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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY)
COMMISSION)
v.)
UGI UTILITIES, INC. - GAS DIVISION)

ORIGINAL

DOCKET NO. R-2011-2238953

DIRECT TESTIMONY
OF
JEROME D. MIERZWA

RECEIVED
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SECRETARY'S BUREAU

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

JULY 11, 2011

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 21044

1 **I. Introduction**

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
3 ADDRESS?

4 A. My name is Jerome D. Mierzwa. I am a principal and President of Exeter
5 Associates, Inc. My business address is 10480 Little Patuxent Parkway, Suite
6 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related
7 consulting services.

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
9 EXPERIENCE.

10 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor
11 of Science Degree in Marketing. In 1985, I received a Masters Degree in
12 Business Administration with a concentration in finance, also from Canisius College.
13 In July 1986, I joined National Fuel Gas Distribution Corporation ("NFG
14 Distribution") as a Management Trainee in the Research and Statistical Services
15 Department ("RSS"). I was promoted to Supervisor RSS in January 1987. While
16 employed with NFG Distribution, I conducted various financial and statistical
17 analyses related to the company's market research activity and state regulatory
18 affairs. In April 1987, as part of a corporate reorganization, I was transferred to
19 National Fuel Gas Supply Corporation's ("NFG Supply") rate department where my
20 responsibilities included utility cost of service and rate design analysis, expense and
21 revenue requirement forecasting and activities related to federal regulation. I was also
22 responsible for preparing NFG Supply's Purchase Gas Adjustment ("PGA") filings and
23 developing interstate pipeline and spot market supply gas price projections. These
24 forecasts were utilized for internal planning purposes as well as in NFG Distribution's
25 1307(f) proceedings.

1 In April 1990, I accepted a position as a Utility Analyst with Exeter
2 Associates, Inc. In December 1992, I was promoted to Senior Regulatory
3 Analyst. Effective April 1, 1996, I became a principal of Exeter Associates. Since
4 joining Exeter Associates, my assignments have included evaluating the gas
5 purchasing practices and policies of natural gas utilities, utility class cost of service and
6 rate design analysis, sales and rate forecasting, performance-based incentive
7 regulation, revenue requirement analysis, the unbundling of utility services and the
8 evaluation of customer choice natural gas transportation programs.

9 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
10 PROCEEDINGS ON UTILITY RATES?

11 A. Yes. I have provided testimony on more than 100 occasions in proceedings
12 before the Federal Energy Regulatory Commission ("FERC"), utility regulatory
13 commissions in Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Montana,
14 Nevada, New Jersey, Ohio, Rhode Island, Texas and Virginia, as well as before this
15 Commission.

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

17 A. Exeter Associates, Inc. has been retained by the Pennsylvania Office of
18 Consumer Advocate ("OCA") to review the 2011 1307(f) Purchased Gas Cost
19 ("PGC") filing of UGI Utilities, Inc. - Gas Division ("UGI" or "the Company").
20 My testimony presents the results of my review.

21 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND
22 RECOMMENDATIONS.

23 A. My conclusions and recommendations are as follows:

- 1 • The design peak day demand of UGI's sales and small
2 transportation customers has not been increasing due to customer
3 growth as the Company claims and, therefore, UGI's design peak
4 day demand projections are overstated;
- 5 • The design cold conditions which UGI utilizes for winter season
6 capacity planning purposes are too extreme and should be
7 modified; and
- 8 • UGI's proposal to issue RFPs for replacement capacity should be
9 modified to reflect the reduced design peak day demands of its
10 customers and to utilize more reasonable winter season design
11 cold conditions. In addition, the RFP timeline should be modified
12 as discussed herein.

13 Q. BEFORE CONTINUING, PLEASE DESCRIBE THE TIME PERIODS
14 RELEVANT TO YOUR INVESTIGATION.

15 A. The historic review period refers to the time period April 1, 2010 through March
16 31, 2011. As part of the 1307(f) review process, UGI's actual gas procurement
17 activity during the historic review period is examined for consistency with least
18 cost gas procurement standards. The 2010 PGC period consists of the period
19 December 1, 2010 through November 30, 2011. Actual and projected purchased
20 gas costs and revenues experienced by UGI during the 2010 PGC period are
21 reconciled, and any undercollections or overcollections are reflected in
22 determining the PGC rate applicable during the 2011 PGC period. The 2011
23 PGC period extends from December 1, 2011 through November 30, 2012. The
24 2011 PGC rate will reflect estimated purchased gas costs for that period,
25 adjusted for 2010 PGC period purchased gas cost net undercollections or
26 overcollections.

27

1 **II. DESIGN PEAK DAY DEMAND FORECAST**

2 Q. WHAT IS A DESIGN PEAK DAY?

3 A. A design peak day is an extremely cold winter day which a gas utility selects and
4 utilizes for capacity planning purposes. Design peak days are typically expected
5 to occur once every 10 to 20 years. UGI reserves capacity sufficient to meet the
6 anticipated design peak day demands of its PGC customers. UGI also reserves
7 capacity which is assigned to its small volume ("Choice") transportation
8 customers and to its traditional large volume transportation customers. UGI's
9 service territory is divided into two areas -- a Primary and a Secondary service
10 territory. The design peak day used by UGI for its Primary service territory is a
11 day with an average temperature of -3.6°F, and a day with an average
12 temperature of -8.0°F is used for the Secondary service territory.

13 Q. HOW MUCH CAPACITY DOES UGI CLAIM IS NECESSARY TO MEET
14 THE NEEDS OF ITS CUSTOMERS?

15 A. Table 1 presents a summary of the projected design peak day demands of UGI's
16 customers, and the capacity resources available to meet those demands for the
17 winter of 2011-2012. As shown there, UGI will maintain 18,128 Dth of capacity in
18 excess of that required to meet its customers' design peak day demands for the
19 2011-2012 winter season. As a result of customer growth and capacity contract
20 reductions, UGI claims that by the 2012-2013 winter season, the design peak
21 day demands of its customers and the capacity resources available to meet
22 those demands will be in balance.

Table 1	
Summary of Design Peak Day Demands and Capacity Resources (Dth)	
Demands	
PGC	428,250
Choice Transportation	89,115
Large Volume Transportation	<u>55,028</u>
Total Demands	572,393
Capacity Resources	
	590,521
Resource Excess/(Shortfall)	<u>18,128</u>
Per UGI Book 1, Attachment 14-1.	

1 Q. HOW DID UGI DETERMINE THE DESIGN PEAK DAY DEMANDS OF
2 ITS CUSTOMERS?

3 A. For PGC and Choice customers, UGI's design day forecast is based on a linear
4 regression model. The model regresses the daily winter period demands of PGC
5 and Choice customers over the last four winter seasons against several
6 explanatory variables.¹ The explanatory variables used in the Company's model
7 are average daily temperature, month and day of the week. Also included in the
8 design day forecast is an adjustment for wind speed and customer growth. The
9 design peak day demands of traditional large volume transportation customers is
10 based on maximum historic usage levels.

11 I would note that the PGC and Choice demands reflected in Table 1
12 include UGI's estimates of the impact of customer growth. From this point
13 forward, my discussions of UGI's regression analysis will **exclude** customer
14 growth for reasons I discuss later.

¹ Days with an average temperature above 50°F were excluded from the analysis.

1 Q. HAVE YOU BEEN ABLE TO REPLICATE THE RESULTS OF THE
2 COMPANY'S DESIGN PEAK DAY REGRESSION ANALYSIS FOR PGC
3 AND CHOICE CUSTOMERS?

4 A. I have been able to replicate the results of the Company's regression analysis to
5 a sufficient degree of accuracy for the Primary service territory. For the Primary
6 service territory, the Company's regression model forecasts the design peak day
7 demands of PGC and Choice customers to be 491,544 Dth exclusive of
8 customer growth, and the regression analysis I performed produces a forecast of
9 485,217 Dth, exclusive of customer growth. The difference in the two forecasts
10 of approximately 1 percent is not material and is likely attributable to several
11 factors including the particular software package used to perform the analysis
12 and the structure of the regression model (e.g., the Company's model includes a
13 variable for everyday of the week, while the model I developed used one
14 weekday variable and separate variables for each weekend day). I do not have
15 concerns with the Company's design peak day forecast for the Secondary
16 service territory and, therefore, do not discuss it any further in my testimony.

17 Q. WHAT IS YOUR CONCERN WITH THE COMPANY'S DESIGN PEAK
18 DAY FORECASTING MODEL FOR THE PRIMARY SERVICE
19 TERRITORY?

20 A. By using a four-year period to develop the Company's forecast, any trends in
21 usage, attributable to factors such as conservation and customer growth, are not
22 revealed.

23 Q. PLEASE EXPLAIN.

24 A. In addition to replicating the Company's model which used four years of data, I
25 separately performed a regression analysis for each of the individual four winter

1 seasons and determined a design peak day demand for each season. Table 2
2 presents the results of those four analyses and the combined four-year analysis
3 for the Primary service territory.

Table 2			
Results of Combined and Separate Regression Analysis			
(Dth)			
Winter Season	Forecast	Decline	
		Quantity	Percent
2007-2008	477,046	N/A	N/A
2008-2009	479,759	(2,713)	(0.6)
2009-2010	500,326	(20,567)	(4.3)
2010-2011	473,455	26,871	5.4
2007-2011	485,217	3,591	0.8

4
5 Q. WHAT DOES TABLE 2 REVEAL WITH RESPECT TO THE DESIGN
6 PEAK DAY DEMAND OF UGI'S PGC AND CHOICE CUSTOMERS?

7 A. Table 2 reveals that over the past four years, despite increases in the number of
8 customers served by UGI, the total design peak day demands of its PGC and
9 Choice customers have remained close to the average for the period, and have
10 actually declined from the 2007-2008 winter season to the most recent 2010-
11 2011 winter season. That is, the design peak day demands of new customers
12 have been offset by existing customer conservation efforts. The conservation
13 efforts of UGI's customers is not reflected in UGI's design peak day forecasting
14 procedures.

15 Q. WHY HAVE YOU EXCLUDED A CUSTOMER GROWTH ADJUSTMENT
16 IN YOUR ANALYSIS OF DESIGN PEAK DAY DEMANDS?

1 A. The forecasts for each of the four individual winter seasons is based on the
2 actual number of UGI customers during each winter season and, therefore,
3 customer growth is already incorporated in the four individual forecasts. As just
4 explained, despite an increase in the number of customers over the four-year
5 period, the design peak day demand of UGI's customers has not changed.

6 Q. WHAT ARE THE IMPLICATIONS OF YOUR FINDINGS?

7 A. My analysis of the design peak day demand of UGI's customers indicates that
8 those demands are not increasing as the Company contends. Therefore, UGI's
9 design day projections for the 2011-2012 winter season are overstated, as are its
10 projections for future periods beyond the 2011-2012 winter season. UGI has a
11 number of pipeline capacity contracting decisions to be made. UGI should
12 modify its design peak day forecasting procedures to reflect the conservation
13 efforts of its customers, and modify its contracting decisions accordingly. I
14 discuss the contracting decisions which UGI will be required to make and the
15 affect of its customers' conservation efforts on those decisions later in my
16 testimony.

17

18 **III. Winter Season Demand Forecast**

19 Q. IN ADDITION TO CONTRACTING FOR SUFFICIENT CAPACITY TO
20 MEET THE DESIGN PEAK DAY DEMAND OF PGC AND CHOICE
21 CUSTOMERS, ARE THERE OTHER FACTORS CONSIDERED IN UGI'S
22 CAPACITY PLANNING PROCESS?

23 A. Yes, the winter season demands of its customers are also considered in the
24 capacity planning process.

1 Q. HOW IS WINTER SEASON DEMAND INCORPORATED INTO UGI'S
2 CAPACITY PLANNING PROCESS?

3 A. As part of the capacity planning process, UGI projects the estimated demand of
4 its PGC and Choice customers on each of the 151 days of the winter season
5 (November-March) under "design cold" conditions in each of its service
6 territories. Since each capacity resource is not available on each day of the
7 winter season, UGI secures a portfolio of capacity resources which satisfy those
8 daily demands. For example, a firm transportation contract may provide service
9 on each of the 151 days of the winter season, while a peaking contract may only
10 be available for 10 days. To assist in the winter season planning process, UGI
11 utilizes Load Duration Curves (See Exhibit No. UGI-DCB-2, pages 2 and 4).

12 Q. DO YOU HAVE ANY CONCERNS WITH UGI'S WINTER SEASON
13 CAPACITY PLANNING PROCESS?

14 A. Yes, the design cold conditions utilized by UGI are too extreme (cold) and are,
15 therefore, unreasonable.

16 Q. HOW DOES UGI DETERMINE THE DESIGN COLD CONDITIONS THAT
17 ARE USED IN ITS WINTER SEASON CAPACITY PLANNING
18 PROCESS?

19 A. Design cold conditions are derived from 30 years of historic winter temperature
20 data (1975 to 2004) for Allentown, Lancaster, Harrisburg and Reading,
21 Pennsylvania. For each location and each year, the Company sorted the
22 average daily temperatures from lowest to highest, and determined the average
23 and standard deviation for each day. That is, an average and standard deviation
24 was individually calculated for the coldest day, the second coldest day, etc.
25 through the 151st coldest day for each location. For each day the Company then

1 determined the temperature below which the probability of occurrence was 5
2 percent or less. UGI then calculated the average of the lower (coldest) end of
3 the confidence interval of all four locations on each day ("lower confidence
4 temperature"). The first day used in the design cold winter season planning
5 process is the design peak day for each of UGI's service territories. Design cold
6 temperatures for subsequent days were computed by increasing the prior day's
7 temperature by the daily change in the average lower confidence temperature.

8 Q. COULD YOU PROVIDE A NUMERICAL EXAMPLE AS TO HOW UGI
9 CALCULATED THE DESIGN COLD CONDITIONS IT UTILIZES FOR
10 WINTER SEASON CAPACITY PLANNING PURPOSES?

11 A. Yes. On average, the temperature on the coldest day in Allentown each year is
12 8.2°F, and the standard deviation of the coldest day temperature is 6.0°F. Using
13 statistical analysis, UGI calculated a 95 percent confidence interval for the
14 temperature on the coldest day in Allentown in a given year. Statistically, the
15 95 percent confidence interval for the coldest temperature is calculated by
16 multiplying the standard deviation by 1.645, and subtracting the result from the
17 average temperature to determine the lower confidence temperature. In this
18 example, 1.645 times the 6.0°F standard deviation for the coldest day is 9.9°F,
19 and subtracting 9.9°F from the average temperature of 8.2°F indicates a lower
20 confidence temperature of -1.7°F. UGI then calculated the average of the lower
21 confidence temperatures for all four locations, which was determined to be -
22 0.83°F for the first (coldest) day. On the second coldest day the lower
23 confidence temperature average for the four locations was 3.00°F, or an increase
24 of 3.83°F. As previously explained, the first day used for the design cold
25 conditions was the design peak day of each service territory. For the Primary

1 service territory, design peak day is -3.6°F. The second day used for design cold
2 conditions was 0.23°F, which reflects the design peak day of -3.6°F adjusted for
3 the change in the lower confidence temperature of 3.83°F (-3.6° F + 3.83°F =
4 0.23°F). Subsequent design cold days were similarly calculated by adding the
5 change in the current day to the prior day's lower confidence temperature to the
6 current day's design cold temperature as just described.

7 Q. WHY DO YOU CONCLUDE THAT UGI'S DESIGN COLD CONDITIONS
8 ARE TOO EXTREME?

9 A. UGI's design cold conditions represent a winter which is 25 percent colder than
10 average. Table 3 presents the 30-year average of the winter period heating
11 degree days ("HDDs") for each of the four locations used in UGI's design cold
12 condition analysis, and the HDDs for coldest winter period during the past 30
13 years. As shown in Table 3, on average the coldest winter in each location was
14 only 10 percent colder than average. UGI's use of a 25 percent colder than
15 average winter is excessive and inconsistent with actual experience.
16
17

Location	Average	Coldest	Colder than Average
Allentown	4,704	5,042	7.2%
Lancaster	4,535	5,034	11.0
Harrisburg	4,499	4,819	7.1
Reading	4,671	5,181	10.9
Average	4,602	5,019	9.1%

18

1 WHAT DO YOU RECOMMEND?

- 2 A. I recommend that UGI use a winter season which is 10 percent colder than
3 average for winter season capacity planning purposes. Use of 10 percent colder
4 than average conditions is consistent with the planning assumptions used by
5 many other NGDGs, and is consistent with UGI's actual experience.

6
7 **IV. Pipeline Contract Issues**

8 Q. PLEASE DESCRIBE WHAT THE COMPANY HAS IDENTIFIED AS
9 PIPELINE CONTRACT ISSUES IN THIS PROCEEDING.

- 10 A. The pipeline contract issues identified by the Company are described by witness
11 David C. Beasten beginning at page 5 of his direct testimony. In summary, UGI
12 has two contracts for peaking services with UGI Energy Services which expire
13 March 31, 2012. Peaking Contract 1 provides for up to 6,500 Dth per day and up
14 to a total of 195,000 Dth during the winter season. Peaking Contract 2 provides
15 for up to 80,000 Dth per day and 640,000 Dth during the winter season. UGI
16 also has a firm transportation contract with Dominion Transmission, Inc. ("DTI")
17 for 22,155 Dth per day which expires on October 31, 2011. UGI expects to issue
18 RFPs this summer to replace the expiring contracts. Prospective bidders will be
19 given three weeks to respond. The amount of peaking service requested will be
20 74,500 Dth for the 2012-2013 winter season and 85,400 Dth of the 2013-2014
21 winter season. UGI is proposing to maintain the DTI contract at current levels.

22 In addition to these contracting decisions, UGI released 5,291 Dth of
23 Texas Eastern Transmission ("Tetco") firm transportation capacity to UGI Central
24 Penn Gas, Inc. ("CPG"). That release expires October 31, 2012, and the
25 capacity will revert back to UGI at that time.

1 Q. WHAT ARE YOUR CONCERNS WITH UGI'S PLANS TO OBTAIN
2 REPLACEMENT CAPACITY?

3 A. I have several concerns with UGI's proposal. UGI's replacement contract
4 quantities are based on its design peak day and winter season demand forecasts
5 for the applicable future periods. As explained in Sections II and III of my
6 testimony, UGI's design peak day demand forecasts are overstated and the
7 design cold temperatures used for winter season capacity planning purposes are
8 too extreme. In addition, with respect to the replacement of the peaking services,
9 a contracting decision does not need to be made until the summer of 2012.
10 There is no reason to limit the response time of a potential bidder to three weeks
11 as UGI proposes. Limiting the response time to three weeks would limit the
12 ability of suppliers to investigate service opportunities, and foreclose new
13 alternatives which may arise after the RFP submission deadline passes.

14 Finally, the RFP UGI will issue for peaking services will include a no-notice
15 provision and the supplier must be able to adjust scheduled volumes on an
16 hourly basis. Peaking Contract 1 does not include those provisions and,
17 therefore, there is no need to include those provisions in a replacement service
18 for Peaking Contract 1.

19 Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THE ISSUANCE OF
20 RFPS FOR REPLACEMENT CAPACITY BY UGI?

21 A. UGI's 2011-2012 winter season design peak day forecast for its Primary service
22 territory includes a 21,500 Dth adjustment for customer growth. UGI is
23 increasing the design peak day demand of Primary service territory PGC and
24 Choice customers by 31,500 Dth for the 2012-2013 winter season and 41,500
25 Dth for the 2013-2014 winter season to account for customer growth. As

1 previously explained and demonstrated, the addition of new customers has not
2 increased the design peak day demands of the customers served by UGI.
3 Therefore, I recommend that UGI reduce the amount of service requested
4 through the RFPs it issues by 31,500 Dth for the 2012-2013 winter season and
5 by 41,500 Dth for the 2013-2014 winter season. These service reductions
6 should be apportioned between the peaking, Transco and any other services as
7 determined appropriate by the Company, including the continued release of
8 Tetco capacity to CPG. Prior to the issuance of the RFPs, UGI should modify the
9 design cold conditions used for winter seasonal capacity planning purposes to
10 reflect a 10 percent colder than average weather to determine the number of
11 days of service to be requested in the RFPs. Finally, since a decision on the
12 replacement of the peaking contracts is not required until next summer, I
13 recommend that potential bidders be given six months to respond.

14 Q. WHAT ARE THE SAVINGS ASSOCIATED WITH YOUR
15 RECOMMENDED CAPACITY REDUCTIONS?

16 A. An estimate of the savings associated with my recommended capacity reductions
17 cannot reasonably be made at this time. It is unknown as to how UGI would
18 apportion the recommended capacity reductions among its pipeline service
19 providers; it is unknown how the use of a 10 percent colder than average winter
20 for seasonal capacity planning purposes will affect the services the Company
21 solicits; and the costs of the services for which UGI does contract is unknown.
22 Nevertheless, using the costs of peaking Contract 2, a 31,500 Dth service
23 reduction would reduce gas costs for the 2012-2013 winter season by \$5.4
24 million, and a 41,500 Dth service reduction would reduce gas costs for the 2013-
25 2014 winter season by \$7.1 million.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes, it does.

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CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2011-2238953 *et al.*
 :
 UGI Utilities, Inc. – Gas Division :
 2011 – 1307(f) Proceeding :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate’s Direct Testimony of Jerome D. Mierzwa, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 11th day of July 2011.

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JULY 25, 2011

EXETER

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1 **I. Introduction**

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
3 ADDRESS?

4 A. My name is Jerome D. Mierzwa. I am a principal and Vice President at
5 Exeter Associates, Inc. My business address is 10480 Little Patuxent
6 Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing
7 public utility-related consulting services.

8 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
9 PROCEEDING?

10 A. Yes. My direct testimony was submitted as OCA Statement No. 1.

11 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

12 A. The purpose of my rebuttal testimony is to respond to the direct testimony of
13 Jams L. Crist who testified on behalf of natural gas suppliers CenterPoint
14 Energy Services, Inc.; Jerome H. Rhoads, Inc. d/b/a Rhoads Energy
15 Corporation; Shipley Energy Company and Shipley Choice LLC (collectively
16 "Supplier Group").

17 Q. WHAT IS THE PRIMARY FOCUS OF WITNESS CRIST'S
18 TESTIMONY?

19 A. The primary focus of witness Crist's testimony is the interstate pipeline
20 capacity release and assignment provisions of UGI's customer choice
21 program.

22 Q. WHEN WERE THE CAPACITY RELEASE AND ASSIGNMENT
23 PROVISIONS OF UGI'S CUSTOMER CHOICE PROGRAM
24 ESTABLISHED?

1 A. The capacity release and assignment provisions of UGI's customer choice
2 program were included in the settlement approved by the Commission in
3 UGI's 2010 1307(f) proceeding at Docket No. 2010-2172933 ("UGI 2010 PGC
4 Settlement").

5 Q. SINCE THE APPROVAL OF UGI'S 2010 PGC SETTLEMENT HAS
6 THE COMMISSION ISSUED ANY DECISIONS ADDRESSING
7 CUSTOMER CHOICE PROGRAMS?

8 A. Yes. In its Revised Final Rulemaking Order Re: Natural Gas Distribution
9 Companies and the Promotion of Competitive Retail Markets (Docket No.
10 L-2008-2069114) issued June 23, 2011 ("Competitive Markets Order"), the
11 Commission addressed the release and assignment of interstate pipeline
12 capacity under Pennsylvania natural gas distribution company ("NGDC")
13 customer choice programs.

14 Q. WHAT REGULATORY LANGUAGE DOES THE COMPETITIVE
15 MARKETS ORDER ADOPT?

16 A. The Competitive Markets Order adopts the following regulatory language
17 (with the revised language in all capital letters but with deletions omitted):

18 **§ 62.225. Release, assignment or transfer of capacity.**

19 (a) An NGDC holding contracts for firm storage or
20 transportation capacity, including gas supply contracts with
21 Commonwealth producers, or a city natural gas distribution
22 operation, may release, assign or transfer the capacity or
23 Commonwealth supply, in whole or in part, associated with
24 those contracts to licensed NGSs or large commercial or
25 industrial customers on its system.

26 (1) A release, assignment or transfer shall be made on a
27 nondiscriminatory basis AS TO PRICE, RELIABILITY AND
28 FUNCTIONALITY.

1 (2) A RELEASE OF AN NGDC'S PIPELINE AND STORAGE
2 CAPACITY ASSETS SHALL FOLLOW THE CUSTOMERS
3 FOR WHICH THE NGDC HAS PROCURED THE CAPACITY,
4 SUBJECT ONLY TO THE NGDC'S VALID SYSTEM
5 RELIABILITY AND FERC CONSTRAINTS.

6 (3) A release, assignment or transfer shall be BASED UPON
7 the applicable contract rate for capacity or Pennsylvania supply
8 and be subject to applicable contractual arrangements and
9 tariffs.

10 (4) The amount released, assigned or transferred shall be
11 sufficient to serve the level of the customers' requirements for
12 which the NGDC has procured the capacity determined in
13 accordance with the NGDC's tariff or procedures approved in
14 its restructuring proceedings.

15
16 (Order at 61-62.)
17

18 Q. WHAT ARE WITNESS CRIST'S RECOMMENDATIONS WITH
19 RESPECT TO THE RELEASE AND ASSIGNMENT PIPELINE
20 CAPACITY?

21 A. Witness Crist's primary recommendations with respect to the release and
22 assignment of pipeline capacity are as follows:

- 23
- 24 • Capacity assigned to Choice Suppliers should include all interstate
25 pipeline transportation and storage capacity that was procured to serve
26 a Choice Supplier's customers;
 - 27 • The price charged for assigned capacity should be derived from the
28 actual contract rate for the assigned capacity; not a weighted average
29 cost of all capacity that the Company has acquired which includes
30 capacity that has no connection to a natural gas supplier's customers;
 - 31 • The derivation of the capacity assigned to a natural gas supplier
32 should be based on the average day in the month of highest usage on
33 the Company's system. An NGS's capacity assignment should then
34 equate to its proportional share of the actual capacity UGI has under
35 contract so that UGI does not over or under allocate its actual capacity;
36 and
 - 37 • The Company's capacity assignment program should be voluntary.

1 Q. WHAT IS YOUR RESPONSE TO WITNESS CRIST'S FIRST
2 RECOMMENDATION?

3 A. Of primary concern to witness Crist is the lack of a direct assignment of
4 storage capacity to choice supplies, and he recommends that choice
5 suppliers be directly assigned storage capacity. Under UGI's current
6 customer choice program, storage can be used to provide suppliers a
7 bundled citygate sales service during the winter, at the supplier's option.

8 I do not oppose the direct assignment of storage to choice suppliers.
9 However, it is my understanding that some of UGI's storage is not assignable,
10 and the Competitive Markets Order requires the assignment of capacity be
11 done on a non-discriminatory basis and result in no cross-subsidization
12 between PGC and choice customers. Witness Crist's testimony on the
13 assignment of storage capacity is conceptual and lacks specific detail.
14 Witness Crist has not presented a storage assignment plan which can be
15 evaluated to determine whether it is non-discriminatory and does not result in
16 cross-subsidization. Therefore, witness Crist's proposal cannot be adopted at
17 this time.

18 Q. WHAT IS YOUR RESPONSE TO WITNESS CRIST'S SECOND
19 RECOMMENDATION THAT THE PRICE CHARGED FOR
20 RELEASED OR ASSIGNED CAPACITY NOT BE SET EQUAL TO AN
21 NGDC'S WEIGHTED AVERAGE COST OF CAPACITY?

22 A. With respect to the pricing of released or assigned capacity, the Competitive
23 Markets Order states:

24
25 ... we want to ensure that such capacity release is priced at a rate so
26 that shopping (choice) and non-shopping (PGC) customers are treated
27 equally and that NGDCs have the flexibility to meet this goal based

1 upon their respective capacity portfolios. For example, NFG proposed
2 that, when capacity is released, it have the flexibility to price the
3 capacity at a rate equal to its weighted average cost of capacity,
4 whether or not the capacity contract rate is higher or lower than the
5 release rate. As explained in its comments, "releases at the weighted
6 average cost of capacity are the most practical means to ensure that
7 shopping and non-shopping customers are treated equally." *NFG*
8 *ANOFR Comments* at 13-14. The Commission agrees with this
9 concept and believes that it should be incorporated in the final-form
10 regulation.

11
12 (Order at 47.)
13

14 As such, witness Crist's recommendation is inconsistent with the
15 Commission's Competitive Markets Order.

16 Q. PLEASE ADDRESS WITNESS CRIST'S THIRD RECOMMENDATION
17 THAT CHOICE SUPPLIERS ONLY BE ASSIGNED CAPACITY
18 SUFFICIENT TO MEET DEMANDS ON AN AVERAGE DAY IN
19 JANUARY.

20 A. UGI reserves sufficient capacity to meet the extreme (or design) peak day
21 demands of its customers, not just average day demands. The failure to
22 assign capacity to choice suppliers sufficient to meet design peak day
23 demands could result in an inappropriate shifting of costs to PGC customers.
24 *The Commission's Competitive Markets Order requires that the amount of*
25 *capacity released or assigned "be sufficient to serve the level of the*
26 *customers' requirements for which the NGDC has procured capacity."* Since
27 UGI has acquired capacity to meet choice customers' design day demands,
28 capacity sufficient to meet a choice supplier's customers' design peak day
29 demands should be released. Finally, I would note that UGI's 2010 PGC
30 Settlement approved by the Commission adopted a transition plan for the
31 assignment of capacity based on design peak day demands.

1 Q. PLEASE RESPOND TO WITNESS CRIST'S FINAL
2 RECOMMENDATION THAT THE RELEASE AND ASSIGNMENT OF
3 PIPELINE CAPACITY BE VOLUNTARY.

4 A. The Commission's Competitive Markets Order leaves to the discretion of the
5 NGDC *whether to release or assign pipeline capacity to choice suppliers. If*
6 UGI elects to make the release of capacity voluntary, the costs associated
7 with the capacity acquired to serve that supplier's customers should not be
8 recoverable from PGC customers. The recovery of such capacity costs from
9 PGC customers *would be inconsistent with the Commission's Competitive*
10 *Markets Order which sought to protect against cross-subsidization and*
11 *inappropriate because the capacity would not be needed to serve PGC*
12 *customers. The customer choice programs of most NGDCs in Pennsylvania*
13 *require the mandatory assignment of capacity. As previously noted, UGI's*
14 *2010 PGC Settlement approved by the Commission adopted a transition plan*
15 *for the mandatory assignment of capacity.*

16 Q. DOES WITNESS CRIST MAKE ANY RECOMMENDATIONS IN HIS
17 DIRECT TESTIMONY OTHER THAN THOSE RELATED TO THE
18 RELEASE OR ASSIGNMENT OF PIPELINE CAPACITY?

19 A. Yes. Currently, off-system sales margins generated by UGI are shared 75
20 percent to PGC customers and 25 percent to the Company. Witness Crist
21 recommends that a *portion of the 75 percent of off-system sales margins*
22 *currently credited to PGC customers be credited to choice customers.*

23 Q. DO YOU AGREE WITH WITNESS CRIST RECOMMENDATION
24 THAT A PORTION OF OFF-SYSTEM SALES MARGINS BE
25 CREDITED TO CHOICE CUSTOMERS?

1 A. Not entirely. UGI derives off-system sales margins from both its firm
2 interstate pipeline transportation assets and interstate pipeline storage
3 assets. Under the choice program, choice suppliers are assigned and pay for
4 the firm transportation capacity they are assigned and can use this capacity to
5 generate their own off-system sales margins. It would be unreasonable to
6 expect any off-system sales margins generated by choice suppliers to be
7 shared with PGC customers. UGI cannot use the pipeline capacity assigned
8 to choice suppliers to generate off-system sales margins. Therefore, choice
9 customers should not share in off-system margins generated from UGI's firm
10 interstate pipeline transportation assets.

11 However, as explained previously, choice suppliers are not currently
12 provided direct access to storage but pay for storage. UGI uses storage to
13 generate off-system sales margins. Thus, it would not be unreasonable for a
14 portion of storage-related off-system sales margins to be credited to choice
15 customers. As with the assignment of storage to choice suppliers, witness
16 Crist's recommendation on the sharing of off-system sales margins with
17 choice customers is conceptual. He has presented no details on his proposal
18 and, therefore, the reasonableness of his proposal cannot be assessed and
19 should not be adopted at this time.

20 I would note that if choice suppliers are granted direct access to
21 storage in this proceeding, it would be unreasonable for choice customers to
22 share in storage-related off-system sales margins for the same reason firm
23 transportation related margins should not be shared with choice customers.

24 That is, the suppliers of choice customers will have assets which can be used
25 to generate their own off-system sales margins.

1 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes, it does at this time.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2011-2238953
Office of Consumer Advocate	:	C-2011-2243186
Office of Small Business Advocate	:	C-2011-2248211
	:	
v.	:	
	:	
UGI Utilities, Inc. - Gas Division 1307(f)	:	

ORIGINAL

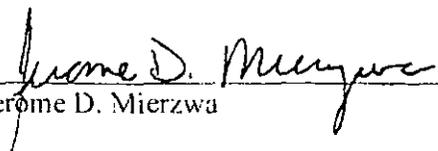
VERIFICATION

I, Jerome D. Mierzwa, hereby state that the facts set forth in my testimony, OCA Statement 1 and OCA Statement 1-R, are true and correct (or are true and correct to the best of my knowledge, information, and belief) and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date:

August 3, 2011

Signed:


Jerome D. Mierzwa

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SECRETARY'S BUREAU

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