**COMMONWEALTH OF PENNSYLVANIA**

OFFICE OF CONSUMER ADVOCATE
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

June 24, 2015

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

RE: Pennsylvania Public Utility Commission v.
Columbia Gas of Pennsylvania, Inc. 1307(f)
Docket Nos. R-2015-2469665
C-2015-2474515

Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Reply Brief, in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

Hobart J. Webster

Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. #314639
E-Mail: HWebster@paoca.org

Enclosures
cc: Honorable Mark A. Hoyer, ALJ
Certificate of Service
*209108

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 OFFICE OF CONSUMER ADVOCATE

---


Erin L. Gannon
Assistant Consumer Advocate
PA Attorney I.D. #83487

Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. #314639

For:
Tanya J. McCloskey
Acting Consumer Advocate

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

DATED: June 23, 2015

## Table of Contents

# I. INTRODUCTION

The Office of Consumer Advocate (OCA) hereby submits this Reply Brief in response to the Main Brief filed by Interstate Gas Supply, Inc., Shipley Energy and Dominion Energy Solutions (NGS Parties), the Commission's Bureau of Investigation & Enforcement (I&E) and the Office of Small Business Advocate (OSBA). Columbia Gas of Pennsylvania (Columbia, CPA, or the Company) also filed a brief, in which it did not take a position on proposals to change Columbia's current allocation of Unified Sharing Mechanism (USM) credits between the Purchased Gas Commodity Charge (PGCC) and Purchased Gas Demand Charge (PGDC).

Columbia did oppose two recommendations by the OCA in testimony responding to issues raised about the value of supply versus capacity in USM transactions. CPA M.B. at 10-12. Based on subsequent testimony, however, the OCA has not pursued those issues and does not address them in its briefs.

The arguments set forth by the NGS Parties, I&E and OSBA regarding the allocation of USM credits between the PGCC and PGDC have already been, for the most part, fully addressed in the OCA's Main Brief (M.B.). This Reply Brief will address only those arguments that require correction or further explanation.

For all of the reasons expressed in the OCA's Main Brief and herein, the NGS Parties' proposal to eliminate all current credits to the PGCC and assign 100% of the credits to the PGDC should be rejected.

## II. ARGUMENT

### A. The Allocation of USM Credits Between the PGCC and PGDC Must Reflect the Fact that Only PGC Customers Contribute to the Costs of the Gas Supply Required for the Majority of USM Transactions.

The USM revenues at issue here are largely a result of the ability of Columbia to provide a commodity to wholesale counterparties in the secondary market. The natural gas used to support these transactions is financed by PGC customers, and those customers are entitled to USM revenues that result from their contribution. The mechanism that provides those customers with the appropriate share of the credits is the PGCC.

The NGS Parties, in attempting to assign all credits to the PGDC which is paid for by both sales and Choice customers, argue that "while the other transactions may involve the sale of gas, none of the revenues generated are attributable to the sale of the commodity for default service customers." NGS M.B. at 7. The NGS Position is contradicted by the record evidence, including the NGS' own witness. See, OCA M.B. at 11. As noted in Columbia's brief, the Company's study (Exhibit 16) demonstrates the integrated nature of natural gas commodity and capacity resources in off-system sales.[1] CPA M.B. at 9-10. As Company witness Catron explained:

> [A]n off system sale, like most other USM transactions, generally could not be consummated without pipeline capacity. However, it also could not be undertaken without access to gas supplies. . .. While Mr. White speculates that Columbia could engage in off system sales transactions regardless of whether it had supply obligations for retail customers, **the fact remains that Columbia is purchasing supplies to ensure that gas is available to meet needs of its core customers (PGC and CHOICE) at all times,**

[1] Columbia engages in five types of transactions, which generate the proceeds shared through the USM. One is capacity release which only involves capacity, the costs of which are recovered through the PGDC. The other four (options, exchanges, off-system sales and asset management agreements) include sales of commodity, the costs of which are recovered through the PGCC. See CPA Exh. 16 at 3. For purposes of this brief, the OCA uses the general term "off-system sales" for all transactions other than Capacity Release.

> **up to design day conditions and the availability of those supplies, and capacity, is needed to make off-system sales.**

CPA St. 1-R at 4 (Emphasis added).

While the precise value attributed by the counter-party is not known, we do know that off-system sales transactions do not, for the most part, occur without the gas supply. To this end, OCA witness Whitten stated:

> Having marketed both pipeline capacity by itself as well as pursued AMAs and off-system sales myself, when employed by a local gas utility, I am aware that some pipeline capacity has negligible value on its own because the markets it can serve are already well-supplied. So if the capacity can be bundled with supply, then the ability to complete the transaction and obtain the value in the form of net revenue is attributable to gas supply or primarily to gas supply.

OCA St. 1-S at 3-4 (citing CPA St. 1-R at 2). Columbia's witness confirmed that gas supply – funded by the customers who pay the PGCC – plays a substantial role in the Company's off-system sales transactions and in the Company's <u>ability to maximize its margin revenue</u>. CPA St. 1-R at 4. Mr. Catron testified:

> Mr. White asserts that the USM transactions could not be executed without the use of capacity assets. While this is substantially correct, it is also the case that most transactions could not be undertaken without a gas supply component. Columbia is always looking to identify USM transactions that produce the greatest value in margin. Absent a gas supply component, USM transactions other than capacity release that maximize margin revenue could not be completed, to the detriment of all firm customers. That gas supply component is available as a result of Columbia's management of PGC supplies.

<u>Id</u>.

Contrary to the NGS Parties' allegation, the evidence unquestionably supports crediting the PGCC with the majority of off-system sales credits because (1) gas supply drives most off-system sales transactions and (2) the Company has historically maximized its revenue by choosing transactions with a gas supply component.[2]

B. 60/40 Is a Reasonable Split and Should Be Continued.

The Company's alternative mechanism for allocating customers' share of the USM would "fix" a percentage allocated to the PGDC based on an average of the four prior years Capacity Release revenues. CPA Exh. 16 at 4. The current four year average allocated to the PGDC would be 19.1%. CPA Exh. 16 at 4. The Company alternative would then multiply the current shopping percentage against the remaining percentage of USM revenues. As shopping increases, this methodology would allocate a greater percentage of USM revenues to the PGDC. Taken to the extreme, if 100% of customers shopped, all USM revenues would be allocated to the PGDC. OSBA and I&E's proposals are different from, but based on the same premise as Columbia's alternative mechanism.

The Company's alternative methodology provides a mathematical formula to allocate a greater percentage of USM credits to the PGDC as shopping increases, however, it is not based on cost causation. See OCA St. 1 at 14-15. The Company testified that it was not aware of any linkage to the level of shopping in setting the current allocation at 60%/40%. CPA St. 2R at 9. The Company acknowledged that the alternative was simply a method to re-allocate the credit as shopping increased, rather than a precise way to allocate credits on a substantive basis. The Company stated:

> The second factor would be calculated based on the current CHOICE participation rate applied to the percentage of revenues derived from Sales, Options, AMA and Exchanges based on a four year average. The revenues allocated to the PGCC would be the remainder following the calculation of the PGDC percentage. This

[2] Over the last four years, Off-System Sales have averaged 80.9% of the total USM revenues. CPA Exh. 16 at 4.

> methodology would allocate a portion of the value of non-capacity release revenue to the CHOICE customers **commensurate with levels of CHOICE participation.** If CHOICE participation reached 100%, then 100% of the customers' share of the Capacity release and Off System Sales would be credited to the PGDC.

CPA Exh. 16 at 4 (Emphasis added).

I&E and OSBA support a mechanism that takes shopping into consideration. The OCA agrees that shopping should be a factor, but disagrees that a change in the current structure or a complex formula is needed at this time. OSBA M.B. at 8; I&E M.B. at 12-15. The current 60/40 split ties the allocation of USM credits to the customers that incurred the costs of the resources used to make such credits possible and it reflects shopping by continuing to credit the PGDC by a substantial amount. See Section II.A, *supra*.

Moreover, the OCA's recommendation to continue utilizing a 60/40 split produces substantially the same results as both the Company's alternative and I&E's recommendation at present shopping rates, and is close to the OSBA proposal. At current shopping levels, the parties' recommendations are as follows:

| | OCA and Columbia[3] | Columbia Alternative | I&E | OSBA | NGS Parties |
|---|---|---|---|---|---|
| PGCC % | 60 | 58.8 | 59.15 | 50 | 0 |
| PGDC % | 40 | 41.2 | 40.85 | 50 | 100 |

Sources: OCA St. 1 at 15; CPA St. 2-R, Exh. NJDK 3-R & NJDK 4-R; OSBA St. 1 at 9; NGS Parties' St. 1 at 7.

As the above-chart demonstrates, the OCA's position is not "extreme" as labelled by OSBA but is very close to OSBA's own position. OSBA M.B. at 8. The current allocation reflects a reasonable compromise that reflects the fact that only 19% of revenues are purely

[3] In its definitive filing, the Company proposed to continue using the existing 60/40 split. See CPA St. 2-R at 6. Columbia witness Krajovic testified that, "Columbia does not take a specific position on the allocation of the customer share of USM credits between the PGCC and the PGDC." Id.

capacity-related and the remaining 80% of USM credits include both gas supply and capacity. See OCA M.B. at 8-12; see Section II.A, *supra*.

The current 60/40 (PGCC/PGDC) allocation recognizes the contribution of both natural gas supply – paid for by PGC customers – and capacity assets – paid for by both Choice and PGC customers – when returning the credits from off-system sales transactions to customers. The current 60/40 allocation reflects current levels of shopping and addresses the complicated issue in a reasonable manner.

## III. CONCLUSION

For the reasons set forth above and in the OCA's Main Brief, the OCA respectfully requests that the Commission reject the proposal by the NGS Parties to allocate 100% of the customer share of USM credits to the Purchased Gas Demand Charge. The record evidence in this case establishes that the majority of revenues generated through the USM require natural gas paid for by PGC customers. The OCA submits that these revenues are appropriately credited to PGC customers through the current allocation of 60% to the PGCC and 40% to the PGDC. The NGS Parties' proposal would result in PGC customer funds being allocated to non-PGC customers and should not be approved.

Respectfully Submitted,

Hobart J. Webster

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org
Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. #314639
E-Mail: HWebster@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

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

June 24, 2015
208940

## CERTIFICATE OF SERVICE

| | | |
|---|---|---|
| Pennsylvania Public Utility Commission | : | Docket Nos. R-2015-2469665 |
| | : | C-2015-2474515 |
| v. | : | |
| | : | |
| Columbia Gas of Pennsylvania, Inc. | : | |
| 1307(f) Proceeding | : | |

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Reply Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 24th day of June 2015.

SERVICE BY INTER-OFFICE MAIL

Scott B. Granger, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, P.O. Box 3265
Harrisburg, PA 17105-3265

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Michael W. Hassell, Esq.
Lindsay A. Berkstresser
Post & Schell, P.C.
17 North Second Street, 12th Fl.
Harrisburg, PA 17101

Daniel G. Asmus, Esq.
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Andrew S. Tubbs, Esq.
NisSource Corporate Service Company
800 North Third Street, Suite 402
Harrisburg, PA 17102

Theodore J. Gallagher, Esq.
Nancy Krajovic
121 Champion Way, Suite 100
Canonsburg, PA 15317

Todd S. Stewart, Esq
Hawke McKeon & Sniscak LLP
P.O. Box 1778
100 n. Tenth Street
Harrisburg, PA 17105-1779

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

Hobart J. Webster

Erin L. Gannon
Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. # 314639
E-Mail: HWebster@paoca.org

Counsel for
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

*209111