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August 24, 2015

VIA ELECTRONIC FILING

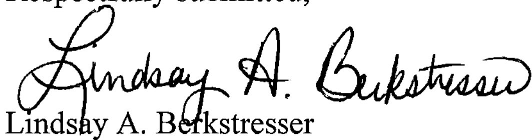
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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 Exceptions of Columbia Gas of Pennsylvania, Inc. for the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



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LAB/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).

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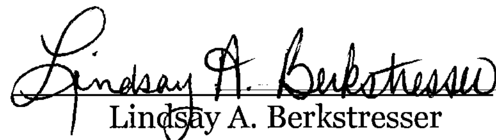
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY EXCEPTIONS OF
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I. INTRODUCTION

Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") files these Reply Exceptions in response to the Exceptions filed by Dominion Retail, Inc., Shipley Energy Company, and Interstate Gas Supply, Inc. (collectively, the "NGS Parties"). No other party filed Exceptions.

Columbia does not take a position on Exceptions Nos. 1 and 2, which address the Administrative Law Judge's ("ALJ") Recommended Decision ("R.D.") on the appropriateness of the proposed modifications to the allocation of the customers' share of net proceeds within the Unified Sharing Mechanism ("USM"). This issue concerns the allocation of the customer share between the Purchased Gas Demand Charge ("PGDC") and the Purchased Gas Commodity Charge ("PGCC"). As briefly explained in these Reply Exceptions, Columbia believes the choice of allocation to be primarily a matter of policy for the Commission to decide.

Columbia opposes NGS Parties' Exception No. 3, which challenges the ALJ's recommended denial of the NGS Parties' proposal for a study of the use of purchased gas cost ("PGC") assets. In Exception No. 3, the NGS Parties contend that Columbia should be required to undertake "an analysis on how the pipeline capacity it retains is being utilized." (NGS Parties St. No. 1, p. 17.) The claimed reason for this analysis is the NGS Parties' assertion that CHOICE customers are paying both for their assigned capacity and a portion of the capacity used to serve sales customers. (NGS Exc., p. 9.) The proposed analysis would require Columbia to calculate: (1) the portion of pipeline assets retained for system peaking needs; and (2) the portion of pipeline assets utilized for PGC delivery needs. (NGS Parties St. No. 1, p. 17.) Columbia opposes this proposal because all firm sales and CHOICE customers already properly pay the same cost for

pipeline capacity. There is no basis to conclude that CHOICE and sales customers should pay different capacity costs; therefore, the requested analysis is unnecessary. The NGS Parties' contention, in its Exceptions, that CHOICE customers pay for their own assigned capacity and also pay for a portion of the capacity used to serve the average daily needs of sales service customers is unsupported by the record and unequivocally incorrect. As explained by Columbia's witnesses, and as further described in these Reply Exceptions, Columbia's calculation of capacity charges first computes the average PGDC per therm rate applicable to all sales and CHOICE customers, and then deducts from the CHOICE PGDC rate the cost per therm of firm transportation ("FT") capacity assigned to and paid by CHOICE suppliers (known as the "Capacity Assignment Factor credit"). The sum of the Capacity Assignment Factor credit and the lower PGDC rate charged to CHOICE customers equals the PGDC charge to sales customers. Columbia further explained that Columbia Gas Transmission ("TCO") and Columbia Gulf Transmission ("CGT") capacity is assigned to CHOICE NGS providers only to simplify scheduling for the CHOICE average day program. In reality, CHOICE customers and sales customers physically may be served on any day by supplies obtained by Columbia from other capacity sources. What those actual sources are and their cost can change at any time, and could not be traced separately to serving a sales customer or the CHOICE customer living next door.

The R.D. correctly concluded that the NGS Parties' proposed study is "unreasonable and unnecessary," and that the NGS Parties failed to carry their burden of proof with regard to the requested study. (R.D., p. 83; p. 85.) The ALJ determined that it is proper for all CHOICE and sales customers to pay the same per unit demand costs. (R.D., p. 83.) The R.D. also found that it would be impossible for Columbia to

perform the requested study because Columbia cannot distinguish between capacity physically used to serve sales customers versus capacity physically used to serve CHOICE customers. (R.D., p. 83.) Finally, the R.D. found:

> An analysis of the use of Columbia's retained pipeline capacity would reveal no additional information that the parties do not currently have at their disposal because Columbia already has explained that all of its pipeline capacity is used to meet its obligation of providing firm service to CHOICE and PGC sales customers and to ensure system reliability.

(R.D., p. 83.) Based on these conclusions, the R.D. properly rejected the NGS Parties' proposal.

For the reasons summarized below, and explained in greater detail in Columbia's Main Brief ("M.B.") and Reply Brief ("R.B."), the NGS Parties' Exception No. 3 to the R.D. should be denied. (M.B., pp. 13-24, R.B., pp. 6-10.)

II. REPLIES TO EXCEPTIONS

A. NGS Parties' Exception Nos. 1 and 2: In transactions that involve both use of gas supply and capacity, Columbia has taken no position with respect to the allocation of the customer's share of USM proceeds between the PGDC and PGCC.

The NGS Parties argue in Exception Nos. 1 and 2 that the R.D. reached an improper conclusion with respect to the allocation of the customer share of USM proceeds between the PGCC and the PGDC. (NGS Parties Exc., pp. 4-9.) Specifically, the NGS Parties argue the R.D. results in a rate structure that is discriminatory in contravention of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1304 and the Natural Gas Choice and Competition Act, 66 Pa. C.S. § 2203(4). (NGS Parties Exc., pp. 2-4.) The R.D. found that the existing split contained in Columbia's filing of 60 percent of total USM credits to the PGCC and 40 percent to the PGDC is not reasonable in light

of the USM study Columbia conducted.[1] (R.D., p. 65.) The R.D. adopted the recommendation set forth by the Bureau of Investigation and Enforcement (I&E) of the Pennsylvania Public Utility Commission ("Commission"), which allocates the customer share of capacity release margin to the PGDC and allocates a further portion of the customer share of non-capacity release margin to the PGDC rate commensurate with CHOICE participation levels. (R.D., pp. 66-67.) The effect is to increase the CHOICE customer share of USM net proceeds as CHOICE expands.[2] (R.D., pp. 66-67.)

As indicated previously in these Reply Exceptions, as well as in Columbia's M.B. (M.B., pp. 10-11.), Columbia has not taken a position on the parties' proposals regarding the USM allocation.[3] However, Columbia notes that the inherent value of an off-system sale or capacity release product in providing gas supply and/or capacity is encompassed within the negotiated value for the various products, and is determined solely by the counter-party. (Columbia Ex. 16; Columbia M.B., p. 9.) When a transaction involves supply and capacity, it is impossible to determine how much value a third party derives from each component of the transaction. (Columbia St. No. 2-R, p. 6; Columbia M.B., p. 9.) Therefore, Columbia cannot conclude what portion of USM net proceeds result because a counter-party values the capacity or values the gas supply used to accomplish the transaction. (Columbia St. No. 2-R, p. 6, Columbia M.B., p. 9.)

OSBA witness Knecht expressed a similar conclusion on this issue, stating:

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[1] Columbia provided Exhibit 16 in its initial filing, which provides information requested by the Commission and presents an alternative USM calculation, in order to comply with the Commission's Final Order in Columbia's 2014 Section 1307(f) proceeding. (*Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2408268 (Order entered September 18, 2014)).

[2] As CHOICE nears 100% of throughput for CHOICE eligible customers, the USM credit share to the PGDC also nears 100%. (R.D., pp. 66-67.)

[3] In compliance with the Commission's Order in Columbia's 2014 PGC proceeding, Columbia did provide responses to the questions directed by the Commission. (Columbia Exhibit No. 16; Columbia Statement No. 2, pp. 27-29.)

> I conclude there is no perfect answer to this question. Columbia is able to obtain the values associated with the USM because (a) it has excess transportation and storage capacity that is not always needed to meet its PGC obligations, and (b) it is active in the gas markets in order to serve the needs of its gas sales customers. A solution should therefore reflect a reasonable compromise among the various arguments listed above, as well as consideration of rate stability and simplicity.

(OSBA St. No. 1, p. 5.) For this reason, much like OSBA witness Knecht observed, this issue of the allocation of the customer share of USM net proceeds between the PGDC and PGCC is largely one of policy choice.

B. NGS Parties' Exception No. 3: The R.D. correctly rejected the NGS Parties' proposal for a study of the use of PGC assets.

The NGS Parties argue that the R.D.'s denial of the requested study results in rates that could be discriminatory under the Pennsylvania Public Utility Code, 66 Pa. C.S. § 1304 and the Natural Gas Choice and Competition Act, 66 Pa. C.S. § 2203(4). (NGS Parties Exc., pp. 3-4.) More specifically, the NGS Parties allege that the basis for the supposed inequity is the method by which Columbia calculates the demand charge for sales and CHOICE customers. The NGS Parties' description of how Columbia calculates the demand charge, however, is wholly inaccurate and contrary to the record evidence presented by Columbia in this proceeding. The NGS Parties presented no evidence on the record to refute the way in which Columbia calculates the PGDC. The NGS Parties' mischaracterization of the PGDC formula, presented for the first time in its Exception No. 3, is not a basis for overturning the R.D. Therefore, the Commission should reject the NGS Parties' Exception No. 3 and affirm the finding in the R.D. that the requested study is unreasonable and unnecessary. (R.D., p. 83.)

As described in Columbia's testimony and briefs in this proceeding, Columbia calculates the PGDC for sales and CHOICE customers in the following manner:

> Columbia's CHOICE program is structured so that CHOICE and PGC sales customers pay the same amount for capacity costs. (Columbia St. No. 2-R, p. 11). Columbia accomplishes this in two steps. First, Columbia determines the PGDC rate by dividing total demand costs by the sum of sales and CHOICE throughput. (Columbia Ex. 1-E). PGC sales customers pay that demand rate. (*Id.*). CHOICE customers pay that demand rate net of a Capacity Assignment Factor credit for the cost of capacity assigned to NGSs to meet their average day delivery requirements. (Columbia St. No. 2-R, p. 12). Thus, the PGDC rate paid by CHOICE customers is approximately 3.5 cents per therm (35 cents/Dth) less than the PGDC rate charged to PGC sales customers. (*Id.*). The NGSs pay for the cost of their assigned capacity and, presumably, pass the cost to CHOICE customers through rates. (*Id.*). Therefore, both CHOICE and PGC sales customers effectively pay the same per unit demand charge.

(Columbia M.B., p. 16; see also Columbia Ex. 1-A, Sch. 3, Sheet 1.) In addition, Columbia's Price to Compare ("PTC") takes into account the Capacity Assignment Factor credit, thereby ensuring that an "apples to apples" comparison between sales and CHOICE costs is given to customers. (Columbia St. No. 2-R, pp. 10-12.)

The NGS Parties offered no evidence on the record to challenge the formula Columbia uses to calculate the PGDC. Instead, the NGS Parties now allege for the first time in Exceptions that the reason for the alleged inequity is the way Columbia calculates the PGDC. To support this argument, the NGS Parties misstate how Columbia calculates its demand charge. According to the NGS Parties:

> [I]f all the costs of all the capacity assets were thrown into the PGDC bucket, including the costs of the pipeline assets assigned to NGSs, then a single unified PGDC would be fair, as all customers would be paying the average per unit costs of that bundle of assets. But that is not what is happening. Rather, Columbia extracts the costs of the pipeline capacity assigned to NGSs for their required daily deliveries of $1/365^{th}$ of annual customer usage, and charges that to the NGSs. In other words, those costs are taken out of the bucket before the average per unit cost is calculated. What this means is that NGS customers pay separately for the pipeline capacity that is used to serve them, but then are required to pay a PGDC that includes all the costs of the baseload capacity used to supply PGC customers. . . .

(NGS Parties Exc., pp. 10-11.) This is plainly incorrect. The formula for calculating the PGDC as described in the NGS Parties' Exception No. 3 is mathematically flawed. Rather than removing the cost of capacity assigned to NGSs for their average day deliveries before the average per unit demand cost is calculated, as the NGS Parties assert, it is clear that Columbia does just the opposite. Columbia determines the PGDC rate by dividing total demand costs by the sum of sales and CHOICE throughput and charges this amount to sales customers. Columbia then deducts from the CHOICE PGDC rate the per therm cost of capacity assigned to CHOICE NGSs for their average day deliveries. This calculation results in CHOICE and sales customers effectively paying the same demand rate.[4] (R.D., p. 83.) In fact, in their Main Brief, the NGS Parties state, "all customers, CHOICE and default service, pay for Capacity Assets on an equivalent basis." (NGS Parties M.B., p. 5.)

The NGS Parties' description of how the PGDC is calculated, which forms the basis for their argument in Exception No. 3, is contrary to the record evidence presented by Columbia in this proceeding and provides no justification for overturning the R.D. The record conclusively demonstrates that the way in which Columbia calculates the PGDC rate is not discriminatory because both sales and CHOICE customers pay the same average cost of capacity. For this reason alone, Exception No. 3 should be denied.

The R.D. also correctly concluded that "it is proper that all CHOICE and sales customers pay the same per unit rate of demand costs." The NGS Parties have not challenged this conclusion in Exception No. 3. By not challenging this conclusion, the NGS Parties have conceded the many operational and ratemaking reasons that further

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[4] Columbia presumes that CHOICE NGSs pass the cost of assigned capacity onto their customers in rates. (Columbia M.B., p. 16.) This is a further reason why the Capacity Assignment Factor is reflected in the PTC, so there is a proper comparison of sales customers PGC rates, inclusive of the PTC, to the prices offered by NGSs.

support the rejection of the NGS Parties' request for a study of the use of Columbia's PGC assets.

Charging PGC sales and CHOICE customers the same cost of capacity is proper from an operational standpoint. Charging sales and CHOICE customers different capacity costs is operationally unfounded because Columbia uses all of its retained capacity to fulfill its responsibly of serving both PGC and CHOICE customers under both design day and actual day conditions. (Columbia St. 1-R, p. 6; Columbia M.B., p. 18.) In addition, Columbia uses its retained capacity to physically serve CHOICE customers who are located outside the distribution markets where NGSs schedule deliveries. (Columbia M.B., pp. 18-20.)[5]

Ratemaking principles also support CHOICE and sales customers paying the same cost of capacity. "Streaming" demand charges to individual customers presents a number of practical problems: (1) inability to define the cost of capacity used to serve customers in an area fed by multiple pipelines; (2) difficulty distinguishing between FT capacity used to deliver supplies to serve sales customers daily needs from FT capacity used to facilitate storage; (3) significant customer confusion resulting from the possibility that customers in nearby, but physically separate, market areas could be charged different amounts for the same usage; and (4) disruption of rate consistency based on historical practice. (Columbia M.B., pp.20-23.)

The NGS Parties go on to argue in Exception No. 3 that the R.D. incorrectly rejected their request for a study on the basis that performing such a study would be

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[5] As just one example, customers located in Columbia's Warren market area are eligible for CHOICE service, even though that market is not physically connected to TCO or Columbia Gulf pipeline facilities. (Columbia St. No. 1, p. 16.) Customers in that market who elect CHOICE will continue to receive their gas physically from upstream capacity on Tennessee Gas Pipeline via National Fuel Gas capacity. Their suppliers would still deliver to Columbia via TCO and Columbia would manage the deliveries through its pipeline assets. (Columbia M.B., p. 20.)

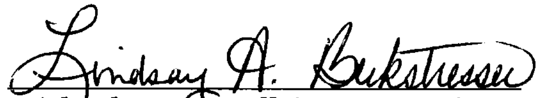
impossible. (NGS Parties Exc., p. 11.) The NGS Parties' argument is without merit. The requested study would be impossible to conduct because there is no way to distinguish between the cost of capacity physically used to serve either sales or CHOICE customers since all of Columbia's retained capacity is used to serve the design day needs of both CHOICE and sales customers. In addition, the NGS Parties' argument ignores the many additional operational and ratemaking reasons why the requested study should be rejected, as set forth above and in Columbia's testimony and briefs. (R.D., p. 83.) The NGS Parties' contention that the R.D. improperly relied on Columbia's position that the proposed study would be impossible to conduct does not justify overturning the R.D. Therefore, the Commission should reject the NGS Parties' Exception No. 3 and affirm the finding in the R.D. that the requested study is unreasonable and unnecessary. (R.D., p. 83.)

The R.D. correctly rejected the NGS Parties' request for a study, as the record evidence conclusively demonstrates that the requested study is unreasonable and unnecessary because no subsidy between PGC and sales customers can exist when both PGC and sales customers pay the same average cost of capacity. The arguments set forth in the NGS Parties' Exception No. 3 provide no basis for overturning the ALJ's well-reasoned R.D.

III. CONCLUSION

Columbia Gas of Pennsylvania, Inc. respectfully requests that Exception No. 3 of Dominion Retail, Inc., Shipley Energy Company, and Interstate Gas Supply, Inc. be denied.

Respectfully submitted,



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