BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-2015-2468056
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	

PSU Statement No. 1

DIRECT TESTIMONY OF JAMES L. CRIST, P.E.
ON BEHALF OF
THE PENNSYLVANIA STATE UNIVERSITY

Dated: June 19, 2015

I. **WITNESS BACKGROUND**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS, AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am James L. Crist, President of Lumen Group, Inc. a consulting firm focused on regulatory and market issues. My business address is 4226 Yarmouth Drive, Suite 101, Allison Park, Pennsylvania 15101. I am presenting testimony on behalf of The Pennsylvania State University ("Penn State" or "PSU").

Q. DO YOU HAVE ANY QUALIFICATIONS OR OTHER SPECIALIZED KNOWLEDGE THAT WOULD ASSIST THE PENNSYLVANIA PUBLIC *UTILITY COMMISSION ("COMMISSION") IN ITS DELIBERATIONS IN THIS* CASE?

A. Yes.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I have a B.S. in Chemical Engineering from Carnegie Mellon University and an MBA from the University of Pittsburgh. Additionally, I am a Registered Professional Engineer in the Commonwealth of Pennsylvania.

Q. BRIEFLY DESCRIBE YOUR RELEVANT BUSINESS QUALIFICATIONS.

A. I have run a consulting practice for the past 18 years focused on regulated and deregulated energy company strategy, market strategy, and regulatory issues. During 2004 and 2005, I undertook a consulting assignment as the Vice President of Consumer

Markets for ACN Energy. ACN is a gas and electric marketer that is active in eight states. Prior to my consulting practice, I worked at three major energy companies for a total of 19 years. Most recently I was Vice President of Marketing for Equitable Resources. In that function I was responsible for the development of the company's deregulated business strategy.

Prior to that I was Vice President of Marketing for Citizens Utilities, responsible for gas, electric, water and wastewater marketing activities in several service territories within the United States. The gas and electric utility operations were in Vermont, Louisiana, Arizona, Colorado, and Hawaii. Under my direction, Citizens initiated commercial and industrial transportation and supply services at its gas operation in Arizona. I also directed significant gas supply contracting activities with large industrial and commercial customers in Citizens' gas operation in Louisiana.

Before that, during 1988 through 1994, I was the Marketing Director at the Peoples Natural Gas Company where I was actively involved in many gas transportation programs as the company relaxed transportation requirements so that customers would have supply choices.

In summary, I have considerable experience in several states involving residential, commercial, and industrial customer energy procurement and industry restructuring programs.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION?

A. Yes, I have appeared before the Commission in several gas and electric regulatory proceedings. I have been involved in the previous five base rate cases of Columbia filed in 2008, 2009, 2010, 2012, and 2014. Additionally, I provided testimony on a variety of issues relating to energy procurement, industry restructuring, and demand response before regulatory Commissions in Arizona, Maryland, New Mexico, Illinois and the U.S. Virgin Islands.

II. <u>PURPOSE OF TESTIMONY</u>

Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN THIS CASE?

A. Specifically, in my direct testimony I will:

1. Address concerns regarding the overall increase of $46.0 million dollars which is a large increase in light of the large increase Columbia Gas of Pennsylvania, Inc. ("Columbia" or "Company") received in last year's rate case.
2. Recommend that a portion of the revenue increase assigned to the LDS class be assigned to non-competitive customers of all classes, because 47.2% of the LDS class volumes are flex customers under set contracts and thus are not subject to revenue increases.
3. Oppose the creation of Rider CAC which attempts to put existing base rate charges into a rider that would apply to all transportation customers.

[Omitted]

[Omitted]

III. PENN STATE'S SERVICE

Q. WOULD YOU BRIEFLY DESCRIBE PENN STATE'S SERVICE FROM COLUMBIA?

A. Yes. Penn State is a major sales and distribution service customer of Columbia at the University Park campus and at the Beaver, Fayette, Mont Alto, and York Campuses and

Biglerville Ag Extension Farm within the Commonwealth. In 2014, Penn State received 1,592,366 Dth through distribution service from Columbia.

IV. COLUMBIA'S REQUEST OF $46.0 MILLION

Q. WHEN DID COLUMBIA LAST INCREASE ITS BASE RATES?

A. The Order in Columbia's most recent base rate case (Docket R-2014-2406274) was entered on December 10, 2014. The Company was awarded an increase of $32,500,000. It had requested $54.1 million. Columbia has increased its base rates frequently in recent years as shown in this table which indicates the amount it filed for and the result of the settlements in each case.

Table 1: Columbia Rate filings

Docket No.	Test Year Ending	Proposed Increase ($Millions)	Settlement ($Millions)	%
R-2008-2011621	Sep-08	$58.9	$41.7	70.8%
R-2009-2149262	Sep-10	$32.3	$12.0	37.2%
R-2010-2215623	Sep-11	$37.8	$17.0	45.0%
R-2012-2321748	Jun-14	$77.3	$55.2	71.4%
R-2014-2406274	Dec-15	$54.1	$32.5	60.1%
R-2015-2469665	Dec-16	$46.0		

Prior to the filing in 2008, Columbia had not filed a base rate case since 1995, running its business for a 13-year period without increasing base rates. Now it is back for yet *another proposed increase of $46.0 million.*

Q. WHAT OTHER MECHANISM WAS PUT INTO PLACE IN 2014 TO SUPPORT INFRASTRUCTURE DEVELOPMENT OF NATURAL GAS DISTRIBUTION COMPANIES?

A. On May 22, 2014, the Commission approved Columbia's Distribution System Improvement Charge ("DSIC") which allows Columbia to recover reasonable and prudent costs incurred to repair, improve, or replace certain eligible distribution property that is part of the utility's distribution system. Columbia was the initiator of the DSIC filing at the Commission in 2011. It claimed that if DSIC were in place there would be a reduced need to file base rate cases. Clearly Columbia is doing just the opposite of what it stated in its DSIC filing and perhaps represented to the Legislature in pushing the DSIC legislation.

Q. WHAT ARE THE KEY COMPONENTS OF COLUMBIA'S DSIC PROPOSAL?

A. The DSIC is capped at 5.0% of distribution service revenues. Currently Columbia's DSIC is 0% since it had just completed a base rate case and had included its capital improvements in base rates.

Q. USING COLUMBIA'S DSIC CAP OF 5.0% OF TOTAL REVENUES, WHAT COULD THE DSIC AMOUNT BE?

A. In Columbia's Exhibit 103, Sch 8, P. 1, the proposed distribution (non-gas) revenues are stated at $354,542,334. In this case, the DSIC amount would be $17.7 million. The revenue increase proposed in this case is $46.0 million. I am not sure what the final revenue increase will be. It would be highly unlikely that it will be the entire request, and much more likely that it will be a fraction of that. Having a DSIC provides Columbia the ability to receive revenue of a similar magnitude as what it may receive in this case.

Q. WHAT OPERATING EXPENSES SHOULD BE REDUCED IF THE COMPANY IMPROVED ITS DISTRIBUTION SYSTEM?

A. Presumably all that capital investment in the infrastructure should produce numerous improvements such as reduced gas losses due to leaks, better gas control, reduced labor and maintenance costs and other benefits that should be reflected through pro forma adjustments to its expense claims. Unfortunately, the overall operation and maintenance expenses filed in this case are increased significantly from the 2014 case and those pro forma reductions do not appear.

V. THE COMPANY ERRED IN ASSIGNING REVENUE INCREASES BY CLASS FOR IT DID NOT TAKE INTO ACCOUNT THAT FLEX CUSTOMERS CAN BEAR NO INCREASE

Q. DO YOU AGREE WITH THE COMPANY'S ASSIGNMENT OF REVENUE TO THE LDS CLASS?

A. No. Mr. Balmert proposes to increase the LDS class Base Revenue by $2,447,109 (Exh. 103, Sch. No. 8, P. 1), an increase to the rate class of 15.10%. Total class volumes are 19,274,182 Dth and about half the customers are competitive and served under flex rates (9,102,000 Dth or 47.2%). It is well established that the flex customers cannot be allocated any increase due to their competitive circumstances. If the entire amount of revenue increase is borne by the non-flex customers of that class that would produce an excessively large increase.

Q. DOES PENN STATE HAVE ACCOUNTS THAT ARE SERVED UNDER THE LDS RATE CLASS?

A. Yes.

Q. SHOULD THE ENTIRE LDS CLASS INCREASE BE THE RESPONSIBILITY OF JUST THE NON-COMPETITIVE LDS CUSTOMERS?

A. No. The merit of offering flex rates to competitive customers has been established in several rate proceedings of Columbia and other NGDCs where competition exists and the NGDCs engage in that practice. Offering flex rates to retain customer load benefits all the classes of customers of the utility for those flex rate customers are making a positive contribution to revenues, in excess of the marginal costs to serve them. For this reason, the increase in revenue that the Company has allocated to the non-competitive customers of the LDS class should actually be allocated to all non-competitive customers of all classes.

Q. WHAT ARE THE PERCENTAGES OF COMPETITIVE AND NON-COMPETITIVE CUSTOMERS IN THE LDS CLASS?

A. The competitive customers represent 47.2% of the class volumes and the non-competitive customers represent 52.8% of the class.

Q. ARE THERE FLEX CUSTOMERS IN OTHER CLASSES?

A. Yes. The SGDS class has 22,200 Dth of flex volumes (0.5% of the class volumes) and the SDS class has 180,700 Dth of flex volumes (3.0% of the class volumes). The flex customers in those classes will not be bearing any increases so the same issue of having the non-flex customers bearing the entire class increase exists. The magnitude of the impact is much less because of the smaller flex amounts.

Q. BASED ON THAT, WHAT IS THE AMOUNT OF THE REVENUE REQUIRMENT THAT SHOULD BE ALLOCATED FROM THE INDUSTRIAL CLASS TO THE OTHER RATE CLASSES?

A. Currently Columbia proposes to allocate an increase of $2,381,961 to the non-competitive LDS customers. Instead, only 52.8% or $1,257,675 should be allocated to the LDS class and $1,124,286 should be allocated to the non-competitive customers in the other classes, except MLDS/MLSS. Mr. Balmert should be directed to update his proposed revenue allocations accordingly and reallocate that amount to the other classes using the same ratio of revenue allocation proposed by the Company.

VI. COLUMBIA'S PROPOSED RIDER CAC IS INAPPROPRIATE, CONTRARY TO PROMOTING COMPETITION, CONFLICTS WITH THIS COMMISSION'S NATURAL GAS TRANSPORTATION RULES, AND SHOULD BE REJECTED.

Q. WHAT IS THE PURPOSE OF RIDER CAC?

A. The descriptive name of Rider CAC is Choice Administration Rider. That title is misleading however. One would think that a rider with such a name might be structured to collect administrative charges from Choice customers. Choice customers are residential and small commercial customers who receive natural gas supply from an approved retail gas supplier, and not from Columbia. The Choice Administration Rider actually applies to all customers taking delivery service which is comprised of tariffs RDS, SCD, SGDS, LDS and MLDS. This includes most of the throughput volumes of the Company. Table 2 shows the data by customer class. The Rider recovers labor and information technology costs to distribute natural gas.

Table 2: Columbia Distribution Volumes

Customer class	Sales (Dth)	Sales (%)	Transportation (Dth)	Transportation (%)	Total (Dth)
Residential	23,280,676.1	68.62%	10,647,000.0	31.38%	33,927,676.1
Commercial	9,968,307.0	41.66%	13,959,037.7	58.34%	23,927,344.7
Industrial	240,001.3	1.04%	22,868,999.7	98.96%	23,109,001.0
Total	33,488,984.4	41.36%	47,475,037.4	58.64%	80,964,021.8

Source: CPA Exhibit 103, P. 15 of 15

Q. IS RIDER CAC-CHOICE ADMINISTRATION CHARGE AN ACCURATE DISCRIPTION OF THE CHARGES PROPOSED?

A. No. In Pennsylvania and other states that have moved toward offering residential and small commercial consumers the option of procuring gas supply from competitive marketers instead of being captive to the supply offering of the distribution utility, the term "Choice" is used and universally understood to mean transportation services for those customers. Larger commercial and industrial customers have had transportation services available to them for many years and those customers are generally referred to as "transportation" customers. Columbia's use of "Choice" in naming the proposed charges would be misleading to a large commercial or industrial customer who would likely not realize that the charges would apply to all transportation customers. A more appropriate name would be Rider TAC- Transportation Administration Charge. However, just because I choose to anoint this unjustified charge with a more accurate name does not mean I endorse the charge in any way. In this testimony I will continue to refer to the rider as Rider CAC as that is the title proposed by the Company.

Q. IS RIDER CAC A STEP IN THE WRONG DIRECTION?

A. Yes. Let me explain. To support the Company's addition of Rider CAC, Ms. Krajovic refers to the Title 52 Section 60.1 of the Pennsylvania Code and the Commission's Final Order of the natural gas retail markets investigation (Docket No. L-2008-2069114). She correctly notes that the Final Order directed natural gas distribution companies to remove costs associated with the purchase of gas supply from base rates which are paid by both system supply customers and transportation customers and add them to the Company's gas supply charge. Doing that is a step in the right direction of the Commission policy of promotion of competitive markets. She then erred, however, by making an unsupported jump to claiming that adding Rider CAC is consistent with that direction. In fact, it is just the opposite. Columbia is trying to put costs onto transportation customers that are costs that represent the fundamental base-line service that a distribution utility must provide. Every customer needs delivery of gas and the distribution utility must have systems in place to manage such gas and conduct functions inherent to its primary job of delivering gas to customers. *This includes the information technology, system* management, and gas management functions and those costs should remain in base rates as all customers are eligible to elect transportation service.

Q. **WHO BENEFITS FROM COMPETITION?**

A. All distribution customers benefit from competition. In today's procurement market the gas supplies for customers receiving distribution-only service are supplied through the selection of a competitive marketer. Those marketers purchase gas in the open market and make purchase decisions designed to produce an attractive commodity price and product for customers, for they must obtain the customers' patronage to receive revenues and stay in business. The distribution customers that elect to have Columbia deliver their gas supply benefit from the competitive supply marketplace where the Company's gas procurement must also obtain supplies. Every supplier, both utility and non-utility, buy from the competitive marketplace and the customers all have opportunity to benefit from that which was the purpose of the Gas Competition Act. Columbia has not denied the purpose of the Gas Competition Act in its previous base rate cases.

Q. **WHAT IS COLUMBIA'S PRIMARY BUSINESS?**

A. Columbia is a natural gas distribution company who is obligated to distribute gas and to promote transportation of gas and competition for supply by its practices. Columbia's actions here do not do that. Almost the entire industrial throughput, most of the commercial throughput and a healthy percentage of the residential throughput, is gas delivered to transportation customers. Sales throughput now comprises only 41.36% of the total volumes. Not only is Rider CAC unnecessary, to suggest that the manpower and services necessary to distribute transportation gas are not part of the fundamental business of a gas distribution company is out of line with Commission policy. Rider CAC should be rejected.

Q. WHEN RECENTLY HAS THE COMMISSION STATED ITS SUPPORT FOR CUSTOMERS IN PENNSYLVANIA TO HAVE THE RIGHT TO PROCURE GAS FROM COMPETITIVE SUPPLIERS?

A. Most recently the Commission initiated an Investigation of Pennsylvania's Retail Natural Gas Supply Market in September, 2013. The purpose of the Gas Retail Markets Investigation is to make recommendations for improvements to ensure that a properly functioning and workable competitive retail natural gas market operates in the state. The idea, obviously, is to promote competition not to discourage it as Columbia would by this surcharge. The Final Order addressed improvements in many areas and directed the Office of Competitive Market Oversight to continue investigation on a number of supply-related issues. The Commission recognizes the need to continue to develop a more competitive marketplace.

Q. HOW WOULD RIDER CAC AFFECT FLEX CUSTOMERS?

A. Ms. Krajovic (Statement No. 12, 6:16) states in her testimony that the Choice Administration Charge would apply only to non-flex rate customers. That is appropriate because the Company has already negotiated prices with the flex rate customers and those prices are the maximum possible to charge and still retain those customers' patronage. The clarification of the applicability to non-flex rate customers must be also made in the tariff. The tariff must be modified in two places for better public information, transparency, and clarity, express language that Rider CAC does not apply to Flex customers should be included in the Rider itself if it is adopted—which for the reason stated in this testimony it should not be. The following language should be added under the Rate section of Rider CAC:

> "*Rider CAC shall not apply to customers receiving service under the rules of* paragraph 20, Flexible Rate Provisions."

Also a sentence should be added at the end of the first paragraph under section 20.2 of the Rules and Regulations Governing the Sale and Distribution of Natural Gas:

> "Rider CAC shall not apply to customers receiving service under these Flexible Rate Provisions."

Q. REGARDING REGULATIONS CONCERNING THE RECOVERY OF COSTS OF OFFERING CHOICE PROGRAMS, WHAT DID THE COMPANY STATE?

A. Ms. Krajovic stated in response to data request NGS Set II-3, "At the present time, there is no requirement that Columbia recover the costs identified to be recovered via the proposed Rider CAC."

Q. ARE GAS DISTRIBUTION COMPANIES ALLOWED TO CHARGE A RATE FOR GAS TRANSPORATION SERVICE THAT IS HIGHER THAN THE DISTRIBUTION RATE OF SALES GAS?

A. No. Chapter 60.2 of the Pennsylvania Code, 52 Pa. Code § 60.2, which covers natural gas transportation service terms and objectives, at Sections (3), (4), and (5) states:

> (3) The maximum rate allowed for transportation service shall be the weighted average retail rate for the otherwise applicable retail service less costs relating to natural gas supply, including natural gas demand, commodity and storage costs.
>
> (4) The maximum rate for transporting gas which is produced in this Commonwealth shall be based upon a cost of service study. Only costs identifiable as related to transportation service shall be recovered through this rate.
>
> (5) The rates described in paragraphs (3) and (4) shall be maintained as tariffed rates on file with the Commission.

I know from experience that transportation rates and the distribution portion of a gas utility's sales rate are similar and can be the same. Adding a rider that applies only to transportation customers will result in those customers paying a rate that would exceed the otherwise applicable retail rate, less costs relating to natural gas supply.

Q. WHAT IS YOUR RECOMMENDATION CONCERNING RIDER CAC?

A. Rider CAC should be rejected in entirety.

[Omitted]

[Pages 15-26 omitted]

[Omitted]

Q: DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. I am still waiting on several delinquent data request responses from the Company and may have reason to file supplemental direct testimony after the responses are received and reviewed.

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-2015-2468056
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	:	
Columbia Gas of Pennsylvania, Inc.	:	

PSU Statement No. 1-R

REBUTTAL TESTIMONY OF JAMES L. CRIST, P.E.
ON BEHALF OF
THE PENNSYLVANIA STATE UNIVERSITY

RECEIVED
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PA PUC
SECRETARY'S BUREAU

Dated: July 16, 2015

PSU Stmt. No. 1-R
HR 4
R-2015-2468056 8/10/15 BP

Q. PLEASE STATE YOUR NAME AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am James L. Crist, President of Lumen Group, Inc. I am presenting rebuttal testimony on behalf of The Pennsylvania State University ("Penn State" or "PSU").

Q. ARE YOU THE SAME JAMES L. CRIST THAT PRESENTED DIRECT TESTIMONY IN THE PROCEEDING?

A. Yes. I presented direct testimony and supplemental direct testimony on behalf of Penn State.

I. <u>ISSUES</u>

Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN THIS REBUTTAL TESTIMONY?

A. Specifically I will:

1. Disagree with OCA witness Mr. Mierzwa who advocates using only one Cost of Service Study (COSS) that highly favors the Residential class.
2. Disagree with I&E witness Mr. Hubert's recommendation to use only the Peak and Average COSS in determining the revenue allocation.
3. Reject OSBA witness Mr. Knecht's alternative proposal for revenue allocation.
4. Review NGS witness Mr. Butler's remedy for the Company's unfair General Transportation Imbalance Charge. While Mr. Butler's analysis of the unfairness of the charge is sound, his recommended solution to have Columbia charge the highest gas prices of the month still perpetuates an unfair subsidy that would be provided

by the transportation customers. The imbalance charge should be based on average prices, not highest prices.

Q. WHAT DID THE COMPANY PROPOSE AS ITS COST OF SERVICE STUDY METHODOLOGY?

A. Columbia witness, Mr. Elliott, presents three COSSs. The customer-demand study, the peak & average study, and an average of the results of those two studies. Columbia does this because it believes that the results of the studies provide a reasonable range of returns for use as a guide in establishing appropriate rates.

Q. DO YOU AGREE WITH THE COLUMBIA'S METHODOLOGY?

A. Yes, Columbia did a good job of framing the boundaries and reaching a mid-point, which is fair.

Q. WHAT ISSUES DID YOU IDENTIFY IN THE TESTIMONY OF OCA WITNESS MR. MIERZWA?

A. Mr. Mierzwa reviews the COSS studies that Columbia performed and recommended that the peak & average method only be used as the basis for rate design. He does not believe that the number of customers is a component that drives the sizing and cost of mains. I disagree with his rationale because there are two primary issues that drive the investment in the distribution system. The size or diameter of the distribution main is directly influenced by the sum of the peak gas demands placed on the system by its customers. The length or installed footage of the distribution main is determined by the need to connect customers to the system. Therefore a proper allocation of distribution mains would be based on both the peak demand and the number of customers. Several reliable sources describe minimum system concepts as methods of determining the customer component of utility distribution facilities. Chapter 6 of The Electric Utility Cost Allocation Manual published by the National Association of Regulatory Utility Commissioners, discusses this as does Chapter 2 of the NARUC Gas Utility Rate Design Manual. Both are substantial evidence that allocation of a portion of the cost of distribution mains based on a customer component is a valid and supportable method.

Q. WHAT DOES MR. MIERZWA ADVOCATE?

A. He opines that the peak & average study that the Company did is the only COSS that should be used. He rejects the Company's approach of using the average of the two studies. He then makes some adjustments to the peak & average study that eliminates the separate assignment of distribution mains to categories and also reassigns costs of major account representatives. Additionally he produces a COSS based on the proportional responsibility method of allocation of mains cost, and that COSS produces results that are similar to the peak & average COSS. Mr. Mierzwa has really nailed down one end of the spectrum of COSS, but the Company produced COSSs at both ends, then used the average of the two in determining the rate requirement and that is fairer and what I recommend.

Q. WHAT ISSUES DID YOU IDENTIFY IN THE TESTIMONY OF I&E WITNESS MR. HUBERT?

A. Mr. Hubert recommends that only the peak & average COSS produced by the Company is used for rate setting purposes. I disagree with Mr. Hubert for the same reasons I reviewed when disagreeing with Mr. Mierzwa's favoring only the peak & average study.

Q. WHAT COMMENTS DID MR. HUBERT MAKE TO SUPPORT HIS BELIEF THAT ARE UNFOUNDED?

A. He states, "It is not reasonable to allocate distribution mains investment based solely on design peak day demands as in Columbia's Customer-Demand study." (I&E Statement No. 3, 34:14-15). This statement is incorrect and misrepresents Columbia's customer-demand study. Columbia's customer-demand study does not allocate distribution mains investment based solely on design peak day demands. As Columbia witness Mr. Elliott explained, the customer-demand study allocates a portion of the mains cost based on peak demands and allocates a portion of the mains cost based on customers. Mr. Hubert then states, "The basic reason why Columbia invests in its distribution system is to meet the annual demands for gas by customers." (id, 34:16-17). This is also incorrect. Columbia invests and extends its distribution system to connect customers, and it sizes its pipes to meet the peak demand of those customers, not the annual demand.

Q. WHAT IS MR. HUBERT'S SCALEBACK RECOMMENDATION?

A. In the event that the Commission does not award Columbia all of its requested revenue increase he recommends that the proposed increase be reduced or scaled back first by reducing the amount of increase allocated to the RSS/RDS class, then to the SGSS/SCD/SGDS class, and then to the SDS/LGS class. The effect of his scaleback recommendation can be seen on his Exhibit I&E No. 3, Schedule 13, Line 22, where most classes receive close to no increase at all, except SDS/LGSS which receives an 11.59% increase. The LDS/LGSS class is hit with the largest increase by far at 14.36%. This is clearly not fair and the actual impact on the LGS/LDSS class is about twice as bad as Mr. Hubert's exhibit shows due to the amount of customers in that group receiving flex rates.

Q. WHAT DOES MR. HUBERT STATE REGARDING FLEX RATES?

A. He recognizes that the Commission is addressing flex rates in another docket and has not issued its order. Most of the flex customers are in the LDS class and therefore the non-competitive customers of that class would be the ones to bear any revenue increase to the class, and that would make the true percentage increase have about double the impact of the stated class percentage. For this reason, Mr. Hubert's scaleback wishes should not be honored. Scaleback must occur first in the LDS class so that the portion of increase that would be assigned to flex customers (who will not bear any increase) be scaled back.

Q. WHAT ISSUE DID YOU IDENTIFY IN THE TESTIMONY OF OSBA WITNESS MR. KNECHT?

A. When proposing an alternative revenue allocation, Mr. Knecht used a weighted average of the revenue requirements from the two Company COSSs (customer-demand and peak & average) instead of using the Company's average COSS which weights the customer-demand and peak & average studies evenly. Mr. Knecht weighted the peak & average COSS at 75 percent and weighted the customer-demand COSS at 25 percent. Considering that there already exists an issue of the flex customers in the LDS class being unable to bear any revenue increase (a fact which Mr. Knecht recognizes), shifting the weighting of the two COSSs to the peak & average COSS further increases the burden to the non-flex customers in the LDS class. For that reason his disproportionate weighting of the Company's two COSS should be rejected and the average study performed by the Company should be the basis of the revenue allocations, with the adjustment that I discussed in my direct testimony to address the flex customer situation.

Q. WHAT CUSTOMER CLASSES BENEFIT FROM FLEX RATES?

A. From a ratemaking perspective, all customer classes benefit from the ability of the Company to retain a customer on its system without closing its doors or moving off the system, to either a nearby utility or out of Pennsylvania altogether. Mr. Balmert explained in his testimony (Statement No. 11, 23:3-12) that the Company individually negotiates flex rate agreements. "Revenue from flex rate customers contributes to the recovery of the Company's fixed costs. Without revenue from the flex customers, non-flex customer would be assigned additional fixed cost recovery responsibility and their rates would increase."

The discounted rate offered to the customer is always above the incremental cost to serve the customer and this makes a positive contribution to the fixed costs requirements of the utility and provides benefits to all customers.

Q. WHAT ARE THE SOCIETAL BENEFITS FROM FLEX RATES?

A. From a greater public interest perspective, anything the Company can do by use of flex rates to attract new business or retain businesses in Pennsylvania provides obvious benefits to our Commonwealth's citizens generally—which includes all ratepayers of the Company—by providing jobs, valuable income to local municipalities and the Commonwealth via taxes that fund government and public works, and such business presence directly or indirectly support other businesses. For example, assume a large manufacturing facility is thinking of locating or staying in business in Pennsylvania. That facility will likely have an economic multiplier effect on the local and state economy. For example, its employees with their wages from the business may frequent local restaurants, stores, and gas stations near the business. In turn, those businesses are able to stay in business and maintain and perhaps even grow jobs. The facility may use shipping or transportation companies to get product to market, may purchase local raw materials to make product, and use local service businesses such as HVAC, plumbing and electrical for their facility needs. Flex rates can support greater economic and business incubation in Pennsylvania.

Q. WHAT ISSUES DID YOU IDENTIFY IN THE TESTIMONY OF NGS WITNESS MR. BUTLER?

A. Mr. Butler of the NGS Parties discussed imbalance charges that are applied to suppliers for Choice customers and for transportation customers. His point concerns the level of charges which are excessive and punitive for both types of customers. I agree with his analysis and with the concept of his solution as it applies to General Transportation customers. Mr. Butler proposed tariff language modification (NGS Parties Statement No. 1, 17:15-18:14) that would allow the Company to charge the "average of the highest *Appalachia* price for deliveries to Columbia Gas for the calendar month as published in Platts Gas Daily "Daily Price Survey" under the heading *Columbia Appalachia* or (2) the highest commodity cost of purchases by the Company during the calendar month for the market area, including the delivered cost of purchases at the city gate..." and "For customer electing Rider EBS-Option 1, or Rider EBS- Option 2, the index price for such imbalance as shall be determined by selecting the lower of: (1) the average of the lowest *Appalachia* price for deliveries to Columbia Gas for the calendar month as published in Platts Gas Daily "Daily Price Survey" under the heading *Columbia Appalachia* or (2) the lowest commodity cost of purchases by the Company during the calendar month for the market area, including the delivered cost of purchases at the city gate..."

Q. WHAT IS YOUR CONCERN WITH MR. BUTLER'S PROPOSED CORRECTION TO THE COLUMBIA TARIFF?

A. By selecting the extremes, either the highest or lowest prices, he has structured his proposal so that the transportation customers will be subsidizing the sales customers every time they are charged an imbalance penalty, and this is unfair.

Q. IF COLUMBIA MUST SECURE GAS TO MANAGE A TRANSPORTATION CUSTOMER'S IMBALANCE WILL IT BE SECURING THAT GAS AT THE MAXIMUM PRICE?

A. While it is possible that on some occasions the Company may have to pay the maximum indexed price for the gas, it is not probable that such a high price would be paid for all the gas the Company must secure to manage an imbalance.

Q. IF COLUMBIA MUST DISPOSE OF EXCESS GAS TO MANAGE A TRANSPORTATION CUSTOMER'S IMBALANCE WILL IT BE SELLING THAT GAS AT THE MINIMUM PRICE?

A. While it is possible that on some occasions the Company may have to sell at the minimum indexed price for the gas, it is not probable that such a low price would be paid for all the gas the Company must sell to manage an imbalance.

Q. WHAT WOULD A FAIRER PRICING MECHANISM BE?

A. Columbia keeps records on the gas it purchases and would have pricing data available to calculate the actual price it pays. In situations where it does not have adequate records the price used should be the average, not the highest or lowest, in determining the imbalance charge.

Q. WHAT IS YOUR RECOMMENDATION CONCERNING MR. BUTLER'S THREE RECOMMENDATIONS FOR IMPROVEMENTS TO THE GENERAL TRANSPORATION PROGRAM?

A. The recommendations Mr. Butler made all make good sense and should be adopted. His first recommendation is to have earlier availability of GTS meter reads and that would help reduce imbalances. His second recommendation is to eliminate the splitting of nomination groups between Priority 1 and non-Priority 1 by market area. This makes perfect sense because the use of Priority 1 and non-Priority 1 designations comes into play in the event of a curtailment. Curtailments are not events that occur monthly or even annually, and there are other mechanisms such as Flow Orders or interruptible services in place these days that prevent the need to have a curtailment. In the Company's filing Exhibit No. 17, Page 4 of 7, Witness Paloney addresses the concept of curtailment:

> e. Indicate any anticipated curtailments and explain the reasons for the curtailments.
>
> Response: The Company does not anticipate any curtailments. While not a curtailment, should the Company have inadequate supplies to meet total customer demand, it may reduce the interruptible portion of its banking and balancing service to General Distribution Service (GDS) customers resulting in the need for GDS customers to either increase supplies delivered to the Company or to reduce their consumption in line with their delivered supplies. These banking and balancing services may also be reduced should the Company receive more supplies than it is able to accept through a combination of customer demand and storage injection. Under this scenario the Company would ask GDS customers to reduce their deliveries to the Company.

It is very clear. There will not be curtailments and the requirement to balance nomination groups by Priority 1 and non-Priority 1 customers is unnecessary and nonsensical. It should be eliminated.

Mr. Butler's third recommendation would also help reduce imbalances by simply allowing more flexibility by allowing NGSs to move banked and imbalance volumes among market area and how NGSs can trade imbalances with other NGSs along with allowing NGSs to trade prior month banks up to 3 days after Columbia provides the Bank and Burn reports. These are all administrative solutions to reducing the imbalances on the system and should be implemented.

Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

Docket Nos. R-2015-2468056, C-2015-2473682, C-2015-2477816; C-2015-2477120 and C-2015-2476623

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

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Dated: July 16, 2015

PSU Statement No. 1-S

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	Docket No. R-2015-2468056
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	

PSU Statement No. 1-S

SURREBUTTAL TESTIMONY OF JAMES L. CRIST, P.E.

ON BEHALF OF

THE PENNSYLVANIA STATE UNIVERSITY

~~PROPRIETARY VERSION~~

Dated: July 28, 2015

PSU Stmt. No. 1-S
HR 4
R-2015-2468056 8/10/15
BP

Q. PLEASE STATE YOUR NAME AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am James L. Crist, President of Lumen Group, Inc. I am presenting surrebuttal testimony on behalf of The Pennsylvania State University ("Penn State" or "PSU").

Q. ARE YOU THE SAME JAMES L. CRIST THAT PRESENTED TESTIMONY PREVIOUSLY IN THE PROCEEDING?

A. Yes. I presented direct testimony, supplemental direct testimony and rebuttal testimony on behalf of Penn State.

Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN THIS SURREBUTTAL TESTIMONY?

A. Specifically I will:

1. Disagree with I&E witness Mr. Hubert's dismissal of the importance of flex customers and his failure to follow previous Commission orders in the treatment of revenue responsibility when flex customers are involved.

[Omitted]

REVENUE RESPONSIBILITY OF FLEX CUSTOMERS

Q. WHAT WAS MR. HUBERT'S POSITION REGARDING RECOVERY OF REVENUES THAT FLEX CUSTOMERS ARE UNABLE TO BEAR?

A. There are flex customers taking service under several rate schedules, SGDS, SDS, LDS, and MLDS although there is no revenue increase assigned to MLDS. Mr. Hubert opined that if there was an increase in the revenue requirement assigned to the classes that have some customers that receive service under flex agreements, any revenue shortfalls that cannot be borne by those flex customers should be borne within the same class. He provided four reasons for his opinion.

Q. WHAT IS YOUR OPINION OF MR. HUBERT'S REASONING REGARDING COST OF SERVICE?

A. Mr. Hubert feels that since class revenues are determined by a Cost of Service Study (COSS) that to shift a portion of revenue recovery from one class to another would violate the COSS. A COSS does indeed determine costs that are appropriate for a class but a class consists of individual customers that are aggregated due to similar size and usage characteristics that drive the costs to provide service. Once those costs for the aggregated group are determined then the costs are allocated to those individual customers by use of a common rate. To the extent that a flex customer can bear no increase, there is no rationale that the other customers of the same class should have any greater responsibility than any of the customers from other classes. After all, the incremental contribution to costs over the variable costs to serve a flex customer results in a contribution to fixed costs which benefits all customers. Company witness Balmert testified, "Revenue collected from flex rate customers contributes to the recovery of the Company's fixed costs. Without the revenues from the flex customers, non-flex customers would be assigned additional fixed cost recovery responsibility and their rates would increase." (Statement No. 11, 23:9-12)

Q. WHAT IS YOUR OPINION OF MR. HUBERT'S SECOND REASON THAT THERE IS A RISK THAT THE LDS NON-FLEX CUSTOMERS WILL RECOVER THEIR COST OF SERVICE?

A. There are flaws in that reasoning. Again, a class is a collection of individual customers. We know the undisputable fact that the Company negotiates flex agreements so that the discount provided is the amount that is absolutely necessary to provide and still retain the patronage of the customer. They certainly do not discount greater than the amount necessary, therefore even when the flexed discount amount is moved out of the LDS class by definition, or simple math, the amount remaining has to be a combination of the full amount that a non-flex customer would have paid, and still will pay, and the discounted amount that the flex customers will pay. The non-flex customers are paying what they would pay if flex had never existed. The flex customers are paying their flexed amount which is still greater than the marginal cost to serve. There is no risk at all that the remaining LDS customers are not recovering their cost of service.

Q. WHAT IS YOUR OPINION OF THE THIRD REASON THAT REQUIRING OTHER CUSTOMERS TO MAKE UP THE FLEX REVENUE SHORTFALL WOULD BE PREMATURE?

A. Mr. Hubert refers to the generic investigation (Docket No. P-2011-2277868) and opines that because the Commission has not issued a final order in the case "it would be premature to require other customers in other classes to pay higher rates to make up the LDS class revenue shortfall before the Commission issues an Opinion and Order in that case." (Statement No. 3-R, 10:11-13)

I do agree that there is an issue of premature action but the premature action would be to change the current method of allocation of flexed discounts prior to the Commission ordering such changes. In previous Columbia base rate cases the flexed discounts were allocated to other non-flex customers of all classes. In other base rate cases of companies that have customers with flexed rates (Equitable Gas Company, Peoples Gas Company, Peoples TWP) the same treatment has been applied there, with the revenue shortfalls assigned to non-flex customers of all classes. The purpose of the generic investigation was to determine if "gas-on-gas rate discounting should be discontinued; and if so, by what deadline and what method should be used to phase it out." (RD at 39). This current proceeding clearly should not leapfrog over the forthcoming Commission order in a proceeding that was specifically undertaken to make such a determination.

Further, Mr. Hubert fails to recognize that the merits of flexing rates for customers due to pipeline bypass, alternative fuel, and economic development have not been questioned in the generic proceeding. All parties realized the benefits from using flex rates to retain a customer who might be capable of connecting directly to in interstate pipeline.

Q, WHAT IS YOUR OPINION OF MR. HUBERT'S FOURTH REASON THAT ALL CUSTOMERS PAY MORE THAN THE INCREMENTAL COST TO BE SERVED?

A. Mr. Hubert has put forth an argument without merit. He states that "every customer, including every residential customer that pays more than the incremental cost to be service makes a contribution to fixed costs and should also receive a discount, which would increase the revenue requirement for every other customer." (*supra* 11:3-6) What these other customers ("every customer, including every residential customer") lack is a compelling reason for the Company to offer a flex discount. I am not aware of any situation where a flex discount has been provided to a customer that did not have the characteristics necessary to merit such a discount. Such is a requirement of flex.

Q. DID MR. HUBERT REVIEW PRIOR BASE RATE CASES OR COMMISSION ORDERS REGARDING THIS ISSUE?

A. No. In his response to PSU Set I-1 he states, "I&E has not reviewed any *additional* (emphasis added) Commission Orders in preparation of I&E Statement No. 3 or I&E Statement No. 3-R regarding the topic of flex rates." When Mr. Hubert states "additional," I believe he was mistakenly referring to the ALJ RD in the generic investigation. The Commission has not issued a final order.

If Mr. Hubert had reviewed prior base rate cases he would have found that the allocation of revenue responsibility for competitive customers was fully litigated in 1992 (R-00922180) when Peoples Gas proposed an increase of a portion of the revenue requirement that resulted from its COSS ($887,000 out of over $3 million) to those transportation class customers that were not competitively situated. The balance of the revenue requirement ($3 million less $887,000) was assigned to other customers of all classes (Order at 16-17).

Considering that the generic investigation is underway and that a final order has not been issued, it would be premature to alter existing Commission policy. Any revenue shortfalls that are attributable to flex customers should be borne by all non-flex customers of all classes.

[Omitted]

[Omitted]

[Omitted]

SUMMARY AND RECOMMENDATIONS

Q. WHAT IS THE SUMMARY OF YOUR EXPERT OPINIONS AND RECOMMENDATIONS?

A. 1. Commission policy and is that revenue requirements that cannot be borne by flex customers be assigned to non-flex customers of all classes. The order in the generic investigation has not been issued yet.

[Omitted]

[Omitted]

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. 1. Revenue requirements that cannot be borne by flex customers should be assigned to non-flex customers of all classes in accordance with Commission policy and precedence.

[Omitted]

[Omitted]

Q: DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.