BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DIRECT TESTIMONY OF
NANCY J.D. KRAJOVIC
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

Columbia Gas Stmt.
No. 12 HR 4 BP
R-2015-2468056 8/10/15

I. Introduction

Q. Please state your name and business address.

A. Nancy J. D. Krajovic, Southpointe Industrial Park, 121 Champion Way, Suite 100, Canonsburg, PA 15317

Q. By whom are you employed and in what capacity?

A. I am employed by Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") as Director of Regulatory Affairs.

Q. What are your responsibilities as Director of Regulatory Affairs?

A. I am responsible for developing and directing rate activity on behalf of the Company before the Pennsylvania Public Utility Commission ("Commission") as well as coordinating and representing the Company's position in a variety of regulatory matters and proceedings.

Q. What is your educational and professional background?

A. I hold a Bachelors of Science Degree in Accounting from Duquesne University and a Master of Business Administration from the University of Pittsburgh's Katz Graduate School of Business. I was employed by the Commission from 1984 through 1987 as an auditor. From 1988 through 2007, I held various regulatory positions at Duquesne Light Company including Regulatory Analyst, Rate Design Coordinator, Project Manager, Director of Regulatory Affairs and Manager of Regulatory Affairs. In those positions I acted as the primary interface with the Commission in the conduct of financial and management audits of Duquesne Light. Additionally, I was responsible for the interpretation and administration of

Duquesne's retail and supplier tariffs. In 2007, I assumed the role of Manager, Commercial and Industrial Customers for Duquesne Light and held that position until May, 2009. In November of 2009, I joined Columbia Gas as Senior Regulatory Analyst and was promoted to my current position in June of 2011.

Q. Have you previously testified before this Commission?

A. Yes, I have submitted written testimony before the Commission on Duquesne's behalf at the following dockets: I-900005, M-00930404C001, R-00016854C001, M-FACE0302, R-00061346 and P-00072247. I also presented oral testimony in several formal customer complaint actions and at en banc hearings sponsored by the Commission on energy conservation issues. Additionally, I have submitted written testimony before the Commission on behalf of Columbia at the following dockets: R-2011-2215623, R-2012-2293303, R-2012-2321748, R-2013-2351073, R-2014-2406274, R-2014-2408268, P-2012-2338282 and C-2011-2248370/A-2011-2276780.

Q. What matters will you address in your testimony?

A. I will describe the calculation of the Rider Customer Choice adjustment ("Rider CC") and the Gas Procurement Charge ("GPC") included in this case. I will also present the Company's proposed Rider Choice Administration Charge ("Rider CAC"). Lastly, I will discuss proposed changes to Columbia's Universal Service Programs.

I. Rider Customer Choice Adjustment

Q. Please describe the update to Rider CC.

A. The Rider CC charge included in this case is $0.00010 per therm to be billed to all CHOICE® eligible customers.

Q. What costs are recovered through this charge?

A. Rider CC recovers costs associated with the triennial solicitation mailing to customers notifying them that their names are included on eligibility lists provided by Columbia to all NGSs offering gas supply to customers in Columbia's service territory. Columbia will conduct this triennial solicitation pursuant to the Commission's Final Order of August 15, 2013 at Docket No. M-2012-2324075, Interim Guidelines For Natural Gas Distribution Company Eligible Customer Lists, which states:

> That once every three years NGDCs will create a new ECL by re-soliciting their entire residential and small commercial customer base about their options regarding the disclosure of their customer information to NGSs.

Q. Are the solicitation costs recoverable?

A. Yes, the Commission in its Final Order determined that incremental costs for soliciting customers are subject to cost recovery.

Q. What costs will the proposed charge of $0.00010 per therm recover?

A. The costs included for recovery are for materials, preparation and postage that will be provided by a third party vendor to accomplish the solicitation that will occur in 2016 to all CHOICE® eligible customers. Because the solicitation will occur every three years, the rate has been calculated to recover each year from CHOICE® eligible customers one-third of the projected costs to comply with the Interim Guidelines requirement for a triennial re-solicitation. The calculation is shown on

Exhibit NJDK-1, attached to my testimony.

II. Gas Procurement Charge ("GPC")

Q. Has the Company recalculated the surcharge rate for the Gas Procurement Charge?

A. Yes. Please refer to Exhibit NJDK-2, page 1 of 1, attached to my testimony, for the calculation of the surcharge.

Q. What categories of costs are included in the GPC?

A. The GPC includes the labor and benefits costs associated with gas procurement activities defined by function and include external legal costs. Information Technology Systems expense is the portion of maintenance costs associated with Gas Source that is allocated to Sales Service customers.

Q. Is the Company proposing any changes to the categories of costs included in the GPC?

A. No.

III. Choice Administration Charge ("CAC")

Q. What is the Choice Administration Charge?

A. The Choice Administration Charge, found on Tariff Page 164, is a Rider ("Rider CAC") that will be applied to accounts served under Rate Schedules Residential Distribution Service ("RDS"), Small Commercial Distribution ("SCD"), Small General Distribution Service ("SGDS"), Small Distribution Service ("SDS"), Large Distribution Service ("LDS"), and Main Line Distribution Service ("MLDS"). Through the charge, Columbia will recover costs it incurs to administer and maintain the Choice Program and General Distribution Service Program ("GDS") on Columbia's system.

Q. How will the Rider CAC be charged?

A. Columbia is proposing that the Rider CAC be billed as a per therm rate for Choice customers and included in the Pass-through Charge line item on their bills. For a breakdown of the components of the Pass-through Charge, including the Rider CAC, and the Rate Schedules to which the Pass-through Charge will be billed, please see Exhibit No. 14, Schedule 2, Attachment 2, which reflects the proposed tariff changes. Exhibit No. 14, Schedule 2, Attachment 2, Eighteenth Revised Tariff Page No. 21b is the Pass-through Charge Summary listing each Rate Schedule subject to the Pass-through Charge, and the components that make up the Pass-through Charge rate that appears on a customer bill. There is a separate column labeled "Rider CAC" detailing the rate and the Rate Schedules that are affected by the Rider CAC.

For GDS customers, the Company proposes to include the Rider as a fixed per account charge on a separate line item on the bill labeled "Choice Administration Charge."

Q. Please explain Exhibit NJDK-3.

A. Exhibit NJDK-3, attached to this testimony, calculates a charge to Choice Program and GDS customers for the costs associated with providing distribution service. The costs included in the calculation are labor and benefits, Information Technology ("IT") expense, and system expense associated with the Company's

Aviator system. Total expense of $959,917.96 was allocated between Choice and GDS customers. The $513,100.06 allocated to Choice customers was divided by Fully Forecasted Rate Year Distribution Dth for Rate Schedules RDS and SCD of 10,283,070.07 Dth to compute a rate of $0.04990/Dth, or $0.00499/therm. The DTH are shown on Exhibit 103, Schedule 1, Page 15, line 38 and Page 16, line 27. The $446,817.90 allocated to GDS customers was divided by the number of billed accounts forecasted for GDS customers (excluding customers with flexed rates) of 32,691 which are shown on various lines of Exhibit 103, Schedule 1, Page 15, line 38 and Page 16, line 27 to produce a per account charge of $13.67.

Q. Is Rider CAC designed to be reconcilable?

A. Similar to Rider GPC - Gas Procurement Charge, Rider CAC is not designed to be reconcilable.

Q. Where does the Rider CAC appear on pages 16-21c of the tariff?

A. The Rider CAC appears on the Rider Summary, Tariff Page No. 21, and the Pass-through Summary, Tariff Page No. 21b, as well as on Tariff Pages No. 17, 18 and 19 as a per account charge for non-flex rate customers taking service under Rate Schedules SGDS, SDS, LDS and MLDS.

Q. Why is the Company proposing Rider CAC?

A. Columbia's proposed Rider CAC is consistent with the Commission's existing regulations. Specifically, Title 52 Section 60.1 of the Pennsylvania Code specifies:

> The transportation of natural gas by jurisdictional gas utilities is in the public interest. Transportation service should be provided under terms, conditions and rates which minimize the shifting of costs to retail customers and

provide the natural gas utility with an opportunity to recover the fixed costs incurred to serve the transportation service customers.

Through Rider CAC, Columbia seeks to address cost causation for expenses associated with gas transportation programs. Rider CAC is designed to recover expenses the Company incurs solely to administer, enhance, and maintain gas transportation programs.

Further, the Company's proposal is based on the Commission's Final Order at Docket No. L-2008-2069114 *Natural Gas Distribution Companies and Promotion of Competitive Retail Markets*. Through Rider CAC, the Company proposes to further unbundle its rates. Specifically, in its Order the Commission directed natural gas distribution companies to remove costs associated with the purchase of gas supply from base rates and add them to their Gas Supply Charge. Columbia submits that the proposed Rider CAC is consistent with the unbundling of the costs underlying the Gas Procurement Charge.

Q. Please further explain the reasoning behind this proposal.

A. Columbia currently incurs costs that are solely attributable to the administration and maintenance of the Choice Program and GDS, and those costs are recovered through base rates. Accordingly, Columbia's Sales Service customers are currently paying for the administration and maintenance of programs for which they receive no benefit. Columbia has identified a portion of those costs that are currently included in base rates. Segregating a charge to the Choice customer and GDS customer bills for costs arising from the program in which they participate is simply the logical approach to cost recovery.

Q. Please further detail the costs that make up Rider CAC.

A. The Rider CAC includes labor costs for employees whose job responsibilities are directly impacted by the Choice Program and GDS, and IT programming costs the Company incurs to enhance and maintain the systems that support the Choice Program and GDS.

Q. How are the labor costs identified?

A. The labor costs represent payroll, benefits, and taxes that Columbia incurs for twenty-seven employees who spend 100% of their Columbia time working on either the Choice Program or GDS, or both. If Columbia did not have a Choice Program or GDS program, these employee positions, and their associated costs, would not exist. It also includes labor for five support personnel and management level employees with a range of 2% to 10% of their time spent on the Choice Program and GDS for the Company.

Q. Are all labor costs associated with the Choice Program and GDS included in the Rider CAC calculation?

A. No. While there are several other employees from departments such as Legal, Regulatory, Accounting, Accounts Payable, Large Customer Relations, etc., who spend some of their time working specifically on the Choice Program and/or GDS tasks, Columbia did not include their labor in the calculation.

Q. Why did Columbia not include that additional labor cost?

A. Those other department employees work on various types of tasks for multiple purposes. The time spent by these departments relative to the Choice Program and

GDS are limited and intermittent compared to the labor costs that have been included in the Rider CAC calculation.

Q. How are the IT system programming and maintenance costs identified?

A. Columbia researched the amount of hours and associated costs spent on programming changes and maintenance activities generated by the Choice Program or GDS during the test year. Any programming requests that impacted GDS, the Choice Program, and Sales Service together were not included.

Q. Are the costs to be recovered through Rider CAC included in the Company's proposed base rates in this case?

A. No. The costs to be recovered through Rider CAC have been backed out of the base rates calculated by Company witness Lai (Columbia Statement No. 3).

Q. Is there anything else you want to add about the Rider CAC?

A. Since the beginning of the Choice Program on Columbia's system in 1996, Sales Service customers have shared the cost to develop and maintain the Choice Program. They have paid for computer programming and internal labor, as well as customer education, for nearly two decades and continue to do so. Rider CAC is Columbia's attempt to further unbundle the Choice Program costs in the interest of recovery based on cost causation.

IV. <u>Universal Service Programs</u>

Q. Does Columbia propose changes to its Universal Service programs?

A. Yes. The Company proposes to modify the funding levels and eligibility requirements for its Emergency Repair Program ("ERP") as well as its method of recovering these costs. In addition, Columbia proposes to recover the administrative costs associated with its Customer Assistance Program ("CAP") through its Rider Universal Service Program ("Rider USP") rather than through base rates.

Emergency Repair Program

Q. Can you please describe the Company's existing ERP program?

A. Yes, ERP was established in 1995 to assist low income customers at 150% of the federal poverty level ("FPL") guidelines or less with heating related emergencies such as the repair or replacement of house and service lines, heating systems and water tanks. When established, the annual program funding was set at $250,000 and recovered through base rates.

Q. Have any modifications been made since 1995?

A. Yes. In the Commission-approved Settlement of Columbia's 2010 base rate case at Docket No. R-2009-2149262, the Company received approval to increase annual ERP funding to $500,000. The increase in funding was necessary in order for the Company to respond to the significant demand on the program, which resulted in the ERP exhausting available funds prior to the end of the year. From the outset of the program, Columbia had to close the program during the summer months, when the need for repairs is not critical to maintaining heat, in order to have funding available during the heating months beginning in October.

Q. How is the program made available to customers?

A. Customers who are in contact with the Company because their service has been interrupted due to equipment failure or safety concerns and are income qualified are referred to the program.

Additionally, in 2013 the Company launched Heat Wise, a partnership with Heating, Ventilation & Air Conditioning ("HVAC") contractors and Columbia employees to promote the safe operation of heating systems to elderly and disabled low-income customers. Through Heat Wise, annually in September, HVAC contractors and Columbia employees make Saturday visits to pre-screened low income property owners and perform heating system clean and tunes and safety inspections free of charge. Although the clean and tunes are performed by HVAC volunteers free of charge, any problems identified are then covered through the ERP program. In the last two years, over $100,000 of the ERP budget has been spent on this pro-active program.

Q. Is Columbia growing the potential customer base for ERP through this outreach?

A. No. The customers contacted through Heat Wise would need equipment repair or replacement when their furnaces are turned on at the onset of colder weather and would have been referred to ERP at that time. Through Heat Wise the repairs or replacement are completed before these customers are faced with no heat and cold temperatures.

Q. What changes are being proposed to ERP by Columbia?

A. Columbia is proposing three changes to the ERP program. First, the Company proposes to increase the ERP program budget from $500,000 to $600,000. The increase in funds will assist Columbia to keep the program open year round. Second, the Company proposes to recover ERP program costs through Rider USP, with an offsetting adjustment to the O&M claim in this case, instead of through base rates. Third, the Company is proposing to raise the eligibility guidelines from 150% of FPL to 200% to assist with hardship cases.

Q. Has funding at the $500,000 level been sufficient to reach those goals of meeting demand and keeping the program open all year?

A. Not entirely. The increased funding level has enabled the Company to assist more eligible customers, but Columbia still is not able to maintain the program all year.

Q. What types of emergencies arise in the summer months?

A. Typically customers are faced with a need to repair or replace leaking house or service lines discovered by the Company during required leak inspections. In the western portion of Columbia's territory customers own and are required to maintain their service lines. Repairs or replacement can be costly and are necessary before the onset of the next heating season. Of the leaks found in 2014, 46% of the affected customers were level 1 (150% of poverty and below) and an additional 11% were between 150% and 200% of poverty. When these events arise during the summer months, customers find themselves in an emergency situation. However, by this time funding for the ERP program is exhausted and the Company has no assistance to offer the customers.

Q. Please explain why Columbia is proposing to recover ERP costs through Rider USP.

A. The benefits of Rider USP recovery are two-fold: (1) if the $600,000 ERP funding levels are not exhausted in a given year, then Columbia will not recover the unspent program funds; and, (2) recovery of ERP costs through Rider USP will align ERP cost recovery with the Company's other Universal Service Programs and ensure that the recovery of ERP costs will be from the residential customer class, to whom the benefits inure.

Q. Why is Columbia proposing to expand the eligibility requirements for ERP from 150% to 200% of FPL?

A. As noted above, of the leaks found in 2014, 46% of the affected customers were level 1 (150% of FPL and below) and an additional 11% were between 150% and 200% of FPL. By expanding the eligibility for ERP, coupled with the increase in the funding level for the program, Columbia will be able to provide further assistance to customer that are at or near 150% of the FPL.

Q. Is Columbia proposing to limit the amount of funds spent on customers between 151% and 200%?

A. Yes, Columbia proposes to spend no more than 10% of the ERP budget to assist these hardship cases. Currently, the Company has to refuse assistance to customers who are just over the income guideline but have high expenses such as medical or pharmaceutical expenses. Although the Company recognizes the financial hardship of this large and unexpected repair, the existing program guidelines will not permit assistance to this customer. The proposal as stated here is consistent with the approach Columbia currently employs in operating it Low Income Usage Reduction Program.

Q. Is there any precedent for the changes that Columbia is proposing?

A. People's Natural Gas Company also has an ERP. Their program is funded through their Universal Service Rider and is available to customers up to 200% of poverty level.

CAP Administration Costs

Q. Please describe the current recovery of CAP application and administration costs.

A. Columbia contracts with a third party to administer the CAP program. Applications are taken over the phone or in person at community based agencies. The cost to take the phone application or pay a local community based agency is charged to Columbia and recovered through Rider USP. The cost for the third party to verify the income documentation, process and store applications is billed monthly to the Company and is currently reflected in base rates. Over the years, the "flat" monthly fee has shifted in proportion to the fluctuation of CAP application levels. Most recently in 2014, Columbia experienced an increase in CAP applications and enrollments; as a result, additional third party resources were needed in order to ensure applications were processed in a timely fashion. The fluctuating nature of the CAP administration costs makes it appropriate for inclusion with other CAP costs in the Rider USP. This is also consistent with other treatment of CAP administrative cost recovery by other Pennsylvania utilities as approved by this Commission.

Q. Does this complete your direct testimony?

A. Yes, it does.

Projected Rider CC Charge for Tri-ennial Eligible Customer List Refresh

CHOICE Eligible Customers/Usage

Rate Schedules subject to Rider CC, Tariff Page No. 148	No. of Bills [1]	No. of Customers	Projected Usage [2]
RSS	3,377,134	281,428	23,280,676.1
RDS	1,069,855	89,155	8,134,026.3
SCD	99,579	8,298	2,149,044.4
PS	0	0	0.0
SGSS	317,107	26,426	9,128,567.8
SGDS	27,076	2,256	3,862,725.8
DGDS	0	0	0.0
Total customers and usage		407,563	46,555,040.4
Total adjusted customers/usage		407,563	46,555,040.4

1 - From Exhibit 103 Schedule 2, Column 7
2 - From Exhibit 103 Schedule 3, Column 6

Total Projected Expenses	$142,945.00
Annualization	3
Annual Recovery	$47,648.33
Projected Annual Usage in therms	465,550,404.0
Rider CC Rate - per therm	0.00010

Columbia Gas of Pennsylvania, Inc.
Gas Procurement Charge

1	**Labor and Benefits** [1]			
2	Accounting Support	37,795.82		
3	Gas Supply Support	235,655.92		
4	Legal Support	30,728.78		
5	Regulatory Support	172,424.58		
6	Total Labor and Benefits		$476,605.10	
7				
8	**Outside Services - Legal Support**		40,197.36	
9				
10	**Information Technology Systems Maintenance**			
11	Gas Source	53,614.31		
12	% of customers taking Sales Service	72.00%		
13	Cost allocated to Sales Service Customers		38,602.30	
14				
15	**TOTAL (line 6 + line 8 + line 9)**		$555,404.76	
16				
17	Total Sales (Therms)		334,239,844 [2]	
18				
19	Gas Procurement Charge (Line 11 / Line 13)		$0.00166	per / therm
20	Gas Procurement Charge (Line 15 * 10)		$0.01660	per / Dth

(1) Labor charges include payroll, benefits and taxes.

(2) Fully Forecasted Rate Year Gas Service Sales per Exhibit 103, Schedule No. 1, Page 15, line 22 LESS Rate NSS Sales found on Exhibit 103, Schedule No. 1, Page 13, line 53, as Rate NSS is not subject to GPC.

Columbia Gas of Pennsylvania, Inc.
Calculation of Rider CAC Charges

		CHOICE [1]	**GDS** [2]
Aviator	71,486.90	19,918.90	51,568.00
GDS	9,262.00	0	9,262.00
CHOICE	186,706.80	186,706.80	0
Total IT Costs to CHOICE/GTS	$267,455.70	$206,625.70	$60,830.00
Labor	$692,462.26	$306,474.36	$385,987.90
Total CAC costs to be recovered	**$959,917.96**	$513,100.06	$446,817.90
Volumes [3]	305,451,637.0	102,830,707.0	202,620,930.0
# of accounts [4]	1,202,125.0	1,169,434	32,691
Rate per therm	0.00314	**0.00499**	0.00221
Rate per account	$0.80	$0.44	**$13.67**

[1] - Rate Schedules RDS and SCD

[2] - Rate Schedules SGDS, SDS, LDS, MLDS

[3] - Total Transportation volumes less Flex and CAP volumes

[4] - Total Distribution Service accounts less Flex and CAP accounts

	Accounts	DTH
RDS	1,069,855	8,134,026.3
SCD	99,579	2,149,044.4
Total CHOICE	1,169,434	10,283,070.7
SDS (non-flex)	4,615	5,821,184.6
SGDS (non-flex)	27,076	3,862,725.8
LDS (non-flex)	952	10,172,182.6
MLDS I (non-flex)	36	146,000.0
MLDS II (non-flex)	12	260,000.0
Total GTS	32,691	20,262,093
CAP	257,325	2,512,973.7
Flex	516	14,416,900.0
Total Transportation [5]	1,459,966.0	47,475,037.4

[5] - ties to Exhibit 103 Schedule 1 Page 18 of 18, Line 23