natural gas prices.

Finally, as further explained in Section III.B.2., *supra*, this transition period should not conclude until NGDCs have held a base rate case to determine just and reasonable rates for former gas-on-gas customers. By participating in NGDCs' base rate cases, gas-on-gas customers will receive initial notice of the proposed rate increases and may provide feedback related to the

increases. Thus, a transition period that includes base rate cases would minimize the negative economic impact of increased rates on gas-on-gas customers.

In Section III.A., *supra*, IECPA outlines the many benefits and rationales for gas-on-gas competition that more than justify continuing this practice in Western Pennsylvania indefinitely. Nevertheless, if the Commission chooses to modify or eliminate gas-on-gas competition, it is essential that a transition period be imposed between the expiration of gas-on-gas rates and the application of new tariff rates. The combination of this transition period and base rate cases will facilitate a fair and reasonable transition for gas-on-gas customers.

CONCLUSION

For all the foregoing reasons, gas-on-gas competition is a just and reasonable practice that must be continued in Pennsylvania. Gas-on-gas competition has provided many benefits to customers and NGDCs in Western Pennsylvania for almost three decades, and no evidence has been presented to suggest a change in the status quo is warranted at this time. Moreover, public utility law and regulation continue to promote rates that are discounted below tariff levels. In addition, gas-on-gas competition is consistent with utility ratemaking principles. Although the Statutory Advocates support other forms of rate discounting, but not rate discounting due to gas-on-gas competition, no legitimate reason exists to distinguish between these different forms of discounting. In light of the regulatory substantiation, the continued circumstances, and the just and reasonableness inherent in gas-on-gas competition, this form of discounting should be preserved in its present format.

Although IECPA disagrees that there is any justification for the elimination or modification of gas-on-gas competition, if the Commission ultimately holds that changes to gas-on-gas competition are appropriate, IECPA would support a fair transition from gas-on-gas to new rates. In light of the significant impact such elimination and modification would have on Large C&I customers, only a reasonable and fair transition to any other type of rates would ensure the adequate protection of these customers' interests.

WHEREFORE, the Industrial Energy Consumer of Pennsylvania respectfully request that the Pennsylvania Public Utility Commission hold as follows:

- (i) Gas-on-gas competition should continue without modification; and
- (ii) To the extent gas-on-gas competition is modified or elimination, the transition away from gas-on-gas rates should include the following elements:
 - (1) all gas-on-gas contracts should be preserved until their expiration dates,
 - (2) all overlapping NGDCs should conduct base rate cases to determine just and reasonable rates for former gas-on-gas customers, and
 - (3) a reasonable transition period between the expiration of gas-on-gas rates and tariff rates should be imposed.

Respectfully submitted,

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