

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3000253
Office of Consumer Advocate	:	C-2018-3000523
Office of Small Business Advocate	:	C-2018-3000951
	:	
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc. 1307(f)	:	
Purchased Gas Cost Tariff Filing Effective	:	
October 1, 2018	:	

**RECOMMENDED DECISION**

Before  
Katrina L. Dunderdale  
Administrative Law Judge

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## I. HISTORY OF THE PROCEEDINGS

Columbia Gas of Pennsylvania, Inc. (Columbia) made its required filing under Section 1307(f) of the Public Utility Code, 66 Pa.C.S. § 1307(f)(3), and 52 Pa.Code § 53.65, on February 28, 2018 in connection with the Company's 2018 Purchased Gas Cost filing for the period ending September 30, 2019. Columbia's filing proposed a Purchased Gas Cost (PGC) rate of \$0.38210 per Therm, which represents a decrease of \$0.03141 per Therm from the currently effective gas cost recovery rate applicable to all firm sales rate schedules.

On March 30, 2018, Columbia filed Supplement No. 273 to Tariff Gas Pa. P.U.C. No. 9 (Supplement No. 273) to become effective for service rendered on and after October 1, 2018. In Supplement No. 273, Columbia proposed to decrease its PGC rates by \$0.03141 per Therm from \$0.41351 per Therm down to \$0.38210 per Therm. This proposed decrease represents an approximate 8.6% decrease from rates in effect as of March 31, 2018.

Columbia is a public utility and natural gas distribution company which provides natural gas distribution, sales, transportation and/or supplier of last resort (SOLR) services to approximately 426,000 customers in portions of 26 counties of Pennsylvania. (See Columbia St. No. 3 at 3).

The Commission instituted an investigation to determine the lawfulness, justness and reasonableness of the rates proposed in the Section 1307(f) filing and to satisfy the requirements of Sections 1307, 1317 and 1318 of the Public Utility Code (at 66 Pa.C.S.A. § 1307(f); § 1317 and § 1318).

On March 8, 2018, the Bureau of Investigation and Enforcement (BIE) filed its Notice of Appearance. On March 16, 2018, the Office of Consumer Advocate (OCA) filed a Notice of Appearance, Formal Complaint and Public Statement at Docket No. C-2018-3000523. On April 4, 2018, the Office of Small Business Advocate (OSBA) filed its Notice of Appearance, Formal Complaint and Public Statement at Docket No. C-2018-3000951.

In addition, the following two entities filed petitions to intervene: Columbia Industrial Intervenors (CII) on March 21, 2018; and three natural gas suppliers (Shiple Choice, LLC; Interstate Gas Supply, Inc., d/b/a IGS Energy; and Dominion Retail, Inc.; collectively referred to as NGS Parties), on March 28, 2018.

The presiding officer conducted a prehearing conference on April 11, 2018, at which the parties considered issues raised by the filing, discussed prehearing matters and established a litigation schedule. The following parties were present at the prehearing conference: Columbia, BIE, OCA and OSBA.

On April 11, 2018, the presiding officer issued the Prehearing Order which, *inter alia*, established a litigation schedule that included the dates for the evidentiary hearings and the date by which reply briefs would be required.

Columbia filed its direct testimony and exhibits on March 30, 2018. Thereafter, direct testimony and exhibits were served by OSBA on May 4, 2018. OCA, BIE, CII and the NGS Parties did not serve any direct testimony. Columbia served rebuttal testimony and exhibits on May 24, 2018. No party served surrebuttal testimony.

The presiding officer issued a Protective Order on May 4, 2018 upon motion from Columbia.

The presiding officer scheduled the initial hearings to be held in Harrisburg on June 7, 2018 and June 8, 2018. On June 1, 2018, the parties informed the presiding officer a settlement was reached. Thereafter, the presiding officer issued the First Interim Order on June 1, 2018 which suspended the litigation schedule and advised the parties to appear at the scheduled start time on June 7, 2018 in a hearing room in Harrisburg, while the presiding officer would appear via telephone from the Commission's hearing room in Pittsburgh, to identify and admit into the hearing record all previously-served testimony and exhibits.

On June 7, 2018, the presiding officer conducted the hearing with Columbia, BIE, OCA, OSBA, CII, and the NGS Parties. No party appeared at the hearing to oppose the Settlement or the admission of evidence. Columbia and OSBA identified their previously-served testimony and exhibits and moved for their admission into the hearing record. The presiding officer admitted all proposed testimony and exhibits, as listed in the transcript at page 21. The parties were given until close of business on June 27, 2018 in which to submit a fully executed Joint Settlement Agreement with Statements in Support.

On June 27, 2018, the Joint Petition for Settlement of Rate Investigation Pursuant to 66 Pa.C.S.A. § 1307(f) (Settlement), including Statements in Support by Columbia, BIE, OCA, and OSBA (collectively, Joint Petitioners) was filed with the Secretary's Bureau. Separately, letters of non-opposition from CII and the NGS Parties were filed with the Secretary's Bureau on June 27, 2018. On June 29, 2018, the presiding officer issued an Interim Order closing the hearing record.

The gas cost rate in effect as of March 31, 2018 is \$0.41351 per Therm. The gas cost rate which Columbia initially proposed to be effective on October 1, 2018 was \$0.38210 per Therm. The gas cost rate to be effective on October 1, 2018 as agreed upon by the parties to the Settlement is \$0.38210 per Therm, which represents an approximate 8.6% decrease in the purchased gas cost rate in effect as of March 31, 2018.

This Recommended Decision recommends the Settlement be adopted without modification.

## II. DESCRIPTION AND TERMS OF SETTLEMENT

In accordance with Rule 5.231 of the Commission's Rules of Practice and Procedure, 52 Pa.Code § 5.231, the parties explored the possibility of settlement. As a result of settlement discussions, the parties achieved a settlement in principle under which all issues are resolved. The Settlement, which is fully executed by Columbia, BIE, OCA, and OSBA, consists

of 21 pages plus Appendices A, B, C and D, which are the Statements in Support of Columbia, BIE, OCA, and OSBA, respectively.<sup>1</sup>

In Section III, Paragraphs 13 through 44 on Pages 4 to 15, of the Settlement, the settling parties agreed to several proposed findings of fact with citations to the record of admitted evidence. The settling parties aver these proposed findings provide the information necessary to support the Settlement and are set forth below in *verbatim*.

13. Columbia's Exhibit No. 3 lists Federal Energy Regulatory Commission (FERC) proceedings through calendar year 2017 affecting Columbia's ratepayers. Exhibit No. 3 outlines Columbia's participation in these FERC proceedings. Columbia has intervened and actively participated in proceedings of the interstate pipelines serving Columbia.

14. Columbia was active in relevant FERC cases involving Columbia Gas Transmission Corporation, L.L.C. (Columbia Transmission), Columbia Gulf Transmission, L.L.C. (Columbia Gulf), Equitrans, L.P. (Equitrans), National Fuel Gas Supply Corporation (National Fuel), Tennessee Gas Pipeline Company, L.L.C. (Tennessee), Texas Eastern Transmission, L.P. (Texas Eastern) and Dominion Transmission Inc. (DTI). (Columbia St. No. 1, pp. 44-47, Columbia Ex. No. 3).

15. In 2017, Columbia was active before the FERC in rulemakings and policy statements that have the potential to significantly impact Columbia's efforts to provide reliable gas service at the least cost. (Columbia St. No. 1, pp. 44-47.) Columbia has intervened in proceedings of interstate pipelines involved in construction projects in the Marcellus region. (Columbia Ex. No. 5, p. 22.)

16. Columbia will continue its policy of active participation in individual pipeline supplier rate and certificate proceedings before the FERC, along with FERC generic type rulemaking and policy proceedings which could have a material impact on Columbia's costs or operations, as fully described in Columbia Statement No. 1, pp. 44-47.

17. Columbia Transmission is an unaffiliated interstate pipeline. Numerous Columbia Transmission facilities are used to transport and store Columbia's supply purchases. Because Columbia's local market areas are spread across Pennsylvania and are connected primarily, and in many cases exclusively, to

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<sup>1</sup> CII and the NGS parties were not signatories to the Settlement, however, both entities filed letters with the Commission's Secretary's Bureau indicating non-opposition to the Settlement as being in the public interest.

Columbia Transmission facilities, the vast majority of Columbia's peak day supply is delivered by Columbia Transmission. (Columbia St. No. 1, pp. 13-14; Columbia Exhibit HAC-1; Columbia Exhibit No. 5, p. 11).

18. Columbia has full responsibility for purchasing all of its gas supplies directly from producers and marketers. To the extent that affiliated interests offer Columbia gas supplies under competitive terms and conditions, Columbia will consider those supplies like all others in accordance with its policy of purchasing gas supplies from reliable sources at the lowest cost. (Columbia St. No. 1, p. 13; Columbia Ex. No. 8-C).

19. Columbia's gas purchasing objectives and strategies seek a portfolio of least-cost supply from both Pennsylvania and interstate producers. Columbia also seeks capacity that is flexible and reliable. These efforts will continue. (Columbia St. No. 1, pp. 23-32; Columbia Ex. 5, p. 1).

20. Columbia is responsible for balancing all deliveries to its city gates on a daily basis. All transportation and storage capacity services are provided to Columbia from non-affiliated pipeline companies. (Columbia St. No. 1, Columbia Ex. No. 8-C).

21. Columbia contracts for firm transportation and storage services to meet customers' requirements in its diverse market areas. (Columbia Ex. No. 5, pp. 10-14; Columbia St. No. 1, pp. 12-13.) Columbia's firm contracts for gas supply provide it with sufficient supply to meet the human needs demand of firm customers under design weather conditions. (Columbia St. No. 1, p. 40).

22. Columbia's available capacity is approximately 106% of projected firm demand for contract year 2021-22. Columbia plans to reduce its capacity to be within a range of 103% of the highest of its projected design day firm requirements for the five-year period of its design day forecast if the Company can do so while maintaining its ability to meet firm requirements in each pipeline scheduling point. (Columbia Exhibit No. 5, p. 12).

23. Columbia has several contracts for Firm Transportation Service (FTS) with Columbia Transmission. (Columbia Ex. No. 5, pp. 11-12). On April 25, 2017, Columbia renewed a contract for 11,666 Dth of city-gate capacity with Columbia Transmission. This capacity is used to serve pipeline scheduling points that are capacity constrained and is necessary to meet firm requirements in these areas. (Exhibit No. 5, p. 12). Columbia also contracts with Columbia Transmission providing for a total of 90,788 Dth/day. Tier one of this contract is for 30,237 Dth/day and is set to terminate on October 31, 2019. Columbia must notify Columbia Transmission in October 2019 whether it intends to renew the contract. This contract has flexibility to supply most of Columbia's service territory. Columbia tentatively plans to review this contract within its current

design day forecast and make any reductions necessary to be within 103% of the highest of its projected design day firm requirements (Columbia Exhibit No. 5, p. 12.) The second tier equals 39,496 Dth/day with a termination date of October 31, 2022. The third tier equals 21,055 Dth/day with a termination date of October 31, 2025. (Columbia Exhibit No. 5, p. 12).

24. Columbia holds a contract for Firm Storage Service (FSS) with Columbia Transmission and a contract for Storage Service Transportation (SST). Columbia uses the FSS service to provide daily injection and withdrawal capacity into or out of storage, along with firm peak day deliverability and seasonal storage capacity. The SST capacity provides firm transportation of storage volumes from storage fields to Columbia's city gates, and also transports flowing gas supplies to fill storage during the summer. The use of FSS in conjunction with SST provides Columbia with its primary daily no-notice balancing service. (Columbia St. No. 1, pp. 12-13; Columbia Ex. No. 5, pp. 10 -11).

25. In addition to its contracts for transportation and storage from Columbia Transmission, Columbia has access to various other pipelines. These arrangements currently include the following:

- (a) Columbia contracts for firm transportation services from Columbia Gulf under Columbia Gulf's FTS-1 Rate Schedule. The FTS-1 service provides firm transportation from the Rayne, Louisiana compressor station to the Leach, Kentucky interconnection between Columbia Gulf and Columbia Transmission. This upstream capacity totals 43,632 Dth/day. (Columbia St. No. 1, p. 14, 18; Columbia Exhibit No. 5, p. 12).
- (b) Columbia has five firm transportation contracts and three storage contracts with DTI. Two of the transportation contracts move storage supplies from DTI's storage fields to Columbia's city gates. Columbia utilizes these DTI contracts to provide supplies to its customers in Beaver County through its Darlington interconnect and in Cranberry Township through its Warrendale interconnect. The first transportation contract provides 6,000 Dth/day. The second provides 3,000 Dth/day November through March and 2,000 Dth/day April through October. The associated Columbia storage contract with DTI provides Columbia with 9,000 Dth/day of peak day deliverability and approximately 941 MDth of seasonal supply. In May 2016, Columbia extended this contract through March 31, 2023. (Columbia St. No. 1, p. 15; Columbia Exhibit No. 5, p. 13).
- (c) Columbia's Second storage contract and related transportation contract on DTI are utilized to meet the demand and balancing requirements in the State College market. This storage contract provides for daily withdrawal rights of 4,800 Dth/day and a seasonal quantity of 240,000 Dth. The firm transportation contract has 4,800 Dth/day of capacity. (Columbia St. No. 1, p. 15).

- (d) Columbia's third storage contract with DTI is for storage with a maximum daily quantity of 15,000 Dth and seasonal quantity of 930,000 Dth. An associated FT contract provides 15,000 Dth/day of capacity to move gas from and into storage. All of this capacity is used to serve the State College market. (Columbia St. No. 1, p. 16; Columbia Exhibit No. 5, pp. 13).
- (e) Columbia also contracts for firm transportation and storage service with Equitrans. Columbia has a storage contract and associated FTS contract daily delivery and storage capacity that provide a peak day deliverability capacity of 14,348 Dth and a seasonal capacity of 1,500,000 Dth. This capacity, in combination with DTI capacity identified above, is used to provide EBS to General Distribution service customers and peak day service to sales and CHOICE customers. (Columbia St. No. 1, p. 16; Columbia Exhibit No. 5, p. 13).
- (f) Columbia currently contracts for firm transportation service with Tennessee totaling 23,600 Dth/day. A total of approximately 19,300 Dth/day is required to serve the design peak day firm customer demand in Columbia markets directly connected to Tennessee, while approximately 4,300 Dth/day is delivered directly to Columbia's National Fuel capacity. On days when the 19,300 Dth/day delivered directly to Columbia cannot be absorbed by those markets, Columbia can divert that supply to Tennessee interconnects with Columbia Transmission for injection into storage or delivery to other Columbia markets that are served by Columbia Transmission. In 2016, Columbia extended through October 2022 a contract for 7,600 Dth/day of the 19,300 Dth discussed above. This capacity is delivered to Columbia's northern Pittsburgh area, particularly the Cranberry Township market area, and is needed to meet existing and growing demand in this area. (Columbia St. No. 1, pp. 15-16; Columbia Exhibit No. 5, pp. 16-17).
- (g) Columbia also contracts for long-haul firm transportation service with Texas Eastern, totaling 22,335 Dth/day. A total of 19,253 Dth/day is required to serve peak day firm customer demand in Columbia markets directly connected to Texas Eastern, while 3,082 Dth/day must be delivered to Columbia Transmission as an upstream supply in order to meet peak day demand in Columbia markets served by Columbia Transmission. Columbia also contracts for 10,000 Dth/day of winter season, market-area firm backhaul transportation capacity. Columbia utilizes this capacity to satisfy cold weather requirements behind the city gates connected to Texas Eastern. (Columbia St. No. 1, pp. 17-18).
- (h) Columbia contracts for 4,304 Dth/day of city gate capacity under the FTS rate schedule of National Fuel. This capacity provides service to Columbia's Warren market area. (Columbia St. No. 1, p. 18).

26. There were no increases in capacity that occurred during the past year, and there are no expected capacity increases at this time. (Columbia St. No. 1, p. 18).

27. In the past four years, the Company's capacity has remained almost unchanged in total, at approximately 671 MDth/Day. The Company has made changes over this time period to reduce firm transportation capacity by permanently assigning 5 MDth/Day of Columbia Transmission FTS and retiring its Blackhawk storage facility. The only increase was related to DTI as a resource to serve the State College market after the abandonment of the Snowshoe Lateral from Columbia Transmission. (Columbia St. No. 1-R, p. 19).

28. The Company aggressively markets any capacity in excess of the current design day forecast. The Company has generated significant revenue as documented in the 1307(f) proceeding with 75% of the revenue being returned to the PGC customers. (Columbia St. No. 1-R, p. 21).

29. In order for Columbia to meet its objective of securing and delivering competitively-priced, reliable gas supplies, Columbia has developed a portfolio of gas purchase contracts, which can include long-term, short-term and spot contracts, that have flexibility both to meet reliability standards and to be able to take advantage of low priced opportunities where available and operationally feasible. (Columbia St. No. 1, pp. 26-27).

30. Columbia maintains a program for purchasing local production. In addition to local gas purchases delivered directly into Columbia's system, Columbia purchased Appalachian pool gas delivered by producers into Columbia Transmission's system and redelivered to Columbia under transportation agreements. Although it is certain that Pennsylvania production enters the Appalachian production pools, once the gas is part of pool supplies it is commingled with other sources of supply. Thus, the portion of these supplies coming from Pennsylvania production is not known. (Columbia St. No. 1, pp. 27-28).

31. Columbia annually submits Request for Proposals ("RFP") to numerous suppliers identified as capable and willing to provide firm gas supplies to Columbia. Columbia requests proposals for supplies with varying term lengths, nomination flexibility and innovative pricing options. (Columbia St. No. 1, p. 25; Columbia Ex. No. 5, p. 14).

32. Columbia's gas purchases were a least cost supply mix during the historic reconciliation period, consistent with reliable service. (Columbia Ex. No. 8-C).

33. In the twelve months ended January 31, 2018, Columbia did not shut in or withhold from the market any gas supply or transportation or storage capacity other than for the purposes of retaining sufficient supply to assure reliable supply

and balancing services under colder than normal conditions. (Columbia Ex. No. 8-E).

34. Neither Columbia nor its affiliates withheld any gas from the market or caused any gas supplies to be withheld from the market that should have been utilized as part of a least-cost fuel procurement policy. (Columbia Ex. No. 8-E.)

35. Columbia retains firm contractual rights to all storage, other upstream pipeline and capacity, if any, and all capacity assignments made to Natural Gas Suppliers (NGSs) participating in Columbia's Customer Choice program are made on a recallable basis. This allows Columbia to maintain service in the event an NGS fails to deliver supplies under Columbia's Customer Choice Program, which is consistent with Columbia's obligations as the SOLR. (Columbia St. No. 1, pp. 35-38).

36. Pursuant to Columbia Transmission's tariff, Columbia must plan the use of storage so that no more than 65% of its FSS seasonal storage quantity remains in inventory after February 1 and no more than 25% remains after April 1. Columbia Transmission may also issue operational orders mandating storage withdrawals with penalties for noncompliance. Noncompliance with Columbia Transmission's tariff limitations could result in confiscation by the pipeline of volumes exceeding tariff limits. (Columbia Exhibit No. 5, pp. 16-17).

37. For supply planning purposes, Columbia determines customer demand under various weather scenarios. Columbia determines customer demand under a colder-than-normal weather scenario to plan its gas supply and capacity portfolio to ensure that it is adequate to meet increased customer demand. Columbia also determines customer demand under a warmer-than-normal weather scenario to plan the flexibility needed in its supply and capacity portfolio to meet reduced customer demand at least cost. (Columbia St. No. 1, 5, pp. 6-7).

38. The Design Day Forecast (DDF) for the Company represents the official estimate of the Company's Design Day Demand. Each year a five-year estimate of the requirements anticipated under the Company's Design Day operating conditions is prepared to ensure that adequate capacity and supplies are contracted at a level so that the Company can fulfill its utility obligation to its firm customer requirements at Design Day Conditions. (Columbia St. No. 1-R, p. 3).

39. The projected demands represent the sum total of the Company's Design Day Demand calculated at the Design Current Day Temperature, Design Prior Day Temperature, Design Current Day Wind Speed, and assume Design Day occurrence on a weekday for each of the Company's eight Pipeline Scheduling Points (PSPs) across Pennsylvania. (Columbia St. No. 1-R, p. 4).

40. Design Day Current Temperature values result from a Gumbel Distribution analysis of annual minimum temperatures for all available years of

history through heating season 2014/2015 for the National Weather Service Stations located at Hagerstown, Maryland; Morgantown, West Virginia; and Harrisburg, Pittsburgh, and Bradford, Pennsylvania. These are the weather stations within, or having proximity to, the Company's service territory, that are used to discern customers' sensitivities to the weather variables of temperature and wind speed. (Columbia St. No. 1-R, p. 4).

41. The Design Current Day Temperature is premised upon a risk level having a 1 in 15 probability of occurrence. That is, the probability is 6.7 percent, or 1 in 15, that any given winter will have one or more days with an average daily temperature equal to or colder than the Company's design temperature. The Company has used a 1 in 15 probability of occurrence in developing Design Current Day Temperature for over 13 years. The Company's company-wide Design Current Day Temperature is minus five degrees Fahrenheit. (Columbia St. No. 1-R, p. 4).

42. The Company regularly assesses its forecasting methodology. The most important data in developing the DDF is weather information, deliveries to the system from all sources, and the usage of transportation customers. The usage of firm customers is calculated as the total deliveries less usage of transportation customers. The usage of firm customers is then used with the weather data in a regression analysis to determine the Design Actual volume for the given winter. These Design Actual volumes over time form the basis of the DDF. (Columbia St. No. 1-R, p. 12).

43. The historical Design Actual volumes had a maximum value in 2002/03 and declined through 2010/11. Since 2010/11, the Design Actual volumes have been increasing, approximately 40 MDth/Day through 2016/17. However, the growth in Design Actual volumes has varied from year to year. (Columbia St. No. 1-R, p. 12).

44. As required by the Commission-approved Settlement in Columbia's 2017 1307(f) proceeding, Columbia met with interested natural gas suppliers on December 14, 2017 and March 5, 2018 to discuss issues related to issuance and compliance with operational flow orders and operational matching orders. (Columbia Ex. No. 16).

In Section IV, Paragraph 46 of the Settlement, the parties expressed their agreement with Columbia's 2018 PGC filing in general. With respect to the Design Day Forecast, the parties agreed as provided in Section IV, Paragraph 47 on Page 15.

**A. GENERAL**

46. Columbia's 2018 PGC filing is approved as filed, subject to the additional item set forth below.

**B. DESIGN DAY FORECAST**

47. In preparing its next Design Day Forecast, Columbia will consider:

- a. Whether to retain weather variables in its forecasting equations;
- b. Whether its estimation should be done based on design demand per customer, rather than total demand;
- c. Whether (a) a weighted customer count reflecting higher usage for commercial/industrial firm customers would be appropriate, and (b) the use of an economic variable (personal income or GDP) would better model a historical period that includes significant economic fluctuations;
- d. Whether there are options for reflecting improved energy efficiency in the statistical estimation; and
- e. Whether using relatively short historical periods for statistical estimation overstates recent events (notably economic downturns).

In Section V, Paragraphs 48 through 53 of the Settlement, the parties express their agreement with respect to two separate issues under Standards and Findings, as stated below in *verbatim*: (1) Historic Reconciliation Period Standards; and (2) Projected and Interim Period Findings.

**STANDARDS AND FINDINGS**

48. This proceeding is a consolidation of two reviews that the Commission is required to undertake pursuant to Sections 1307 and 1318 of the Public Utility Code. Pursuant to Section 1307(f) of the Public Utility Code, 66 Pa.C.S.A. § 1307(f), the Commission must determine whether Columbia has met the standards of Section 1318, 66 Pa.C.S.A. § 1318, with regard to the gas costs Columbia has incurred during a historic 12-month period. The historic period reviewed in the proceeding is the 12 month reconciliation period ended January 31, 2018. In addition, because Columbia has filed a tariff proposing a new rate reflecting a change in its natural gas costs, the Commission must determine whether the specific findings of Section 1318 can be made with regard to the period that rates will be in effect in the Application Period. This finding is a condition precedent to the Commission's approval of the Company's proposed

rates. 66 Pa.C.S.A. § 1318. It is to be noted that the provisions of Section 1318(a) are applicable to all gas utilities that recover their gas costs pursuant to Section 1307(f). The new tariff rate is intended to become effective October 1, 2018.

49. Columbia did not make any purchases from affiliates during the historic period. To the extent that affiliated interests offer Columbia gas supplies under competitive terms and conditions, Columbia will consider those supplies like all others in accordance with its policy of purchasing gas supplies from reliable sources at the lowest cost. Therefore, it is requested that the Commission make the findings under Section 1318(b) concerning gas supplies from affiliates.

**A. HISTORIC RECONCILIATION PERIOD STANDARDS.**

50. With respect to Columbia's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ended January 31, 2018, it is requested that the Commission find that Columbia has met the standards set out in Section 1318 of the Public Utility Code, 66 Pa.C.S.A. § 1318, and required by Section 1307(f)(5) of the Public Utility Code, 66 Pa.C.S.A. § 1307(f)(5), as to all actual purchased gas costs in the historic period. It is requested that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Petitioners in this case, that, during the twelve months ended January 31, 2018: (1) Columbia met the requirements of Section 1318(a) of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers; and (2) Columbia met the requirements of Section 1318(b) of the Public Utility Code relating to its consideration of offers from affiliates for gas, transportation and storage services.

**B. PROJECTED AND INTERIM PERIOD FINDINGS.**

51. With respect to the twelve-month period beginning October 1, 2018, which is the period of time during which the proposed rates contained in this Settlement would be in effect, it is requested that the Commission make the findings under Section 1318 of the Public Utility Code, including Sections 1318(a)(1) through (a)(4), and 1318(b)(1) through (b)(3), based upon information presently available and based upon evidence of record in this proceeding concerning Columbia's purchasing policies.

52. The Petitioners agree that, based upon evidence of record in this proceeding concerning Columbia's projected gas purchases and gas purchasing policies, it appears that Columbia's projected gas purchases and projected gas purchasing policies will comply with the standards of Section 1318 of the Public Utility Code. Nevertheless, it is expressly understood and agreed that the findings relating to the rate to become effective October 1, 2018, are made solely for the purpose of setting prospective rates that shall be subject to the standards of

Section 1318, and further review in an appropriate future proceeding. This Section of the Settlement is not intended to limit or prevent in any way present or future complainants from reviewing, after such projected gas purchases have been made and gas purchasing practices have been implemented, whether Columbia's gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period October 1, 2018, through September 30, 2019, are challenged, the Commission's findings in this Section of the Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of, or reductions to, such costs during the one-year period commencing October 1, 2018.

53. The Petitioners agree that future examination of the gas costs relating to the period February 1, 2018, through September 30, 2019, to determine whether Columbia's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code shall be permitted and that the Commission's adoption of the findings under this Section of the Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs.

### III. DISCUSSION

The Settlement specifically addressed two issues: (1) the proposed decrease in Purchased Gas Costs, effective October 1, 2018; and (2) Design Day Forecasts.

#### A. Decrease in Purchased Gas Costs

The signatories reviewed Columbia's PGC and purchasing practices during the pendency of this proceeding. Only Columbia and OSBA submitted testimony. The Joint Petitioners concluded the PGC and Columbia's purchasing practices are consistent with the standards set forth in the Public Utility Code. Through the Settlement, the Joint Petitioners aver all issues were resolved in the public interest and should be approved.

Columbia asserted the Commission's policy is to promote settlements, pursuant to 52 Pa.Code § 5.231, because settlements lessen the time and expense the parties must expend litigating a case while simultaneously conserving precious administrative resources. The Commission prefers settlement results over those results achieved at the conclusion of a fully-

litigated proceeding, as reflected in 52 Pa.Code § 69.401. However, in order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest.<sup>2</sup>

Columbia averred the simple fact that the Settlement is unopposed is, in and of itself, strong evidence the Settlement is reasonable and in the public interest. The Settlement was achieved after a comprehensive investigation of Columbia's gas purchasing practices, including extensive discovery and discussion among the parties.<sup>3</sup> Columbia stated the Settlement fairly balances the interests of Columbia and its customers and, therefore, is in the public interest. Columbia noted that by resolving all issues through a settlement, the parties were able to successfully avoid a portion of the costs associated with litigation.

As pointed out by BIE in its Statement of Support, Columbia projected a decrease of \$0.03141/Therm for a proposed PGC rate of \$0.38210/Therm which would be effective on October 1, 2018.<sup>4</sup> While those costs are subject to review in a future PGC proceeding, BIE noted ratepayers will be protected while this rate is in effect because Columbia will not gain any unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies. BIE represented the Settlement maintains the proper balance of the interests of all parties. Additionally, BIE reviewed projected gas costs and determined those costs are consistent with a least cost fuel procurement policy. For these reasons, BIE maintained Columbia is pursuing a least cost fuel procurement policy consistent with its obligation to provide safe, adequate and reliable service to its customers.

Also, BIE averred it chose not to prepare Direct Testimony because the information provided by Columbia indicated its gas purchasing practices satisfied the least cost procurement obligation under the Public Utility Code at 66 Pa.C.S.A. § 1318. BIE contended ratepayers benefit when Columbia, as a public utility, adheres to a least cost procurement policy.

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<sup>2</sup> *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. PUC 767 (1991).

<sup>3</sup> Columbia responded to over 70 discovery requests from other parties in this proceeding.

<sup>4</sup> Columbia Exhibit No. 1-A, Schedule 1, p. 1.

This policy is in the public interest because least cost gas directly impacts ratepayers' gas bills, while ensuring customers receive safe, adequate and reliable service. Specifically, BIE analyzed the E-factor and found it was calculated in accordance with established Commission practices. An E-factor is the experienced over/under collections, which reconciles variations between the projected gas costs and actual gas costs as well as variances between projected and actual sales. The E-factor also serves as the vehicle to pass through miscellaneous revenues and to calculate interest. This review is critical because the proper calculation of the E-factor ensures rates are adjusted appropriately. BIE asserted it was satisfied Columbia's E-factor calculation is appropriate and accurate. Finally, BIE agreed the Settlement was in the public interest. BIE pointed out that resolving this case by settlement rather than litigation would avoid the substantial time and effort involved in continuing formally to pursue all issues at the risk of accumulating excessive expense.

OCA indicated in its Statement in Support that the Settlement is in the public interest and should be approved. OCA averred, after it conducted discovery through two sets of formal discovery and an informal discovery conference, it determined there was no need for it to file testimony. As a result of this review, OCA contended Columbia's PGC filing meets the requirements of 66 Pa.C.S.A. § 1307(f) generally and specifically with regard to showing the natural gas costs are consistent with a least cost procurement policy, as required by 66 Pa.C.S. § 1318. As such, OCA submits that Columbia's PGC rate should be approved.

OSBA concluded in its Statement in Support that Columbia's filed claims for unaccounted-for gas costs, and its proposal for gas retainage rates for transportation customers, were not unreasonable with respect to the impacts on small business customers. OSBA also pointed out the Settlement avoids the litigation of many complex, competing proposals and saves the significant costs of further and more extended administrative proceedings, which costs would be borne by the Joint Petitioners and Columbia's customers. OSBA noted avoiding extended litigation served judicial efficiency and allows OSBA to more efficiently employ its resources in other areas. In consequence, OSBA indicated its agreement with the Settlement.

B. Design Day Forecasts

Columbia acknowledged, as a supplier of last resort, it is responsible to maintain sufficient capacity to meet its customers' needs under extreme weather conditions, referred to as "Design Day." Columbia strives to develop a forecast that is within 3% of the "Design Actual" volume, which is defined as the volume on the system in a given winter had design day conditions been experienced. (Columbia St. No. 1-R, p. 3.) Columbia notes the sole issue raised by OSBA concerns the forecasting of Columbia's Design Day requirements.

Columbia pointed out its Design Day Forecast process has been set forth in its 1307(f) filings and accepted by other parties for the past several years. (Columbia St, No. 1-R, p. 2.) Each year, Columbia prepares a five-year estimate of the requirements anticipated under Design Day conditions so the Company can fulfill its obligation to meet firm customers' requirements under Design Day conditions. To fulfill its obligation, Columbia follows a detailed eight-step process to establish its Design Day Forecast and it regularly assesses its forecasting methodology. Columbia notes its most recent assessment of the forecasting methodology revealed the design actual volumes have been increasing, even though the growth in design actual volumes has varied from year to year. (Columbia St, No. 1-R, p. 12.)

However, Columbia acknowledged OSBA questioned whether Columbia might be over-forecasting its Design Day conditions, which could contribute to excess capacity. (OSBA St. No. 1, p. 2.) Without identifying any specific problems with the forecast, OSBA suggested Columbia should provide an explanation of the forecasting process and examine whether that process has resulted in over-forecasting. In rebuttal, Columbia submitted a detailed explanation of its forecasting process, and concluded that process was reasonable and accurate within the limits that could be expected of a forecast. (Columbia St. No. 1-R, p. 16.)

Following submission of the Company's rebuttal, the Joint Petitioners discussed certain components of the forecasting process, and whether changes might improve forecast results. As a result of those discussions, Columbia agreed the Settlement would provide for

Columbia to consider several possible modifications in preparing its next Design Day Forecast. Specifically, Columbia agreed to consider:

- (a) whether to retain weather variables in its forecasting equations;
- (b) whether its estimation should be done based on design demand per customer, rather than total demand;
- (c) whether (a) a weighed customer count reflecting higher usage for commercial/industrial firm customers would be appropriate, and (b) the use of an economic variable (personal income or Gross Domestic Product) would better model a historical period that includes significant economic fluctuations;
- (d) whether there are options for reflecting improved energy efficiency in the statistical estimation; and
- (e) whether using relatively short historical periods for statistical estimation overstates recent events (notably economic downturns).

(Settlement ¶ 47).

In conclusion, Columbia asserted this Settlement provision is in the public interest and should be approved because the provision addresses OSBA's concerns – regarding the Company's process for forecasting Design Day requirements – while allowing Columbia to investigate whether any changes to its forecasting methodology are appropriate. Columbia argues it is imprudent to make any changes to its Design Day Forecast without first evaluating the potential impacts of those changes, especially since OSBA did not present any specific suggestions for modifications. It avers the Settlement allows the parties to have an opportunity to analyze whether the specific changes set forth in (a)-(e) above would result in a more accurate forecast.

OCA acknowledged OSBA raised questions regarding whether Columbia over-forecasts its design day requirements. OCA noted the Settlement provides for these concerns. OCA agrees the Settlement is in the public interest because it provides additional information

regarding whether any changes are needed to Columbia's Design Day Forecast process after all parties have the opportunity to review the forecast in the 2019 proceeding.

OSBA averred its initial review of the 5-year Design Day Forecasts for the past several Section 1307(f) proceedings showed a pattern in which the forecasts for any particular period were substantially reduced over time, which OSBA contended implied the earlier forecasts were overstated. As an example, OSBA pointed to the Design Day Forecast for the winter of 2018-19 when the forecast went from 665.7 Dth/day in the 2015 proceeding to 647.1, 633.5, and 626.9 Dth per day in the 2016 to 2018 proceedings respectively. As a result, OSBA's expert herein recommended Columbia provide an explanation for the factors which have led to the historic pattern of over-forecasting (which was detailed in OSBA Exhibit IEc-2). In rebuttal testimony, Columbia denied it had been over-forecasting, and it reiterated its basic explanation of the forecasting methodology. OSBA respectfully disagreed, and then conducted a more detailed review of the statistical analyses supporting the earlier forecasts that subsequently have been scaled back substantially. From that review, OSBA identified certain specific factors in the analysis which appeared to contribute to what OSBA contended was the problem. After OSBA shared that analysis with the other parties as part of the settlement negotiations, the Joint Petitioners agreed to include Paragraph 47 in the Settlement. Paragraph 47 indicates Columbia's commitment to evaluate and attempt to address the problems in its Design Day Forecast identified by OSBA when Columbia prepares its next Design Day Forecast. With that provision included, OSBA averred it supported the Settlement.

BIE did not speak to the issue of the Design Day Forecast in its Statement in Support.

#### IV. RECOMMENDATION

The Commission encourages parties in contested on-the-record proceedings to settle cases.<sup>5</sup> Settlements eliminate the time, effort and expense of litigating a matter to its

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<sup>5</sup> See 52 Pa.Code § 5.231.

ultimate conclusion, which may entail review of the Commission’s decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a “settlement” reflects a compromise of the positions the parties of interest held, which arguably fosters and promotes the public interest. When active parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest.<sup>6</sup> In their supporting statements, Columbia, BIE, OSBA and OCA opine this Settlement resolves the issues in this case, fairly balances the interests of Columbia and its ratepayers, is in the public interest, is consistent with the requirements of Sections 1307 and 1318 of the Public Utility Code,<sup>7</sup> and should be approved.

The parties affirm they thoroughly investigated Columbia’s PGC filing through discovery and the submission of testimony. Columbia addressed the contested issue through the specific provisions of the Settlement and all of the previous issues noted by the parties during the prehearing stage of litigation were resolved with the additional information Columbia provided.

The Joint Petitioners agreed Columbia’s information showed Columbia: (1) engaged in least cost policies to procure natural gas for its customers; (2) requested rates for purchased gas costs that are just and reasonable; (3) fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission and other relevant non-PUC proceedings; (4) took all prudent steps necessary to negotiate favorable gas supply contracts and to relieve itself or alleviate the impact from terms in existing contracts with its gas suppliers, which are or may be adverse to the interests of its ratepayers; (5) took all prudent steps necessary during the relevant time period to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies; (6) did not

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<sup>6</sup> *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991).

<sup>7</sup> 66 Pa.C.S.A. § 1307 and § 1318.

withhold from the market or cause to be withheld from the market any gas supplies which should have been used as part of a least cost fuel procurement policy; (7) fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests; and (8) obtained contracts for the purchase of gas from any affiliated interest during the relevant time period consistent with a least cost fuel procurement policy.

Statements in Support filed by Columbia, BIE, OCA and OSBA agreed the Settlement is a fair and just balance of the interests of all parties, while not specifying their respective positions about the details in the issues noted above.

I recommend the Commission accept Columbia's 1307(f) filing as modified by the Settlement. This Recommendation is based in large part upon the representations made by the statutory advocates averring the Settlement is in the interests of the constituencies they represent, and is a fair, just and reasonable resolution of the Commission's investigation for the reasons identified and discussed in detail by the parties above. Accordingly, I recommend the Commission find the Settlement is in the public interest and should be approved.

## V. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa.C.S.A. § 501 *et seq.*

2. There is sufficient evidence in the record to make the findings required by Section 1318 of the Public Utility Code. 66 Pa.C.S.A. § 1318.

3. Columbia Gas of Pennsylvania, Inc. is pursuing a least cost fuel procurement policy during the relevant time period consistent with its obligation to provide safe, adequate and reliable service to its customers in compliance with Section 1318 of the Public Utility Code, 66 Pa.C.S.A. § 1318.

4. Columbia Gas of Pennsylvania, Inc.'s rates for purchased gas costs, as the settling parties have agreed upon in this proceeding, during the relevant time period, are just and reasonable and in compliance with Section 1318 of the Public Utility Code, 66 Pa.C.S.A. § 1318.

5. Columbia Gas of Pennsylvania, Inc. has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission and other relevant non-PUC proceedings during the relevant time period in compliance with Section 1318(a)(1) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(1).

6. Columbia Gas of Pennsylvania, Inc. has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve itself or alleviate the impact from terms in existing contracts with its gas suppliers, which are or may be adverse to the interests of its ratepayers, during the relevant time period in compliance with Section 1318(a)(2) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(2).

7. Columbia Gas of Pennsylvania, Inc. has taken all prudent steps necessary during the relevant time period to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies in compliance with Section 1318(a)(3) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(3).

8. Columbia Gas of Pennsylvania, Inc. has not withheld from the market or caused to be withheld from the market during the relevant time period any gas supplies which should have been used as part of a least cost fuel procurement policy in compliance with Section 1318(a)(4) of the Public Utility Code, 66 Pa.C.S.A. § 1318(a)(4).

9. Columbia Gas of Pennsylvania, Inc. has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests during the relevant time period in compliance with Section 1318(b)(1) of the Public Utility Code, 66 Pa.C.S.A. § 1318(b)(1).

10. Columbia Gas of Pennsylvania, Inc.'s contracts for the purchase of gas from any affiliated interest during the relevant time period are consistent with a least cost fuel procurement policy in compliance with Section 1318(b)(2) of the Public Utility Code, 66 Pa.C.S.A. § 1318(b)(2).

11. Neither Columbia Gas of Pennsylvania, Inc. nor any affiliated interest during the relevant time period has withheld from the market any gas supplies, which should have been used as part of a least cost fuel procurement policy in compliance with Section 1318(b)(3) of the Public Utility Code, 66 Pa.C.S.A. § 1318(b)(3).

12. Proceedings brought pursuant to 66 Pa.C.S.A. § 1307(f)(1) are to reflect actual and projected increases or decreases in natural gas costs.

13. The Commission investigation must determine if existing rates imposed by a utility are unjust or unreasonable. 66 Pa.C.S.A. § 1307(a).

14. The Joint Petition for Settlement of the Rate Investigation executed and submitted at this docket by Columbia Gas of Pennsylvania, Inc., the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate is in the public interest.

## VI. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Settlement of the Rate Investigation pursuant to 66 Pa.C.S.A. § 1307(f), executed and submitted at this docket by Columbia Gas of Pennsylvania, Inc., the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate be approved.

2. That Columbia Gas of Pennsylvania, Inc. be permitted to file a tariff supplement, on at least one day's notice to the Commission, containing changes in rates to provide for the recovery of its costs of purchased gas, consistent with the terms and conditions of the Joint Petition for Settlement of the Rate Investigation pursuant to 66 Pa.C.S.A. § 1307(f).

3. That the formal complaints of the Office of Consumer Advocate and the Office of Small Business Advocate at Docket Nos. C-2018-3000523 and C-2018-3000951, respectively, be marked satisfied.

4. That Columbia Gas of Pennsylvania, Inc., the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate shall be ordered to comply with the terms and conditions of the Joint Petition for Settlement of the Rate Investigation pursuant to 66 Pa.C.S.A. § 1307(f) executed and submitted in this proceeding as though each term and condition stated therein had been the subject of an individual ordering paragraph.

5. That upon the filing of a tariff supplement by Columbia Gas of Pennsylvania, Inc. acceptable to the Commission as conforming with this Order and the Joint Petition for Settlement of the Rate Investigation pursuant to 66 Pa.C.S.A. § 1307(f), and the

