

September 26, 2019

VIA E-FILE

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Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
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**Re: Joint Petition for Generic Investigation or Rulemaking Regarding "Gas-On-Gas"
Competition Between Jurisdictional Natural Gas Distribution Companies;
Docket No. P-2011-2277868**

**Generic Investigation Regarding Gas-On-Gas Competition Between Jurisdictional
Natural Gas Distribution Companies; Docket No. I-2012-2320323**

**COMMENTS OF PEOPLES NATURAL GAS COMPANY LLC AND PEOPLES GAS
COMPANY LLC FOR CONSIDERATION BY THE GAS-ON-GAS COLLABORATIVE
WORKING GROUP**

Dear Secretary Chiavetta:

The Secretarial Letter issued in the above-referenced matters on August 26, 2019 requested that members of the Gas-on-Gas Collaborative Working Group submit Comments by September 26, 2019, to facilitate discussion at the Working Group's October 3, 2019 meeting. Enclosed please find the Comments of Peoples Natural Gas Company LLC and Peoples Gas Company LLC.

Copies have been served as indicated on the attached Certificate of Service. Also, a Microsoft Word version has been emailed to Commission Staff as directed by the Secretarial Letter.

If you have any questions regarding this filing, please direct them to me. Thank you for your attention to this matter.

Sincerely,

COZEN O'CONNOR



By: David P. Zambito
Counsel for Peoples Natural Gas Company LLC and
Peoples Gas Company LLC

Rosemary Chiavetta, Secretary
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Enclosures

cc: Per Certificate of Service
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Petition for Generic Investigation or
Rulemaking Regarding “Gas-On-Gas”
Competition Between Jurisdictional Natural Gas
Distribution Companies

P-2011-2277868

Generic Investigation Regarding Gas-On-Gas
Competition Between Jurisdictional Natural Gas
Distribution Companies

I-2012-2320323

**COMMENTS OF PEOPLES NATURAL GAS COMPANY LLC
AND PEOPLES GAS COMPANY LLC TO THE COMMISSION’S
OPINION AND ORDER ENTERED ON JUNE 13, 2019**

I. INTRODUCTION

On May 4, 2017, the Pennsylvania Public Utility Commission (“Commission”) entered a final opinion and order (“May 2017 Order”) in the above-referenced proceeding that continues what is commonly known as “Gas-on-Gas Competition” (“G-O-G Competition”) under specific conditions and solicited further comments regarding implementation issues. Specifically, natural gas distribution companies with overlapping service territories (singularly, a “Competing NGDC” and, collectively, “Competing NGDCs”) in western Pennsylvania may continue providing discounts (singularly, a “G-O-G Negotiated Adjustment” and, collectively, “G-O-G Negotiated Adjustments”)¹ to certain commercial and industrial customers (singularly, a “G-O-G Customer” and, collectively, “G-O-G Customers”), pursuant to contracts,² where it is possible for the G-O-G Customer to receive natural gas service from more than one Competing NGDC.

¹ The rate provided to a G-O-G Customer, resulting from a G-O-G Negotiated Adjustment, is referred to herein as the “G-O-G Flex Rate” (collectively, “G-O-G Flex Rates”).

² The contract between a Competing NGDC and a G-O-G Customer, pursuant to which the G-O-G Customer receives a G-O-G Negotiated Adjustment, is referred to herein as a “G-O-G Contract” (collectively, “G-O-G Contracts”).

The May 2017 Order, however, imposed certain restrictions on G-O-G Competition and solicited comments from interested parties regarding the specific nature of the restrictions and suggestions for standardized tariff provisions to be utilized by all Competing NGDCs.

Peoples Natural Gas Company LLC (including its Equitable Division) and Peoples Gas Company LLC (collectively, “Peoples”) filed comments on August 2, 2017, as did Columbia Gas of Pennsylvania, Inc. (“Columbia”), the Office of Small Business Advocate (“OSBA”), the Office of Consumer Advocate (“OCA”), and the Industrial Energy Consumers of Pennsylvania (“IECPA”) (together, the “Commenting Parties”). On August 15, 2017, counsel for Peoples filed a Motion for an Extension of Time for All Parties to File Replies to Comments (“Motion”). The Motion requested a thirty-day extension of the deadline for all parties to file replies to comments, in order to give the Parties time to resolve some or all of the issues in the proceeding. The other Parties who filed comments in the proceeding concurred in that request. The Motion was granted by Secretarial Letter dated August 17, 2017. As a result, Replies to Comments were due on September 21, 2017.

After extensive discussions, the Commenting Parties reached a consensus position on most but not all of the issues in the proceeding. Specifically, the Commenting Parties were able to reach a consensus on the five issues raised by the Commission on page 55 of the May 2017 Order. Peoples filed Reply Comments on the five consensus issues and noted that the parties recommended that a collaborative be established to determine: (a) the appropriate methodology to calculate the lowest applicable tariff rate available to a G-O-G Customer; and, (b) uniform G-O-G Competition tariff provisions to be simultaneously adopted by Competing NGDCs.

By Order entered on June 13, 2019 (“June 2019 Order”), the Commission adopted the Consensus Resolutions of the Parties and ordered that a collaborative working group be

established to consider and make recommendations on the following items: (1) the appropriate methodology to calculate the lowest applicable gas-on-gas flex tariff rates available to customers who participate in gas-on-gas competition; (2) the uniform tariff provisions to be utilized by jurisdictional natural gas distribution companies in implementing gas-on-gas flex rates; (3) the circumstances under which the extension of service to a potential gas-on-gas customers at full tariffed rates should be permitted; and, (4) whether a separate rate schedule should be established for gas-on-gas flex rate customers. By Secretarial Letter dated August 26, 2019, the Commission's Bureau of Technical Utility Services and the Law Bureau solicited comments and supplementary information, due September 26, 2019, that may assist the collaborative working group in resolving the remaining G-O-G issues. Peoples files these comments in response to that solicitation and in anticipation of the working group meeting scheduled for October 3, 2019.

II. PEOPLES' COMMENTS ON SPECIFIC ISSUES

A. The appropriate methodology to calculate the lowest applicable gas-on-gas flex tariff rates available to customers who participate in gas-on-gas competition.

As a general matter, Peoples concurs with the Commission that it is important to develop a methodology for calculating the lowest applicable tariff rate. As will be discussed later in these comments, Peoples is proposing a standardized tariff which addresses the methodology for calculating the rate in a fair manner among other considerations. An "apples to apples" comparison requires that base rates be viewed on an "all in" basis -- i.e., including all applicable fixed charges, riders and surcharges.

However, Peoples recognizes that the differences in rate classes, rate design, and billing units between Peoples and other Competing NGDCs, such as Columbia, can lead to challenges in calculating the lowest applicable G-O-G Flex Rates via uniform tariff provisions. One of the

most difficult challenges is that Peoples and Columbia bill in different units. Peoples bills on a volumetric basis (Mcf); while Columbia bills on a thermal basis (therms).

It is Peoples' understanding that the conversion factor used by Columbia to convert from ccf to therms on a customer's bill varies throughout Columbia's service territory based upon the market area and thermal value of the gas supply in the market area. In order to ensure accuracy when calculating the lowest applicable tariff rate for G-O-G customers, Peoples recommends that Columbia directly share the conversion factor applicable to each market area with Competing NGDCs such as Peoples and G-O-G competitive customers or, in the alternative, publish, either in its tariff or on its website, the conversion factor applicable to each market area. While a conversion complicates the process of determining an allowable flex rate discount, it is the only fair way of doing so.

In addition, while Peoples had previously proposed an "all in" comparison of non-gas rates including customer charges, Peoples believes that minimum flex rates for G-O-G customers should be segmented into a customer charge and a volumetric charge. Peoples believes this is a simpler and more transparent process than trying to determine a blended "all in" rate that incorporates both fixed and variable rate charges into one single volumetric rate. To determine the minimum G-O-G customer charge, the NGDC would use the customer's projected usage and compare the applicable rate schedule from each NGDC to determine the lower customer charge and delivery rate. Besides the delivery rate, Peoples believes that there are other riders which should be incorporated into the calculation of the minimum volumetric rate. Because of the complexity and variation in rate design between NGDCs, Peoples recommends that the working group further discuss which riders should be incorporated into the minimum volumetric rate. The inclusion of reconcilable rates such as the Distribution System Improvement Charge

("DSIC") could pose unique challenges. For example, if the DSIC rate is being charged under the lower NGDC's tariff but not under the NGDC that ultimately serves the customer, that NGDC is not eligible to charge the DSIC. A potential solution to this is to allow the winning NGDC to reallocate the DSIC rate to the delivery rate in order to maximize revenues received from the customer. After the minimum rates are established, the NGDC would be able to make an offer to the customer, knowing the range of recoverable flex rates.

Peoples recommends that when competing for G-O-G Customers, each utility should share key pricing information with the Competing NGDC, such as rate class and conversion factor, to ensure that the offer of gas service to the prospective G-O-G Customer is transparent and to ensure that the correct lower rate is used. Since rate schedules vary by NGDC, it will be helpful for each NGDC to evaluate the key pricing information of the other competing NGDC when making the offer. Peoples recognizes that this requires disclosure of certain information whereas the original consensus position adopted by the PUC left the decision to disclose up to the customer. This recommendation increases transparency and is a necessary step to ensure the correct calculation of the lowest applicable tariff rate.

B. The uniform tariff provisions to be utilized by jurisdictional natural gas distribution companies in implementing gas-on-gas flex rates

Previously, Peoples was the only party to propose a standardized tariff to incorporate the issues discussed in the G-O-G investigation in its August 2, 2017 comments. Based upon the Commission's recent order and changes proposed by Peoples in these comments, Peoples has updated this proposed tariff. Peoples has included an **Appendix A** to these comments that incorporates the aforementioned updates as redline changes to the originally-proposed tariff page. Specifically, Peoples has updated the proposed tariff to reflect its revised position on

calculating the lowest applicable tariff rate. Also, Peoples has included additional language describing the information a customer must include in the affidavit requesting a G-O-G rate. Peoples has left a placeholder in the tariff to incorporate any additional changes resulting from the recommendations of the working group during this process. Peoples believes that it is important to have uniform tariff provisions, implemented at the same time, so that all NGDCs are on a level playing field related to G-O-G competition and that rates can be compared in a fair manner.

C. The circumstances under which the extension of service to a potential gas-on-gas customer at full tariffed rates should be permitted.

In Peoples' August 2, 2017 comments, Peoples noted that the unnecessary duplication of natural gas distribution facilities, such as pipelines, is not beneficial to the public and should be avoided. In Peoples' reply comments, the Company stated that the specific issue of extension of service to potential G-O-G Customers was beyond the scope of the G-O-G Competition investigation and that any unique circumstance in which a G-O-G Customer requests an extension for gas service at full tariff rates should be resolved on a case-by-case basis. While Peoples still supports the position that there should be competition between NGDCs for the load of a new customer, Peoples believes that, once one NGDC extends facilities to serve a new customer, there no longer should be competition between NGDCs for the customer -- whether that be in the short or long term. By limiting the competition for G-O-G Customers to the initial main extension, duplicative pipeline situations are reduced, as the ability for each NGDC to poach customers from the other NGDC is eliminated. While Peoples realizes that there may be situations where a customer may be willing to fund an extension to switch gas service to another NGDC and pay full tariff rates for this service, this is not in the public interest, as it continues to

expand the overlap of duplicative gas pipelines between NGDCs in Pennsylvania. However, Peoples is sensitive to a customer's potential desire to switch for reasons other than economics and the working group should discuss the possibility of permitting this switch for those customers who would pay full tariff rates and the full cost of extending to the new NGDC.

In order to avoid any confusion regarding an NGDC's legal obligation under its tariff to provide service upon request to a customer who is already receiving service from another NGDC, all Competing NGDCs should be required to make appropriate revisions to their tariffs to clarify that they have no legal obligation to and will not provide service to the requesting customer where the customer is already receiving adequate, efficient, safe, and reasonable service from another NGDC. Exceptions to the general rule should be resolved via a petition for declaratory order to the Commission in which all interested parties have notice and an opportunity to be heard. The Company's proposed tariff included in **Appendix A** does not currently include this language.

D. Whether a separate rate schedule should be established for gas-on-gas flex rate customers

Overall, a blanket requirement that a separate rate schedule for gas-on-gas flex rate customers is unnecessary and a company-specific determination of such need is best addressed in the context of an NGDC's base rate case. Moreover, as a matter of due process, not all interested parties are participating in the instant proceeding because this issue was clearly beyond the scope of the initial investigation. Subsequent Commission process would be required before any final rule could be implemented.

One of the first steps in conducting a gas utility's cost of service study is to establish the rate classes to be included in the cost study. In general, the rate classes should track closely with

the rate classes used by the utility to provide gas delivery service to customers. In this way, the results of the cost study can be used to evaluate and guide the apportionment of revenues by rate class and the level of each rate component within the utility's corresponding tariff or rate schedule for customers who are charged on a standard rate basis.

At the same time, from a strict cost perspective, an important objective is to utilize rate classes in a cost of service study that reflect customers with similar gas load characteristics (*i.e.*, a group of customers that exhibits relatively homogeneous gas usage patterns). Since it is widely recognized that a customer's load characteristics directly influence the underlying cost characteristics of that customer, it is desirable to group customers with similar load characteristics in the same rate class because those customers will also exhibit similar cost characteristics. Under this approach, the cost of serving the average customer in the rate class is derived in the cost of service study knowing that the resulting unit cost level will not be materially different from the cost of serving any single customer in that rate class. In view of this conceptual basis for establishing rate classes in a cost of service study, the choice of rate classes should not be influenced by the specific level of the rate charged to the customer.

In the Reply Comments to the May 4, 2017 Order, Peoples recommended that the issue of cost allocation and rate design is beyond the scope of the G-O-G Competition investigation and should be addressed in the context of a base rate proceeding. The discussion above further validates this position as the unique circumstances of each NGDC's customers and cost causation characteristics do not lend themselves to a blanket industry-wide requirement to have a separate rate class for such customers.

In light of the ratemaking principles mentioned above, and consistent with the Companies' Reply Comments to the May 4, 2017 Order, Peoples does not believe that it is

appropriate to separate G-O-G Customers into their own rate class when designing rates. Peoples believes that the unique characteristics and circumstances surrounding each utility's G-O-G Customers should be considered during the utility's base rate case to determine the correct cost allocation and rate design for that particular utility.

III. CONCLUSION

Peoples appreciates the opportunity to submit these comments in advance of the upcoming collaborative working group meeting. Peoples continues to believe that the benefits of G-O-G Competition (*e.g.*, retention of load for the benefit of all ratepayers, economic development, and job retention and creation) can be preserved while ensuring that other ratepayers are treated in a just and reasonable manner.



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Date: September 26, 2019

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APPENDIX A
PEOPLES' PROPOSED STANDARD TARIFF LANGUAGE

X GAS-ON-GAS COMPETITION (G-O-G)

X-1 The Company may compete, as described in this section, with one or more natural gas distribution companies (NGDCs) to provide natural gas service to an Eligible Customer or Eligible Customers located in an Overlapping Service Territory.

———X-2 Definitions.

- ~~A. Discount: As used in this section X, discount means to reduce the Company's rate offered to the Eligible Customer to a rate no less than the lowest applicable tariff rate, inclusive of all applicable, non-gas cost riders and surcharges, of the competing NGDC. For rate comparison purposes, all fixed rate components of the otherwise applicable tariff rates, such as customer charges, riders, and surcharges, total non-gas bill will be converted compared with the competing NGDC to develop the lowest applicable tariff rate. variable rate equivalent (e.g., 0/Dth or 0/Mcf) based on the Eligible Customer's annual usage.~~
- ~~B. Gas On Gas Competition: The act of two or more NGDCs making offers to provide natural gas service to an (or Eligible Customers) located in an Overlapping Service Territory, where the Eligible Customer's only practicable service option is natural gas service from the competing NGDCs.~~
- ~~C. Overlapping Service Territory: Any area where more than one NGDC possesses operating authority to provide natural gas service.~~
- ~~A. Eligible Customer:~~
- ~~D. —~~
- ~~B. Eligible Customer: A current or prospective customer who, for a given service location;~~
- ~~i. Uses uses or will use gas for commercial or industrial non-residential use;~~
- ~~ii. is in an Overlapping Service Territory;~~
- ~~iii. (a) is part of a new development for which natural gas service was not previously available ~~or~~; (b) is or was previously served by the Company at the same service location; and, (c) is currently receiving a G-O-G flex rate; and,~~
- ~~iv. provides a sworn affidavit of a bona fide service offer from another NGDC who possesses operating authority to serve the customer. Such sworn affidavit must attest that the customer meets the eligibility criteria. A new G O-G customer's service affidavit must attest that (a) the G-O-G customer has been offered service from a competing NGDC with a lower tariffed rate and (b) the competing NGDC is physically able to connect the G-O-G customer and has sufficient capacity to serve. All affidavits must include all relevant terms, conditions, rates, and customer contributions and advances associated with the competitive service offering. The G-O-G customer affidavit shall be treated as confidential and disclosed in a Commission proceeding only pursuant to a protective agreement or order.~~
- ~~C. G-O-G Competition: The act of two or more NGDCs making offers to provide natural gas service to an Eligible Customer (or Eligible Customers) located in an Overlapping Service Territory, where the Eligible Customer's only practicable service option is natural gas service from the competing NGDCs.~~

D. Overlapping Service Territory: Any area where more than one NGDC possesses operating authority from the Pennsylvania Public Utility Commission to provide natural gas service.

X-3 When engaging in ~~Gas-On-Gas~~G-O-G Competition, the Company may discount its ~~rate-non-gas cost rates~~ only as described in this section. This may include discounting the Customer Charge to match the competing NGDC's rate.

X-4 Any service agreement entered into between the Company and an Eligible Customer in which the Company has discounted its rate shall ~~continue~~include provisions that provide for a term no longer than ~~three~~an update on _____ and every two years: to charge the customer the then-effective lowest applicable tariff rate of the Company or the competing NGDC.

[Future considerations – include any impact of working group topics, if necessary.]

VERIFICATION

I, Andrew P. Wachter, hereby state that the facts set forth above are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date:

9/26/19



Andrew P. Wachter
Director of Finance and Regulation
PNG Companies LLC

CERTIFICATE OF SERVICE
Docket Nos. P-2011-2277868 and I-2012-2320323

I hereby certify that I have this day served a true copy of the Comments of Peoples Natural Gas Company LLC and Peoples Gas Company LLC, 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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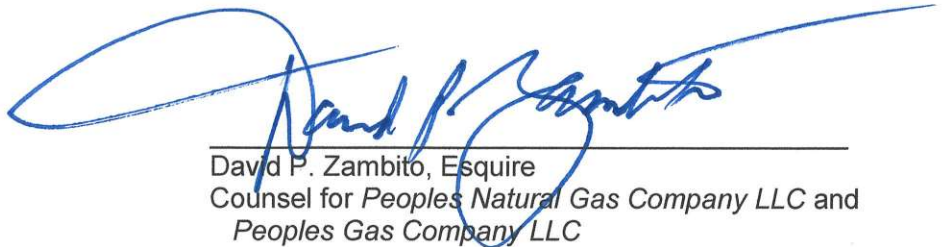
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