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June 24, 2015

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, Filing Room
Harrisburg, PA 17120

RE: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc., Docket No. R-2015-2469665; **REPLY BRIEF OF THE NATURAL GAS SUPPLIER PARTIES ON REVERSED ISSUES**

Dear Secretary Chiavetta:

Enclosed for electronic filing with the Commission is the Reply Brief of The Natural Gas Supplier Parties on Reserved Issues in the above-captioned docket. Copies of the Brief have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions with regard to this filing, please do not hesitate to contact me.

Very truly yours,

Todd S. Stewart
Counsel for Shipley Choice, LLC, Interstate Gas Supply, Inc. and Dominion Retail, Inc. ("NGS Parties")

TSS/jld
Enclosures
cc: Honorable Mark A. Hoyer (via overnight delivery)
Per Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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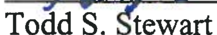

DATED: June 24, 2015

Todd S. Stewart

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**REPLY BRIEF OF
THE NATURAL GAS SUPPLIER PARTIES
ON RESERVED ISSUES**

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DATED: June 24, 2015

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I. INTRODUCTION AND SUMMARY OF THE REPLY ARGUMENT

The fundamental issue that remains in this case is the appropriate allocation of revenues earned from transactions of opportunity that Columbia Gas Company of Pennsylvania, Inc. ("Columbia" or the "Company") is able to undertake because the assets that it has at its disposal are not needed every day of the year to ensure the reliability of its delivery system. The revenues are referred-to in this case as Universal Sharing Mechanism ("USM") revenue. The assets are of two types: gas commodity that Columbia purchases for customers who have not switched suppliers and who are otherwise referred to as default service customers; and, pipeline and storage capacity that Columbia purchases so that it has the ability to move gas on and off its system for balancing, and peak day delivery needs. The former asset – gas supplies, also referred to as PGC gas, are paid-for through the Purchased Gas Commodity Charge ("PGCC") which is collected from default service customers, while the pipeline and storage capacity asset costs are recovered through the Purchased Gas Demand Charge ("PGDC"), which is recovered from all customers. (NGS Parties' Statement "NGS St." No. 1, pp. 3-6).

The Office of Consumer Advocate ("OCA") and to a lesser extent the Bureau of Investigation and Enforcement ("I&E") -- have taken a position hostile to customers that shop, and suggest that it is acceptable for CHOICE customers to receive 8% of the USM Revenue as a group, while default service customers, as a group, receive 92% of the USM Revenue. (OSBA Main Brief "MB", p. 7). They adopt this position despite the facts that show that CHOICE customers and default service customers pay equally for the assets that enable all of the transactions, which would suggest that they should share equally. (NGS Parties' MB, *passim*). The record is clear that at least 18 % of the USM Revenue is earned exclusively from capacity release transactions, and that the remaining 82% of transactions, (Columbia Exhibit No. 16) while possibly involving a commodity component that may or may not involve PGC gas,

absolutely required pipeline or storage capacity as an enabling component. (Columbia Statement No. 1-R, pp. 3-9). In other words, while some undefined percentage of transactions may have involved a commodity component and for those that did, there may have *been some instances where the commodity was not an incremental purchase and instead used PGC gas, it is absolutely clear that* ALL of the transactions involved a capacity asset as an enabling component. (Columbia St. No. 1-R, 2:16-18)

In their Main Brief, (NGS Parties' MB, *passim*) the NGS Parties argue that this construct supports their contention that all of the USM Revenue should be shared with all customers equally through the PGDC, not only because it is the right and fair thing to do, but also because it eliminates the overt and anti-competitive subsidy that CHOICE customers have continued to pay ever since the mechanism was altered to switch away from refunding all the revenue through the PGDC. The OCA and others argue that because only 18 percent of the revenue is derived from transactions that involve ONLY capacity, that the current 60/40 allocation is fair. (OCA MB, pp. 7-10) The *status quo* clearly is not fair, and attempts to adjust the allocation based on shopping levels are wrong for reasons discussed herein and in the NGS Parties' Main Brief (NGS Parties' MB, __), and so the question remains, how do we make this fair to all customers. The answer is simple – recognize that the "but for" assets are the capacity assets, and reward those who pay for those assets on the same basis as they are paid-for. No other result is fair or workable.

II. REPLY ARGUMENT

A. THE OCA AND I&E POSITIONS ARE INCORRECT AND UNFOUNDED.

The Office of Consumer Advocate ("OCA") and Bureau of Investigation & Enforcement ("I&E") do not agree with the recommendation of the NGS Parties' witness, Mr. White, to alter the current allocation mechanism of the USM whereby default service customers receive

approximately 92% of the total net revenue and shopping customers receive approximately 8%. (OSBA St. No. 1). On its face the USM allocates 60% of the Net USM revenue directly to default service customers through the PGCC (the mechanism that is supposed to recover the commodity costs of default service) and 40% through the PGDC which recovers the costs of pipeline and storage costs associated with providing service to all small customers – CHOICE and default service. Thus the OCA would continue to have default service to receive the vast majority of USM funds even though 1) CHOICE customers pay for the assets that allow for these transactions on the same basis as the default service customers, and 2) Columbia's capacity assets are the single reason Columbia is able to earn USM revenues. (NGS St. No. 1, pp. 3-7).

It would appear from their Main Briefs that the OCA and I&E's opposition is based primarily on a representation made by the Company in its Exhibit No. 16, wherein the Company attributes 19.1% of net USM revenue to capacity release ("CR") transactions and 80.9% to off-system sales ("OSS") transactions. First, it is undisputed (even by OCA and I&E) that the CR revenue should be shared equally by all customers. OCA and I&E, however, contend (OCA MB, pp. 8-9; I&E MB, pp. 13-14), that because there is a sale of natural gas involved with the remaining OSS transactions, essentially 100% of the OSS revenue should go to PGC customers, and Choice customers should get none- even though it is undisputable that Columbia' ability to enter into OSS transactions is contingent on the capacity assets that Choice customers help pay for.[1] The underlying premise of OCA and I&E's positions is not supportable for multiple reasons.

First, the record evidence demonstrates that all of CPA's OSS transactions could not take place but-for the capacity assets for which all customers pay an equal share. (NGS St. No. 1,

[1] Exhibit 16 goes on to state that CR is the only type of transaction that "utilizes only capacity in the determination of its value" while the other OSS products, namely sales, options, Asset Management Agreements ("AMA") and exchanges include some aspect of commodity in the determination of value, (cite). Since these OSS transactions account for 80% of the revenue, the OCA and I&E justify allocating the vast majority of that revenue to default customers who pay the PGCC which supports the assets that are used in those transaction.

7:17-22). CPA's witness Catron testified that every single OSS transaction involves the use of capacity assets as a necessary element. (Columbia St. No. 1-R, p. 2).

Second, there is no evidence in this record to suggest that Columbia used even one single dekatherm of PGC gas to make an off-system sales transaction. Even if they did, the record also is clear that NGSs deliver a daily baseload quantity of gas that is mingled in storage with PGC gas and so, the NGS' 1/365 delivery regimen ensures that at certain times of the year, a substantial portion of any commodity that Columbia may use for OSS transactions is likely to be NGS gas. (NGS St. No. 1-SR, 4:1-5:17). While Mr. Catron testifies that holding capacity rights enables CPA to engage in OSS transactions, he never explains how, or if, the gas commodity is leveraged to engage in those transactions. (Columbia St. No. 1-R, pp. 3-9). Rather, he suggests that the transactions that involve commodity could involve PGC assets or incremental supplies, but never says how much of each. (*Id.*) Further, as explained by NGS Witness White, it is not the ownership of gas that enable's Columbia to generate revenue from OSS, but rather it is the fact that Columbia holds capacity assets. As explained by witness White, any entity that held CPA's capacity rights could engage in OSS transactions, regardless of whether that entity had retail supply obligations. The pipelines exist on liquid wholesale market hubs, and thus wholesale gas can be utilized to maximize the value of the capacity assets. (NGS St. No. 1-SR, 4:1-5:17).

While I&E and the OSBA do suggest that an alternative mechanism of USM revenue allocation; such a mechanism, as discussed at length in the NGS Parties' Main Brief, (NGS Parties" MB, pp. 13-15) fails for several reasons, not the least of which is the fact that the I&E and OSBA alternative mechanisms would continue to subsidize default service at the expense of Choice customers - and in some instances the alternative mechanisms would make the subsidy

even worse than the current USM allocation mechanism.[2] The other reason is that there is little to no connection between shopping levels and the basis on which Columbia earns USM revenue and so no reason to connect the two for purposes of allocation.

The point, as made clear in the NGS Parties' Main Brief, is that the essential element, that thing with without which none of the OSS transactions would be possible, is the capacity assets that are recovered from all customers through the PGDC. (NGS Parties' MB, *passim*). The same cannot be said for PGC gas. Mr. Catron does not ascribe one dekatherm of PGC gas to any particular transaction, and admits that for those OSS transactions that involve the sale of commodity, the commodity could be incremental purchases or PGC gas, but he never claims that it is one or the other. (Columbia St. No. 1-R, pp.3-7).

Simply put, there is no basis, on the record of this proceeding, to maintain the current allocation of USM revenue which is arbitrary and discriminatory. The NGS Parties" proposal to allocate the revenue through the PGDC would eliminate the subsidy to the PGC with no anti-competitive impact. Further, the NGSs proposal is the simplest mechanism proposed in this proceeding to allocate USM revenue and the only mechanism that does not rely on a complicated formula that adjusts as shopping levels change.

B. THE COMPANY'S POSITION WITH REGARD TO THE NEED FOR A STUDY IS NOT SUPPORTABLE.

Columbia spends considerable time in its Main Brief (pp. 13-24) addressing a suggestion made by Mr. White in his direct testimony, and discussed in the NGS Parties' Main Brief (pp. 18-20). Mr. White merely suggested that Columbia be required to conduct an analysis of how the pipeline capacity it retains to serve default service customers is being utilized (NGS Parties Statement No. 1, p. 17). The basis for this recommendation was Mr. White's observation that

[2] Even if one assumes that the Company's suggestion that 81 % of the revenue is actually produce from OSS transactions, which it is not, the allocation should be at least 81% - 19%, instead of the current 92% and 8%.

while Columbia charges all customers what is essentially the same PGDC for the interstate pipeline and storage capacity used to deliver gas, Columbia nonetheless extracts the costs associated with the release of specific interstate pipeline capacity assets to NGSs, and the NGSs pay those costs directly. (NGS St. No 1, pp. 15-17).

What Mr. White observes is that while customers of NGSs do not pay directly for the costs for the pipeline capacity that is being used to serve them, through the PGDC—it is logically assumed that NGSs pass those costs on to customers. However, the converse is not also true. That is, the costs of the pipeline capacity used to serve Columbia's default service customers are not extracted and assigned only to those customers. If, for example, Columbia were using the same two interstate pipeline assets to deliver capacity for their default service customers only, it would be appropriate to extract those costs and charge them only to sales customers as part of their purchased gas commodity cost, because it would be a cost of getting the commodity to those customers. But Columbia does not do this; in fact it does not extract any of the costs of the capacity used to serve sales customers—it requires CHOICE customers to pay a share of those costs.

The only logical conclusion that can be drawn from this state of affairs is that a portion of capacity assets that are being used to serve only sales customers are being recovered through the PGDC and; therefore, are being subsidized by the CHOICE customers who are paying for a portion of those assets while they are also paying their suppliers who are paying specifically for the assets to serve them. The requested study is intended to determine the scope of the subsidy.

Columbia's response is to suggest somehow that the NGS Parties are demanding that there be a study so that each customer pays the cost of the capacity used to deliver gas to that customer. (Columbia MB, p. 14). This simply is a red herring promoted by Columbia. Nowhere have the suppliers requested a by-customer asset allocation methodology be worked up so that each customer pays their exact cost. Nor have the NGS Parties suggested that peaking

assets or assets used to balance the system be specifically allocated to customers or even on a group basis because those assets benefit all customers. However, in gross, as between CHOICE customers and sales customers, Columbia should be able to determine the capacity assets that are used to serve each of these customer groups and allocate the costs appropriately. That is the study that was requested, the basis of which Columbia has yet to refute.

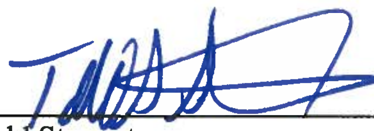
If circumstances are as Mr. White believes and shopping customers are subsidizing sales customers -- that is not acceptable. Columbia states in its Main Brief that "it is impossible for Columbia to conduct such a study, because there is no way for Columbia to determine which capacity is used to physically serve CHOICE versus sales customers." (Columbia Main Brief at p. 14). This statement by Columbia, however, is pure sophistry. If Columbia is able to extract the costs of the two pipeline assets that are assigned to CHOICE customers and charges those suppliers the costs of those assets directly then Columbia clearly is able to determine the costs of the assets used to physically serve CHOICE customers. Columbia speculates that there may be some CHOICE customers who are served on pipelines other than the two assets which are assigned to NGSs, but it fails to make any further factual allegations with regard to the use of that capacity or if whether any actual CHOICE customers are receiving such service. (Columbia MB. P. 15).

As Mr. White stated, he is not discussing the assets that are used for balancing the system or for peak-day deliveries. He is merely talking about the fact that the NGSs are required to deliver 1/365th of the total amount gas our customers expect to use over the course of the year every single day, and that baseline capacity is assigned to NGSs. (NGS St. No. 1, 16:20-16:6). Further, it is clear that Mr. White only suggested that Columbia be required to analyze the costs of capacity and to show that there is no subsidy, or if there is a subsidy to quantify the amount of the subsidy.

III. CONCLUSION

At bottom, several things are clear: 1) the status quo of CHOICE customers subsidizing default service customers by being refunded less than their fair share of USM Revenue must end; and, the apparent subsidy of default service customers by CHOICE customers through the PGDC must be examined, and if found to exist, also ended. It is time to treat all customers the same, since they are required to pay the same. No other mechanism for the USM Revenue sharing is fair, the status quo is not fair, and the alternative adjustable mechanisms start at the same place and are likewise unfair. The NGS Parties are not asking for special treatment, no advantage that will artificially make offers from NGSs look better than the PTC, which is what happens in reverse now, but rather, simply that CHOICE customers receive the same treatment, because the **facts** make it clear that no other outcome is fair. Accordingly, for all the reasons stated herein, in the NGS Parties' Main Brief and in their testimonies and exhibit, the USM should be modified to return 100% of USM Revenues through the PGDC to all customers on the same basis and Columbia should be required to perform a study to determine if, and to what extent, CHOICE customers subsidize default service customers through the current PGDC mechanism.

Respectfully submitted,



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DATED: June 24, 2015