POST & SCHELL PC
ATTORNEYS AT LAW

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

Michael W. Hassell

mhassell@postschell.com
717-612-6029 Direct
717-731-1985 Direct Fax
File #: 160696

June 24, 2015

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: Pa. Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.
Docket No. R-2015-2469665, etc.

Dear Secretary Chiavetta:

Enclosed please find the Reply Brief of Columbia Gas of Pennsylvania, Inc. for the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

Michael W. Hassell

MWH/skr
Enclosures

cc: Certificate of Service
Honorable Mark A. Hoyer

CERTIFICATE OF SERVICE
(Docket No. R-2015-2469665)

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

Scott Granger, Esquire
Bureau of Investigation & Enforcement
PO Box 3265
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265

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

Daniel G. Asmus, Esquire
Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101

Charis Mincavage, Esquire
Elizabeth P. Trinkle, Esquire
McNees Wallace & Nurick, LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
Counsel for Columbia Industrial Intervenors

Todd S. Stewart, Esquire
Hawke McKeon & Sniscak LLP
P.O. Box 1778
100 N. Tenth Street
Harrisburg, PA 17105-1778
Counsel for NGS Parties

Melissa Whitten
Matthew Lociacono
LaCapra Associates, Inc.
One Washington Mall, 9th Floor
Boston, MA 02108
Consultant for OCA

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

Date: June 24, 2015

Michael W Hassell
Michael W. Hassell

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	Docket Nos. R-2015-2469665
v.	:	C-2015-2474515
	:	C-2015-2475969
Columbia Gas of Pennsylvania, Inc.	:	

REPLY BRIEF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

TO ADMINISTRATIVE LAW JUDGE MARK A. HOYER:

Theodore J. Gallagher (ID # 90842)
NiSource Corporate Services Company
121 Champion Way, Suite 100
Canonsburg, PA 15317
Phone: 724-416-6355
Fax: 724-416-6384
E-mail: tjgallagher@nisource.com

Michael W. Hassell (ID # 34851)
Lindsay A. Berkstresser (ID # 318370)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mhassell@postschell.com
E-mail: lberkstresser@postschell.com

Andrew S. Tubbs (ID # 80310)
NiSource Corporate Services Company
800 North Third Street, Suite 204
Harrisburg, PA 17102
Phone: 717-238-0463
E-mail: astubbs@nisource.com

Date: June 24, 2015

Attorneys for Columbia Gas of Pennsylvania, Inc.

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I. INTRODUCTION

Pursuant to the procedural schedule adopted in this proceeding, Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company"), the Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), the Office of Consumer Advocate ("OCA"), and Dominion Retail, Inc., Shipley Energy Company, and Interstate Gas Supply, Inc. (collectively, the "NGS Parties") filed Main Briefs in this proceeding on June 16, 2014. The Main Briefs of Columbia, I&E, OCA, OSBA, and the NGS Parties addressed the proposal by the NGS Parties to change the allocation of net proceeds of the customer portion of Columbia's Unified Sharing Mechanism ("USM"), from the current allocation of 60 percent to the Purchased Gas Commodity Cost ("PGCC") and 40 percent to the Purchased Gas Demand Cost ("PGDC"), to 100 percent of the customer portion of the net proceeds to the PGDC. Columbia did not take a position on the NGS Parties' proposal, but provided relevant information to aid the Commission's decision on the issue.

The Main Briefs of Columbia and the NGS Parties also addressed the NGS Parties' proposal that Columbia be required to conduct a study on the cost recovery of pipeline assets to serve the PGC. Columbia opposes this proposal because the requested study is unnecessary, as CHOICE and sales customers properly pay the same average cost of capacity.

Finally, Columbia addressed in its Main Brief two proposals, raised by the OCA for the first time in its rebuttal testimony, that Columbia be required to (1) redo its USM study to account for capacity assigned to marketers on behalf of CHOICE customers, including capacity for standby and balancing service; and (2) bid capacity and supply products in an AMA separately. The OCA failed to mention either proposal in its Main

Brief. As Columbia will explain herein, OCA has not preserved these for litigation and should not be permitted to defend either proposal in a Reply Brief.

Columbia hereby files its Reply Brief in response to the Main Briefs filed by the NGS Parties and the OCA. In this brief, Columbia will demonstrate that the NGS Parties fail to provide any support for their requested study, misconstrue the current mechanism for recovery of purchased gas demand costs as providing a "subsidy" for sales customers, and unnecessarily suggest that certain demand costs should be "extracted" from the PGDC.

II. ARGUMENT

A. PROPOSED MODIFICATIONS TO THE USM.

1. Columbia seeks to provide a clear record for the Commission's determination on the proposed modifications to the allocation of the customer share of USM net proceeds, but takes no specific position on this issue.

Columbia does not advocate for a particular approach to splitting the customer share of USM net proceeds between the PGCC and the PGDC; however, the Company will continue to provide relevant information to assist in the Commission's determination. The OCA's and NGS Parties' Main Briefs both refer to evidence provided by Columbia to support their receptive positions. (OCA M.B., pp. 8-11; NGS Parties' M.B., pp. 7-10). To clarify, although Columbia proposed no change in its filing to the current allocation of 60 percent of the customer share of USM net proceeds to the PGCC and 40 percent to the PGDC, Columbia takes no position on the modifications proposed by either I&E, OCA, OSBA or the NGS Parties.

Columbia will highlight a few significant facts regarding the transactions that produce USM revenue. Essentially all transactions that produce USM revenue involve pipeline capacity. (Columbia Ex. 16). Roughly 80 percent of the transactions involve a gas supply component. (*Id.*). Columbia engages in transactions designed to maximize the net margins provided to customers under the USM. (Columbia St. No. 1-R, p. 3). Columbia has no basis on which to determine what aspect of a bundled transaction, supply or capacity, the counter party values. (Columbia St. No. 2-R, p. 6). As the OSBA's brief appropriately observes, "there is no obviously correct mechanism for allocating the credits between the PGCC and the PGDC." (OSBA M.B., pp. 7-8).

Columbia has sought throughout this proceeding to provide a complete record on which the Commission can base its decision. For the purpose of maintaining an accurate record, Columbia is compelled to clarify a statement made by the OCA on page 11 of its Main Brief regarding gas supply costs and the credit to the commodity charge. The OCA states in its brief that if 100 percent of the total USM credit is applied to the PGDC, the credit would be "insufficient to fairly compensate for the natural gas supply costs which PGC customers paid in full." (OCA M.B., p. 11). OCA's statement could be interpreted to state that the USM net margins earned from off-system sales provide for the compensation of commodity gas supply costs. However, under the terms of Columbia's USM tariff provisions, the commodity cost of gas supply in an off-system sale ("OSS") transaction is deducted from gross proceeds before the remaining net proceeds are shared between the Company and customers. The amount to be deducted is defined in Columbia's tariff as follows:

> For sales in which a specific purchase is not made, the cost of gas will be defined as the daily average city gate commodity cost of the gas supplies purchased by the Company and flowing on the first of the month (WACCOG). For sales made upstream of the Company's city gate, the cost of transportation, including retainage, from the point of sale to the city gate will be subtracted from the WACCOG. This amount will be further

> adjusted to include applicable taxes, other than income taxes, and other costs.
>
> For incremental sales in which a specific purchase is made, the cost of gas will be defined as the purchase price plus transportation costs, including retainage, taxes and other costs that have or will be incurred.

(Supplement No. 200 to Tariff Gas- Pa. P.U.C. No. 9, Twelfth Revised Page No. 156). Because the USM shares net margin, the commodity cost of gas supply that the Company incurred to engage in the transaction is removed from gross margin. (*Id.*).

2. The OCA failed to present argument in its Main Brief regarding its two proposals, raised for the first time in rebuttal testimony, and should therefore be deemed to have waived these proposals.

The OCA's Main Brief fails to address its proposals that Columbia be required to (1) redo its USM study to account for capacity assigned to marketers on behalf of CHOICE customers, including capacity for standby and balancing service; and (2) bid capacity and supply products in an AMA separately.[1] Due process requires that a party be afforded a fair opportunity to respond to adverse claims. *Smith v. Pa. P.U.C.*, 162 A.2d 80, 83 (Pa. Super. Ct. 1960). By failing to mention either proposal in its Main Brief, the OCA has deprived Columbia of an opportunity to address OCA's proposals in the Company's Reply Brief. Therefore, the OCA should be deemed to have waived these proposals.

"The Commission . . . is bound by the due process provisions of constitutional law and by the principles of common fairness. (citation omitted) Among the requirements of due process are notice and an opportunity to be heard on the issues, to be apprised of the evidence submitted, . . . and to offer evidence in explanation or

[1] These proposals were inappropriately raised by the OCA for the first time in rebuttal testimony. (OCA St. No. 1-R, p. 13). Although Columbia had less than one week prepare a response, the Company explained the substantive flaws in the OCA's proposals in its surrebuttal testimony, as well as in its Main Brief. (Columbia St. No. 2-SR, pp. 3-6; Columbia M.B., pp. 11-13).

rebuttal." *Smith,* 162 A.2d at 83. "The allowance of new claims late in a case raises significant due process concerns. Such concerns arise from the lack of adequate time to . . . respond adequately to adverse positions." *Pa. P.U.C., et al. v. UGI Utilities,* 1994 Pa. PUC LEXIS 138, *82-83 (May 23, 1994) (rejecting a claim that was introduced for the first time by a party in the rebuttal phase of the proceeding, rather than in the party's direct case). A claim that is introduced at such a time when the opposing party would not have an adequate opportunity to respond must be rejected on due process grounds. *Application of PPL Electric Utilities Corp.,* 2009 Pa. P.U.C. LEXIS 2323, *225-227 (November 12, 2009) (rejecting a claim raised for the first time in reply briefs); *see also Pa. P.U.C. v. Duquesne Light Co.,* 59 Pa. P.U.C. 67 (January 25, 1985) (disallowing the untimely introduction of exhibits); *Pa. P.U.C. v. Pennsylvania-American Water Company,* 1989 Pa. PUC LEXIS 170, *167-169, 71 Pa. PUC 210 (October 27, 1989) ("late filed updates deny opposing parties an opportunity . . . to respond with countering evidence or testimony.").

The OCA's proposals are procedurally inappropriate and unjust. The OCA should not be permitted to resurrect the proposals it introduced for the first time in rebuttal testimony in its Reply Brief. Reintroducing the proposals at this juncture would deprive Columbia of its due process right to respond to the OCA's proposals. *See UGI Utilities,* 1994 Pa. PUC LEXIS at *82-83; *PPL Electric Utilities Corp.,* 2009 Pa. PUC LEXIS at *225-227; *Pennsylvania-American Water Company,* 1989 Pa. PUC LEXIS at *167-169. In addition, as the party with the burden of proof on these two proposals, OCA was required to address its proposals in its Main Brief. 52 Pa. Code § 5.501(a)(3).

Therefore, any argument OCA attempts to raise in its Reply Brief on these issues should not be considered.[2]

B. THE NGS PARTIES' HAVE FAILED TO PROVIDE ANY BASIS FOR REQUIRING COLUMBIA TO CONDUCT STUDY ON THE COST RECOVERY OF PIPELINE ASSETS TO SERVE THE PGC.

1. CHOICE customers are not "subsidizing" sales customers' cost of capacity because both CHOICE and sales customers properly pay the same average cost of capacity.

The NGS Parties have argued that Columbia should undertake a study to determine the cost of pipeline assets used to serve the PGC. (NGS Parties St. 1, p. 17). The NGS Parties assert the reason for the requested study is that CHOICE customers are purportedly "subsidizing" sales customers' capacity costs. (NGS Parties' M.B., pp. 18-19). However, the record conclusively demonstrates that no "subsidy" exists, and therefore the requested study is unnecessary.

CHOICE customers do not "subsidize" the cost of capacity used to serve sales customers because both customer groups pay the same per unit demand costs. (Columbia St. No. 2-R, p. 11). Crucial to the understanding that CHOICE customers do not subsidize sales customers' capacity costs is the NGS Parties unequivocal admission that "all customers, CHOICE and default service, pay for Capacity Assets on an equivalent basis." (NGS Parties' M.B., p. 5). In order for a "subsidy" to exist, one customer group must pay for the cost of capacity assets used to benefit another customer group. No subsidy could exist when both customer groups pay an equal amount for the cost of capacity assets used to serve them. (Columbia St. No. 2-R, p. 11).

[2] Columbia's Main Brief explains why the OCA's proposals are unnecessary and fundamentally flawed (Columbia M.B., pp. 11-13). As the proponent of these proposals, the OCA has failed to meet its burden of proof. *See Pa.P.U.C. v. Philadelphia Gas Works*, Docket No. R-00061931, 2007 Pa. P.U.C. LEXIS 45 at *165-68 (Sept. 28, 2007); *Pa. P.U.C. v. Metropolitan Edison Company*, Docket No. R-00061366, 2007 Pa. P.U.C. LEXIS 5 at *111-12 (Jan. 11, 2007).

As Columbia explained in its Main Brief, all PGC capacity is retained to serve the needs of sales and CHOICE customers. (Columbia M.B., pp. 17-18). Therefore, the NGS Parties' assertion of a "subsidy" is unfounded.

CHOICE customers do not pay for the cost of capacity to serve sales customers under the current demand cost formula. The NGS Parties incorrectly assert that CHOICE customers pay for the capacity used to serve sales customers' year round delivery needs which results in the alleged "subsidy." (NGS Parties' M.B., pp. 18-19). Such a contention would have merit if the cost of capacity assigned to NGSs were deducted from total demand costs and the remainder was then allocated equally to sales and CHOICE customers. However, that is not the case. Instead, under the current formula, the total demand cost is first spread across all sales and CHOICE volumes. (Columbia St. No. 2-R, pp. 11-12). A Capacity Assignment Factor credit is then applied only to CHOICE customers to remove the cost of capacity assigned to NGSs. (*Id.*). As a result, sales and CHOICE customers pay different PGDC rates, with the CHOICE rate being about 35¢/ Dth less out of a total demand rate of $1.2904/ Dth, exclusive of the USM credit. (*Id.*). The cost of capacity assigned to CHOICE NGSs is presumably recovered by the rates charged by the NGSs to their CHOICE customers, and Columbia's Price to Compare ("PTC") anticipates this by adding the Capacity Assignment Factor credit in the PTC.

Under the present formula, the only way in which a subsidy could occur would be if sales customers should be required to pay higher demand costs. However, at no point in the NGS Parties' Main Brief did they contend that sales and CHOICE customers should pay different total demand costs. The NGS Parties have offered no evidence on the record in support of such a position, nor would the proposed study produce any such evidence because all of Columbia's retained capacity assets are used to serve the design day needs of all firm customers—sales and CHOICE. (Columbia St. No. 1, p. 12; Columbia Ex. No. 5, p. 10). Thus, sales and CHOICE customers properly pay the same average cost of capacity. As Columbia fully explained in its Main Brief, charging sales and CHOICE customers different demand rates would be inappropriate from both an operational and ratemaking perspective. (Columbia M.B., pp. 17-23).

The NGS Parties' contention that CHOICE customers are "subsidizing" sales customers' demand cost provides no support for the proposed study because, as explained above, no such subsidy exists.

2. "Extracting" demand costs from the PGDC and moving them into the PGCC would serve no purpose because the result would still be that sales and CHOICE customers pay the same per unit demand cost.

The NGS Parties assert that CHOICE customers must be contributing toward sales customers' demand costs because demand costs are not "extracted" from the PGDC for sales customers. (NGS Parties' M.B., p. 20). "Extracting" demand costs from the PGDC for sales customers to be recovered through the PGCC is unnecessary because sales and CHOICE customers pay an equal share of demand costs, and the PTC includes not only the current cost of gas but also the cost of capacity assigned to NGSs on behalf of CHOICE customers. (Columbia St. No. 2-R, pp. 11-12). Furthermore, it would be impossible for Columbia to identify an amount of capacity costs attributable solely to sales customers for purposes of extraction. (Columbia St. 1-R, pp. 6-7).

The requested "extraction" of demand costs from the PGDC would be a fruitless exercise because the result would remain that CHOICE and sales customers pay the same total demand costs. So long as all sales and CHOICE customers pay an equal amount in total demand costs, there is no reason to move any costs out of the PGDC into the PGCC for recovery. The PTC takes into account capacity assigned to NGSs by including the amount of the Capacity Assignment Factor credit[3] as part of avoided gas costs in the event a customer shops. (Columbia St. No. 2-R, pp. 11-12). Including the cost of capacity assigned to NGSs in the PTC ensures that CHOICE customers are not disadvantaged. (*Id.*).

In addition to being unnecessary, there is no basis on which the Company can delineate sales customers' capacity costs from total capacity costs because all of Columbia's retained capacity assets are used to serve sales and CHOICE customers alike.[4] (Columbia St. 1-R, pp. 6-7). The NGS Parties assert that if Columbia can extract the cost of capacity assigned to NGSs from the PGDC rate charged to CHOICE customers, the Company should be able to determine capacity costs for sales customers. (NGS Parties' M.B., pp. 19-20). However, Columbia is able to identify and remove the cost of capacity assigned to NGSs from CHOICE customers' PGDC rate because NGSs receive a fixed amount of Columbia Gas Transmission ("TCO") and/or Columbia Gulf ("Gulf") capacity sufficient to meet their delivery requirements under the average day program.[5] (Columbia St. No. 2-R, pp. 11-12). The assignment of TCO and/or Gulf capacity to NGSs is intended as a convenience to encourage suppliers' participation in the CHOICE program, and has no effect on the actual capacity used to physically serve a CHOICE customer. (Columbia St. No. 1-R, pp. 6-7). To illustrate, if a CHOICE

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[3] The Capacity Assignment Factor credit deducts the cost of capacity assigned to NGSs from CHOICE customers' PGDC rate. (Columbia St. No. 2-R, p. 12).

[4] Columbia has the Supplier of Last Resort responsibility to hold sufficient capacity to serve all firm customers regardless of whether they receive CHOICE or sales service. 66 Pa. C.S. § 2207(a).

[5] Under the average day program, each CHOICE NGS must deliver every day of the year an amount of gas equal to 1/365th of the NGS customer group's annual normalized consumption. (Columbia St. No. 2, p. 8).

customer reverts back to sales, that customer physically would be served by all of the same capacity that physically was used to serve the customer while shopping.

The NGS Parties' "extraction" argument provides no support for the proposed study because removing demand costs for sales customers from the PGDC serves no purpose, and the requested study would not result in any evidence that sales and CHOICE customers should be paying different demand costs.

III. CONCLUSION

For the foregoing reasons, Columbia Gas of Pennsylvania, Inc. respectfully requests that the NGS Parties' request for a study concerning cost recovery of pipeline assets to serve the PGC should be denied.

Respectfully submitted,

Michael W Hassell

Michael W. Hassell (ID # 34851)
Lindsay A. Berkstresser (ID # 318370)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: mhassell@postschell.com
E-mail: lberkstresser@postschell.com

Theodore J. Gallagher (ID # 90842)
NiSource Corporate Services Company
121 Champion Way, Suite 100
Canonsburg, PA 15317
Phone: 724-416-6355
Fax: 724-416-6384
E-mail: tjgallagher@nisource.com

Andrew S. Tubbs (ID # 80310)
NiSource Corporate Services Company
800 North Third Street, Suite 204
Harrisburg, PA 17102
Phone: 717-238-0463
E-mail: astubbs@nisource.com

Date: June 24, 2015

Attorneys for Columbia Gas of Pennsylvania, Inc.