

COMMUNITY ACTION ASSOCIATION OF PENNSYLVANIA

CAAP Statement No. 1

Direct Testimony of Susan A. Moore-Wychulis

In Re: Petition of Columbia Gas of Pennsylvania, Inc.
for a Rate Increase

Docket Number: R-2012-2321748 & M-2012-2323645

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1 **Q: Please state your name, title, and business address.**

2 **A:** My name is Susan A. Moore-Wychulis, Chief Executive Officer, Community Action
3 Association of Pennsylvania, 222 Pine Street, Harrisburg, PA 17101.
4

5 **Q: On whose behalf are you testifying?**

6 **A:** The Community Action Association of Pennsylvania (CAAP), a statewide association of
7 local Community Action Agencies in Pennsylvania.
8

9 **Q: What is your relevant experience in this case before the Commission?**

10 **A:** CAAP's membership covers each of the counties in the Company's service territory.
11 CAAP was incorporated in 1975, more than 37 years ago and, as an integral part of its
12 mission, has advocated for the low-income population of Pennsylvania. I have been the
13 CEO of this agency for three years. Prior to that, I worked as the CEO for The Florida
14 Patient Safety Corporation, an organization dedicated to the continuous improvement of
15 patient safety in Florida by serving as a learning and research organization, created and
16 funded by the Florida Legislature in recognition of the need to improve patient safety and
17 address skyrocketing liability insurance premiums in Florida. I also serve on the Board of
18 Directors for the Pennsylvania Hunger Action Center, an organization advocating against
19 hunger insufficiency on a statewide basis. On behalf of our member agencies, CAAP has
20 intervened in numerous rate and restructuring cases before the PUC including Duquesne
21 Light Company's rate case (No. R-00061346), the rate transition filings of Metropolitan
22 Edison Company (No. R-00061366), and Pennsylvania Electric Company (No. R-

1 00061367) and the rate case of National Fuel Gas Distribution Corporation (No. R-
2 00061493).

3
4 **Q: What is the interest of CAAP in this proceeding?**

5 **A:** The interest of CAAP in this proceeding is basically the same as it has been in those prior
6 proceedings I mentioned above. We are in this case to address the availability, design
7 and funding of the Company's low-income, or universal service programs. We want to
8 insure that the legislature's directive in the Natural Gas Customer Choice and
9 Competition Act Gas Restructuring Act that universal service programs are 'appropriately
10 funded and available' is followed.

11
12 **Q: Apart from universal service, does CAAP take a position on whether the Company's
13 rate increase should be granted?**

14 **A:** No. Our concern is with the Company's universal service programs. However I would
15 like to address an issue regarding rate design.

16
17 **Q: What issue regarding rate design would you like to address?**

18 **A:** I want to address the Company's proposal to decouple revenue from consumption. The
19 Company has offered three different rate structures all of which would lessen the ability
20 of a customer to save money by reducing consumption. I am concerned about the
21 proposed rate structures and CAAP opposes any change in rate structure that negatively
22 impacts a customer's ability and motive to conserve.

1 **Q: Why does CAAP oppose such a rate structure change?**

2 **A:** The more a consumer's bill is comprised of fixed charges or is the result of a rate
3 structure that decouples revenue from consumption, the less motive, and opportunity, the
4 consumer has to reduce consumption and therefore save money. One of the only defenses
5 a family, particularly a poor family, has against high energy costs is to conserve – lower
6 the thermostat, seal air leaks, change filters regularly, add more insulation, get a more
7 efficient heating unit, etc. The Company's proposed rate structures would negatively
8 impact a customer's motive to conserve and the ability to save money. In prior cases,
9 PUC Commissioner Cawley has expressed concerns about proposals to increase the fixed
10 portion of a customer's bill or any proposal that would impact a customer's motive and
11 ability to conserve. In the National Fuel Gas case referenced above Commissioner
12 Cawley issued a statement while the case was pending concerning NFG's proposal to
13 increase its fixed monthly customer charge. That statement read in relevant part:

14 "This proposed change raises important policy issues that affect this
15 Commission's goals of promotion and encouragement of conservation of
16 natural resources, including natural gas. Given the extremely volatile and
17 currently high natural gas prices facing this nation, a policy that does not
18 optimally reward consumers for conservation efforts, but instead charges
19 fixed fees regardless of usage, should, I feel, be addressed by the parties to
20 this case."

21 We share Commissioner Cawley's concerns and oppose any rate structure that would
22 impact a customer's ability to conserve.

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Q: Turning now to universal service programs what issues would you like to address?

A: I first want to address the Company’s low-income usage reduction program (LIURP). Although the Company is asking for a rate increase in this case that will increase the average monthly bill of a residential customer by greater than 23%, the Company is not proposing any increase to LIURP funding in this proceeding. LIURP funding is currently set at \$4M annually. CAAP believes that because the proposed rate increase will increase the energy burden on residential customers, particularly low-income customers, that there should be an increase in LIURP funding.

Q: Why is CAAP proposing greater funding for LIURP than is proposed by the Company?

A: We are proposing greater funding for LIURP for a number of reasons. First, although the Company has weatherized 6000 homes since 1988 which has produced outstanding energy savings for its low-income customers there still is a large unmet need for LIURP services in its service territory. For the years 2010 and 2011, the Company has spent just over \$3M annually and estimates that it has weatherized 468 households in 2010 and 527 in 2011. There are 68,000 confirmed low-income customers in the Company’s service territory. In its most recent needs assessment, as required by the Commission, Columbia identified 31,753 customers who presently meet LIURP eligibility criteria and have not received weatherization treatment in their homes. In its proposed and pending Universal Service Plan the Company proposes to provide 480 households annually with LIURP

1 services for the years 2012, 2013 & 2014. Completion of those LIURP services in those
2 households, a total of 1,440 households, over that three year period would barely make a
3 dent in the Company's identified 31,753 customers who presently meet LIURP eligibility
4 criteria and have not received weatherization treatment in their homes.

5
6 **Q: Are there other reasons why you believe LIURP funding should be increased**
7 **beyond that proposed in the Company's Universal Service Program?**

8 **A:** Yes. The federal efficiency and weatherization programs which supplement and support
9 the goals and services provided by LIURP, such as DOE weatherization and the HHS
10 LIHEAP weatherization transfer are both earmarked for dramatic funding decreases.
11 Therefore although the need is increasing, the federal resources available to assist in
12 addressing the need will be declining. Thus, a greater LIURP funding level than originally
13 projected will be required.

14
15 **Q: Do you have any recommendations regarding the funding level for LIURP?**

16 **A:** Yes. I am proposing that LIURP funding be increased to an annual funding level of \$5M
17 for the first year, \$5.5M for year two and \$6M for the third year. This funding will allow
18 the Company to begin to meet the need for LIURP services that exists in its service
19 territory. With a proposed 23% increase in rates and an unmet of need of more than
20 31,000 households providing LIURP services to just 480 households per year will barely
21 make a dent in the need and one can argue that the unmet need for LIURP services will
22 actually increase if funding is not increased.

1 **Q: Do you have any other recommendations regarding the LIURP program?**

2 **A:** Yes. The increased funding for LIURP and the increased number of households targeted
3 represents a sizable ‘ramping up’ of the LIURP program. CAAP believes that there will
4 be a need for more partnerships with agencies experienced in the providing of services to
5 poor people, including weatherization services. Our member agencies have the expertise
6 in developing and operating programs that benefit people and communities. These
7 organizations serve thousands of low income and disadvantaged members of the
8 community; they have direct knowledge of the barriers and impediments to self-
9 sufficiency, and continually innovate and evolve the service delivery system to better
10 meet the needs of the population they serve. Community based organizations are
11 governed by volunteer Boards of Directors; accountable to the communities they serve,
12 and are not conflicted by a duty to shareholders and investors. The focus and active
13 experience of community based organizations make them singularly suited to speak for
14 the needs of the community. As such, the development and evolution of these programs
15 should occur on a community level, by organizations that are experienced in these
16 programs not on a utility staff level. These are “people” programs and community based
17 organizations are best qualified to implement them. I am recommending that the
18 Company partner with our member agencies, and the Pennsylvania Weatherization
19 Providers Task Force, in the administration and implementation of its LIURP program.
20 Our member agencies, and Task Force agencies, are located throughout the Company’s
21 service territory, have experience in the administration and implementation of LIURP

1 programs and are needed because of the expansion of the Company's LIURP funding and
2 the number of households it intends to reach over the next three years.

3

4 **Q: Can you please summarize your recommendations?**

5 **A:** Yes. CAAP is recommending the following:

6 1. That the Company's request to change its rate structure be denied;

7 2.. That annual funding for LIURP be set at \$5M for 2013, \$5.5M for 2014, and \$6M
8 for 2015 and that any unexpended funded be carried over to the next year; and

9 4. That the Company partner with member agencies of the Community Action
10 Association of Pennsylvania in the development, implementation and administration of
11 its LIURP program.

12

13 **Q: Does this conclude your testimony?**

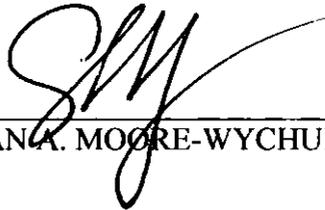
14 **A:** Yes

COMMONWEALTH OF PENNSYLVANIA :
: S.S.
COUNTY OF DAUPHIN :

AFFIDAVIT

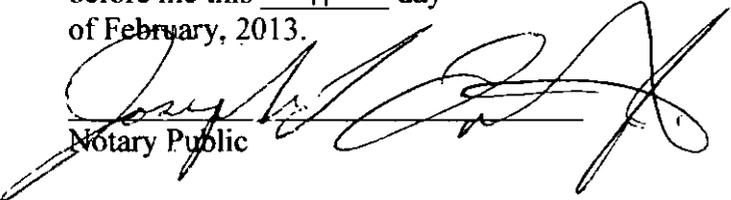
I, SUSAN A. MOORE-WYCHULIS, hereby depose and state the following:

1. I am the Chief Executive Officer of the Community Action Association of Pennsylvania.
2. I have submitted in this proceeding, through counsel, written direct testimony, CAAP Statement No. 1.
3. In lieu of my appearance at hearing in this matter, I am offering CAAP Statement No. 1 into evidence through the statements set forth in this Affidavit.
4. If I were called to testify at hearing, the answers to the questions I gave in CAAP Statement No. 1 would be the answers given by me at hearing in response to those same questions.
5. The facts set forth in my answers contained in CAAP Statement No. 1 are true and correct and represent my answers to those questions.
6. There are no additions, corrections or deletions I would propose to CAAP Statement No. 1.



SUSANA. MOORE-WYCHULIS

Subscribed and sworn to
before me this 11th day
of February, 2013.



Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
Joseph L. Ostrander, Jr, Notary Public
City of Harrisburg, Dauphin County
My commission expires July 31, 2016

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	Docket Nos. R-2012-2321748
	:	M-2012-2323645
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	

DIRECT TESTIMONY OF EUGENE M. BRADY

ON BEHALF OF

THE COALITION FOR AFFORDABLE UTILITY SERVICES AND
ENERGY EFFICIENCY IN PENNSYLVANIA ("CAUSE-PA")

January 4, 2013

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1 **PREPARED DIRECT TESTIMONY OF EUGENE M. BRADY**

2 **Q. Please state your name, occupation and business address.**

3 A: My name is Eugene M. Brady. I am the Executive Director of the Commission on
4 Economic Opportunity. My business address is 165 Amber Lane, PO Box 1127, Wilkes-Barre,
5 Pennsylvania 18703-1127.

6 **Q. Briefly outline your education, professional background, and the nature of your**
7 **professional employment.**

8 A: Since 1978, I have served as the Executive Director of the Commission on Economic
9 Opportunity (CEO), which is a non-profit organization serving the low-income and elderly in
10 Luzerne County, PA. During my tenure, CEO's experience and the expertise of its staff in
11 energy programs has been recognized on state and national levels. CEO's energy related
12 programs have been acknowledged by receipt of a Superior Achievement Award from the United
13 States Department of Energy. CEO has weatherized more than 25,000 homes under the U.S.
14 Department of Energy Weatherization Assistance Program. The organization also serves as a
15 subcontractor for the PPL Electric Utilities' WRAP Program (LIURP) and the Low Income
16 Usage Reduction Programs operated by the UGI Gas and Electric Divisions. In addition to
17 energy conservation, CEO is the contracted operator of Customer Assistance Programs
18 sponsored by PPL and UGI and operates the hardship assistance funds for each of those utility
19 companies. CEO is also the PA Department of Public Welfare's contracted operator of the crisis
20 component of the Low Income Home Energy Assistance Program (LIHEAP) in Luzerne and
21 Wyoming Counties. CEO was also a major contractor for PPL in the Low Income Renewable

1 Energy Pilot, and secured funding and installed several solar thermal water heating systems for
2 the former PG Energy and UGI Gas Division.

3 Throughout my career I have served on numerous boards, committees, and task forces in
4 the energy field under the auspices of the US Department of Energy, The PA Department of
5 Community & Economic Development, and the Pennsylvania Public Utility Commission.
6 Presently, I serve as the Chair of the Board of Directors of the National Center for Appropriate
7 Technology; I am on the Board of the National Community Action Foundation, the Chair of the
8 Pennsylvania Weatherization Providers Task Force; and, Chair of the Department of Community
9 & Economic Development Weatherization Policy Advisory Council. I have also served as an
10 advisor to the US Department of Energy and have testified at the White House on Energy
11 Conservation

12 **Q. For whom are you testifying in this proceeding?**

13 A: I am testifying on behalf of the Coalition for Affordable Utility Services and Energy
14 Efficiency in Pennsylvania (CAUSE-PA).

15 **Q: What is CAUSE-PA?**

16 A: CAUSE-PA is an unincorporated association of low-income individuals that advocates on
17 behalf of its members to enable consumers of limited economic means to connect to and
18 maintain affordable water, electric, heating and telecommunication services. Its membership is
19 open to moderate- and low-income individuals residing in the Commonwealth of Pennsylvania
20 who are committed to the goal of helping low-income families maintain affordable access to
21 utility services and achieve economic independence and family well-being.

22

1 **Q: Is CEO a member of CAUSE-PA?**

2 A: Not officially. However, in a typical year, CEO serves more than 20,000 Luzerne County
3 residents, of which 98% are at or below 150% of the poverty level. It is part of our responsibility
4 to our constituency to advocate for their interests in regulatory proceedings and this proposed
5 request will certainly have an impact upon those low income ratepayers. CEO also frequently
6 works in broad coalitions of low-income advocates including CAUSE-PA and others whose
7 mission it is to ensure that low-income households have access to affordable and reliable sources
8 of energy to heat and cool their homes.

9 **Q. What is the purpose of your testimony?**

10 A: CAUSE-PA intervened in this proceeding to ensure that the rate increase and change to
11 rate structure proposed by Columbia Gas of Pennsylvania, Inc. (Columbia or the Company)
12 would not adversely affect Columbia's low-income customers' ability to afford natural gas
13 service which is essential for home heating, water heating, and cooking.

14 Specifically, I will comment on (1) the effect that Columbia's proposed rate design
15 change will have on a low-income household's ability to afford natural gas service; (2)
16 Columbia's CAP enrollment levels; (3) the intersection of Columbia's CAP and LIURP
17 programs; (4) the need to provide additional resources for weatherization services to mitigate the
18 proposed rate design and rate increase; (5) the need for Columbia to coordinate its weatherization
19 efforts with the electric distribution companies (EDCs) who have overlapping service territories;
20 (6) Columbia's proposal to fund a \$50,000 2-1-1 pilot; and (7) Columbia's proposal to make
21 changes to its Warm Wise Audit & Rebate program without the need for future Commission
22 orders.

23

1 **Q: What has Columbia proposed concerning its rate design in this case?**

2 A: In short, Columbia has proposed to decouple its revenue collections from its throughput
3 of natural gas and has offered three different means of achieving this end which are detailed by
4 Columbia witness Strauss in her testimony.¹ I will not go over the details of each rate design;
5 they are set out in great detail by the Company. Instead, I limit my comments to the effect that
6 the proposed rate designs will have on low-income households, particularly those who are not
7 enrolled in Columbia's Customer Assistance Program (CAP). Each of Columbia's proposed rate
8 designs are all variations of a premise that Columbia's revenue must be decoupled from the
9 volumetric throughput of its residential customers. I do not see any of the proposals as being
10 favorable for Columbia's low-income customers.

11 **Q: Why do low-income customers merit particular attention?**

12 A: Households at or below 150% of the federal poverty guidelines simply lack sufficient
13 income to pay for all of their essential needs. Before all the bills are paid, low-income families
14 routinely run out of money. Many cannot afford to pay for utility service because of the cost of
15 competing essential needs like rent, food, and medicine, and low-income households have a
16 significantly higher termination rate as compared to all residential customers. In 2011,
17 Columbia's confirmed low-income customers have a termination rate of 8.03% compared to
18 2.58% of all residential customers.² Thus, Columbia's low-income customers are significantly
19 more likely – more than three times as likely – to be disconnected than residential customers as

¹ See Columbia Statement No. 15 at 7-31.

² *2011 Report on Universal Service Programs & Collections Performance of the Pennsylvania Electric Distribution Companies & Natural Gas Distribution Companies*, Pennsylvania Public Utility Commission, Bureau of Consumer Services, at 11-12. Available at:
http://www.puc.state.pa.us/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2011.pdf

1 whole. To be poor almost always means that one has more month at the end of her money than
2 she does money at the end of her month.

3 To understand just how serious this problem is, the benchmark most often used by low-
4 income advocates is the Pennsylvania Self-Sufficiency Standard published periodically by the
5 nonprofit Pathways PA.³ The Self-Sufficiency Standard is a tool developed to provide fact-
6 based pictures of the true cost of living for families of different sizes, living in different
7 geographic regions of the country. For years, Pathways PA, working with the Center for
8 Women's Welfare, has been responsible for publishing and updating the Self-Sufficiency
9 Standard applicable to the different counties of Pennsylvania.⁴

10 By way of example, the current standard for a household of one adult and one pre-school
11 child, living in Allegheny County is \$38,958, while the figure for a two-adult household with one
12 school-age child and one pre-schooler is \$56,865. The equivalent figures for Fayette County are
13 \$29,573 and \$46,233. What this demonstrates is that many people living in households with
14 incomes significantly higher than those eligible for Columbia's Universal Service Programs do
15 not have enough monthly income to pay all their essential expenses. The plight of households
16 with income at or below 150% of the poverty level is all the worse.

17 One of the principal policy strategies for closing the gap between inadequate income and
18 the real costs of living is public subsidization of particular expense items within the household
19 budget. CAP is an example of such a program. Households who are not on CAP, however, do
20 not receive subsidization which means they are an important group upon which to focus when
21 determining if Columbia's proposed rate designs are fair and equitable.

³ <http://www.pathwayspa.org>

⁴ The current version of the Self Sufficiency Standard for Pennsylvania as a percentage of the federal poverty level for year 2010 is available on Pathway PA's website at: http://www.pathwayspa.org/10-11_SS_Standard.pdf.

1 **Q: Please describe why you do not believe that the proposed rate designs will benefit**
2 **low-income households.**

3 A: As I understand them, the rate designs proposed by the Company would reduce its risks
4 (weather/temperature-related; energy-efficiency related, etc.) that it will not meet its cost of
5 service through a volumetric-based rate structure and shift some of that risk onto its residential
6 customers. The benefits to low-income customers are not readily apparent.

7 Columbia asserts that any of its proposed rate designs would improve rate efficiency and
8 simplicity by making bills more consistent and easier to understand.⁵ While it is generally the
9 case that low-income consumers benefit from increased bill simplicity, stability, and
10 predictability, for any of this to be meaningful the bill must also be affordable. For low-income
11 CAP customers with bills fixed at an affordable level, this sort of stability is a meaningful
12 budgeting tool. However, for low-income customers who are not enrolled in CAP, bill stability
13 of an already unaffordable bill will not, by virtue of stability alone, provide a benefit to the
14 customer. While it is true that moving to a fixed fee for gas distribution may lower a low-
15 income customer's winter heating burden, this reduction would likely be insufficient to make an
16 actual difference for the household over the course of the year.

17 This is not merely an academic point. Columbia has a significant confirmed low-income
18 population. According to the most recent report by Pennsylvania Public Utility Commission's
19 Bureau of Consumer Services on Universal Programs and Collections Activity, Columbia reports
20 that 18.1% of its residential customers have been confirmed as having incomes that are at or
21 below 150% of the Federal Poverty Level.⁶ In raw numbers, this is almost 68,000 households.⁷

⁵ See Columbia Statement No. 15 at 7:13-23.

⁶ *Ibid.* n. 2 at 9.

1 The maximum annual household income for eligibility (at 150% FPIG) for family of four is
2 \$34,575. However, the Report indicates that even when the eligibility requirement is set at 150%
3 federal poverty income guidelines, the average income of Pennsylvania households who avail
4 themselves of utility company low-income assistance programs is much lower. In 2011, the
5 household income of the average Pennsylvania CAP customer was only \$13,958 and the average
6 income of those receiving services under LIURP was \$16,519.⁸

7 **Q: What about Columbia's assertion that its low-income customers will benefit from its**
8 **rate design because they typically are higher use customers?**

9 A: In response to discovery, Columbia states that its low-income customers are on average
10 high use customers and that they "use substantially more gas than the average residential
11 customer."⁹ Columbia provided no specifics other than its assertion that its CAP customers
12 "consume on average 1,234 Therms per year while the average residential customers uses 878
13 Therms per year."¹⁰ Columbia also attached to its discovery responses testimony that it
14 submitted in its prior rate case at Docket No. R.2010-2215623. I am informed by counsel that
15 the information presented by Columbia in its prior rate case concerning whether low-income
16 customers do or do not have higher usage than residential customers as a whole was hotly
17 contested by several witnesses in that proceeding. Thus, the picture may not be as clear as
18 Columbia would like it to be.

19 However, assuming for the sake of argument that Columbia's low-income customers do
20 in fact use more energy than residential customers as a whole, this does not lead me to the

⁷ The number of estimated low-income customers within Columbia's service territory is 25.3% of its residential customers or almost 95,000 households. *Ibid.*

⁸ *Ibid.* at 33.

⁹ Appendix A, Columbia Interrogatory Response to CAUSE-PA Interrogatory I-8.

¹⁰ *Ibid.*

1 conclusion that these customers would benefit from the proposed rate design. Both the RNA and
2 the WNA as proposed have volumetric charges associated with them in addition to the
3 adjustments which also propose a per Therm cost. As such, it would seem that non-CAP, low-
4 income customers would wind up paying more rather than less under the proposed rate design
5 because they would be paying both higher flat fees and higher volumetric charges.

6 This would be particularly devastating for Columbia's low-income customers not
7 enrolled on CAP who pay full tariff bills. Of Columbia's 68,000 confirmed low-income
8 customers approximately 66% -- 46,000 households -- are not enrolled in CAP. These are the
9 customers who currently struggle the most each month to pay their bills. This is reflected in the
10 fact that the gross write off ratio for "confirmed low-income customers" is much higher (7.58%)
11 than the gross write off ratio of residential customers as a whole (2.82%).¹¹

12 Furthermore, higher flat fees may diminish the incentive for a household to engage in
13 energy conservation behaviors and improvements because decreasing consumption is not as
14 rewarding as it would be if the rates were more volume based. Flat fees also reduce a customer's
15 ability to control the amount of his or her bill through reduced usage.

16 **Q: If Columbia is permitted its rate increase and/or a change in its rate design do you**
17 **have any recommendations that would help mitigate the effect for low-income households?**

18 A. Yes. I recommend that Columbia significantly increase its Low Income Usage Reduction
19 (LIURP) penetration levels among its low-income customers. Columbia's LIURP is one of the
20 programs making up its low-income universal services portfolio. It consists of a variety of
21 integrated measures such as a home energy audit, energy education, gas furnace safety
22 inspection, and weatherization treatment as required pursuant to the recommendations of the

¹¹ *Ibid.* n. 2 at 24-25. The gross write off ratio does not include CAP credits or CAP arrearage forgiveness.

1 audit.¹² After the measures are completed, a consumption evaluation is performed to compare
2 pre-LIURP 12-month usage levels with the post-LIURP 12-month usage levels.

3 Among the objectives of the program are reduced uncollectible arrearages and write-offs,
4 affordable bills for customers, improved payment frequency, reduced CAP shortfall deficit by
5 bill reduction and relevant environmental benefits which accompany reduced natural gas usage.¹³
6 The Columbia LIURP program has had an operating budget of \$3 million per year for 2009-2011
7 was intended to serve 500 customers each year, though it is not clear that Columbia served that
8 many.¹⁴

9 The results which Columbia has achieved for the customers who directly receive LIURP
10 services are impressive. For example, in the twelve month period ending November 30, 2010 the
11 average low-income home had a usage reduction of 40.89 Mcf of gas.¹⁵ This translates an
12 annual reduction of 418 Therms for these households.¹⁶ In the twelve month period ending
13 November 30, 2011 the average low-income home which had received weatherization measures
14 had a usage reduction of 36.01 Mcf of gas¹⁷ or 368 Therms per year. These reductions are

¹² See Columbia's Universal Service and Energy Conservation Plan (2009-2011) at 13. Available at: http://www.puc.state.pa.us/general/pdf/Columbia_Gas_USP.pdf. The 2009-2011 USECP Plan is that which is currently in effect. On June 1, 2011, Columbia filed a new three year plan covering the period from 2012-2014 but that Plan has not yet been approved by the Commission. See Columbia Gas of Pennsylvania, Inc. Universal Service and Energy Conservation Plan for the period of 2012-2014 at Docket No. M-2011-2245342.

¹³ *Ibid.* at 12.

¹⁴ In its most recent base rate case prior to this proceeding, Columbia agreed to increase its LIURP spending to \$4 million annually commencing on or after October 18, 2011. See Pa. P.U.C. et al. v. Columbia Gas of Pennsylvania, Docket No. R-2010-2215623, Joint Petition for Partial Settlement at ¶ 54. Available at: <http://www.puc.state.pa.us/pdocs/1137610.pdf>. In response to discovery requests sent by CAAP, Columbia indicated that its 2012 LIURP spending levels were not yet available so it is unclear whether Columbia spent its entire LIURP budget for 2012 and, if so, what results it achieved.

¹⁵ Appendix A, Columbia Response to CAUSE-PA Interrogatory 1-10.

¹⁶ According to publically available information from the Energy Information Agency, 1 Mcf of gas is = 10.23 Therms. See <http://www.eia.gov/tools/faqs/faq.cfm?id=45&t=8>

¹⁷ *Ibid.* n. 15.

1 significant and translate into reduced bills for low-income households and a reduced CAP
2 shortfall, which is subsidized by other ratepayers

3 Columbia states that the average low-income customer used 1,234 Therms of gas per year
4 as compared to the average residential customer who uses 878 Therms.¹⁸ A reduction of 368
5 Therms per year for low-income households would reduce the average low-income household to
6 a usage level of 866 Therms, which is less than that which is used by the average residential
7 customer.

8 The Bureau of Consumer Services reports that, on average, Pennsylvania's natural gas
9 LIURP programs achieve a 15.6% energy usage reduction.¹⁹ By comparison, Columbia's
10 LIURP achieves significantly greater bill reductions with an average energy savings of 29%.²⁰
11 Furthermore, of those households with natural gas energy bill arrearages, 54.4% reduce their
12 arrearage following weatherization services.²¹

13 Since households receiving gas heating jobs are least likely to increase their energy
14 consumption following weatherization, the savings which occur today will continue into the
15 future.²² Therefore, a higher level of early penetration of LIURP services into households will
16 bring further savings for years to come; while each year that the implementation of energy
17 savings measures are deferred, the potential level of full energy savings and the related costs of
18 usage continue to be unachieved.

¹⁸ *Ibid.* n. 9.

¹⁹ *Ibid.* n. 2 at 39.

²⁰ See Appendix A, Columbia Response to CAAP Interrogatory Q-1-09, 2010 Columbia Universal Service Impact Evaluation, Attachment A at 69 of 94.

²¹ See Shingler, Long Term Study of Pennsylvania's Low Income Usage Reduction Program: Results of Analyses and Discussion, Consumer Services Information System Project, Penn State University, January, 2009 at 6.

Available at: http://www.puc.state.pa.us/general/publications_reports/pdf/PSU-LIURP_Report2008.pdf

²² *Ibid.*

1 It is precisely because Columbia's LIURP program is a well run, efficient, and effective
2 program that I make my recommendations. During the past three years Columbia has
3 demonstrated that it has the capabilities to accommodate increases to its LIURP budget and to
4 more than double its production rates while continuing to achieve exemplary results. The
5 effectiveness of LIURP combined with the extensive unmet need which is recognized by the
6 company compels my recommendation to significantly expand Columbia's LIURP.

7 **Q. Please explain what you mean by "an extensive unmet need."**

8 A. In its most recent needs assessment, as required by the Commission, Columbia identified
9 31,753 customers who presently meet LIURP eligibility criteria and have not received
10 weatherization treatment in their homes.²³ That is, each of these 31,753 customers is income
11 eligible, has extremely high winter usage levels, and has not received weatherization services in
12 the past. Accounting for the fact that a 100% participation rate would be unrealistic, Columbia
13 calculated that the number of households who were eligible, in need and expected to participate
14 in LIURP was 22,000. I believe this to be a conservative, but realistic number. My concern is
15 that at the currently projected penetration rate of 500 households per year, it will take Columbia
16 44 years to meet the demonstrated need of these low- income payment troubled customers. This
17 is clearly an inadequate response to the currently demonstrated extensive unmet need. While I
18 recognize that Columbia and its rate payers will not be able to absorb the costs to reach all these
19 customers at once, I submit that Columbia present budget and plan is an inadequate response to
20 its needs assessment.

21 This is particularly true if the Commission is inclined to permit Columbia to change its
22 rate structure. I submit that the Commission should direct Columbia to develop a LIURP budget

²³ *Ibid.* n. 20 at 71 of 94.

1 and plan which more appropriately meets the needs of its low-income customers. I suggest that,
2 given the significant unmet need, it is reasonable to target Columbia LIURP to achieve
3 penetration rates of at least 1000 customer residences a year.

4 **Q: Should this additional LIURP spending be targeted at Columbia's CAP customers**
5 **or its non-CAP customers?**

6 A: Under its current plan, up to 20% of Columbia's annual LIURP budget is reserved for
7 non-CAP customers who otherwise meet the LIURP eligibility criteria. I believe this should be
8 expanded and propose that 35% of Columbia's LIRUP budget should be targeted at non-CAP
9 low-income households with incomes below 150% of the federal poverty level. This expansion
10 of LIURP is warranted under any rate increase approval as it would assist in mitigating the
11 impact of these increases and it would be particularly important if any of Columbia's alternative
12 rate designs is approved

13 **Q: In addition to an overall increase in its LIURP spending do you have other**
14 **recommendations that you believe would assist low-income customers in the event of a rate**
15 **increase by Columbia?**

16 A: Yes. Columbia should expand and further refine its Joint Utility Usage Management
17 Program (JUUMP). In January 2010, Columbia began a partnership with what was then
18 Allegheny Energy – now West Penn Power – to share customers' information, increase referrals,
19 and increase efficiencies in offering LIURP services to their mutually eligible customers. This
20 program should be expanded to include all electric distribution companies (EDCs) with
21 overlapping service territories.

22 Many of the EDCs which share geography with Columbia may well use the same
23 community based organizations (CBO) to run their LIURP programs. If a CBO is in the home of

1 a low-income household for a Columbia audit and sees measures that could be funded through an
2 EDC's LIURP or through an EDCs Act 129 program (or vice versa) the CBO should be required
3 to make a referral back to Columbia or the EDC for approval to install appropriate remedial
4 measures. This may require a closer level of coordination so that a single audit is performed
5 rather than multiple audits. From the perspective of a low-income household this degree of
6 coordination will reduce the fatigue associated with multiple audits and multiple home visits
7 from the CBO.

8 **Q: Do you have any recommendation concerning Columbia's other universal service**
9 **programs.**

10 A. Yes. I believe that Columbia must address its high CAP removal rate. In 2009, a total of
11 6,233 households were removed from CAP as compared to 5,320 households removed in 2008.
12 This represents a 17.16% increase.²⁴ Most of this increase was due to significant increases in the
13 number of CAP customers removed from CAP for missed payments and for failing to recertify.
14 The largest increase came in the area of households who were removed from CAP for failing to
15 recertify. In 2008, 1,165 household were removed for this reason compared to 1,896 households
16 that were removed from CAP for failure to recertify in 2009. This is a 60.43% increase. This
17 increase is particularly alarming in light of the current state of our economy, as well as the fact
18 that this has been a past concern about which the company has been notified, but has not acted to
19 address. The independent evaluator raised these same concerns in her 2004 Universal Services
20 evaluation. In her 2010 evaluation, the evaluator again flags this as "an ongoing recurring issue"

²⁴ *Ibid.* n. 20 at 43 of 94. In her report, the evaluator indicates that the increase was only 3%. I am not sure how she arrived at this figure. The difference between the 2009 removal level (6233) and the 2008 removal level (5320) is 913 persons. This divided by the 2008 removal level (913/5320) equals 17.16%.

1 and that “it is in the company’s benefit to implement these recommendations in order to control
2 future program costs.”²⁵ Specifically, the evaluation makes four core recommendations:

- 3 1. Include in the CAP Customer Acceptance Letter a highly visible due date field for
4 recertification of income.
- 5 2. Include on the CAP bill a date field message which notifies the customer 60 days prior to
6 their recertification due date.
- 7 3. Include a self-addressed stamped envelope with the new recertification application
8 attached to the customer recertification reminder letter.
- 9 4. Provide Dollar Energy Fund CAP Administrators with a list of customers with
10 “Recertification Due” for a reminder telephone call thirty days prior to due date.²⁶

11 These are good, low-cost recommendations that will likely lead to a significant reduction in
12 the termination rate for CAP participants for failure to recertify. They are particularly important
13 because, as the evaluator points out in the evaluation, 70% of customers who were removed from
14 CAP for failure to recertify were surprised to find out that they had been dropped from CAP.²⁷

15 I also recommend that the Columbia include in its recertification letter a simple statement
16 saying that “unless you are recertified within the next 60 days your monthly bill may go from
17 [the CAP Payment Amount] to [Actual Consumption].” This stark contrast in rates (CAP vs. full
18 tariff) would likely be attention grabbing.

19 The Commission should insist that Columbia take these minimal steps to decrease the
20 number of removals, and that it does so within a Commission imposed timeframe of 90 days
21 after its ruling on Columbia’s rate request.

²⁵ *Ibid.* at 41 of 94.

²⁶ *Ibid.* at 43 of 94.

²⁷ *Ibid.* at 42 of 94.

1 **Q: Columbia has proposed a \$50,000 pilot program to fund Southwest 2-1-1. Do you**
2 **have an opinion about this pilot?**

3 **A:** Yes. I do not believe that this pilot should be funded because it is not clear that it would
4 substantially increase the number of customers who are aware of or eligible for CAP or other
5 universal service programs. As conceived, this pilot is not a value added service but merely
6 compensates 2-1-1 for what it is already doing.

7 In response to discovery requests, Columbia states that PA 2-1-1 Southwest proposes to
8 use the money in coordination with other utility funds to administer its hotline in 11 counties.
9 Callers to the hotline “would be given appropriate referrals and directions on how to apply to
10 Columbia’s assistance programs including CAP, LIURP, and Dollar Energy Fund as well as
11 information on LIHEAP.”²⁸ In describing the program, Columbia states that it will continue to
12 be necessary for customers to call Columbia or its CBOs to enroll in any of these programs.²⁹

13 I do not see the value that this pilot will bring to low-income customers. While I believe
14 that 2-1-1 is itself a valuable service to the community that is worthy of support, it is not clear
15 from the testimony and interrogatory responses what PA 2-1-1 Southwest will do differently if it
16 receives this money versus if it does not. If a caller calls PA 2-1-1 Southwest currently and
17 inquires about utility payment assistance programs he or she will be informed about those
18 programs and directed to call the utility. If Columbia funds PA 2-1-1 Southwest to the tune of
19 \$50,000 callers will receive the same information. I understand that 25% of the call volume that
20 PA 2-1-1 Southwest receives concerns utility issues. This is not insignificant and shows that
21 many households, whether or not they are officially recognized as payment troubled, have

²⁸ Appendix A, Columbia Response to CAUSE-PA Interrogatory I-11.

²⁹ Columbia Statement No. 6 at 25.

1 difficulty paying their utility bills. Poor people need payment assistance and weatherization, not
2 simply additional awareness. It has not been shown by Columbia that there is an awareness
3 problem concerning its universal service programs. If that is the case then Columbia should use
4 its currently designated administrative budget to raise the level of awareness about its programs

5 I would much rather see this additional \$50,000 be funneled to the LIURP program
6 which would result in approximately 8 more homes receiving comprehensive weatherization
7 assistance. This is a far more preferable result than an additional \$50,000 spent on
8 administration and potentially redundant communication.

9 **Q: Columbia has asked the Commission to give it permission to modify its WarmWise**
10 **Audit & Rebate program design and implementation without seeking Commission**
11 **approval for the changes so long as the program costs do not exceed its annual budget. Do**
12 **you have any comments about this request?**

13 A: Yes. While I believe that Columbia should have some flexibility in managing its
14 program within the annual budget, I am concerned about the scope of at least one of the proposed
15 changes. In his testimony, Columbia witness Kempic states:

16 The second example that Columbia may consider as a potential enhancement is to
17 partner with third party lending organizations to provide customers who
18 participate in Warm Wise – A&R program financial assistance for the
19 recommended measures and then utilize Columbia’s billing system for the loan
20 repayment. Columbia is pursuing conversations with several third party entities
21 to see if such an arrangement is viable.³⁰

22 I do not think that this is the sort of program change that Columbia should be permitted to
23 undertake without Commission approval and stakeholder input.

24

³⁰ Columbia Statement No. 1 at 37:13-18.

1 **Q: What are your concerns?**

2 **A:** What Columbia proposes is the ability to begin some sort of on-bill financing program.
3 There are many, many questions about whether these programs are in the best interests of low
4 and moderate income households.

5 A key underlying assumption behind implementation of energy efficiency financing,
6 including the on-bill financing and on-bill repayment models is the concept of net bill
7 neutrality—that is, the consumer’s energy bill, which includes a loan repayment component, will
8 be equal to or less than the consumer’s bill prior to the installation of energy efficiency upgrades.
9 Even assuming it is possible to guarantee bill neutrality, a host of other concerns remain. For
10 instance, would utilities be permitted to terminate service if all utility bills were paid but the
11 financing charges were not paid? How and under what circumstances would consumers
12 negotiate a payment plan when they have fallen behind on both their utility and loan payments?
13 How are partial utility payments applied? Would LIHEAP funds be permitted to be used to pay
14 energy efficiency loan charges? What are the rules regarding resumption of service after a
15 disconnection for non-payment and what happens to the efficiency loan arrearage? Does the
16 obligation follow the customer or the meter? All of these issues, and others, would have to be
17 addressed prior to the initiation of such a program – even in pilot format.

18 Simply put, there are too many unknowns to something like on-bill financing for the
19 Commission to permit Columbia to implement a program without Commission oversight and
20 stakeholder input. Columbia should not be given permission to implement a program of this
21 nature without Commission approval.

22

1 **Q: Please summarize your conclusions.**

2 A: My conclusions are:

- 3 1. Columbia should not implement an alternative rate design;
- 4 2. If the Commission approves a rate increase and/or alternative rate design for
5 Columbia, it should order the Company to increase its LIURP penetration to
6 target 1000 households per year for LIURP services, at least 35% of which are
7 non-CAP customers with incomes at or below 150% of the federal poverty
8 income guidelines;
- 9 3. Columbia should actively seek to reduce its CAP removal rate and should
10 implement the suggestions made in its 2010 CAP evaluation for doing so;
- 11 4. The Commission should reject Columbia's proposal to fund PA 2-1-1 Southwest;
12 and,
- 13 5. The Commission should reject Columbia's proposal to allow it to implement an
14 on-bill financing program without prior Commission approval and stakeholder
15 input.

16 **Q. Does this conclude your Direct Testimony?**

17 A. Yes.

Appendix A:

Columbia's Interrogatory Responses cited in Testimony

1. Columbia Response to CAUSE-PA Interrogatory 1-8
(without Attachment A)
2. Columbia Response to CAUSE-PA Interrogatory 1-10
3. Columbia Response to CAUSE-PA Interrogatory 1-11
4. Columbia Response to CAAP Q-1-09, Attach. A., pages 1,
41-43, 69

COLUMBIA GAS OF PENNSYLVANIA INC.

**R-2012-2321748
Data Requests**

**COALITION FOR AFFORDABLE UTILITY SERVICES AND ENERGY
EFFICIENCY IN PENNSYLVANIA (CAUSE-PA) - SET I**

Question No. CAUSE-PA-I-8:

Refer to Columbia Statement No. 1 at 16. Columbia cites to an Ohio court case which found that low-income customers are "on average" high use customers. Does Columbia believe that low-income customers in Pennsylvania are "on average" high use customers?

Response:

Yes, Columbia Gas of Pennsylvania's low-income customers use substantially more gas than the average residential customer. For instance, customers in Columbia's Customer Assistance Program (CAP) consume on average 1234 Therms per year while the average residential customers uses 878 Therms per year. Please see CAUSE-PA-I-8 Attachment A for a summary of the data responses and testimony provided in Columbia's 2011 rate case that discuss this issue in greater detail.

COLUMBIA GAS OF PENNSYLVANIA INC.

**R-2012-2321748
Data Requests**

**COALITION FOR AFFORDABLE UTILITY SERVICES AND ENERGY
EFFICIENCY IN PENNSYLVANIA (CAUSE-PA) - SET I**

Question No. CAUSE-PA-I-10:

Does Columbia track the average annual usage reduction (in Mcf or therms) for those customers who receive LIURP weatherization measures? If so, provide the average annual usage reduction for those customers who received LIURP weatherization measures for the last three twelve month periods ending November 30, 2010, 2011, 2012.

Response:

Yes, the company tracks average annual usage reduction in Mcf for those customers receiving measures through LIURP. The Company can only report on customers with a full twelve months of usage after the completion of the weatherization measures and, therefore, annual average usage reduction data is not available for customers who received weatherization measures during the twelve months ended 11/30/12.

**TME 11/30/10 – 40.89 Mcf
TME 11/30/11 – 36.01 Mcf**

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2012-2321748
Data Requests

COALITION FOR AFFORDABLE UTILITY SERVICES AND ENERGY
EFFICIENCY IN PENNSYLVANIA (CAUSE-PA) - SET I

Question No. CAUSE-PA-I-11:

Refer to Columbia Statement No. 6 at 25. Columbia has proposed a \$50,000 pilot to fund PA 2-1-1 Southwest. Explain what PA 2-1-1 Southwest would do with this money and how it would assist low-income customers within Columbia's Service Territory.

Response:

PA 2-1-1 Southwest proposes to use the money in coordination with other utility funds to administer the hotline in Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Mercer, Washington and Westmoreland counties. 2-1-1 is a nationally recognized hotline operated locally to provide information and resources to anyone needing assistance. A variety of resources are provided, however PA 2-1-1 Southwest states 25% of the calls are related to utility assistance. These callers would be given appropriate referrals and directions on how to apply to Columbia's assistance programs including CAP, LIURP and Dollar Energy Fund as well as information on LIHEAP.

COLUMBIA GAS OF PENNSYLVANIA INC.

**R-2012-2321748
Data Requests**

Community Action Association of Pennsylvania – Set I

Question No. CAAP-I-9:

Please provide copies of the most recent evaluations, whether done by the Company or by independent third parties, of the Company's universal service programs.

Response:

Please see CAAP Set 1-Q-I-9 Attachments A and B.

**Columbia Gas[®]
of Pennsylvania** | **2010**
A NISource Company

An independent analysis of Universal Service
Programs prepared for

Columbia Gas of Pennsylvania, Inc.

**UNIVERSAL
SERVICE
IMPACT
EVALUATION**

November 1, 2010

Melanie K. Popovich
Utility Business Consultant

CAP RETENTION

What are the barriers to CAP participation?

Other Reasons for CAP Removal

The percentage of CAP participants who remain active and who do not get dropped from the program varies monthly. Despite Columbia's efforts to maintain and increase CAP participation, customers are dropped for a variety of reasons which impact the overall number of reported monthly CAP participants.

The Company monitors accounts for changes in family size or income, timely payments and timely meter readings for non-access situations. CAP customers who fail to comply with one or more of the following may result in the Company removing them from CAP:

- Failure to allow access to or provide customer meter readings in four consecutive months.
- Failure to report changes in income or family size.
- Failure to recertify as required and/or meet eligibility requirements.
- Customers who request to discontinue service.

CAP Moved/Finaled Bill

The largest CAP customer segment removed in years 2006-2009 are those identified as "Moved/Finaled Bill." Utilities find it difficult to separate and track the number of customers who actually move from the number of customers who merely change the ratepayer name to another member of the same household. However, language in Chapter 14 allows for the utility to require the payment of any outstanding balance or portion thereof if the "new" applicant resided at the property for which service is requested during the time the outstanding balance accrued and for the time the applicant resided there.¹⁸

CAP Failure to Recertify

The next largest CAP customer segment removed were customers failing to recertify for CAP. Finding 5.3.2 "CAP Customers Dropped for Failure to Recertify is Major Issue" was cited in the Company's 2004 Universal Service Impact Evaluation¹⁹ and continues to be a problem today. It appears that Columbia has yet to implement the evaluator recommendations under the CAP recertification section. Since this is an ongoing, recurring issue it is to the Company's benefit to implement these recommendations in order to control future program costs.

¹⁸ Chapter 14 § 1402 (d) Payment of outstanding balance at premises

¹⁹ Popovich, Melanie K. 2004 Columbia Gas of PA, Inc. Universal Service Impact Evaluation Appendix A-Item 5.3.2 page 4.

CAP RETENTION

What are the barriers to CAP recertification?

In order to further understand CAP behavior, the evaluator cites a 2005 study which was conducted by Columbia for failure to recertify for CAP.

2005 Columbia Gas Study on Reasons CAP Customers Do Not Recertify²⁰

Finding 5.3.2 "CAP Customers Dropped for Failure to Recertify Is Major Issue" as cited in the Columbia Gas of PA Universal Service Program Evaluation July 12, 2004 by Melanie Popovich, Utility Business Consultant, resulted in the Company initiating its own research survey to identify the root causes for this problem. Prior to this, the assumption was that the majority of CAP customers who failed to recertify were either over income or had simply moved at the time of recertification.

During the months of April and May 2005, Marcla Lehmen, Essential Energy conducted 171 phone surveys from a data base of 2000 Columbia Gas of PA customers who failed to recertify for CAP and who were currently inactive/removed from the program. Of those, 130 customers responded, representing 18 of the 26 counties serviced by the Company and representing diverse age, family income and family member size.

1. Information Regarding Customer Recertification Requirements Unclear at CAP Intake

- 64% of customers either were not told at the time of intake or did not remember being told about the recertification process, irrespective of whether they visited an agency or were telephonically enrolled. (103 customers were agency enrolled; 26 customers telephonically enrolled; 1 customer did not remember by what method they were enrolled).
- 70% of customers did not know what happens when they fail to recertify and were surprised to find out they had been dropped from CAP.
- 62% of customers either said they definitely were not given a contract or booklet describing the benefits of the program or said they didn't know or couldn't remember if they received one or not.

2. Customer Letter Non Motivator for CAP Recertification

- 53% of customers either did not remember receiving a recertification letter or did not remember how they found out about the need to recertify.
- 49% of customers did not know they had to recertify their income and said they did not get a letter of notification.
- 26% of customers were over income and no longer eligible for CAP.
- 15% of customers received the recertification letter but forgot to fill it out and return it.

²⁰ Essential Energy Summary 2005 Columbia Gas of PA., Inc. CAP Recertification Survey.

CAP RETENTION

**Table 14
CAP Removals
2006-2009**

Reasons	2009	2008	2007	2006
Missed Payments	956	855	819	810
Failed to recertify	1896	1165	1161	1046
Deceased	32	27	24	18
Moved/Finale	2652	2611	2572	2575
Failure to provide access to meter	3	5	6	4
Customer Request	41	25	29	35
Other	653	632	462	368
Total	6233	5320	5072	4856

USS Database

Finding CAP-14

Of the 25,201 customers enrolled in CAP as of December 2009, 25% (6,233 customers) were removed, a 3% increase from 2008.

The 2009 retention rate for customers remaining in CAP was 75%.

Finding CAP-15

Over the most current four year period the largest percentage and reasons for CAP customers removed were as follows:

49% of CAP customers moved or had their accounts finalized.

24% of CAP customers failed to recertify.

Recommendation

1. Include in the CAP Customer Acceptance Letter a highly visible due date field for recertification of Income.
2. Include on the CAP bill, a date field and message which notifies the customer 60 days prior of their recertification due date.
3. Include a self-addressed stamped envelope with the new recertification application attached to the customer recertification reminder letter.
4. Provide Dollar Energy Fund CAP Administrators with a list of customers with "Recertification Due" for reminder telephone calls thirty days prior to due date.

LIURP PERFORMANCE

Reducing Customer Energy Usage

As the table below reflects, Columbia's LIURP "produces impressive energy savings that rival the best residential retrofit programs in the nation".³⁸ Columbia placed first in the percentage of usage reduction savings as compared with their PA Natural Gas Company peer group.

**Table 24
 Energy Savings Heating Jobs
 2008**

Natural Gas Company	% Energy Savings
Columbia Gas	29.0%
Equitable	26.0%
National Fuel	25.0%
PG Energy	x
PECO	x
PGW	7.7%
Peoples	18.0%
TW Phillips	25.0%
UGI-Gas	x
Gas Industry Average	21.8%

Energy Savings Heating Job Excel Spreadsheet 1988-2008 -Dave Mick, BCS

Other benefits of the Company's program include avoided costs associated with unaffordable gas bills and service terminations. In 2008, the average pre-LIURP natural gas usage of 198.4 MCFs was reduced to an average usage of 137 MCFs post-LIURP, a decrease of 60.9 MCFs.³⁹

Finding LIURP-7
 The Company's LIURP has the highest percentage of energy savings at 29% as compared to those in their PA Natural Gas peer group.

³⁸ M. Blasnik & Associates Columbia Gas of Pennsylvania Warm Choice Program 2005 Impact Evaluation
³⁹ USS Database

LIURP NEEDS ASSESSMENT

Who still needs LIURP services and what is the cost to serve them?

Pursuant to BCS's May 9, 2001 document, the Company identified the number of customers that meet the LIURP eligibility criteria, excluding those customers who have already received weatherization services.⁴⁰ According to data from the Company's customer information system the following results were obtained:

36,653 customers meet the LIURP eligibility criteria
- 4,918 received weatherization
31,735 Sub Total Potential LIURP Customers

14,000 Number of Property Owners @ 100% participation rate
8,868 Number of Renters @ 50% participation rate
22,000 Total Potential LIURP Customers

The number of landlords giving permission to weatherize their properties varies from year to year. The Company has had difficulty obtaining the necessary approvals prior to performing the home energy audit. In 2010 to date, 316 LIURP jobs were cancelled due to non receipt of landlord approval information.⁴¹

Based on the Company's most current average cost of \$5,865 to weatherize each home, the total funding necessary for weatherizing all 22,000 potentially eligible customer homes would be \$129,030,000. Currently, Columbia funds LIURP at \$3 million annually, the highest funded program in the PA natural gas utility sector.

Finding LIURP-9

In 2009, the Company appropriately increased their LIURP budget to \$3 million in order to reflect the potential customer LIURP population of 22,000 as identified in the Company's needs assessment.

⁴⁰ Patty Terpin, Manager Customer Programs

⁴¹ USS Database 2010

2-13-13
Htg R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	Docket Nos. R-2012-2321748
	:	M-2012-2323645
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	

SURREBUTTAL TESTIMONY OF EUGENE M. BRADY

ON BEHALF OF

THE COALITION FOR AFFORDABLE UTILITY SERVICES AND
ENERGY EFFICIENCY IN PENNSYLVANIA ("CAUSE-PA")

February 7, 2013

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1 **PREPARED SURREBUTTAL TESTIMONY OF EUGENE M. BRADY**

2 **Q: Please state your name, occupation, and business address.**

3 A: My name is Eugene M. Brady. I am the Executive Director of the Commission on
4 Economic Opportunity. My business address is 165 Amber Lane, PO Box 1127, Wilkes-Barre,
5 Pennsylvania 18703-1127.

6 **Q: Did you previously submit testimony in this proceeding?**

7 A: Yes. I submitted Direct Testimony that was pre-marked at CAUSE-PA Statement No. 1.

8 **Q: What is the purpose of your surrebuttal testimony?**

9 A: The purpose of my surrebuttal testimony is to comment upon certain aspects of the
10 rebuttal testimony of Columbia Gas of Pennsylvania, Inc. (Columbia) witness Debra Davis and
11 the Bureau of Investigation & Enforcement (I&E) witness Rachel Maurer.

12 **Q: Please summarize the Rebuttal Testimony of Columbia witness Davis.**

13 A: Ms. Davis concludes that Columbia's current LIURP budget of \$4 million is sufficient to
14 meet the unmet need within Columbia's service territory. In her testimony, Ms. Davis asserts that
15 my citation to Columbia's current needs assessment, which states that there are approximately
16 31,753 customers eligible for LIURP services, was not an accurate estimation of the true number
17 of households in need. Ms. Davis appears to state that Columbia has only 3020 households who
18 meet LIURP eligibility guidelines and who have not already been screened for LIURP.¹

19 **Q: How do you respond to this testimony?**

20 A: I do not think that Columbia's estimation of 3020 households is the true need within its
21 service territory. Using Columbia's logic, after it has assessed and rejected a household for

¹ Columbia Statement No. 121-R at 3:3-7; 9.

1 LIURP eligibility one time that household should no longer be counted in an assessment of need
2 for LIURP purposes. This does not reflect reality. First, it is a significantly smaller number than
3 is reflected either in Columbia's needs assessment and its proposed 2012-2014 Universal
4 Services and Energy Conservation Plan.² These documents estimate that Columbia has
5 approximately 17,000 – 22,000 homes within its service territory that meet LIURP guidelines
6 and need to be weatherized after factoring in only a 50% success rate in obtaining landlord
7 approval. My experience over the last 30 plus years in weatherization is that this is a much more
8 realistic number than that which Columbia asserts in its rebuttal.

9 Second, Columbia's methodology appears to be to exclude all homes that it previously
10 considered and rejected for LIURP. This is not a rational policy. Homes are rejected for LIURP
11 for multiple reasons. A landlord may be uncooperative, a home may be in need of structural
12 repairs before weatherization services are appropriate, or a household may have been
13 weatherized recently. However, these are not static events. Landlords can be convinced to give
14 approval. Landlords change. Homes that were in need of structural repairs may have been fixed.
15 Remediation measures taken years ago may need to be updated. It is not a real world measure of
16 need for Columbia to screen households once and then, if found ineligible, to never reconsider
17 these households. I remain convinced that Columbia's present budget and plan is an inadequate
18 response to the need for low-income weatherization in its service territory.

19

² See Appendix A to CAUSE-PA Statement No. 1, Columbia Response to CAAP Interrogatory Q-1-09, 2010 Columbia Universal Service Impact Evaluation, Attachment A at 71 of 94; *see also*, I&E Exhibit No. 4-R, Schedule 2.

1 **Q: Are there other parts of Ms. Davis' rebuttal testimony about which you wish to**
2 **respond?**

3 A: Ms. Davis also asserts that Columbia's proposal to have the flexibility needed to
4 implement a potential on-bill finance/on-bill repayment program is essential and that Columbia
5 must be in a position to move quickly if such a program proves feasible.

6 **Q: Do you have any response to Ms. Davis' testimony concerning on-bill finance/on-bill**
7 **repayment programs?**

8 A: Yes. In my direct testimony I highlighted my concerns about this sort of program and will
9 not reiterate them here. I note only that the Office of Consumer Advocate's witness Mr. Roger
10 Colton shared similar concerns and raised a host of very important questions that should be
11 addressed prior to the implementation of such a program.³ My position remains that Columbia
12 should have not the discretion to implement an on-bill financing/on-bill repayment program
13 without explicit authorization from the Pennsylvania Public Utility Commission.

14 **Q: Please summarize I&E witness Maurer's testimony to which you wish to respond.**

15 A: Ms. Maurer estimates that there are approximately 16,900 homes within Columbia's
16 service territory in need to LIURP services, and that it would take approximately 34 years for
17 Columbia to weatherize these homes.⁴ Ms. Maurer also asserts that since Columbia is not the
18 only entity in its service territory providing low-income energy assistance that there are
19 significantly more resources available than just Columbia and that those resources should be
20 taken into consideration in assessing need.

21

³ See OCA Statement 4-R at 11-13.

⁴ I&E Statement No. 4-R at 5:12-17.

1 **Q: Please respond.**

2 **A:** I do not dispute that there are more providers of weatherization services within the
3 Columbia service territory than Columbia; however, I believe that Ms. Maurer vastly overstates
4 the ability of these other providers to provide weatherization services in the future because there
5 are currently very limited funds to provide such services. In her testimony, Ms. Maurer states
6 that because the number of homes in need of weatherization within Columbia's service territory
7 decreased by approximately 6,000 from 2009-2011, and because Columbia was only responsible
8 for 1,500 of those homes being weatherized, that 4,500 homes were weatherized by other
9 providers.⁵ She then extrapolates that on average all entities within Columbia's service territory
10 will be able to weatherize 6,000 homes every three years on a forward going basis. There is no
11 evidence to support this conclusion.

12 Even assuming that the entire 6,000 home decrease in needs assessment is attributable to
13 homes actually being weatherized as opposed to other factors, during the three years in question
14 (2009-2011) there was an unprecedented influx of weatherization money in Pennsylvania through
15 the American Recovery and Reinvestment Act (ARRA). During the period in question, ARRA
16 provided \$252.8 million for Pennsylvania's Weatherization Assistance Program (WAP), which is
17 designed to help low-income households decrease energy consumption and costs. However,
18 ARRA funding and related activities ended in early 2012. Contrast this with the current fiscal
19 year (2012-2013) WAP funding of \$3.8 million for the entire state. Even accounting for other
20 resources (such as other utilities LIURPs), given this stark funding decrease in available WAP
21 resources it is very unlikely that the other weatherization providers will be able to weatherize
22 1500 homes per year (or 4500 over a 3 year period) as Ms. Maurer contends.

⁵ Ibid. at 6.

1 As such, the core of my testimony stands: Columbia's present LIURP budget and plan is
2 an inadequate response to its needs assessment and should be increased consistent with my direct
3 testimony.

4 **Q: Does this conclude your surrebuttal testimony?**

5 **A: Yes.**

2-13-13
Hbg R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

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Docket Nos. R-2012-2321748, et al.

**REBUTTAL TESTIMONY
AND EXHIBIT
OF
RICHARD A. BAUDINO**

ON BEHALF OF

THE COLUMBIA INDUSTRIAL INTERVENORS

J. KENNEDY AND ASSOCIATES, INC.

JANUARY 2013

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1 of issues in the ratemaking field. Areas in which I testified included cost of service,
2 rate of return, rate design, revenue requirements, analysis of sale/leasebacks of
3 generating plants, utility finance issues, and generating plant phase-ins.

4
5 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a
6 Senior Consultant where my duties and responsibilities covered substantially the
7 same areas as those during my tenure with the New Mexico Public Service
8 Commission Staff. I became Manager in July 1992 and was named Director of
9 Consulting in January 1995. Currently, I am a consultant with Kennedy and
10 Associates.

11
12 Exhibit __ (RAB-1) summarizes my expert testimony experience.

13
14 **Q. On whose behalf are you testifying?**

15 A. I am testifying on behalf of the Columbia Industrial Intervenors ("CII").
16

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony in this proceeding is to respond to the Direct
19 Testimonies of Mr. Glenn Watkins, witness for the Office of Consumer Advocate
20 ("OCA"), and Mr. Robert Knecht, witness for the Office of Small Business Advocate
21 ("OSBA"). My Rebuttal Testimony will focus on certain issues relating to the cost
22 and revenue allocation proposals set forth in the Direct Testimony of each of these
23 witnesses. For purposes of my Rebuttal Testimony in this case, my not addressing a

1 particular issue in the Direct Testimony of these witnesses should not imply that I
2 agree with or do not oppose that issue. My Rebuttal Testimony will focus instead on
3 several major issues, which are discussed in the following sections.

4
5 **Response to OCA Witness Watkins**

6 **Q. Did you review Mr. Watkins' cost and revenue allocation proposals?**

7 A. Yes.

8
9 **Q. Mr. Watkins relied on a Demand/Commodity study as the basis for his cost and**
10 **revenue allocation proposals. First, is it appropriate to classify and allocate a**
11 **portion of the costs of mains on the basis of total throughput?**

12 A. No. Any classification of gas distribution main costs that contains a commodity-
13 related component is inappropriate and should be rejected by the Pennsylvania Public
14 Utility Commission ("PUC" or "Commission"). Peak winter demand is one of the
15 primary drivers of Columbia's investment in gas distribution mains. Columbia Gas of
16 Pennsylvania, Inc. ("Columbia" or "Company"), must have sufficient capacity
17 available on its system to satisfy the peak winter heating demand, which is caused
18 mainly by residential customers. If the peak winter demand increases, the Company
19 may need to invest in additional mains to serve the load. During the non-winter
20 months, substantial excess capacity exists on the system. Use of the Company's
21 distribution system during these months does not cause additional fixed costs to be
22 incurred by the Company. In fact, high load factor customers provide valuable
23 margins to the Company during off-peak months when the demands of residential

1 heating customers are very low. Consequently, throughput, which varies
2 substantially during the year, is not what causes Columbia's investment in the fixed
3 costs of distribution mains.

4
5 In a similar manner to peak winter demand, if the number of customers increases, the
6 Company may need to increase its investment in the distribution system. Thus, the
7 number of customers connected to the distribution system is another important
8 causative factor in distribution main investment. In my view, this is just obvious
9 common sense in terms of the two factors that drive a gas distribution company's
10 main costs.

11
12 **Q. Are you aware of any evidence or studies to support the assumption that a 50%-**
13 **50% split of demand and commodity factors is representative of cost causation**
14 **for gas distribution mains?**

15 **A.** No. The 50%-50% demand/commodity split is unsupported by any witness in this
16 proceeding and is based solely on judgment.

17
18 **Q. On page 12 of his Direct Testimony, Mr. Watkins testified that he adjusted Mr.**
19 **Skirtich's class cost of service study ("CCOSS") to allocate all common gas**
20 **distribution mains to all classes excluding Main Line Distribution Service**
21 **("MDS"). Why did Mr. Watkins make this adjustment?**

22 **A.** On page 9 of his Direct Testimony, Mr. Watkins noted that: (1) no other major
23 natural gas local distribution companies ("LDCs") bifurcate mains between small

1 customer mains and the remaining portion of mains; and (2) the PUC rejected a
2 similar separation of mains in a National Fuel Gas Distribution Corporation case in
3 1994.

4
5 **Q. Mr. Baudino, are the two bases cited by Mr. Watkins sufficient ground to reject**
6 **Columbia's proposed separation of mains in this proceeding?**

7 A. No. First, although other Pennsylvania LDCs may not have segregated mains in the
8 manner that Columbia is proposing, this does not mean that the Company's proposal
9 is unreasonable. My review of the Company's testimony and of the discovery
10 presented by Mr. Knecht in his exhibits suggests that Columbia has made a
11 reasonable, logical, and very important refinement to its CCOSS in this case.

12
13 Second, Mr. Watkins cited only one 18-year old PUC Order as precedent with respect
14 to Commission rulings regarding the segregation of distribution mains into smaller
15 and larger mains. In my opinion, this one case hardly establishes a consistent track
16 record. Moreover, Columbia's proposed treatment of mains should be objectively
17 evaluated on its own merits in this case.

18
19 **Q. Do you agree with Columbia's proposed segregation of smaller and larger**
20 **distribution mains in this case?**

21 A. Yes. On pages 6 and 7 of his Direct Testimony, Mr. Skirtich explained that the
22 Company separated mains into two major divisions: (1) mains that can only serve
23 residential and SGS/SGDS customers (referred to as "small customer mains"); and

1 (2) the remaining portion of mains that is used to serve all customers. Mr. Skirtich
2 noted that large customers who are served under Rate Schedules LGSS, SDS, and
3 LDS "cannot be served through a 2 inch main."
4

5 **Q. Would Mr. Watkins' proposed allocation of all Columbia's common mains to all**
6 **customer classes, with the exception of customers on Rate MDS, allocate too**
7 **much of the mains cost to the larger customer classes?**

8 A. Yes, most definitely. Mr. Watkins' proposal would inappropriately shift a large
9 amount of cost responsibility to larger classes, particularly those customers on Rate
10 Schedule LDS. On page 12 of his Direct Testimony, Mr. Watkins presented a table
11 showing a comparison of class rates of return under Mr. Skirtich's CCOSS and Mr.
12 Watkins' proposed CCOSS. Under a Peak and Average CCOSS, the LDS class' rate
13 of return index is 128% of system average. This result indicates that, even when
14 customer flexing discounts are included, the LDS class is overpaying its fair share of
15 costs. Mr. Watkins' proposed CCOSS shows the dramatic shift of cost responsibility
16 to the LDS class, whose indexed rate of return falls to 13% of the system average.
17 This is due to Mr. Watkins' proposal to make LDS customers responsible for the costs
18 of smaller mains that they do not use.
19

20 **Q. Did Columbia provide further evidence through discovery regarding the use of**
21 **smaller mains, if any, by the LDS class?**

22 A. Yes. Mr. Knecht provided Columbia's responses to selected OSBA discovery in his
23 Exhibit IEC-3. In the Company's response to Question No. OSBA 1-011, part e.,

1 Columbia stated that out of 39 LDS accounts (536,500 - 1,073,000 therms), there are
2 no accounts that are served off of either a low pressure system or a 2-inch main.
3 Thus, Mr. Watkins has no basis for allocating smaller mains to LDS customers.

4
5 **Q. On page 17 of his Direct Testimony, Mr. Watkins recommended that discounts**
6 **due to gas-on-gas competition for LDS customers should remain in the LDS**
7 **class. Is this a reasonable proposal?**

8 **A.** No. Flexing rates for larger customers benefits all customers on Columbia's system.

9
10 Specifically, offering rate flexing enables Columbia to retain customers who would
11 otherwise be lost to bypass, gas-on-gas competition, or alternative fuel sources. If
12 these flex rate customers left Columbia's system, the rest of Columbia's customers,
13 not just those on Rate LDS, would have to contribute to the resulting loss. By
14 retaining flex rate customers at discounted rates, all customers benefit from the
15 contribution to Columbia's fixed costs provided by these customers.

16
17 Therefore, flexing discounts for certain LDS and MDS customers should be spread to
18 all the remaining customers. Mr. Watkins offered no justification whatsoever to
19 confine revenue responsibility for gas-on-gas discounts to the non-flexed LDS
20 customers. Doing so would unfairly penalize these customers and force them to
21 support the costs of a system-wide benefit.

1 Q. On page 15, lines 11 through 25 of his Direct Testimony Mr. Watkins testified
2 that the PUC "has stated that revenue shortfalls due to discounts must remain
3 within the same customer class." He goes on to cite the example of this practice
4 as it relates to discounts associated with residential-only programs such as the
5 Customer Assistance Programs ("CAP") and Universal Service Programs
6 ("USP"). Please address this section of Mr. Watkins' testimony.

7 A. Mr. Watkins correctly characterized the Commission's position on keeping the
8 discounts associated with residential-only programs such as CAP and USP within the
9 residential class. This is because these programs only benefit residential customers
10 and provide no quantitative benefit whatsoever to other customer classes. It is,
11 therefore, appropriate to keep the discounts from these programs within the
12 residential class so that other customer classes do not pay for the costs of programs
13 that do not benefit them.

14
15 Contrary to CAP and USP programs, however, discounts from rate flexing to
16 customers in the LDS and MDS classes benefit Columbia's entire system. As
17 explained earlier, customers with negotiated rates contribute to the Company's fixed
18 costs, and lower overall costs for the rest of Columbia's full tariff customers. This is
19 a much different situation than the residential customer discounts from CAP and
20 USP. It would be inappropriate to attempt to justify keeping flex discounts within the
21 LDS and MDS classes based on the appropriate Commission treatment of CAP and
22 USP discounts. The Commission should reject Mr. Watkins' proposal regarding flex
23 rate discounts.

1 Q. Mr. Watkins recommended an increase of 46.21% to the LDS class on page 18 of
2 his Direct Testimony. Is this increase reasonable?

3 A. Absolutely not. Mr. Watkins' proposed increase is based on a flawed CCOSS that
4 allocates far too much responsibility for Columbia's distribution main costs to the
5 LDS class. It is also based on the incorrect premise that flex discounts from gas-on-
6 gas competition should be confined to the LDS class rather than be shared with all
7 non-flexed customers.

8

9 Q. Is the 46.21% increase shown by Mr. Watkins an accurate portrayal of the
10 increase that non-flex rate customers would have to bear under his proposed
11 revenue allocation?

12 A. No, it is not. On page 17 of his Direct Testimony, Mr. Watkins shows the total LDS
13 class revenues and the amount of revenues that are flexed. From this table, the total
14 non-flexed LDS revenues are \$9.7779 million (\$12,850.8 - \$3,072.9). *Since*
15 *Columbia cannot raise rates to its LDS flex rate customers, this means that Mr.*
16 *Watkins' proposed increase of \$5.9386 million to the LDS class really results in a*
17 *rate increase to non-flexed customers of 60.7%.* This increase is completely
18 unreasonable and would result in economically harmful rate shock to non-flexed LDS
19 customers. I strongly recommend that the PUC reject Mr. Watkins' revenue
20 allocation proposal in this proceeding.

1 **Q. If the Commission were to conclude that a peak and average CCOSS should be**
2 **used for cost and revenue allocation, how should the LDS class increase be**
3 **apportioned in this proceeding?**

4 A. Given the overall increase of 34.10% shown by Mr. Watkins on page 18 of his Direct
5 Testimony, I recommend that the Commission, if it decides to use a peak an average
6 CCOSS for cost and revenue allocation, limit the increase to 1.25 times the overall
7 increase. Given the substantial system average increase, limiting the increase to 1.25
8 times the system average, or 42.6%, would help to mitigate rate shock although this
9 still represents a substantial increase to Columbia's LDS customers. Further, this
10 increase should be applied only to non-flexed customer class revenues of \$9.7779
11 million that I calculated earlier. This would result in a revenue increase to the LDS
12 class of \$4.16 million.

13
14 **Response to OSBA Witness Knecht**

15 **Q. Beginning on page 20 of his Direct Testimony, Mr. Knecht addressed**
16 **Columbia's proposal to segregate small diameter low pressure ("SDLP") mains**
17 **and large diameter high pressure ("LDHP") mains, stating that although he did**
18 **not agree with the Company's proposal, it "is not without some cost causation**
19 **logic." Please respond to Mr. Knecht's analysis of Columbia's proposal.**

20 A. On pages 20 through 22, Mr. Knecht detailed a number of alleged errors in the
21 Company's separation of SDLP and LDHP mains. He referred to the Company's
22 response to OSBA 1-11, to which I referred earlier in my response to Mr. Watkins.
23 On page 22, lines 13 through 19, Mr. Knecht rejected Columbia's proposed

1 segregation of mains and developed his own CCOSS based on the Company's
2 historical approach of classifying and allocating non-MDS mains in one cost
3 category. Mr. Knecht also stated that he might reconsider this approach based on the
4 Company's response in its rebuttal testimony.

5
6 It is important to note that, in the Company's response to OSBA 1-11, no LDS
7 customers were identified as using any of the SDLP mains. Even so, Mr. Knecht
8 chose to develop CCOSSs that allocate a portion of all distribution mains, including
9 SDLP mains, to LDS customers. This approach is not supported by the discovery
10 presented by Mr. Knecht in his Exhibit IEC-3. As a result, Mr. Knecht's CCOSSs
11 allocate too much mains cost to LDS customers and cannot be relied upon for
12 purposes of revenue allocation.

13
14 **Q. On pages 45 and 46, Mr. Knecht presented two revenue allocation proposals**
15 **based on his modified average and excess CCOSS and a zero-intercept CCOSS.**
16 **Please respond to these proposals.**

17 A. While I have not had the ability to evaluate in detail all of Mr. Knecht's proposed
18 modifications to Columbia's filed CCOSSs, both the A&E and Z1 CCOSSs
19 inappropriately allocate SDLP mains to the LDS class. This results in understated
20 rates of return for LDS customers and overstated revenue increases under both
21 studies. For this reason alone, Mr. Knecht's revenue allocation proposals should be
22 rejected.

1 Q. On page 42 of his Direct Testimony, Mr. Knecht recommended that customers
2 with the ability to switch between natural gas distribution companies ("NGDC")
3 be moved to regular tariff rates. Should the Commission accept Mr. Knecht's
4 recommendation?

5 A. No, Mr. Knecht's recommendation should be rejected.

6

7 Although Mr. Knecht may disagree with allowing flex rates for customers with gas-
8 on-gas competition opportunities, at this time this option remains a legitimate
9 standard by which LDCs may offer flex rates to customers. In this respect, it is no
10 different from offering flex rates for interstate pipeline bypass or converting to an
11 alternative fuel source. There is no good reason to force flex rate customers who
12 have gas-on-gas competitive alternatives to accept full tariff rates in this proceeding
13 or to impute their discounts only to the LDS non-flex customers.

14

15 I recognize that the Commission has undertaken a generic investigation into this
16 issue; however, until the PUC makes a final determination in that proceeding, flex
17 rates for customers with gas-on-gas competitive options should be continued.

1 Q. On page 44 of his Direct Testimony, Mr. Knecht recommends limiting the
2 increase to regular, *i.e.*, non-flex rate LDS customers, to 1.5 times the system
3 average increase. This results in an increase of 50.6%. Do you agree that this
4 accomplishes the goal of gradualism?

5 A. No. Given the relatively high system average increase of 33.7% shown by Mr.
6 Knecht on page 45 of his Direct Testimony, I recommend that, if the PUC decides to
7 allow for an increase based upon Mr. Knecht's proposed modifications, the increase
8 be limited to no more than 1.25 times the system average increase. This would result
9 in an increase of 42.1%.

10

11 Q. Does this conclude your Rebuttal Testimony?

12 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

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Docket Nos. R-2012-2321748, *et al.*

**EXHIBIT
OF
RICHARD A. BAUDINO**

ON BEHALF OF

THE COLUMBIA INDUSTRIAL INTERVENORS

J. KENNEDY AND ASSOCIATES, INC.

JANUARY 2013

RESUME OF RICHARD A. BAUDINO

EDUCATION

New Mexico State University, M.A.
Major in Economics
Minor in Statistics

New Mexico State University, B.A.
Economics
English

Thirty years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins, auditing and rate design. Has designed revenue requirement and rate design analysis programs.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Cost of Capital for Electric, Gas and Water Companies
Electric, Gas, and Water Utility Cost Allocation and Rate Design
Revenue Requirements
Gas and Electric industry restructuring and competition
Fuel cost auditing
Ratemaking Treatment of Generating Plant Sale/Leasebacks

RESUME OF RICHARD A. BAUDINO

EXPERIENCE

1989 to

Present: Kennedy and Associates: Consultant - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to

1989: New Mexico Public Service Commission Staff: Utility Economist - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

CLIENTS SERVED

Regulatory Commissions

Louisiana Public Service Commission
Georgia Public Service Commission
New Mexico Public Service Commission

Other Clients and Client Groups

Ad Hoc Committee for a Competitive Electric Supply System	PSI Industrial Group
Air Products and Chemicals, Inc.	Large Power Intervenors (Minnesota)
Arkansas Electric Energy Consumers	Tyson Foods
Arkansas Gas Consumers	West Virginia Energy Users Group
AK Steel	The Commercial Group
Armco Steel Company, L.P.	Wisconsin Industrial Energy Group
Assn. of Business Advocating Tariff Equity	South Florida Hospital and Health Care Assn.
CF&I Steel, L.P.	PP&L Industrial Customer Alliance
Climax Molybdenum Company	Philadelphia Area Industrial Energy Users Gp.
General Electric Company	West Penn Power Intervenors
Industrial Energy Consumers	Duquesne Industrial Intervenors
Kentucky Industrial Utility Consumers	Met-Ed Industrial Users Gp.
Lexington-Fayette Urban County Government	Penelec Industrial Customer Alliance
Large Electric Consumers Organization	Penn Power Users Group
Newport Steel	Columbia Industrial Intervenors
Northwest Arkansas Gas Consumers	U.S. Steel & Univ. of Pittsburg Medical Ctr.
Maryland Energy Group	Multiple Intervenors
Occidental Chemical	Maine Office of Public Advocate
	Missouri Office of Public Counsel
	University of Massachusetts - Amherst

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdct.	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boles Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
09/85	1907	NM	New Mexico Public Service Commission	Jornada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of sale/leaseback expense.
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PVNGS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.
10/87	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdic.	Party	Utility	Subject
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.
1/89	2253	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
09/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410-EL-AIR	OH	Air Products & Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdiction	Party	Utility	Subject
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Amoco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdct.	Party	Utility	Subject
7/94	R-00942986	PA	Armco, Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035- E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8652	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8629	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkda, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343- 000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8697	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdct.	Party	Utility	Subject
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania-American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenors	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPSCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdct.	Party	Utility	Subject
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.
01/00	8829	MD	Maryland Industrial Gr. & United States	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	PA	Penn Fuel Transportation	PFG Gas, Inc., and	Tariff charges, balancing provisions.
05/00	U-17735	LA	Louisiana Public Service Comm.	Louisiana Electric Cooperative	Rate restructuring.
07/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.
07/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket E)	LA	Louisiana Public Service Comm.	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	PA	Philadelphia Industrial And Commercial Gas Users Group.	Philadelphia Gas Works	Interim relief analysis.
10/00	U-21453 U-20925 (SC), U-22092 (SC) (Subdocket B)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdct.	Party	Utility	Subject
11/00	R-00005277 PA (Rebuttal)		Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Stranded cost analysis.
04/01	U-21453 LA U-20925 (SC), U-22092 (SC) (Subdocket B) (Addressing Contested Issues)		Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring issues.
04/01	R-00006042 PA		Philadelphia Industrial and Commercial Gas Users Group	Philadelphia Gas Works	Revenue requirements, cost allocation and tariff issues.
11/01	U-25687	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	PA	Philadelphia Industrial And Commercial Gas Users Group	Philadelphia Gas Works	Transportation rates, terms, and conditions.
01/03	2002-00169	KY	Kentucky Industrial Utility Customers	Kentucky Power	Return on equity.
02/03	02S-594E	CO	Cripple Creek & Victor Gold Mining Company	Aquila Networks – WPC	Return on equity.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
10/03	CV020495AB	GA	The Landings Assn., Inc.	Utilities Inc. of GA	Revenue requirement & overcharge refund
03/04	2003-00433	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric	Return on equity, Cost allocation & rate design

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdiction	Party	Utility	Subject
03/04	2003-00434	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Return on equity
4/04	04S-035E	CO	Cripple Creek & Victor Gold Mining Company, Goodrich Corp., Holcim (U.S.) Inc., and The Trane Co.	Aquila Networks – WPC	Return on equity.
9/04	U-23327, Subdocket B	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Fuel cost review
10/04	U-23327 Subdocket A	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on Equity
06/05	050045-EI	FL	South Florida Hospital and HealthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Revenue requirement, cost allocation, rate design, Tariff issues.
01/06	2005-0034	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Return on equity.
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on equity, Service quality
08/06	ER-2006-0314	MO	Missouri Office of the Public Counsel	Kansas City Power & Light Co.	Return on equity, Weighted cost of capital
08/06	06S-234EG	CO	CF&I Steel, L.P. & Climax Molybdenum	Public Service Company of Colorado	Return on equity, Weighted cost of capital
01/07	06-0960-E-42T	WV	West Virginia Energy Users Group	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112		AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661		Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01		Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdic.	Party	Utility	Subject
10/07	05-UR-103		Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797		Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Elec. Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR		Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Cost and revenue allocation, Tariff issues
07/08	R-2008-2028394	PA	Philadelphia Area Industrial Energy users Group	PECO Energy	Cost and revenue allocation, Tariff issues
07/08	R-2008-2039634	PA	PPL Gas Large Users Gp.	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-UR-119	WI	Wisconsin Industrial Energy Group	Wisconsin PS	Cost of Equity
09/08	ER-2008-0318	MO	The Commercial Group	AmerenUE	Cost and revenue allocation
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdct.	Party	Utility	Subject
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065		The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532		The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI		South Florida Hospital and Health Care Assn.	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana PSC	Cleco LLC, Southwestern Public Service Co.	Lignite mine purchase
10/09	4220-UR-116 WI		Wisconsin Industrial Energy Group	Northern States Power	Class cost of service, rate design
10/09	M-2009-2123945	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Smart Meter Plan cost allocation
10/09	M-2009-2123944	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Company	Smart Meter Plan cost allocation
10/09	M-2009-2123951	PA	West Penn Power Industrial Intervenors	West Penn Power	Smart Meter Plan cost allocation
11/09	M-2009-2123948	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Smart Meter Plan cost allocation
11/09	M-2009-2123950	PA	Met-Ed Industrial Users Gp. Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation
03/10	09-1352-E-42T	WV	West Virginia Energy Users Gp.	Monongahela Power, Potomac Edison	Return on equity, rate of return
03/10	E015/GR-09-1151	MN	Large Power Intervenors	Minnesota Power	Return on equity, rate of return
04/10	2009-00459	KY	Kentucky Industrial Utility Consumers	Kentucky Power	Return on equity

**Expert Testimony Appearances
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Richard A. Baudino
As of January 2013**

Date	Case	Jurisdic.	Party	Utility	Subject
04/10	2009-00548 2009-00549	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity
05/10	10-0261-E-Gi	WV	West Virginia Energy Users Group	Appalachian Power Co./ Wheeling Power Co.	EE/DR Cost Recovery, Allocation, & Rate Design
05/10	R-2009-2149262	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Class cost of service & cost allocation
06/10	2010-00036	KY	Lexington-Fayette Urban County Government	Kentucky American Water Company	Return on equity, rate of return, revenue requirements
06/10	R-2010-2161694	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Rate design, cost allocation
07/10	R-2010-2161575	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Return on equity
07/10	R-2010-2161592	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Cost and revenue allocation
07/10	9230	MD	Maryland Energy Group	Baltimore Gas and Electric	Electric and gas cost and revenue allocation; return on equity
09/10	10-70	MA	University of Massachusetts-Amherst	Western Massachusetts Electric Co.	Cost allocation and rate design
10/10	R-2010-2179522	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Cost and revenue allocation, rate design
11/10	P-2010-2158084	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Transmission rate design
11/10	10-0699-E-42T	WV	West Virginia Energy Users Group	Appalachian Power Co. & Wheeling Power Co.	Return on equity, rate of Return
11/10	10-0467	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation and rate design
04/11	R-2010-2214415	PA	Central Penn Gas Large Users Group	UGI Central Penn Gas, Inc.	Tariff issues, revenue allocation
07/11	R-2011-2239263	PA	Philadelphia Area Energy Users Group	PECO Energy	Retainage rate
08/11	R-2011-2232243	PA	AK Steel	Pennsylvania-American Water Company	Rate Design
08/11	11AL-151G	CO	Climax Molybdenum	PS of Colorado	Cost allocation
09/11	11-G-0280	NY	Multiple Intervenors	Coming Natural Gas Co.	Cost and revenue allocation

**Expert Testimony Appearances
of
Richard A. Baudino
As of January 2013**

Date	Case	Jurisdiction	Party	Utility	Subject
10/11	4220-UR-117	WI	Wisconsin Industrial Energy Group	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Svc. Of Colorado	Return on equity, wtd. cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Assn.	Florida Power and Light Co.	Return on equity, wtd. cost of capital
07/12	12-0613-E-PC	WV	West Virginia Energy Users Gp.	Allegheny Power Company	Special rate proposal for Century Aluminum
07/12	R-2012-2290597	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities Corp.	Cost allocation
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Class cost of service, cost and revenue allocation, rate design
09/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity
10/12	9299	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design Cost of equity, weighted cost of capital
10/12	4220-UR-118	WI	Wisconsin Industrial Energy Group	Northern States Power Company	Class cost of service, cost and revenue allocation, rate design
10/12	473-13-0199	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Return on equity, capital structure

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : **Docket Nos. R-2012-2321748, et al.**
 :
Columbia Gas of Pennsylvania, Inc. :

VERIFICATION

I, Richard A. Baudino, hereby state that the facts set forth in Columbia Industrial Intervenors ("CII") Statement No. 1-R and the attached Exhibit are true and correct to the best of my knowledge, information and belief, and 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.

2/8/2013
Date

Richard Baudino
Signature

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,
et al.,

v.

Docket No. R-2012-2321748

Columbia Gas of Pennsylvania, Inc.

**DIRECT TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
THE NATURAL GAS SUPPLIERS**

Dominion Retail, Inc.
Interstate Gas Supply, Inc.
Shipley Energy Company

January 4, 2013

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1 **I. WITNESS BACKGROUND**

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

4 A. I am James L. Crist, President of Lumen Group, Inc. a consulting firm focused on
5 regulatory and market issues. My business address is 4226 Yarmouth Drive,
6 Suite 101, Allison Park, Pennsylvania 15101. I am presenting testimony on
7 behalf of Dominion Retail, Inc., Interstate Gas Supply, Inc., and Shipley Choice
8 LLC d/b/a Shipley Energy, collectively the Natural Gas Suppliers ("Suppliers" or
9 "NGS").

10
11 **Q. DO YOU HAVE ANY QUALIFICATIONS OR OTHER SPECIALIZED**
12 **KNOWLEDGE THAT WOULD ASSIST THE COMMISSION IN ITS**
13 **DELIBERATIONS IN THIS CASE?**

14 A. Yes.

15

16 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

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

20

21 **Q. BRIEFLY DESCRIBE YOUR RELEVANT BUSINESS**
22 **QUALIFICATIONS.**

23 A. I have run a consulting practice for the past 17 years focused on regulated and
24 deregulated energy company strategy, market strategy, and regulatory issues.

1 During 2004 and 2005, I undertook a consulting assignment as the Vice President
2 of Consumer Markets for ACN Energy. ACN is a gas and electric marketer that
3 is active in eight states. Prior to my consulting practice, I worked at three major
4 energy companies for a total of 19 years. Most recently I was Vice President of
5 Marketing for Equitable Resources. In that function I was responsible for the
6 development of the company's deregulated business strategy.

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

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

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

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

3 A. Yes, I have appeared before the Pennsylvania Public Utility Commission
4 (“Commission”) in several gas and electric regulatory proceedings. Additionally,
5 I provided testimony on a variety of issues relating to energy procurement,
6 industry restructuring, and demand response before regulatory Commissions in
7 Arizona, Illinois, Maryland, New Mexico and the U.S. Virgin Islands.

8

9 **II. PURPOSE OF TESTIMONY**

10 Q. **WHY ARE THE SUPPLIERS PARTICIPATING IN THIS CASE?**

11 A. The decisions made in this case will have an impact on how Suppliers will
12 effectively compete for customers on the Columbia Gas of Pennsylvania (“CPA”
13 or “Company”) system. Suppliers are in the business of marketing natural gas. A
14 key component of that business is going into the market to identify cost effective
15 ways to buy natural gas and to deliver that natural gas to the ultimate sales
16 customer. Customers base their gas buying decisions on several factors but a very
17 important factor is the cost of that gas. In the case of the rules and procedures in
18 place at CPA and, in this base rate case specifically the amount identified by CPA
19 to shift from its base rate to the GPC has an impact on the supplier’s ability to
20 compete with the default customer’s status quo of buying gas supply from the
21 utility.

22 Costs that CPA incurs in fulfilling its gas procurement function for system
23 customers should not be borne by customers that choose to shop for gas supply.

1 Every penny of such cost that is not properly shifted out of base rates saddles the
2 customers of gas suppliers with costs for procurement services of the utility,
3 which they do not wish to pay and should not have to pay. Gas suppliers have
4 similar procurement activities as NGDCs and those costs are included in the
5 prices that customers pay to suppliers. Paying for such activities that the utility
6 undertakes for procurement is double-charging the customer and must be
7 addressed.

8
9 **Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN THIS CASE?**

10 A. The overall theme of my testimony deals with the fairness of Transportation
11 programs for all customers, large and small. This includes those customers served
12 by NGSs under a variety of delivery service rates as well as customers that
13 participate in the Company's Customer Choice program ("Choice"). Choice
14 allows customers with usage of less than 6,440 dth/year to purchase natural gas
15 from competitive suppliers. To that end, I will identify elements of the
16 Company's filing that I believe are shortcomings and several activities embodied
17 in Colombia's proposed tariff that are not helpful, along with inappropriate
18 treatment of program features, expenses and allocations.

19 Specifically, in my direct testimony I will:

20 1. Recommend that the unnecessarily high and punitive charge for
21 transportation and Choice under-deliveries be reduced.

1 2. Review certain administrative procedures, including blackout dates
2 ("freeze period") where customer enrollments cannot be done promptly, resulting
3 in customer confusion.

4 3. Note that the Company has promised to provide Eligible Customer
5 Lists containing complete account data and that it is important to do so.

6 4. Make several recommendations regarding the costs that Columbia
7 allocated to the Gas Procurement Charge and include significant items that the
8 Company omitted so that customers can make a fairer comparison between gas
9 supply offered by the Company with supply offered by NGS.

10
11 **III. COLUMBIA MUST REDUCE THE OVER/UNDER DELIVERY**
12 **PENALTY FOR TRANSPORTATION CUSTOMERS.**

13 **Q. IS THERE A PENALTY FOR OVER/UNDER DELIVERY OF GAS TO**
14 **COLUMBIA FOR TRANSPORTATION CUSTOMERS?**

15 A. Yes. Columbia will buy or sell the appropriate amount of gas to adjust the
16 supplier's monthly delivered amounts to bring the supplier's balance within the
17 tolerance parameters. The Supplier is cashed in/out as the case may be, and the
18 Company adjusts the gas price by up to 30% in that case, which is itself a very
19 large penalty for the NGS to bear. Additionally, if the imbalance occurs during
20 the pendency of an operational matching order ("OMO") or operational flow
21 order ("OFO"), the supplier is charged a penalty of \$23.30/Dth. Such penalties
22 are out of proportion to any potential harm.

23

1 Q. ARE SUCH PENALTIES IN EFFECT AT OTHER DISTRIBUTION
2 COMPANIES?

3 A. Yes, penalties for underdelivery during an OFO are common. Often they are
4 structured to charge the supplier a premium on the gas which must be supplied by
5 the utility. Having an additional punitive charge is unnecessary. At Columbia of
6 Virginia the penalty is only \$10/mcf. At Columbia of Ohio the penalty is only
7 \$10/mcf. There is no good reason that Columbia should put the Pennsylvania
8 customers and their suppliers at a disadvantage compared to the other states in
9 which it operates.

10

11 Q. IS HAVING A PENALTY THAT REQUIRES THE SUPPLIER TO PAY A
12 PREMIUM FOR GAS SUPPLIED BY THE COMPANY ENOUGH OF AN
13 INCENTIVE TO A SUPPLIER SO THAT THE SUPPLIER WOULD
14 MAKE A GOOD FAITH EFFORT TO DELIVER THE GAS PROPERLY
15 TO THE SYSTEM?

16 A. It is more than enough of an incentive. In a practical sense, that means that there
17 is no arbitrage opportunity for suppliers, because they will gain no profit by
18 diverting gas to other customers or other systems on days when the price gets very
19 high. Such a price also means that the supplier has no incentive to simply not
20 purchase gas and allow Columbia to supply it, because a supplier could buy gas as
21 cheaply as Columbia if it tried. Under such circumstances, the price alone is an
22 incentive to deliver the correct amounts of gas, but additionally the NGS will also
23 have to pay one month's demand charge and any other costs that are incurred.

1 The current \$23.30/Dth penalty far exceeds what is needed to encourage correct
2 behavior.

3
4 **Q. WHY DO YOU FEEL A REDUCTION IN THE PENALTY IS**
5 **APPROPRIATE?**

6 A. Penalties exist to address and prevent improper behavior and it is important that
7 the penalty have a reasonable cost basis and not be excessive and cause undue
8 harm to an NGS that makes a delivery mistake. If no harm to the system results
9 from an imbalance, then NGSs should not be penalized above and beyond the
10 cash out charges that are incurred. It should be a "no harm, no foul" system --
11 otherwise the whole purpose of imposing penalties (i.e., to deter bad behavior)
12 will be undermined.

13
14 **Q. WHAT PENALTY AMOUNT DO YOU RECOMMEND?**

15 A. The penalty of \$23.30/Dth should be dropped entirely. If the Commission
16 chooses not to eliminate that charge then it should be limited to the same amount
17 that Columbia of Virginia and Columbia of Ohio charge for services in those
18 states which is \$10/mcf. Columbia should not be permitted to charge higher
19 amounts in Pennsylvania than the other states where it operates distribution
20 utilities.

1 **IV. COLUMBIA MUST REDUCE THE PENALTY FOR CHOICE**
2 **UNDERDELIVERY.**

3 **Q. IS THERE A SIMILAR OVER/UNDERDELIVERY PENALTY FOR**
4 **CHOICE SUPPLIERS THAT SUPPLY SMALL CUSTOMERS?**

5 A. Yes. Similar to the transportation penalty I just discussed, there is an over/under
6 delivery penalty for Choice Suppliers as well. Also similar to the penalty I
7 discuss above, there are two major disadvantages to the penalty for Choice
8 suppliers. First, the penalty is too high and not cost based, and second, it applies
9 throughout the entire year, not just when the delivery system is under duress.

10

11 **Q. IS THE PENALTY AMOUNT OF \$46.60/Dth REASONABLE?**

12 A. No. Even if the penalty applied only during system distress, which I recommend,
13 \$46.60/Dth is not reasonable.

14

15 **Q. IS THERE A BETTER ALTERNATIVE TO COLUMBIA'S CURRENT**
16 **STRUCTURE?**

17 A. Yes. A penalty structure of 150% times the TCO daily index price along with any
18 other cost incurred by Columbia that day due to the supplier shortfall would be
19 effective and is a recommended improvement.

20

21

22

1 Q. WOULD THAT PENALTY STRUCTURE BE ENOUGH OF AN
2 INCENTIVE TO A SUPPLIER SO THAT A CHOICE SUPPLIER WOULD
3 MAKE A GOOD FAITH EFFORT TO DELIVER THE GAS PROPERLY
4 TO THE SYSTEM?

5 A. It certainly is. As I just explained concerning Transportation suppliers, Choice
6 suppliers would have no arbitrage opportunities. The same logic applies here.
7 The current \$46.60/Dth penalty far exceeds what is needed to encourage correct
8 behavior.

9
10 Q. ARE COLUMBIA'S PENALTIES BASED ON COST OF SERVICE?

11 A. There is no reasonable cost of service basis for the penalty. They are intended to
12 be punitive.

13
14 Q. WHY DO YOU FEEL A REDUCTION IN THIS PENALTY IS
15 APPROPRIATE?

16 A. For the same reasons as those I listed previously in regard to why the large,
17 \$23.30/Dth, Transportation delivery penalty was inappropriate.

18
19 V. COLUMBIA SHOULD MAKE SEVERAL ADMINISTRATIVE CHANGES
20 REGARDING TRANSPORTATION SERVICE.

21 Q. WHAT ARE "BLACK-OUT DATES"?

22 A. The black-out dates known on Columbia's system as the "freeze period" for
23 enrollments of customers into Choice service by alternative gas suppliers starts

1 the next business day after the enrollment period ends. The “freeze period” is the
2 16th to the 20th each month, which is 5 days. The “freeze period” is similar to
3 non-processing on holidays and weekends.
4

5 **Q. WHAT ARE THE REASONS FOR BLACK-OUT DATES?**

6 A. Columbia imposes black-out dates so it can undertake routine monthly processing
7 of Choice customer account changes. This processing may include compilation of
8 new enrollment data and existing customer data for daily delivery requirements
9 processing, creation of Daily Delivery Requirements, posting of Daily Delivery
10 Requirements and capacity assignment. All of those tasks could be accomplished
11 without having black-out dates. Other LDGCs have processes that do just that.
12

13 **Q. WHY ARE BLACK-OUT DATES UNDESIRABLE?**

14 A. The customer is negatively impacted by the fact Columbia does not accept
15 enrollments each day and the blackout period can delay the customer switch. For
16 example, if the customer enrolls by the 15th of the month he can start on 1st of the
17 following month but if he enrolls on the 16th he will not start until the first of the
18 second month following.
19

20 **Q. HAVE YOU ENCOUNTERED THIS SITUATION BEFORE AND DOES IT
21 HAVE A REMEDY?**

22 A. Yes. This can be likened to what Peoples Natural Gas used to do when it used the
23 date of the confirmation period as a cutoff. If the customer enrolled prior to the

1 confirmation date he would be enrolled the next month but if the customer
2 enrolled after the date there would be an additional delay of one month. Peoples
3 was able to change their system for the good of the customer and now if a
4 customer enrolls he will start on the next read date with the supplier regardless
5 when he enroll. Likewise, Equitable Gas does not have such a delay. Columbia
6 should modify its system and eliminate this delay.

7
8 **Q. WHAT FEES DOES COLUMBIA CHARGE FOR CUSTOMER DATA**
9 **SERVICES?**

10 A. Columbia has several certain administrative fees which it imposes without
11 adequate cost of service justification. These fees are the change fees for pricing
12 changes, rate adjustments, and customer drops past certain administrative dates,
13 all have a \$25 per customer fee assessed to the NGS. Neither Peoples Natural
14 Gas nor Equitable Gas impose such fees.

15
16 **VI. COLUMBIA SHOULD PROVIDE CUSTOMER LISTS AT NO CHARGE**

17 **Q. WHAT ARE CUSTOMER LISTS?**

18 A. Eligible Customer Lists ("ECLs") contain data enabling Suppliers to contact
19 customers and present competitive gas supply offers. The Commission identified
20 the items that are to be included in the customer list that the NGDC provides.

21

22

1 Q. **WHY IS IT NECESSARY AND IMPORTANT FOR COLUMBIA TO**
2 **PROVIDE CUSTOMER DATA TO SUPPLIERS?**

3 A. In order to attract new customers, the Suppliers make use of direct mail, utilizing
4 customer lists provided by the NGDCs. Having customer lists, including account
5 numbers, also allows suppliers to better ensure that they are enrolling eligible
6 customers.

7
8 Q. **WHAT CUSTOMER DATA DOES COLUMBIA INTEND TO PROVIDE**
9 **TO SUPPLIERS?**

10 A. In its comments on the Interim Guidelines For Natural Gas Distribution Columbia
11 stated, "Columbia proposes to make its ECL available online via a secured
12 website accessible to suppliers licensed by the Commission and approved by
13 Columbia to provide gas in Columbia's service territory. Consistent with the
14 recommendation in the Tentative Order, Columbia intends to provide the
15 complete account number, along with the other 9 recommended data points
16 following issuance of a final order, and as soon as such programming can be
17 implemented. Columbia also plans to include a process in its tariff for requesting
18 and issuing customer lists and may include a cost recovery mechanism to cover
19 the costs associated with producing the 10 data point customer list." (Columbia
20 Comments, P. 3).

21
22
23

1 **Q. WERE BOTH OF THOSE POINTS ISSUES IN THE PAST?**

2 A. Yes they were and still are. In the previous base rate proceedings the Suppliers
3 complained that CPA charges for its customers list and then does not provide the
4 entire account number but instead forces potential Choice customers to locate
5 their Columbia gas bill and supply a "check digit" to an NGS in order to obtain
6 service. Such a practice was a barrier to some customers and had the potential for
7 data input errors.

8

9 **Q. WHEN WILL THE FINAL ORDER BE ISSUED?**

10 A. I am advised by counsel that the order is expected soon, perhaps as early as this
11 month, January 2013. If it is not issued, or it is issued and CPA does not
12 promptly carry out what it has promised to, then I will enter supplemental
13 testimony in this proceeding on this topic and recommend that the Commission
14 order Columbia to comply with offering ECL containing complete account
15 numbers to active NGSs on the CPA system.

16

17 **VII. COLUMBIA'S GAS PROCUREMENT COST FAILS TO INCLUDE ALL**
18 **THE PROPER COSTS.**

19 **Q. WHAT IS THE GAS PROCUREMENT CHARGE ("GPC")?**

20 A. The GPC is the component of the Price To Compare that contains costs the utility
21 incurs during the procurement of gas supply for system sales customers. The
22 Commission has ordered the NGDCs to identify and allocate all such costs,
23 remove them from base rates, and collect them through the price to compare

1 (“PTC”). The way things stand currently is that many costs for system gas
2 procurement are included in base rates which are paid for by both sales customers
3 that procure system supply and Choice customers who elect to purchase their gas
4 supply from a Supplier. Choice customers are unfairly paying for certain gas
5 procurement costs instead of all such costs being borne by system supply
6 customers. The Commission intends to end this subsidy of sales customers by
7 Choice customers. In this proceeding Columbia must unbundle its natural gas
8 procurement costs from distribution rates and recover these costs through a gas
9 procurement charge that will be included in its PTC. The NGS have been active
10 in the SEARCH process in Pennsylvania and in the rulemaking process that led to
11 the June 2011 Order which resulted in the regulations at 52 Pa. Code § 62.223,
12 which in turn directed CPA and other natural gas utilities to unbundle gas
13 procurement charges from base rates and include them in the PTC.

14
15 **Q. WHAT WILL YOUR ANALYSIS OF COLUMBIA’S GPC SHOW?**

16 A. I found that CPA’s proposed GPC does not contain all the appropriate costs which
17 CPA incurs in its gas procurement operations. The result of not including all of
18 the appropriate costs is that the competitive playing field is tilted in favor of CPA
19 providing gas supply for customers instead of an even playing field where both
20 shopping and non-shopping customers pay the same amount for regulated
21 delivery services. Currently shopping customers are subsidizing non-shopping
22 customers by also bearing a portion of CPA’s costs to provide system gas
23 procurement services. The GPC, if implemented as proposed by Company

1 witness Strauss, continues a cost burden to customers of NGSs and poses a cost
2 barrier to customers that are shopping for an alternative gas supplier by including
3 costs that they should not pay. This could serve as a disincentive for natural gas
4 suppliers to participate in the CPA Choice program.

5 I have conducted comparisons to the GPCs of other Pennsylvania NGDCs that
6 show a fairer transfer of costs from base rates into the GPC. I will explain the
7 rationale for having a greater transfer of costs than what CPA has proposed along
8 with the evidence that supports such costs. All of this is designed to create a level
9 playing field that will allow natural gas suppliers present competitive supply
10 offers to incumbent utility customers. My recommendations do not change
11 CPA's overall system revenues and are based on the direction provided by the
12 Commission in the June 2011 Order.

13
14 **Q. WHAT AMOUNT DID THE COMPANY PROPOSE FOR THE GPC?**

15 A. Witness Strauss (Exhibit PAS-2) proposes as GPC of \$0.014400/Dth. She
16 calculated that amount based on her allocations of accounting, gas supply, legal,
17 regulatory, and outside services-legal support. I will examine each of these items
18 in detail, for they are understated. There is a much greater flaw, with a more
19 significant impact however. Ms. Strauss did not allocate any system information
20 technology costs or working capital costs for natural gas supply in storage. The
21 GPC Ms. Strauss proposes is much less than other Pennsylvania NGDCs have as
22 their GPC.

1 Q. WHAT ARE EXAMPLES OF OTHER PENNSYLVANIA LDGS THAT
2 HAVE GPCS GREATER THAN THE GPC AMOUNT WHICH CPA HAS
3 IN ITS FILING?

4 A. Peoples Natural Gas (“PNG”), PECO Gas (“PECO”) and UGI have substantially
5 larger GPC amounts – recognizing that the PECO and UGI proposals have not yet
6 been approved by the Commission. PNGs GPC is \$0.0936/mcf, while PECO’s
7 recently filed GPC is \$0.0451/mcf. The GPC for all three UGI Companies is
8 proposed at \$0.0400/Dth, which is the result of its ongoing GPC unbundling case.
9 I am advised by counsel that National Fuel Gas Distribution recently filed a GPC
10 in the amount of \$0.1196.

11

12 Q. WHAT ARE THE COMPONENTS OF THE GPC IN CPA’S FILING
13 THAT ARE DEFICIENT?

14 A. There are several. There is no allocation of costs at all for the working capital
15 incurred due to gas in storage or working capital associated with the receipt of gas
16 revenues and the incurrence of costs for applicable gas supply. The labor charges
17 allocated are only for a very small proportion of the labor that works in the
18 procurement area or on procurement issues. There was no information
19 technology costs allocated to the GPC even though CPA indeed does have an IT
20 system that it has used in gas procurement activities long before Choice existed
21 and continues to do so. I will examine each of these in greater detail.

22

1 Q. WHAT DOES THE COMMISSION'S REGULATION AT 52 PA. CODE §
2 62.223 DIRECT THE COMPANY TO DO?

3 A. It clearly states.

4 "(1) Natural gas procurement costs *must* include the following
5 elements:

6 (i) Natural gas supply service, acquisition and management cost,
7 including natural gas supply bidding, contacting, hedging, credit, risk
8 management costs and *working capital.*" (emphasis added).
9

10 Q. WHAT IS WORKING CAPITAL FOR GAS IN STORAGE?

11 A. Working Capital for Gas in Storage is the return on the capital cost of the storage
12 gas inventory and often comprises a major portion of the GPC. In the PNG filing
13 working capital costs for gas in storage is the largest component of GPC,
14 accounting for \$1,818,012 or the total GPC cost of \$2,971,352 or about 61% of
15 PNGs GPC charge, yet it is not even included in the CPA charge. In the PECO
16 filing, working capital cost is \$1,144,000 out of the total GPC costs of \$1,987,000
17 or 57%. In the UGI settlement, the working capital allocation was \$888,259 or
18 46%. Clearly working capital is a significant portion of a utility's GPC, yet
19 Columbia allocated nothing.
20
21
22

1 Q. DOES THE COMPANY EXPLAIN THIS OMMISION OF ALLOCATING
2 WORKING CAPITAL?

3 A. Ms. Strauss did not even address it in her testimony (Statement No. 15) but
4 simply ignored the directive of Section 62.223 that stated the distribution utilities
5 must include working capital. In a data response (OSBA I-28.d) the Company
6 said, "Working capital costs for gas in storage were excluded from the GPC
7 primarily due to the existence of the CHOICE average day balancing program."
8 The response continues and explains that at times during the year the Suppliers'
9 deliveries of gas into storage are less than the customers' requirements and at
10 other times during the year the Suppliers' deliveries of gas into storage are greater
11 than the customers' requirements. Somehow to Columbia, this serves as rationale
12 to violate the clear wording of the Commission Order. The Order has absolutely
13 no language that provides for the exclusion of working capital based on any
14 particular method of balancing of CHOICE customers' loads. More importantly,
15 the relevant working capital costs are the costs associated with gas used to
16 provide default service, not CHOICE.

17

18 Q. WHAT DO YOU PROPOSE THAT CPA INCLUDE AS THE WORKING
19 CAPITAL COMPONENT IN ITS GPC?

20 A. Because Ms. Strauss did not present any data, I relied on the information obtained
21 in data requests from NGS Set I. In data response NGS I-3 the Company
22 provided a table of working capital expense for gas in storage. By adding the
23 three columns from April 2011 through March 2012, then averaging over the 12-

1 month period, the average working capital expense is \$85,914,286. Company
2 witness Kempic states in Statement No. 1, P. 24, that the Columbia should be
3 granted an opportunity to earn 11.25% rate of return. That return applied to the
4 gas storage inventory of \$85,914,286 creates a revenue requirement of
5 \$9,665,357. This is the amount that Ms. Strauss should have included in her GPC
6 calculation; therefore, I will include it along with the other costs that she and I
7 have identified.

8
9 **Q. WHAT IS THE TOTAL AMOUNT OF LABOR INVOLVED IN THE**
10 **PROCUREMENT PROCESS THROUGHOUT THE CPA SYSTEM?**

11 A. Ms. Strauss summarized all the GPC cost components in Exhibit PAS-2 Revised.
12 The total labor costs are \$439,766, however this number is flawed. By
13 comparison, PNG allocated \$563,665 and PECO allocated \$737,000.

14
15 **Q. HOW MANY TOTAL EMPLOYEES WORK IN THE GAS**
16 **PROCUREMENT AREA?**

17 A. In the data response to OSBA (Set I-28) the Company provides data showing that
18 3 Accounting employees, 17 Gas Supply employees, 3 Legal employees, and 12
19 Regulatory employees for a total of 35 full-time employees, work in the gas
20 procurement area with a total cost (labor & benefits) of \$1,966,750, however,
21 CPA only allocated costs of \$439,766 in Ms. Strauss' exhibit. Upon examination
22 of the data table (OSBA I-28 Attachment A) it appears that Ms. Strauss' data is
23 flawed. The individual employee amounts that Ms. Strauss sums to total

1 \$439,766 is the data of column 14. Column 14 is the product of columns 12 and
2 13, however the data is a mess. The products of the first 10 employees, through
3 Gas Supply 7, is accurate, but the rest of the data for the remaining 25 employees
4 is not.

5
6 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
7 **ALLOCATION OF LABOR TO THE GPC?**

8 A. The CPA System allocation should be increased to \$650,332, which is the average
9 of the PNG and PECO costs and at the labor rate of the CPA System represents
10 about one-third of the Company's total labor expense shown in OSBA I-28
11 Attachment A, column 12 total, so that amount is certainly not unreasonable.

12
13 **Q. DESCRIBE THE INFORMATION TECHNOLOGY ("IT") AT THE CPA**
14 **SYSTEM THAT IS USED TO SUPPORT THE PROCUREMENT**
15 **PROCESS?**

16 A. Nowhere in her testimony did Ms. Strauss describe any IT used for system gas
17 procurement and similar to working capital she did not include any IT costs in the
18 GPC. When asked in the data request OSBA I-28.e, the reply was, "It was
19 determined that the information systems related to gas procurement would still be
20 required in the event there was no Choice program or if all customers were on
21 Choice." The IT system is named "GasSource", so even the name of the software
22 sounds to me like it would be software that might be used in sourcing gas. It is a
23 non sequitur that there should be no IT costs allocated to gas procurement. The

1 Company stated that the systems are used on gas procurement and other gas
2 sourcing functions. Ms. Strauss went on to claim the GasSource system is used
3 for other activities also, and apparently felt that since GasSource was used for
4 activities in addition to the procurement activities that would justify not including
5 any allocation at all for IT costs to the GPC.

6
7 **Q. IS THAT THE CORRECT WAY TO ADDRESS GASSOURCE COSTS?**

8 A. No. The point of the GPC is to identify costs that are used to support
9 procurement activities. It is recognized that many costs must be determined by an
10 allocation because people and capital are often shared between procurement
11 activities and non-procurement activities. If Ms. Strauss' rationale were to be
12 applied across the board then no costs would be allocated to the GPC, because all
13 of the procurement functions and services existed prior to Choice and many of
14 those functions and services still exist in a Choice environment. The unbundling
15 of those costs should not be uncertain in her mind since it is required by Section
16 62.223.

17
18 **Q. HOW DID PNG AND PECO TREAT IT COSTS?**

19 A. Both companies allocated substantial IT costs to the GPC. Peoples allocated IT
20 capital costs, along with IT support and IT system DD&A costs for a total of
21 \$524,445. PECO, who operates the Gastar system, allocated 81% of its Gastar
22 costs to the GPC. The capital recovery amount it identified was \$57,000.
23 Presumably labor costs were included in the overall labor allocation.

1

2 **Q. WHAT IS YOUR RECOMMENDATION FOR THE AMOUNT OF ITS**
3 **COST ALLOCATION TO THE GPC?**

4 A. I issued a data request to discover the annual IT cost for the gas procurement
5 systems used by Columbia in Pennsylvania. The response to NGS I-3 was “The
6 total expense for maintaining Columbia’s IT systems included in the Historic Test
7 Year was \$12,805,568.” The Company then continued on by pointing to its
8 previous explanation that no IT costs should be allocated to GPC. Since the only
9 data the Company provided regarding IT costs was this HTY number of \$12.8
10 million, I recommend allocation of 10% of that amount or \$1,280,000 to the GPC.
11 It is clear that Ms. Strauss’ belief that if any portion of GasSource is used for non-
12 procurement functions means that nothing should be allocated to gas procurement
13 is just plain wrong.

14

15 **Q. WHAT ARE THE TOTAL COSTS THAT CPA SHOULD REMOVE**
16 **FROM BASE RATES AND INCLUDE IN THE GPC?**

17 A. My calculations are presented in Exhibit NGS-1. Using my labor recommendation
18 of \$650,332, my IT recommendation of \$1,280,556, and my working capital
19 recommendation of \$9,665,357 along with the amounts proposed by Columbia for
20 outside legal expense of \$25,521 totals \$11,621,767. This is much more
21 reasonable than the meager amount of \$465,287 proposed by CPA and shown in
22 Exhibit PAS-2 Revised.

23

1 **Q. USING THE DATA PROVIDED BY THE COMPANY IN THE DATA**
2 **REQUEST RESPONSES, WHAT IS THE CALCULATED GPC?**

3 A. The sales quantities stated by Ms. Strauss were 323,191,965 Therms. This results
4 in a GPC of \$0.3596/Dth.

5
6 **Q. WHAT IS THE SUMMARY OF YOUR TESTIMONY?**

7 A. The Commission regulations at 52 Pa. Code § 62.223 mandate that CPA include
8 working capital in its GPC and allocate an appropriate amount of IT costs.
9 Evidence obtained from the Company in several data requests provides the data to
10 determine the working capital and IT costs that should be included in the GPC. I
11 have applied these updates into Exhibit NGS-1. The result is that the GPC for
12 CPA should be \$0.3596/Dth.

13
14 **VIII. SUMMARY OF RECOMMENDATIONS**

15 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS?**

16 A. To preserve and encourage the continued development of the competitive
17 marketplace, Columbia should be ordered to:

- 18 • Change the Transportation Under/Overdelivery Penalty to reduce the punitive
19 charge.
- 20 • Change the Choice Under/Overdelivery Penalty to reduce the punitive charge.
- 21 • Make administrative changes in the transportation services area.
- 22 • Columbia should make good on its promise to provide complete customer lists at
23 no cost.

1 • Adjust several of the costs allocated to the GPC to include working capital on
2 storage gas and IT costs that were omitted.

3

4 **Q: ARE THERE ANY OTHER ISSUES YOU WISH TO DISCUSS?**

5 A: I am still waiting for clarification of some data responses that I had requested
6 from Columbia and may wish review additional aspects of their filing.

7

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.

EXHIBIT NGS-1

Exhibit NGS-1

CPA System Allocations

<u>Line</u>		<u>Units</u>	<u>Source</u>	<u>TOTAL</u>
1	Total Labor & Benefits			\$650,332.00
2	Outside Legal			\$25,521.27
3	Subtotal			\$675,853.27
4	IT Costs	10.0%	\$12,805,568	\$1,280,556.80
5	Working Capital			\$9,665,357.00
6	Total GPC Costs			\$10,945,913.80
7	Sales Quantities	Therms		323,191,965
8	GPC Costs	\$/Dth		\$0.3387

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, :
et al., :

v. :

Docket No. R-2012-2321748

Columbia Gas of Pennsylvania, Inc. :

**REBUTTAL TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
THE NATURAL GAS SUPPLIERS**

Dominion Retail, Inc.
Interstate Gas Supply, Inc.
Shipley Energy Company

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January 28, 2013

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Hbg RR

1 **Q. PLEASE STATE YOUR NAME AND ON WHOSE BEHALF YOU ARE**
2 **TESTIFYING?**

3 A. I am James L. Crist, President of Lumen Group, Inc., and am presenting rebuttal
4 testimony on behalf of Dominion Retail, Inc., Interstate Gas Supply, Inc., and Shipley
5 Choice LLC d/b/a Shipley Energy, collectively the Natural Gas Suppliers (“Suppliers” or
6 “NGS”).

7
8 **Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN YOUR REBUTTAL**
9 **TESTIMONY?**

10 A. I reviewed the testimony of the other parties and have several comments with regard to
11 the testimony of the Office of Small Business Advocate’s (“OSBA”) witness Mr. Knecht,
12 and in particular, his discussion of the Gas Procurement Charge (“GPC”). While we
13 agree on several aspects of the GPC development, there are some areas where I simply
14 reject his approach, or where I may believe that a different approach is appropriate. Also
15 I have received additional information from the data requests I issued to Columbia Gas
16 and am able to revisit my recommended GPC based upon this new data.

17
18 **Q. WHAT POINTS DOES MR. KNECHT MAKE CONCERNING THE GPC?**

19 A. Mr. Knecht recommends that the Company include information technology costs in the
20 GPC, which is what the regulation mandates. I agree with Mr. Knecht on this point,
21 however, he did not make a recommendation of the specific amount. Because I obtained
22 information from the Company from the recently received data request responses, I will
23 update the recommendation that I made in my direct testimony (NGS Statement No. 1).
24 Mr. Knecht also recommends that the Company include the financing costs of storage gas

1 in the GPC. I recommended the same thing and even provided a specific amount based
2 on the Company's storage gas inventory and rate of return. I will revisit these amounts
3 based on recently received data request responses. Mr. Knecht then goes on to
4 recommend that the Company impose a surcharge on NGSs for the financing costs of
5 storage gas. I disagree with that recommendation. The regulation is clear that storage gas
6 working capital (financing) costs are to be a component of the GPC and the
7 Commission's Regulation makes no adjustment or provision to charge suppliers for such
8 costs. Advocating for such a change in the regulation or the implementation of the
9 regulation is not appropriate in this proceeding, but rather, should be undertaken in a
10 separate proceeding, where all stakeholders can participate. To be clear, I do not believe
11 that any financing costs of gas in storage should be charged to NGSs, but if such a
12 concept is going to be debated, then an appropriate venue must be established to do so.

13
14 **Q. WHAT DOES MR. KNECHT STATE ABOUT THE COMPANY'S**
15 **INFORMATION TECHNOLOGY ("IT") COSTS?**

16 **A.** He states that he disagrees with the Company's argument that no IT costs should be
17 included in the GPC because the Company would need IT systems and the costs to
18 supports such systems with or without the gas procurement function. Instead, he argues
19 that the Commission's rationale for the unbundling regulation is that if a supplier and the
20 NGDC are required to maintain the same functionality in order to provide gas supply
21 service, then the NGDC should be required to unbundle those costs out of base rates so
22 customers of suppliers are not paying for the same services twice in order to level the
23 playing field. Mr. Knecht recommends that the Company be required to allocate IT costs

1 to the GPC based on the use of the IT systems in the gas procurement function.
2 However, Mr. Knecht did not make an estimate of the amount of IT costs to allocate.
3

4 **Q. WHAT AMOUNT OF IT COST DID YOU RECOMMEND IN YOUR DIRECT**
5 **TESTIMONY?**

6 A. In my direct testimony I recommended that the Company allocate 10% of its overall IT
7 expense amount of \$12,805,586 that it stated in its response to data request NGS I-5. The
8 response did not provide any breakdown of the overall IT expense claim nor did it
9 provide any data on the costs of the systems that are involved in the gas procurement
10 function.
11

12 **Q. WHAT SYSTEMS ARE INVOLVED IN THE GAS PROCUREMENT**
13 **FUNCTION?**

14 A. There are several IT systems that the Company employs in the gas procurement function.
15 These include systems for the purchasing of the gas, management of the gas, overall
16 employee data management systems, since the Company has admitted that several
17 employees work in the gas procurement area, and systems that manage customer data
18 which is used to determine the necessary amount of gas that the Company must purchase
19 on behalf of its sales customers.
20

21 **Q. WHAT NEW INFORMATION HAVE YOU UNCOVERED?**

22 A. In NGS Set I-5, we asked for the cost of all the IT systems that are involved in the
23 Company's gas procurement function. The answer provided by the Company was not

1 detailed at all, but instead stated the annual cost for all IT systems of \$12,805,568. In
2 NGS Set II, data request II-4 (Exhibit NGS-R1) was issued to obtain a breakdown of that
3 amount to identify the amount spent in the gas procurement area. The request stated,
4 “Provide a list of all information technology systems that were addressed collectively in
5 the response to NGS I-5. Describe each system thoroughly. Provide the breakdown of
6 the \$12,805,568 cost, by system.” The Company provided the breakdown of costs, but it
7 was not by system. Instead it provided a breakdown of general categories of IT system
8 *functions*, such as NiSource IT, mainframe, servers and distributed storage, software
9 maintenance, data circuits/voice and data network, end user services, and application
10 support. All of those system functions could certainly apply to IT systems used for gas
11 procurement. That data unfortunately did not provide what I asked for, however,
12 continuing in the response it did then provide a description of the systems. In the
13 description there were three systems that would clearly be used for system gas
14 procurement, GasSource (#9) and GP1 (#11) and Maximo (#20).

15
16 **Q. WHAT IS THE GASSOURCE SYSTEM?**

17 A. GasSource is the gas management system used by all the NiSource LDCs for its “traders,
18 schedulers, and financial analysts...The application focuses on the LDC gas supply
19 process of contracting for pipeline transportation and storage, gas purchases, nominations
20 and scheduling, capacity release, off system sales, invoice reconciliation and billing,
21 reporting for company and interrogatory uses, and monthly transfer of data to the
22 accounting systems.” The response continues by explaining that “GasSource is used by
23 the LDCs to schedule its own supplies.”

1 **Q. WHAT IS THE GP1 SYSTEM?**

2 A. GP1 "(p)osts volumes and payments on contracts to purchase gas from local gas
3 producers." Clearly it is a system used in gas procurement.
4

5 **Q. WHAT IS MAXIMO?**

6 A. It is the supply chain procurement system, which would obviously be used in the gas
7 procurement function.
8

9 **Q. ARE OTHER SYSTEMS DESCRIBED THAT COULD BE USED IN GAS
10 PROCUREMENT?**

11 A. Most certainly there are aspects of many of the systems that are used in a supportive role
12 in the gas procurement function. Systems that deal with financial data (GEAC,
13 Hyperion), billing (GTS, usage history (DIS, NGD data warehouse), and several systems
14 that support employees of the gas procurement function (EASI, PeopleSoft). Harkening
15 back to Mr. Knecht's point, I must point out that if any of this functionality is required by
16 NGSs then 100% of these costs related to procurement must be unbundled and an
17 allocation of those costs must be included in the GPC.
18

19 **Q. WHAT ADJUSTEMENT WILL YOU MAKE IN YOUR GPC CALCULATION?**

20 A. Based on the description of the programs that are clearly used primarily for gas
21 procurement and the other support programs, and considering that after two rounds of
22 data requests the Company still has not provided the specific data I requested, I still have

1 no basis to adjust my allocation of 10% of the total annual IT expenditures. Thus, my
2 recommended GPC does not change.

3
4 **Q. REGARDING THE WORKING CAPITAL COSTS FOR STORAGE GAS, WHAT**
5 **DID MR. KNECHT RECOMMEND?**

6 A. He recommends that working capital for storage gas be included in the GPC and
7 performed a calculation based on the Company's rate base claim for storage gas and its
8 proposed pre-tax rate of return. Mr. Knecht's calculation for that component of GPC was
9 \$0.23/Dth. My calculation for the entire GPC that I included in my direct testimony
10 resulted in \$0.3596/Dth and just the working capital component of that would be about
11 \$0.30/Dth. There are some differences between the working capital amounts that Mr.
12 Knecht and I used. He used \$78.32 million for the gas in storage. In Volume 3 of the
13 Company's filing, Exhibit No. 8, Schedule No. 7, calculates \$84,406,062 as the 12-month
14 average from June 2011 through May 2012, whereas the amount I used was \$85,914,286
15 which was the 12-month average from April 2011 through March 2012. The difference
16 between the amount I used and the amount the Company stated in its filing is not
17 significant, therefore I have no reason to favor the number Mr. Knecht calculated.
18 However, regardless of which value is used for the cost, both of us agree that working
19 capital for storage gas should be included in the GPC.

20
21 **Q. WHERE DO YOU DISAGREE WITH MR. KNECHT?**

22 A. After recommending that the storage gas working capital costs be included in the GPC he
23 then proposes a new charge that would be billed to Choice suppliers that would be

1 designed to recover some of these charge. I do not agree with this proposal for several
2 reasons.

3
4 **Q. HOW DOES MR. KNECHT EXPLAIN THE RATIONALE FOR THIS NEW**
5 **CHARGE HE PROPOSED?**

6 A. He relies on the Company's claim that its Choice program uses the Company's storage
7 capacity to balance supplies with the actual loads for the NGS' customers because the
8 Company requires only that the NGSs begin filling storage in August rather than earlier
9 in the year and therefore must be using the Company's storage gas for balancing. That is
10 the explanation that the Company provided in its response to the data request OSBA Set
11 I-28, when asked why there was no working capital for storage gas included in the GPC.
12 Mr. Knecht was misled by that data request response.

13
14 **Q. IS THE COMPANY'S EXPLANATION ONE-SIDED?**

15 A. Absolutely. The Company's claim that because suppliers begin filling their storage in
16 August and that eventually by the end of December the CHOICE customers' demand
17 exceeds the amount of the supplier's storage gas and the customers then rely on balancing
18 provided by the Company's gas in storage. If this is accurate, then the opposite is also
19 accurate. That is, one has to consider the rest of the months in the annual cycle where
20 customers' demands are less than the daily deliveries of the supplier and the suppliers'
21 gas is being used to fulfill the needs of system supply customers. At that point the
22 Company is using the suppliers' gas to balance its system. It does not matter if the
23 Company commences its reconciliation on July 31st or any other time. Half of the year,

1 the supplier will have “excess” gas in storage and the other half of the year the Company
2 will have “excess” gas in storage.

3
4 **Q. HOW DOES A NGS FILL ITS STORAGE?**

5 A. Columbia has an “average day” Choice program so it tells the NGS what the daily
6 delivery requirements are. The NGS delivers gas throughout the year at that daily
7 requirement and performs the annual reconciliation on July 31. In its response to OSBA
8 Set I-28 the Company used that as an explanation why it does not include working capital
9 of storage gas in its GPC, but that is not a valid reason that justifies charging suppliers
10 working capital for storage gas. The Company does not release the valuable storage asset
11 to the NGS, but instead retains control of it and has a variety of both on-system and off-
12 system ways to use the storage assets to its advantage. Because an NGS must flow gas
13 evenly on every day of the year, it cannot take advantage of price swings that the
14 Company can. The Company can take advantage of the summer-winter price differential
15 for the gas it purchases for system supply but a supplier cannot. During the half of the
16 year where the NGS gas deliveries exceed Choice customers’ demands the surplus NGS
17 gas is likely used by the Company to satisfy Columbia’s sales customers’ needs.
18 Columbia may engage in off-system sales of storage capacity and may produce revenue
19 that primarily benefits its sales customers and shareholders. Columbia’s working capital
20 argument is one-sided. Just as there are periods when CHOICE customer requirements
21 are less than the NGS average day deliveries, there are times when the NGS deliveries of
22 storage gas for CHOICE customers are in excess of the CHOICE customer demand. At
23 those times the supplier is bearing the cost of working capital for that gas it is delivering

1 and the Company is benefiting. Simply because there are times of the year when Choice
 2 customer demands exceed the deliveries of an NGS is no reason to exclude the working
 3 capital cost of storage gas from the GPC.

4
 5 **Q. HOW DOES COLUMBIA'S AVERAGE DAY PROGRAM CAUSE SUPPLIERS**
 6 **TO INCUR WORKING CAPITAL EXPENSE?**

7 A. In designing an average day system CPA has required suppliers to fill the storage that the
 8 supplier will eventually use in the winter. Based on what suppliers have experienced in
 9 the market, Columbia's assertion that suppliers start filling storage in August is only a
 10 bookkeeping convention used by Columbia. It is unlikely that storage contract(s)
 11 Columbia holds offers it the operational flexibility to begin filling storage in August and
 12 fill the entire storage capacity by the end of October. Since this is likely not the case then
 13 it means that suppliers actually start filling storage in April at the assigned average daily
 14 delivery volume, which results in several months of suppliers having to incur working
 15 capital costs.

16
 17 **Q. DOES THE JUNE 2011 ORDER OR 52 Pa. Code § 62.223 MAKE THE**
 18 **ALLOCATION OF WORKING CAPITAL OPTIONAL OR CONDITIONAL**
 19 **BASED ON THE DESIGN OF A NGDC'S CHOICE PROGRAM?**

20 A. Absolutely not. The language of 52 Pa. Code § 62.223 is clear. It states:
 21 "(1) Natural gas procurement costs *must* include the following elements:

1 (i) Natural gas supply service, acquisition and management cost, including
2 natural gas supply bidding, contacting, hedging, credit, risk management
3 costs and *working capital*.” (emphasis added).
4

5 **Q. WHAT IS WRONG WITH MR. KNECHT PROPOSING A CHARGE TO NGS?**

6 A. For all the reasons I just explained, it is totally inappropriate and would maintain a non-
7 level playing field where the Company has an advantage over a NGS attempting to
8 provide gas in a CHOICE program. I am advised by counsel that a charge, such as the
9 one Mr. Knecht has proposed, is contrary to the regulation which mandates the
10 unbundling of those costs out of base rates. That is, the regulation does not suggest that
11 working capital costs be removed from base rates only to be recovered from suppliers.
12 Rather, the regulation is clear that the costs are to be recovered through the PTC from
13 default service customers. Since the purpose of the Regulation is to create greater
14 supplier participation in the market, Mr. Knecht’s proposal seems contrary to the spirit of
15 that regulation as well. Finally, Mr. Knecht presents no evidence to support this new rate
16 proposal in this case. It is completely inappropriate to suggest such a deviation from the
17 regulation in this proceeding. Creation of a new charge and a revision of the recently
18 created regulation seems premature. Any such revision should be done in a proceeding
19 that would consider ramifications to the CHOICE market throughout the Commonwealth
20 and the notion should be supported with any evidence that would allow consideration of
21 such a rate, let alone approval. There is no such evidence in this case. Accordingly, Mr.
22 Knecht’s suggestion must be rejected.

1 **Q. WHAT ALTERNATIVE SOLUTION EXISTS TO NOT INCLUDING WORKING**
2 **CAPITAL OF STORAGE GAS IN THE GPC?**

3 A. If the Company is concerned that somehow it is bearing a cost unevenly then it could
4 modify its average day program. I note that other NGDC's--those that employ an asset-
5 allocation model where storage assets are allocated to CHOICE suppliers and those
6 suppliers are responsible to deliver enough gas, through the combination of flowing
7 supply and storage, to meet the demand of their customers--did not raise this complaint.
8 We are not advocating such a change here, but if Columbia believes there is a problem, it
9 has the option to propose a change in a future case.

10

11 **Q. WHAT IS THE SUMMARY OF YOUR REBUTTAL TESTIMONY?**

12 A. Based on the lack additional information obtained in recent data request responses:

- 13 • The amount of IT cost that should be allocated to the GPC should be the 10% I originally
14 proposed in my direct testimony.
- 15 • Working capital for storage gas should be allocated to the GPC as recommended in both
16 my and Mr. Knecht's direct testimony.
- 17 • The amount of working capital used in the calculation of working capital expense should
18 be \$85,914,286, not the lesser amount that Mr. Knecht used in his calculation.
- 19 • Mr. Knecht's proposal to create a new charge that NGS would be billed should be
20 rejected for it maintains an unfair advantage for the Company.

21

22 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

23 A. Yes.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, :
et al., :

v. :

Docket No. R-2012-2321748

Columbia Gas of Pennsylvania, Inc. :

**SURREBUTTAL TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
THE NATURAL GAS SUPPLIERS**

Dominion Retail, Inc.
Interstate Gas Supply, Inc.
Shipley Energy Company

RECEIVED
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SECRETARY'S BUREAU

February 8, 2013

2-13-13
Hbg *[Signature]*

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

3 A. I am James L. Crist, President of Lumen Group, Inc., and am presenting rebuttal
4 testimony on behalf of Dominion Retail, Inc., Interstate Gas Supply, Inc., and Shipley
5 Choice LLC d/b/a Shipley Energy, collectively the Natural Gas Suppliers (“Suppliers” or
6 “NGS”).

7
8 Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN YOUR SURREBUTTAL
9 TESTIMONY?

10 A. I reviewed the rebuttal testimony of the Company witnesses Heckathorn (Stmt. No. 117-
11 R), Krajovic (Stmt. No. 106-R), and Strauss (Stmt. No. 115-R) and address the issues of
12 penalty charges and the Gas Procurement Charge (“GPC”).

13
14 Q. WHAT CLARIFICATION DOES MR. HECKATHORN MAKE REGARDING
15 TRANSPORTATION PENALTY CHARGES?

16 A. In my direct testimony I was concerned that CPA places higher penalty charges on its
17 transportation customers that its affiliates in Virginia or Ohio, and that Pennsylvania
18 should not be unduly penalized. Mr. Heckathorn clarified that the penalty charge in
19 Virginia for violating a balancing service restriction (“BSR”), which is similar to what in
20 Pennsylvania is referred to as an Operational Flow Order (“OFO”), is a price penalty of
21 50%. That is, if there is an under delivery then Columbia Gas of Virginia (“CVA”) will
22 make up the gas and charge the supplier a 50% premium of the daily price. If there is an
23 over delivery by the supplier then CVA will purchase the excess at 50% of the daily
24 price. In Ohio, Columbia Gas of Ohio (“COH”) the penalty charges are the higher of

1 either a 10% price penalty or \$10/dth times the overage/underage. In both states
 2 Columbia would also pass any additional penalties that it incurs on to the supplier.

3
 4 **Q. WHAT DOES MR. HECKATHORN STATE THE COMPANY'S PENALTY**
 5 **CHARGES ARE IN PENNSYLVANIA DURING OFO/OMO DAYS?**

6 A. He states, "the Company charges a penalty of \$2.33 per therm plus a pro rata portion of
 7 any costs or charges incurred by Columbia on the day of the violation." (P.4, L. 16). Just
 8 to compare this with the other states, the \$2.33 per therm is of course \$23.30 per
 9 dekatherm, which is more than twice the \$10/dth penalty is in Ohio. In Virginia, based
 10 on a gas price of \$3.25/dth the 50% price penalty would be \$1.67/dth. It is clear that
 11 Columbia penalizes Pennsylvania much greater than Virginia or Ohio.

12
 13 **Q. BASED ON THIS COMPARISON WHAT DO YOU RECOMMEND FOR THE**
 14 **TRANSPORTATION PENALTIES IN PENNSYLVANIA?**

15 A. The Pennsylvania penalties should be a mix of each of the Virginia and Ohio penalties.
 16 Taking half of the penalty structure of Ohio and added half of the penalty structure of
 17 Virginia would produce a penalty of \$5/dth plus a price penalty of 25%.

18
 19 **Q. MOVING ON TO CHOICE PENALTIES, WHAT DOES MR. HECKATHORN**
 20 **STATE ARE THE CHOICE PENALTIES IN PENNSYLVANIA?**

21 A. He explains there are two separate penalties. "The first, a daily penalty of \$2.33 per
 22 therm is in place to ensure delivery consistency by Choice Suppliers...while the second,

1 a daily penalty of \$4.66 per therm applies to those days when the Company has issued an
2 OFO/OMO” (P. 15, L. 21).

3
4 **Q. HOW DOES THIS COMPARE TO THE CHOICE PENALTIES COLUMBIA**
5 **CHARGES IN OTHER STATES?**

6 A. Once again we see that Columbia places harsher penalties on Pennsylvania suppliers than
7 in other states. In Virginia there is a 20% price penalty for over/under deliveries and
8 during an OFO there is an additional \$10/dth added. In Ohio on a non-OFO/OMO day
9 there is a price penalty of 50% or \$10/dth, whichever is higher. On OFO/OMO days, the
10 penalty is the higher of the price penalty of 50% or \$30/dth. Pennsylvania has penalties
11 of \$23.30/dth and \$46.60/dth on OFO days. The penalties are excessively high compared
12 to those two other Columbia states.

13
14 **Q. HOW DO YOU RESPOND TO MR. HECKATHORN REFUTING THE IDEA**
15 **THAT PENALTIES SHOULD HAVE A “REASONABLE COST BASIS” AS YOU**
16 **PROPOSED?**

17 A. He states, “the concept of a penalty being cost based is baseless and without merit.” (P.
18 13 L. 19) but does not state what a basis should be. A penalty should be just and
19 reasonable and not unrealistically high.

20
21 **Q. WHY ARE COMPARISONS OF PENALTY CHARGES OF OTHER COLUMBIA**
22 **OPERATING COMPANIES IMPORTANT?**

1 A. Mr. Heckathorn rejects my comparison of Columbia's Pennsylvania penalties to the
2 penalties it has in other states (Virginia and Ohio). The fact is that other distribution
3 company penalties may present a reasonable basis for what is an appropriate industry
4 standard, considering the Mr. Heckathorn does not want to have a cost basis for the CPA
5 penalties. Additionally, Mr. Heckathorn stated that, "elimination of the \$2.33/therm
6 penalty would greatly reduce Columbia's ability to manage its system" (P. 13 L. 13).
7 Perhaps a reduction as I am proposing would still allow Columbia the ability to manage
8 its system. The Columbia distribution companies in Virginia and Ohio have significantly
9 lower penalty charges and Mr. Heckathorn has not cited any evidence that either of them
10 are having difficulty managing their systems due to inappropriate supplier behavior.

11
12 **Q. IN ADDITION TO THE OTHER COLUMBIA OPERATING COMPANIES IN**
13 **VIRGINIA AND OHIO, WHAT OTHER LDC COMPARISONS ARE VALID?**

14 A. In western Pennsylvania where CPA operates there are two other NGDCs, Peoples
15 Natural Gas and Equitable Gas. In Peoples Supplier Tariff (Section 4ii) the OFO penalty
16 is:

- 17 The OFO incremental charges shall equal:
18 (1) the payment of a gas cost equal to the highest incremental cost paid by the
19 Company on the date of noncompliance; and
20 (2) one month's demand charges and/or otherwise applicable storage and overrun
21 costs. This charge shall not be imposed more frequently than twelve times in any
22 thirty-day period; and
23 (3) the payment of all other charges incurred by the Company on the date of the
24 OFO shortfall that are associated with the OFO shortfall; and,
25 (4) in the Company's discretion, an appropriate penalty charge, not to exceed
26 \$15/Mcf.

27
28 The Equitable tariff (Section 11.13 OFO) cites a penalty of:
29 1) Ten dollars per Mcf on the difference; and

1 2) A pro-rata share of any other charges incurred by the Company as a result of
2 the customer's noncompliance with the OFO.
3 In addition, there is a 50% price penalty for a cash-out.

4
5 So both of those companies that operate in the same region as CPA have penalties that
6 are substantially less than CPA. This is a valid illustration of penalties that are just and
7 reasonable.

8
9 **Q. BASED ON THIS COMPARISON WHAT DO YOU RECOMMEND FOR THE**
10 **CHOICE PENALTIES IN PENNSYLVANIA?**

11 A. The Pennsylvania penalties should be a mix of each of the Virginia and Ohio penalties.
12 Taking half of the penalty structure of Ohio and added half of the penalty structure of
13 Virginia would produce a penalty of \$5/dth plus a price penalty of 10% on non-
14 OFO/OMO days. During OFO/OMO days there should be penalties of the higher of
15 \$20/dth or a 35% price penalty. It is time to put an end to the disadvantage that
16 Columbia places on Pennsylvania compared to Virginia or Ohio.

17
18 **Q. WHAT INFORMATION DID MR. HECKATHORN PROVIDE REGARDING**
19 **INFORMATION TECHNOLOGY SYSTEMS USED IN GAS PROCUREMENT?**

20 A. He provided a description of two of Columbia's IT systems, GasSource and GP1, which I
21 had identified in my testimony as being appropriate for inclusion in GPC costs. I
22 identified several other IT systems which would support the labor, accounting, and
23 financial area of gas procurement that Mr. Heckathorn did not address.

1 **Q. BASED ON MR. HECKATHORN'S DISCLOSURE HOW DID COLUMBIA**
2 **ADJUST THE GPC?**

3 A. Ms. Straus in her Exhibit PAS-4R identified \$220,335.60 of IT costs pertaining to the
4 two systems Mr. Heckathorn identified, then allocated 73% to the GPC. Her allocation
5 was based on the number of customers that take Choice service vs. sales service.

6
7 **Q. DOES THE AMOUNT OF IT COSTS ALLOCATED TO THE GPC NOW SEEM**
8 **ADEQUATE?**

9 A. No. Columbia has identified \$12,805,568 for total IT costs and yet allocated only
10 \$160,838 to the GPC. Initially the Company allocated no IT costs to the GPC, however
11 this new amount, which was zero, was not a significant percentage of the total. Initially I
12 had recommended 10% of the total or \$1,280,556 be allocated. Columbia has identified
13 two of the systems used in Gas Procurement, but not allocated any other support systems
14 that would be used in the process, which could be thought of as an allocation of process-
15 supporting IT. I would recommend that the IT amount used to calculate the GPC be
16 \$241,257, which is significantly less than the total IT costs but includes an allocation of
17 50% of the amount cited by Mr. Heckathorn to account for an allocation of other IT
18 systems used in gas procurement.

19
20 **Q. THE MAJOR COMPONENT OF OTHER NGDC'S GPC IS WORKING**
21 **CAPITAL. HAS THE COMPANY PROVIDED ADDITIONAL INFORMATION**
22 **ON THAT?**

1 A. Yes. Ms. Krajovic attempts to explain the Company's rationale for not allocating the
2 working capital for storage gas to the GPC. She includes an exhibit (NJDK-2R) which is
3 an excel spreadsheet that portrays how Choice customers use gas, how suppliers deliver
4 gas, and how the Company manages gas by month for a two-year period.

5
6 **Q. IS THERE FLAW IN MS. KRAJOVIC'S EXPLANATION OF DELIVERY**
7 **PATTERNS?**

8 A. Yes. As Ms. Krajovic explains, "that NGSs will over-deliver in August, September and
9 October and will under-deliver in the months from November through April, followed by
10 another period of over-delivery from May through July." (P.9, L.7). She is correct, and I
11 will point out that the supplier over-delivers for six months of the year and under-delivers
12 for six months of the year. When attempting to illustrate the suppliers must rely on the
13 Company's storage gas, she portrays only half of the picture when she says, "So the NGS
14 owes the Company gas 6 months of the year. During this time, the CHOICE customer
15 and its NGS are both relying upon Columbia's gas in storage and its purchases of such
16 gas to allow the average day program to operate." What she does not explain is that
17 during the other 6 months of the year, Columbia is relying on the NGS' gas in storage
18 and the NGS' purchases of gas. This is simple. Half of the year the supplier is providing
19 more gas than its customer uses, and the other half of the year the supplier is providing
20 less gas than its customer uses. During those periods when the supplier is providing more
21 gas than its customer uses the Company either uses that gas for its customers or places it
22 in storage. Ms. Krajovic would have you believe that the supplier is always in need of
23 support from the Company, and ignores the other 6 months of the year.

1 **Q. DOES THE NGS UNDERDELIVER GAS ON AVERAGE?**

2 A. No. Ms. Krajovic's explanation where she claims, "on average, using normal weather
3 assumptions, the NGS is projected to have an average monthly under-delivered balance
4 of .41 therms for each residential CHOICE customer" is incorrect. First, I believe she
5 meant to say "dekatherms" instead of "therms", but that is not the reason her claim is
6 incorrect. Adding the line 1 amounts for January through December gives a Typical
7 Residential Customer Usage of 86.06 dth. If the residential customer's annual demand is
8 86.06 dth and the NGS delivers 86.06 dth over a 12 month period then there is no
9 systemic under-delivery. Examining her exhibit one can see that if you add any complete
10 12 month period of marketer deliveries, it indeed does total 86.06 dth.

11
12 **Q. WHAT IS THE SIGNIFICANCE OF THE RECONCILIATION DATE?**

13 A. The Company conducts a reconciliation on July 31 of each year. At that time if there
14 have been imbalances which are primarily due to either weather variance or changes in
15 customer counts, the supplier must either buy or sell gas to balance annual deliveries over
16 the past 12-month period with the actual customer consumption. The reconciliation date
17 however does not have the significance that Ms. Krajovic claims when she says, "over
18 deliveries made August through October are quickly offset by under deliveries November
19 through March. The under delivery in the heating season erodes away any over
20 deliveries on a net basis by January." (P.9, L.11) Ms. Krajovic would lead you to
21 believe that because the program reconciliation takes place on July 31st that there is not
22 enough time for the supplier to put sufficient gas into storage to meet the needs of their
23 customers through the winter. Mr. Knecht picked up on this point and made a

1 straightforward recommendation to give the NGS the option to assume responsibility for
2 filling storage starting in April rather than August, which would allow enough time to
3 accumulate gas in storage that does meet the customer's needs through the winter. Ms.
4 Krajovic responds to that by saying, "simply moving the start of the program year to
5 April does not change an NGS's delivery obligation, and thus has no impact on the
6 financing costs of their delivery requirements." This directly contradicts her early claim
7 that the reason the NGS relies on the Company's storage gas is because the reconciliation
8 marks the start of a new 12-month period.

9
10 **Q. MUST THE RECONCILIATION TAKE PLACE ON JULY 31?**

11 A. No. This convention seems to take advantage of the rather arbitrary way of setting the
12 period during which the Company will measure gas deliveries and usage. This idea also
13 seems to violate the basic concept of how the average day delivery program is set up. By
14 Columbia's description it takes the total forecasted usage for a customer (86.06 dth) and
15 divides it by 365 to arrive at an average daily usage number. If you assume that the
16 customer experiences average weather and has average usage, then over a period the
17 aggregate deliveries of the supplier should match the usage of the customer. A
18 reconciliation could take place at any time.

19
20 **Q. WHEN IS GAS PROVIDED BY SUPPLIERS PLACED INTO STORAGE?**

21 A. In any month if a supplier delivers an amount of gas that exceeds the usage of the
22 customer then the Company must either use that gas for its own system needs or place it
23 into storage. Reviewing Ms. Krajovic's exhibit shows that the months of May, June,

1 July, August, September, October, and November all are months when gas deliveries by
 2 suppliers exceeded the customer usage. Ms. Krajovic would have you believe that the
 3 reconciliation that takes place on July 31 clears out any surplus a supplier has provided
 4 and that on August 1 the supplier must now begin delivering gas for the upcoming
 5 heating season; but that is not the case. Gas delivered by the supplier in advance of
 6 August 1 remains in storage and will be withdrawn during the heating season to meet the
 7 needs of the Choice customers.

8
 9 **Q. WOULD IT BE POSSIBLE TO BEGIN FILLING STORAGE IN AUGUST FOR**
 10 **THE WINTER HEATING SEASON?**

11 A. I believe that would be very unlikely, although the Company has not provided any
 12 information on that. The normal fill parameters of storage call for storage to be filled
 13 beginning in the spring, often in April or May. I am unaware of any storage system
 14 serving Pennsylvania customers that would have high enough fill parameters to enable it
 15 to be filled by the time of the winter heating season withdrawal period if filling did not
 16 begin until August. Ms. Krajovic's portrayal that suppliers begin deliveries on August 1
 17 is not accurate.

18
 19 **Q. DO SUPPLIERS ALSO HAVE WORKING CAPITAL FOR GAS IN STORAGE?**

20 A. Yes. In any month that a supplier delivers an amount of gas that exceeds the demand of
 21 their customers, that excess creates a working capital requirement for the supplier. For
 22 example, using data from Ms. Krajovic's exhibit, if in May the supplier is required to
 23 deliver 7.31 dth and the customer uses 4.28 dth that excess amount of 3.03 dth is placed

1 into storage and not withdrawn until the winter heating season, many months later. The
 2 supplier has paid for that gas, and must carry the cost on its books, and that creates a
 3 working capital requirement. The purpose of the regulation is to end the practice of
 4 Choice customers having to pay twice for the same thing. It specifically directs the utility
 5 to remove working capital from base rates and include those costs in the GPC.

6
 7 **Q. WHEN DURING THE YEAR MAY A MARKETER ENROLL A CUSTOMER IN**
 8 **COLUMBIA’S CHOICE PROGRAM?**

9 A. As Ms. Krajovic says, “Columbia has an open enrollment policy for CHOICE. That is,
 10 the NGSs are free to sign up customers in any month of the year.” (P.10, L. 22) There is
 11 nothing unique or special about this. This is not something unusual that Columbia has
 12 done to benefit suppliers, and is not something that is enabled by the fact the Columbia
 13 has a average delivery program.

14
 15 **Q. WHEN DURING THE YEAR MAY A MARKERER ENROLL A CUSTOMER IN**
 16 **OTHER CHOICE PROGRAMS?**

17 A. Most Choice programs and certainly other programs in Pennsylvania and in Columbia’s
 18 program in Ohio allow suppliers to enroll customers at any time during the year and not
 19 restricted to the beginning of the program year.

20
 21 **Q. WHAT IS THE OVERALL FLAVOR OF MS. KRAJOVIC’S REBUTTAL?**

22 A. Overall this rebuttal emphasizes the situations where suppliers would be under delivered
 23 and CPA would have to supply gas. It does not give sufficient or equal attention to the

1 fact that there will be a number of months where suppliers are over delivered and it is in
 2 these instances where the suppliers will be incurring the costs of working capital for gas
 3 that they are essentially contributing to CPA.

4
 5 **Q. WHAT WOULD AN ALTERNATIVE TO THE FLAT DELIVERY PROGRAM**
 6 **BE?**

7 A. An alternative would be for CPA to assign storage to suppliers and let them manage
 8 storage injections and withdrawals within some prescribed parameters. This would not
 9 take care of how CPA handles the variance between the deliveries and usage, but it will
 10 remove the occurrence of CHOICE customers being undersupplied for periods of time.

11
 12 **Q. WHAT IS CASH WORKING CAPITAL?**

13 A. Cash working capital ("CWC") is the portion of working capital that is needed to finance
 14 the time period between receipt of payment for utility service and the disbursements
 15 required to render that service. "Revenue lag" is the time period from the date that
 16 customers receive service to the date that the Company receives payment from customers
 17 for service, and is the basis for determining the annual cash requirement that must be
 18 financed by the Company. Customers receive gas service prior to payment for the
 19 service. This creates a revenue lag. This cash requirement is offset, in part, to the extent
 20 that the Company's payments for labor, materials & supplies, and other expenses incurred
 21 in providing service to customers may occur after the time such services are received.
 22 These offsets are defined as "expense lag." Occasionally, vendors may be paid for goods
 23 or services in advance of the service period creating an "expense lead." The examination

1 of the timing of these fundamental cash transactions constitutes the lead-lag method of
 2 determining CWC. The net lag days are applied to the expense components of the cost of
 3 service to arrive at the CWC requirement.

4
 5 **Q. HAS THE COMPANY MADE A CLAIM FOR CASH WORKING CAPITAL IN**
 6 **THIS CASE?**

7 A. No claim was made for cash working capital in this case. If there were a CWC claim
 8 made then the regulation requires that it be included in the calculation of the GPC.

9
 10 **Q. COLUMBIA HAS CLAIMED THAT BECAUSE OF ITS FLAT DELIVERY**
 11 **PROGRAM THAT NGSs RECEIVE THE BENEFIT OF COLUMBIA'S**
 12 **WORKING CAPITAL. IS THIS TRUE?**

13 A. I have shown that suppliers indeed do incur working capital costs of their own and should
 14 not be required to bear the duplicative cost of the Company's working capital for storage
 15 gas. If the Commission believes that a portion of Columbia's working capital for storage
 16 gas does indeed benefit suppliers then it should allocate working capital accordingly.
 17 Even if a half of working capital of storage gas is allocated to the GPC that would still
 18 result in an increase of the GPC amount proposed by the Company. The resultant GPC
 19 would be \$0.1779/dth. This change is illustrated in my revised exhibit (Exhibit NGS-S1)
 20 which also incorporates the revised IT cost amount.

21
 22 **Q. WHAT IS THE SUMMARY OF YOUR SURREBUTTAL TESTIMONY?**

23 A. The main points are:

- 1 • Columbia charges higher delivery penalty charges for Transportation and Choice
2 customers in Pennsylvania than it does in Virginia or Ohio, and this discriminatory
3 behavior should stop. I recommend a penalty charge structure that is a blend of the
4 penalties in Virginia and Ohio.
- 5 • The Company had admitted that IT costs should be included in the GPC calculation,
6 however has allocated a small amount of costs. That amount should also include a factor
7 for an allocation of other support systems used in gas procurement.
- 8 • The Company's explanation of the exclusion of working capital for gas in storage from
9 the GPC calculation is one-sided and should be rejected. Working capital should be a
10 component of the GPC as the regulation requires.

11

12 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

13 **A. Yes.**

EXHIBIT NGS-S1

Exhibit NGS-S1

CPA System Allocations

Line		Units	Source	TOTAL
1	Total Labor & Benefits			\$650,332.00
2	Outside Legal			\$25,521.27
3	Subtotal			\$675,853.27
4	IT Costs			\$241,257.00
5	Working Capital			\$4,832,678.50
6	Total GPC Costs			\$5,749,788.77
7	Sales Quantities	Therms		323,191,965
8	GPC Costs	\$/Dth		\$0.1779

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,
et al.,

v.

Columbia Gas of Pennsylvania, Inc.

:
:
:
: Docket No. R-2012-2321748
:
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**TESTIMONY VERIFICATION OF
JAMES L. CRIST**

I, James L. Crist, hereby certify that I am the President of the Lumen Group, Inc. and that, in such capacity, I have been retained by Dominion Retail, Inc., Interstate Gas Supply, Inc., and Shipley Choice LLC d/b/a Shipley Energy (collectively "NGS Parties") as an expert witness in the above-captioned matter for the purposes of providing testimony on the NGS Parties' behalf.

I hereby verify that I have provided the following written Testimony and Exhibits for admission into the record and that these documents were prepared by me and under my supervision:

1. NGS Statement No. 1, the Direct Testimony of James L. Crist, which includes Exhibit NGS-1;

2. NGS Statement No. 2, the Rebuttal Testimony of James L. Crist with no exhibits;
and

3. NGS Statement No. 3, the Surrebuttal Testimony of James L. Crist, which includes Exhibit NGS 1-SR.

I certify that the facts set forth in the testimony are true and correct to the best of my knowledge, information and belief; that if I were asked the questions contained therein today that my answers would remain the same and that I do not have any corrects or additions to make to my testimony at this time. I understand that the statements made in my testimony are subject to the penalties at 18 Pa C.S. § 4909 related to the unsworn falsification to authorities.

Date: 2/8/13


James L. Crist, President
Lumen Group

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2012-2321748
 :
 Columbia Gas of Pennsylvania, Inc. :

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

Dated: January 28, 2013

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1 **I. WITNESS BACKGROUND**

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

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

8

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

13 A. Yes.

14

15 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

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

19

20 **Q. BRIEFLY DESCRIBE YOUR RELEVANT BUSINESS QUALIFICATIONS.**

21 A. I have run a consulting practice for the past 14 years focused on regulated and
22 deregulated energy company strategy, market strategy, and regulatory issues. During
23 2004 and 2005, I undertook a consulting assignment as the Vice President of Consumer

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

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

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

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

20
21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PENNSYLVANIA**
22 **PUBLIC UTILITY COMMISSION?**

1 A. Yes, I have appeared before the Commission in several gas and electric regulatory
2 proceedings. Additionally, I provided testimony on a variety of issues relating to energy
3 procurement, industry restructuring, and demand response before regulatory Commissions
4 in Arizona, Illinois, New Mexico, Maryland and the U.S. Virgin Islands.

5

6 **II. PURPOSE OF TESTIMONY**

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

8 A. Specifically, in my rebuttal testimony I will:

9 1. Review the testimony of OCA witness Watkins that mischaracterizes flex rates and
10 makes recommendations to allocate costs improperly.

11 2. Oppose the rate design proposal of witness Watkins. The proposal does not
12 recognize or acknowledge the benefit of a more accurate allocation of cost
13 methodologies which consider important factors he ignores. The Company's
14 method of averaging two Cost of Service Studies ("COSSs") is better than
15 Watkins' because it captures those factors.

16

17 **III. PENN STATE'S SERVICE**

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

20 A. Yes. Penn State is a major sales and distribution service customer of Columbia at the
21 University Park campus and at the Beaver, Fayette, Mont Alto, and York Campuses and
22 Biglerville Ag Extension Farm within the Commonwealth. In 2012, Penn State received
23 1,320,521 Dth of natural gas throughput from Columbia.

1 **IV. FLEX RATES BENEFIT ALL CUSTOMERS**

2 **Q. WHAT DID OCA WITNESS WATKINS RECOMMEND REGARDING FLEX**
3 **RATES?**

4 A. Mr. Watkins proposes that certain flex rate “discounts” necessary for the Company to
5 retain load in gas-on-gas competition would be recovered only from customers in the
6 Commercial and Industrial class, specifically tariffs SDS and LDS, and not all the
7 customers that benefit from the use of flex rates. In short, and for example, he would
8 have residential customers benefit from flex revenues contributing to reduce overall cost
9 of service yet he would excuse them from paying toward preserving the flex customer’s
10 continued patronage as a user of the Columbia system.

11 **Q. DO YOU AGREE WITH MR. WATKINS CHARACTERIZING A FLEX RATE**
12 **AS A “DISCOUNT.”**

13 A. The term “discount” is not the best term to describe what a flex rate represents in
14 actuality. It is what a willing buyer with options is willing to pay to either exercise or not
15 exercise those options to obtain the service the buyer may need. That happens every day
16 in the business world, and we must remember that there are benefits to both the flex
17 customer and to the utility and its customers. So, Mr. Watkins’ implication that a flex
18 customer is simply getting a discount ignores the other side of the equation; namely, that
19 benefits flow both ways. It is notable that Mr. Watkins does not say that the utility and
20 its customers would be better off if the flex customer left the system or used other
21 alternatives to meet its energy needs.

22

1 **Q. WHAT CUSTOMERS BENEFIT FROM FLEX RATES?**

2 A. Obviously, a customer that receives, as a condition of their continued patronage, a flex
3 rate which is lower than maximum rates benefits. In addition, all other customers on the
4 Columbia system also benefit from the continuation of revenue that comes with the
5 retention of an existing customer or the addition of a new customer because, as I will
6 explain, flex revenues make cost of service less to all ratepayers than it would be if
7 existing or expanded business is lost from the flex customer.

8 **Q. IF A CUSTOMER RECEIVES A DISCOUNT HOW DOES THAT BENEFIT**
9 **OTHER CUSTOMERS?**

10 A. Columbia uses flex rates to either retain or add a customer that has energy alternatives.
11 The incremental revenues from that customer are in excess of the incremental costs to
12 serve the customer and those revenues contribute to the overall revenue requirement of
13 the Company. In absence of flex rate customer revenues which help cover the gas
14 utility's aggregate cost of service, the remaining customers on the system would all have
15 to be charged higher rates to make up for the loss of those revenues.

16 **Q. MR. WATKINS CLAIMS THAT RESIDENTIAL CUSTOMERS CANNOT**
17 **RECEIVE FLEX RATES AND THAT IS A REASON WHY FLEXED REVENUES**
18 **SHOULD NOT BE COLLECTED FROM RESIDENTIAL CUSTOMERS. IS**
19 **THAT CORRECT?**

20 A. No. The flex rate provisions (section 20 of the CPA tariff Rules and Regulations
21 Governing the Distribution and Sale of Gas) list the rate schedules that may have flex
22 rates. Included in that list are rates RSS (Residential Sales Service) and RDS (Residential
23 Distribution Service). Even if no residential customers are currently receiving flex rates,

1 they would certainly be eligible to do so, given the appropriate competitive conditions. I
2 am aware that there have been residential customers that are subject to competition and
3 believe it is appropriate that Columbia have the tool of flex rates to use in those
4 situations. It is appropriate for Columbia to collect flexed revenues of all customer
5 classes from all customer classes including residential.

6 **Q. BASED ON THE COMPANY'S COSS WHAT CUSTOMER CLASSES ARE**
7 **PROVIDING COVERAGE FOR THE FLEXED REVENUES?**

8 A. I used the Company's Average COSS and referred to Statement No. 9, Exhibit JES-1,
9 and reviewed the Rates of Return by Rate Schedule. The SDS class showed a ROR at
10 current and proposed rates of 21.419% and 23.115% respectively. The LDS class
11 showed a ROR at current and proposed rates of 11.526% and 11.542% respectively. It
12 would appear that those classes are already providing coverage for any class-specific flexed
13 revenues through the subsidies they provide to the Residential class.

14 **Q. IT THIS THE PROPER PROCEEDING TO MAKE BROAD PROPOSALS**
15 **REGARDING FLEX RATES?**

16 A. No. The Commission has an open docket, P-2011-2277868, and I-2012-2320323 a
17 generic proceeding to investigate flex rates. This proceeding is where Mr. Watkins can
18 voice all of his concerns. Considering that the jointly-filed petition included the OCA, it
19 has already agreed that the generic proceeding, and not a specific base rate case, is the
20 forum to discuss this issue.

21

1 **Q. WHAT DO YOU RECOMMEND REGARDING FLEX RATES?**

2 A. Mr. Watkin's proposal to collect flex rate discounted revenue amounts that result from
3 the use of flex rates in gas-on-gas competition from other non-residential customer
4 classes in addition to the residential class should be rejected.

5 **V. COLUMBIA'S PREFERRED COST OF SERVICE STUDY ("COSS") SHOULD**
6 **BE ACCEPTED AS FILED**

7
8 **Q. WHAT ARE THE TWO IMPORTANT ASPECTS OF THE COSS THAT CPA**
9 **FILED IN THIS CASE?**

10 A. CPA made a strong effort to make sure that costs were allocated to the proper rate tariff
11 rate class instead of just averaging everything across all customer classes. First,
12 Columbia identified differences in the size of distribution gas mains, and allocated those
13 specific costs to the customer classes that most probably used those sizes of mains to
14 provide service. Columbia witness Skirtich did a thorough job to identify and review the
15 pipe size inventory in use on the CPA system. Mr. Watkins' refusal to use such specific
16 data and to instead recommend rejection based on a ruling made 20 years ago (OCA St.
17 3, P. 9, L. 18) cited by Mr. Watkins is hardly an improvement. Indeed, it is a step
18 backward. Mr. Watkins arguments are largely legal. I will leave the legal arguments to
19 the lawyers.

20 **Q. WHAT WAS MR. WATKINS' OPINION OF THE COMPANY'S COSS?**

21 A. Company witness Skirtich conducted three separate COSSs, a Customer-Demand COSS,
22 a Peak and Average ("P&A") COSS, and a COSS that averaged the two ("Combined
23 COSS") Mr. Watkins wishes to use only the results of the COSS that benefits residential
24 customers the most--the Peak and Average method which favors the residential customer
25 group by reducing the increase to that customer class from \$66.7 million to \$55.1 million.

1 **Q. DO OTHER UTILITIES CONDUCT MORE THAN ONE COSS AND THEN USE**
2 **AN AVERAGE?**

3 A. Yes. In its 2012 base rate case filing, Peoples Natural Gas (“PNG”) also conducted a
4 COSS using the peak method and a COSS using the peak and average method. Peoples
5 used multiple COSS to identify the boundaries of cost responsibility. It then blended the
6 results of the two studies to determine its filed rates.

7 **Q. WHAT IS THE BENEFIT OF THE METHOD USED BY THE COMPANY?**

8 A. The Company presented the average of two COSS studies which fairly balances the
9 considerations of the factors that influence the outcome of each study.

10 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COSS?**

11 A. Columbia’s COSS and revenue allocations should be used to determine its rates.

12

13 **VI. SUMMARY OF RECOMMENDATIONS**

14 **Q. WHAT IS THE SUMMARY OF YOUR RECOMMENDATIONS?**

15 A. The main points of this rebuttal testimony are:

- 16 • The use of flex rates benefit all customers and the status quo continued by the Company
17 in this filing for charging and recovery should continue.
- 18 • The Company’s COSS and revenue allocations should be accepted.

19

20 **Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A. Yes.

22

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, :
et al.. :

v. :

Docket No. R-2012-2321748

Columbia Gas of Pennsylvania, Inc. :

TESTIMONY VERIFICATION OF
JAMES L. CRIST

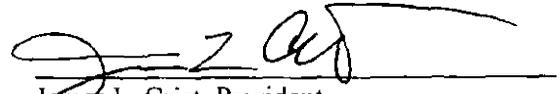
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I certify that the facts set forth in the testimony are true and correct to the best of my knowledge, information and belief; that if I were asked the questions contained therein today that my answers would remain the same and that I do not have any corrections or additions to make to my testimony at this time. I understand that the statements made in my testimony are subject to the penalties at 18 Pa C.S. § 4909 related to the unsworn falsification to authorities.

Date: Feb 12, 2013


James L. Crist, President
Lumen Group