

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Before the Honorable Kandace F. Melillo,
Presiding Administrative Law Judge**

Pennsylvania Public Utility Commission, et al. :

v. :

UGI Utilities, Inc. - Gas Division :

Docket No. R-2011-2238953

ORIGINAL

**DIRECT TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
CENTERPOINT ENERGY SERVICES, INC.,
JEROME H. RHOADS, INC. D/B/A RHOADS ENERGY CORPORATION,
SHIPLEY ENERGY COMPANY and SHIPLEY CHOICE LLC**

Supplier Group ("SG") Statement No. 1

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Dated: July 11, 2011

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INTRODUCTION

1
2 **Q. State your name and business address, and tell us on whose behalf you are**
3 **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 CenterPoint
7 Energy Services, Inc. ("CES"), Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation
8 ("Rhoads") and Shipley Energy Company and Shipley Choice LLC (collectively
9 "Shipley"). Each is a Choice natural gas supplier ("NGS" or "Choice Supplier") to
10 Choice customers in Pennsylvania. I shall refer to CES, Rhoads and Shipley collectively
11 as the "Supplier Group."

12 **Q. Briefly describe your educational experience and relevant qualifications.**

13 A. I have a B.S. in Chemical Engineering from Carnegie Mellon University and an M.B.A.
14 from the University of Pittsburgh. I have operated a consulting practice for the past 15
15 years, focused on regulated and deregulated energy company strategy, market strategy,
16 regulatory issues, and overseeing the transition to competitive retail markets. In one of
17 my consulting assignments I served as the Vice President of Customer Markets for ACN
18 Energy, a retail marketer of gas and electricity in seven states. Prior to that, I was
19 employed by three major energy companies for a total of 19 years. Most recently I was
20 Vice President of Marketing for Equitable Resources. In that function, I was responsible
21 for the development of strategy for customer choice programs and oversaw the
22 company's participation in the first residential customer choice program in Rock Valley,
23 Iowa, in 1996.

1 Prior to my employment at Equitable Resources, I was Vice President of Marketing for
2 Citizens Utilities. In that role I was responsible for gas, electric, water and wastewater
3 marketing activities across several service territories in the United States. Under my
4 direction, Citizens Utilities initiated commercial and industrial transportation and supply
5 services at its gas operation in Arizona. I directed significant gas supply contracting
6 activities with large industrial and commercial customers at Citizens Utilities' gas
7 operation in Louisiana.

8 I was the Marketing Director at Peoples Natural Gas of Pittsburgh, Pennsylvania, during
9 1988 through 1994, where I was actively involved in many gas transportation programs
10 as the company introduced competition for residential customers. In summary, I have
11 considerable experience in several states fostering the transition to competitive retail
12 markets.

13 **Q. Have you previously testified before the Pennsylvania Public Utility Commission?**

14 A. Yes, I have appeared before the Pennsylvania Public Utility Commission
15 ("Commission") in several gas and electric regulatory proceedings. Additionally, I
16 provided testimony on a variety of issues relating to energy procurement, industry
17 restructuring, and demand response before regulatory commissions in Arizona, Illinois
18 and the U.S. Virgin Islands.

19 **Q. Please describe CES.**

20 A. CES is a wholly-owned gas marketing subsidiary of CenterPoint Energy, Inc. CES sells
21 gas and related services to over 12,000 commercial, industrial, and wholesale customers
22 located primarily in the eastern half of the United States. CES has been active in
23 Pennsylvania since 2007. At present it serves transportation customers in Pennsylvania

1 behind UGI Utilities, Inc. – Gas Division (“UGI”), UGI Penn Natural Gas, Inc. (“PNG”),
2 UGI Central Penn Gas, Inc. (“CPG” and, together with UGI and PNG, the “UGI
3 System”), Columbia of PA, PECO, Equitable, and NFG. It also serves Choice customers
4 on UGI and PNG, and is in the process of initiating Choice service on CPG.

5 **Q. What are CES’s operations in other states?**

6 A. CES is also a natural gas supplier in the States of Arkansas, Illinois, Indiana, Iowa,
7 Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Ohio,
8 Oklahoma, South Dakota, Texas, and Wisconsin. Of these states, CES is participating in
9 the Choice programs in Indiana and Michigan.

10 **Q. Please describe Rhoads.**

11 A. Rhoads commenced operations in 2010 and is a subsidiary of Jerome H. Rhoads, Inc., a
12 fuel oil dealer based in Lancaster, Pennsylvania. Rhoads sells gas to approximately 1,000
13 residential customers located in the UGI service territory. Rhoads anticipates offering
14 service to customers in the service territories of CPG and PNG beginning this year.

15 **Q. Please describe Shipley.**

16 A. Shipley commenced operations in 1929 and is a fuel oil, biofuel, propane, and natural gas
17 supplier based in York, Pennsylvania. Shipley sells gas and related services
18 to approximately 12,000 residential, commercial, and industrial customers located in the
19 UGI service territory. Shipley reasonably anticipates offering service to customers in the
20 service territories of CPG and PNG in the future. Shipley has been active in
21 Pennsylvania natural gas markets since 1998 and serves residential, commercial and
22 industrial Pennsylvania gas customers on the UGI, PECO and Columbia Gas of
23 Pennsylvania systems.

PURPOSE OF TESTIMONY

1
2 **Q. What is the focus of your testimony?**

3 A. My testimony focuses on the UGI (or "Company") Choice program and the impact that
4 approach would have on the Choice program on the UGI system if left unchanged. In
5 particular, I will describe how UGI's approach, if unchanged, could serve as a
6 disincentive for natural gas suppliers to participate in the UGI Choice program. As part
7 of that discussion, I will provide alternative approaches on the identified issues that are
8 designed to create a level playing field that will allow natural gas suppliers to present
9 competitive supply offers to incumbent utility customers. My recommendations do not
10 undermine UGI's overall system reliability and are based on accepted practices from the
11 more successful Choice programs in place in other Pennsylvania natural gas distribution
12 companies ("NGDC").

13 **Q. Why is the Supplier Group participating in this case?**

14 A. The decisions made in this case will have a fundamental impact on whether the Supplier
15 Group will see a way that they can effectively compete for customers on the UGI system.
16 Each member of the Supplier Group is in the business of marketing natural gas. A key
17 component of that business is going into the market to identify cost effective ways to buy
18 natural gas and to deliver that natural gas to the ultimate sales customer. Each mandatory
19 assignment of capacity or costs, and each mismatch between the value of assigned
20 capacity and the cost of that capacity, saddles a natural gas supplier with decisions made
21 by the utility that may not be the choices that the natural gas supplier would have made
22 itself. These forced choices are a burden for the natural gas supplier and make it difficult
23 to compete to provide gas supply to utility customers, since the natural gas supplier loses
24 the ability to optimize its supply, transportation, and storage choices and costs. The more

1 existing contractual structure that is forced onto the natural gas supplier, the less
2 flexibility the natural gas supplier has that will allow it to make business decisions that
3 are designed to improve the supply options that it can present to customers. It is hard to
4 compete if many of the choices that affect your supply pricing are made by the entity that
5 you are trying to outperform.

6 **Q. Are you suggesting that there should never be any assignment of capacity and**
7 **related costs as part of the Choice program?**

8 A. No. I am not. The Supplier Group recognizes that, by participating in a market that has a
9 regulatory overlay, there are requirements they have to accept. The goal of the Supplier
10 Group is a Choice program that provides them with the same type of flexibility that the
11 incumbent utility has in meeting its planning and gas supply needs.

12 **Q. What are the particular areas that you will address in your testimony?**

13 A. The focus of my testimony will be on two topics: (1) the mandatory capacity assignment
14 process and (2) off-system sales. With respect to the mandatory capacity assignment
15 process, I will discuss (a) the importance of assigning storage as well as transportation
16 and (b) the way that UGI intends to develop the costs under its capacity assignment
17 process associated with Choice.

18 **Q. What are your overall recommendations?**

19 A. My primary recommendations are:

20 1. Capacity assigned to Choice Suppliers should include all interstate pipeline
21 transportation *and* storage capacity that was procured to serve a Choice Supplier's
22 customers.

1 2. The price charged for assigned capacity should be derived from the actual contract
 2 rate for the assigned capacity; not a weighted average cost of all capacity that the
 3 Company has acquired, which includes capacity that has no connection to a natural gas
 4 supplier's customers.

5 3. The derivation of the capacity assigned to a natural gas supplier should be based on
 6 the average day in the month of highest usage on the Company's system, as it is today in
 7 some parts of the current UGI tariff. An NGS's capacity assignment should then equate
 8 to its proportional share of the actual capacity UGI has under contract so that UGI does
 9 not over or under allocate its actual capacity.

10 4. The Company's capacity assignment program should be voluntary.

11 5. The 75% customer share of off-system sales revenues should be credited to both PGC
 12 customers (including applicable firm transportation customers) and Choice customers.

13 **MANDATORY CAPACITY ASSIGNMENT**

14 **Q. Please describe UGI's current Choice program's capacity assignment process.**

15 **A.** UGI presently has a voluntary capacity assignment process, which is described in Section
 16 7.3, of its currently effective tariff. The Company offers four options. In Options One
 17 and Two the amount of capacity assigned to a customer is based on the average day of
 18 peak month usage and capacity is released "at the same pipeline tariff rate" that UGI
 19 otherwise would pay to the pipeline. The first two options involve (a) release of
 20 Company pipeline capacity ("Option One") or (b) release of Company pipeline capacity
 21 combined with bundled city-gate sales of gas from the Company ("Option Two").
 22 Options Three and Four are structured similar to Options One and Two, except that the
 23 mandatory capacity assignments are based on the Peak Daily Delivery Requirement

1 ("PDDR"). For reasons explained later in my testimony, mandatory assignment based on
2 peak day is very unattractive.

3 **Q. Will the program remain in effect in the future?**

4 A. The program will have mandatory assignment beginning on November 1, 2011 through
5 October 31, 2012. From November 1, 2012 forward, it will change.

6 **Q. How will it change?**

7 A. UGI's tariff provides that beginning November 1, 2012, UGI plans to only have an
8 Option One and Option Two, however both options will assign an amount of capacity or
9 capacity and bundled gas sale based on the customer's PDDR (which in the current tariff
10 are called Options 3 and 4).

11 **Q. Please describe Option One in greater detail.**

12 A. Beginning November 1, 2012, Option One assigns interstate pipeline capacity, through
13 *interstate pipeline capacity release, to Choice Suppliers in an amount equivalent to the*
14 *PDDR.*

15 **Q. Please describe Option Two in greater detail.**

16 A. Beginning November 1, 2012, Option Two assigns interstate pipeline capacity to meet a
17 portion of the PDDR, but charges the same total amount for capacity as Option One. The
18 balance of the PDDR is met through a bundled city-gate sale of gas to the Choice
19 Suppliers. The sale would be priced at (1) the average published April through October
20 INSIDE FERC First of Month ("FOM") Natural Gas monthly price for Columbia Gulf
21 Mainline, plus (2) the variable transportation and storage charges associated with the
22 delivery path of the gas.

23 **Q. How will the assigned capacity be priced?**

1 A. Section 7.3 provides that the price for the released interstate pipeline capacity would be
2 "at a price equal to the projected weighted average demand cost of all PGC capacity,
3 storage and peaking assets."

4 **Q. Do the assets that the Company will release actually include pipeline capacity,
5 storage capacity, and peaking assets?**

6 A. No. The Company is planning on releasing only interstate pipeline capacity, and not
7 storage capacity.

8 **Q. Is the fact that the Company will price the released capacity using a projected
9 weighted average demand cost for all transportation capacity, storage capacity, and
10 peaking assets, while releasing only transportation capacity important?**

11 A. Yes. It is very important.

12 **Q. Please explain.**

13 A. *First it is important to establish why storage capacity is useful. One of the main uses of*
14 *storage capacity is to manage and reduce the cost of its purchased gas supply. As a*
15 *general rule, natural gas is less expensive during the summer than it is during the winter,*
16 *because natural gas is in highest demand during the colder months when it is used for*
17 *heating. The interstate pipeline companies' storage services described in their Federal*
18 *Energy Regulatory Commission ("FERC") tariffs recognize this fact by using a storage*
19 *cycling approach, which has what are commonly referred to as injection seasons and*
20 *withdrawal seasons. These seasons generally track the warmer months (for injection) and*
21 *colder months (for withdrawal). By holding storage capacity, a company is able to buy*
22 *gas when its price is lower and inject that gas into storage, and then it can withdraw that*
23 *gas when its price would be higher if an equivalent quantity of gas were purchased on the*

1 market at that time. The goal, of course, is to manage storage and associated gas
2 purchases to result in a lower overall gas cost. Since UGI does not release the storage to
3 natural gas suppliers as part of its Choice program, it deprives a natural gas supplier from
4 having access to this potentially valuable asset that a natural gas supplier could use to
5 reduce its overall gas costs and thereby benefit the customers.

6 **Q. What makes storage capacity so important to the customers of an NGS?**

7 A. Remember that we are talking about Choice customers, which are residential and small
8 commercial customers that have a temperature-sensitive load profile, meaning they use
9 substantially more gas in the winter than in the summer. An examination of the data for
10 residential and commercial normalized sales by month provided by the Company as a
11 response to OCA-I-6, which I have attached as Exhibit SG-1, illustrates just how
12 different the load requirements of these customers are from summer to winter. Having
13 access to storage capacity is crucial for meeting the different load requirements.

14 **Q. How does an NGS meet the needs of such temperature-sensitive customers today
15 under the current Choice program rules?**

16 A. They must either purchase city-gate deliveries from a wholesale supplier or obtain
17 sufficient pipeline capacity to meet the peak needs of their customers, since the Company
18 does not release storage capacity to the NGSs. Not having access to the storage assets
19 that were paid for by all the customers puts the NGSs at a disadvantage when competing
20 against the utility's system-supply gas and reduces the ability of customers to choose an
21 NGS, forcing them to stay with the utility, which is contrary to the goals and purpose of
22 the Natural Gas Choice and Competition Act (the "Competition Act").

1 **Q. Is that decision to exclude storage capacity from the capacity to be assigned to**
2 **Choice Suppliers appropriate?**

3 A. No, it is not. Prior to the development of the Choice program, residential and small
4 commercial customers that were too small to qualify for transportation service were
5 supplied as retail sales customers of the Company, and the Company met the needs of
6 those customers by obtaining pipeline capacity and storage assets. Those assets were
7 acquired on behalf of those customers and were paid for by those customers at that time.
8 Now that some customers choose to become Choice customers, they find that the assets
9 to which they once had access, and indeed paid for, are no longer available to them and
10 that their Choice Supplier must obtain new assets (upstream pipeline capacity and
11 storage) or purchase potentially more expensive city-gate delivered gas from a supplier
12 that controls such assets. To be fair, all customers for whom gas is delivered on the
13 Company's system, regardless of whether they purchase such gas from the Company or
14 from an NGS, should still be able to pay for and utilize (or have their NGS pay for and
15 utilize on their behalf) those assets for which they were paying prior to the advent of their
16 becoming Choice customers. Not having storage assets that were procured for providing
17 service to all the customers puts the NGS at a disadvantage when competing against
18 system-supply gas.

19 **Q. Are there other flaws in the decision of the Company to exclude storage assets from**
20 **the assets that it plans to release to Choice Suppliers?**

21 A. Yes. In addition to the situation described above, the Company's plan is particularly
22 unfair. UGI's capacity release pricing approach provides that a natural gas supplier
23 would pay the weighted average system demand cost of all transportation, storage, and

1 peaking assets. Since the cost that a natural gas supplier would pay for in a capacity
2 release would include storage assets, a natural gas supplier should get access to the
3 storage assets for which it has to pay.

4 **Q. Could the Company choose to release storage assets?**

5 A. Yes, it could. Interstate storage capacity is releasable, just like interstate pipeline
6 capacity is releasable. And, just as the Company has indicated that it will release pipeline
7 capacity on a recallable basis, it also could release the storage capacity on a recallable
8 basis. "Recallable" means that the released capacity can be recalled by the releasing
9 party (here, the Company), subject to the terms of the capacity release. It is apparent that
10 the potential recall is designed to allow for the Company to recall the released pipeline
11 capacity if an NGS is failing to meet its customer supply obligations. If this occurred, the
12 Company could recall or take back the released capacity and use that capacity as a way to
13 step in as the supplier of last resort to that customer. The Company plans to do just that
14 with respect to the interstate pipeline capacity that it will be assigning to NGSs, and it
15 should be required to do the same with storage capacity.

16 **Q. Has the Company addressed the reasons that it does not include storage as part of**
17 **its Choice assignment process?**

18 A. Yes. I have attached as Exhibit SG-2 a Company data response that responds to a CES
19 interrogatory that questioned whether peaking and storage assets are included in the
20 capacity assignment program and, if not, why they are not. The Company's response to
21 the inquiry was:

22 Storage and peaking assets are not released to Choice Suppliers as part of the
23 capacity assignment in UGI's current tariff, but are used to support a bundled city
24 gate sale in Option II and Option IV at summer index pricing. Storage and
25 peaking is not released to Choice Suppliers for many reasons. First, UGI must

1 maintain reliability of firm deliverability of its storage assets, which could be
 2 jeopardized if a Choice Supplier defaults during the heating season and fails to
 3 maintain sufficient storage inventory for the remainder of the season. Second,
 4 7(c) contracts are not releasable. Third, peaking assets are not releasable. Lastly,
 5 if UGI were to release a sufficient amount of storage, UGI would need to redesign
 6 the choice program in order to meet the balancing needs of the system which
 7 would place a burden on Choice Suppliers.

8
 9 **Q. How do you respond to the Company's rationale for not including storage in the**
 10 **Choice capacity assignment program?**

11 A. I find the Company's rationale entirely unsatisfying and I will respond to it point by
 12 point.

13 The Company begins by suggesting that the storage assets and peaking assets will not be
 14 released because the Company is using the assets to support the Option II and Option IV
 15 bundled city-gate sale portion of its capacity assignment program. As I explain
 16 elsewhere in my testimony, that Option II/IV program is of limited value to a natural gas
 17 supplier that is trying to compete with an incumbent utility. Option II/IV provides the
 18 Company with a way to retain a portion of gas sales that would otherwise be entirely
 19 replaced with a natural gas supplier's own, non-Company, gas purchases. If supporting
 20 Option II/IV is the reason for not assigning peaking or storage assets, then Option II/IV
 21 should be eliminated as part of the Company's capacity assignment program.

22 **Q. How do you respond to the statement that there are "many reasons" that storage**
 23 **and peaking capacity will not be released to natural gas suppliers?**

24 A. That statement really does not provide any substance and likely was just an introduction
 25 to the later three justifications for not including peaking and storage assets in the
 26 Company's capacity assignment program. I really cannot respond to it beyond that.

1 **Q. How do you respond to the Company's suggestion that it will not assign peaking or**
 2 **storage assets because the Company "must maintain reliability of firm deliverability**
 3 **of its storage assets, which could be jeopardized if a Choice Supplier defaults during**
 4 **the heating season and fails to maintain sufficient storage inventory for the**
 5 **remainder of the season"?**

6 A. That statement essentially takes issue with the entire Choice program in Pennsylvania.
 7 The legislature has quite clearly set up a program where customers are expected to have
 8 an opportunity to choose a natural gas supplier. The Commission, in implementing that
 9 Choice program, requires companies like the Supplier Group to apply to become an NGS
 10 and to demonstrate that each NGS has the expertise and financial resources for it to meet
 11 its supply obligations. Although an NGDC must stand ready to act as the supplier of last
 12 resort, removing all peaking and storage assets from its capacity assignment program is
 13 not needed for the NGDC to play such a role. In fact, other NGDCs in Pennsylvania
 14 have released storage assets as part of their Choice capacity assignment programs. Put
 15 simply, planning to backstop the small chance that an NGDC will not meet its supply
 16 obligations does not justify excluding the most valuable and useful assets from the
 17 Choice capacity assignment program.

18 **Q. Please explain what the Company means when it states "7(c) contracts are not**
 19 **releasable."**

20 A. That statement refers to a small set of interstate pipeline contracts that were entered into
 21 as non-open-access contracts under Section 7(c) of the Natural Gas Act (15 U.S.C.
 22 § 717f(c)) and Part 157 of the FERC's regulations (18 C.F.R. Part 157) and generally are
 23 not releasable. Generally speaking, there can be Section 7(c) contracts that remain in

1 place for storage as well as transportation, although at this time I am unaware of any
2 Company Section 7(c) transportation arrangements. The mention of Section 7(c) storage
3 contracts, of course, excludes the reality that most FERC-jurisdictional storage contracts
4 held by companies today are contracts that can be released under FERC's capacity
5 release rules, and therefore, could be assigned under the capacity assignment program.

6 **Q. If there are contracts that cannot be assigned, then how should that be addressed?**

7 A. If there are contracts that cannot be assigned, then the Company should identify those
8 contracts and should develop a way that allows for an appropriate assignment of the
9 assignable agreements. One possibility is that the Company could assign an appropriate
10 proportion of the capacity from the assignable agreements, while retaining the capacity
11 from the non-assignable agreements. This issue should be addressed by reviewing the
12 overall mix of storage contracts that the Company holds and then determining an
13 appropriate way forward. It simply is not appropriate to point to Section 7(c) contracts
14 and suggest that their existence somehow precludes the ability to allow for storage
15 assignment as part of this Choice capacity assignment process. Also, it is possible that
16 assignment of Section 7(c) contracts could be achievable by working with the relevant
17 pipeline, with the possible need for FERC approval of any arrangement.

18 **Q. How do you respond to the comment that "peaking assets are not releasable"?**

19 A. My response is similar to my Section 7(c) response above. If there are some assets that
20 are not assignable, then they may need to be excluded from the capacity assignment
21 program. There is no reason that *all* storage and peaking contracts should not be part of
22 the capacity assignment process just because *some* storage and peaking contracts may not
23 be assignable.

1 **Q. Finally, how do you respond to the statement that “if UGI were to release a**
2 **sufficient amount of storage, UGI would need to redesign the choice program in**
3 **order to meet the balancing needs of the system which would place a burden on**
4 **Choice Suppliers”?**

5 A. The Company would need to see a substantial increase in the amount of Choice
6 customers from the current participation level. Relative to the amount of total customers
7 that the Company has, the level of Choice customers and the amount of storage that
8 would correspond to that level is not significant. Even if the Company did not wish to
9 release 7(c) storage assets, it could retain such assets to meet the needs of sales customers
10 and release other storage assets from its portfolio. The Supplier Group believes that the
11 inclusion of storage capacity in the capacity assignment program is very important.

12 **Q. Has the Company had problems with non-performance of Choice marketers that**
13 **would create concerns?**

14 A. Unlike PNG and CPG, UGI has not released capacity to Choice marketers, so I cannot
15 respond specifically for UGI. I would note, however, that neither PNG nor CPG appear
16 to have had issues, as I explain in my direct testimony in those proceedings.

17 **Q. Has the Company specified what assets it plans to assign?**

18 A. No. The tariff does not identify specific contracts.

19 **Q. Does it matter that the specific contracts are not identified?**

20 A. Yes, it matters for two reasons. First, my understanding from a review of 66 PA C.S.
21 § 2204(d) and (e) is that NGSs cannot be assigned capacity for contracts that were
22 entered into or renewed after the Company’s restructuring filing, unless the Company has
23 followed a specific review and approval process, which is outlined in § 2204(e). Second,

1 as I mentioned earlier, UGI intends to set the price for released capacity equal to the
 2 weighted average cost of Company gas supply assets, which would include assets that it
 3 does not plan to assign. Without knowing the specific contracts that are included or
 4 excluded, it is not possible to analyze the impact of that position on customers.

5 **Q. The Company has renewed some of the more expensive pipeline capacity contracts**
 6 **after its restructuring filing. Are those contracts allowed to be included in the**
 7 **mandatory capacity assignment?**

8 A. No they are not. In 66 PA C.S. § 2204(e) the statute addresses new and renewed
 9 capacity. It states that prior to renewing capacity contracts the NGDC shall offer natural
 10 gas suppliers the opportunity to renew such contracts or to enter into other contracts for
 11 capacity. In UGI's case the suppliers have entered into their own contracts for capacity.
 12 The statute continues by ordering the NGDC to utilize the collaborative process to
 13 address its capacity requirements, yet UGI had not engaged in collaborative discussion
 14 with the suppliers on this issue.

15 Here is the entire section:

16 **(e) New and renewed capacity.--**

- 17 (1) Subject to the service obligations imposed by this title, and to the extent such
 18 capacity is not needed to meet the natural gas distribution company's least-cost
 19 fuel procurement and other applicable standards pursuant to this title, prior to
 20 entering into new or renewed contracts for firm storage or transportation capacity
 21 not subject to subsection (d)(1), (2), (3) or (4), each natural gas distribution
 22 company shall offer on a nondiscriminatory basis to each natural gas supplier
 23 licensed to do business on its system, and to large volume industrial or
 24 commercial customers of the natural gas distribution company being served by
 25 such contracts, the opportunity to renew such contracts, pursuant to the rules and
 26 regulations of the Federal Energy Regulatory Commission, or to enter into other
 27 contracts for capacity.
 28 (2) The capacity shall meet the reliability criteria of the natural gas distribution
 29 company and, in the case of large volume industrial and commercial customers
 30 being served by such contracts, shall meet their current requirements.

1 (3) Each natural gas distribution company shall utilize the collaborative process
 2 established pursuant to subsection (f) to address its capacity requirements.

3 (4) Absent the natural gas supplier or large volume industrial or commercial
 4 customer taking or providing such capacity, the natural gas distribution company
 5 shall file with and obtain approval from the commission for such contracts
 6 necessary to ensure sufficient capacity to meet current and projected customer
 7 requirements considering the commitments of natural gas suppliers.

8 (5) Prior to being displaced by a natural gas supplier's alternate interstate storage
 9 or transportation capacity, contracts renewed or entered into by the natural gas
 10 distribution company pursuant to this subsection shall be subject to the process set
 11 forth in subsection (d).

12 In short, the Company should have offered capacity to the suppliers. It did not. It should
 13 have gotten the PUC to concur that it needed to renew the excess capacity. It did not.
 14 Now that suppliers have obtained their own capacity the Company is looking to lay the
 15 costs on to them.

16 **Q. Is there a mismatch between the capacity *assets* the Company is including in its
 17 mandatory assignment to Choice Suppliers and the capacity *costs* it wants to force
 18 Choice Suppliers to pay?**

19 A. Yes. There is a mismatch between the assets that the UGI tariff states will be assigned on
 20 a mandatory basis, and the assets that will be the basis of the costs that Choice Suppliers
 21 would be forced to pay. Only pipeline capacity, but not the valuable storage capacity,
 22 would be assigned to suppliers. However, the costs that the suppliers would be forced to
 23 pay would be the average cost of all Company capacity assets, which includes both the
 24 pipeline capacity (a lower-value asset) and the storage capacity (a higher-value asset). In
 25 fact, only a subset of pipeline capacity would be assigned, and yet the cost of the entire
 26 bundle of assets would be charged.

27 **Q. What effect would that have on the competitiveness of Choice Suppliers?**

28 A. The Company's plan to calculate a Choice Supplier's cost for capacity assignment based
 29 on 100% of peak day level of the Company's total capacity costs (including all pipeline

1 and storage capacity costs, which have a higher average cost), even though only a subset
 2 of pipeline capacity is actually made available to Choice Suppliers, would unreasonably
 3 burden Choice customers and restrain effective competition. The Choice customers
 4 would be subsidizing the PGC customers, and the Competition Act's goal of effective
 5 competition would be pushed further away.

6 **Q. Are you familiar with any recent Commission decision that is relevant to a**
 7 **consideration of these issues?**

8 A. Yes. The Commission's recent Competitive Markets Order relates to the issues under
 9 consideration here.

10 **Q. What is the Competitive Markets Order?**

11 A. It is the Revised Final Rulemaking Re: Natural Gas Distribution Companies and the
 12 Promotion of Competitive Retail Markets (L-2008-2069114/57-269). The purpose of this
 13 rulemaking order is to remove barriers to retail competition in the natural gas supply
 14 market in the Commonwealth pursuant to the Competition Act. The order was issued on
 15 June 23, 2011 and is very pertinent to the issues I have raised in this testimony.

16 **Q. How does this final rule relate to your concerns in this proceeding?**

17 A. The order stresses the importance of ensuring that the release of interstate pipeline
 18 capacity held by NGDCs is done on a non-discriminatory basis.

19 **Q. What does the order state regarding the capacity release?**

20 A. The Commission notes that "it might be helpful to the development of the gas retail
 21 markets if the ability of an NGDC to control its capacity on interstate natural gas
 22 pipelines was not as strong." (*Id.* at 45.) The order provides guidance to NGDCs and
 23 NGSs and "ensure[s] that the requirements for the release, assignment and transfer of

1 capacity by an NGDC shall be on a nondiscriminatory basis and shall be at the applicable
2 contract rate for such capacity.” (*Id.*)

3 **Q. What assets does the order address?**

4 A. The order addresses both pipeline transportation and storage capacity release programs
5 and states that both “must be administered in a non-discriminatory and competitively
6 neutral manner” with regard to functionality, availability and price. (*Id.* at 46.)

7 **Q. What does the Commission identify in this order as the central principle of natural
8 gas restructuring?**

9 A. The order states, as follows:

10 Nevertheless, it remains a central principle of natural gas restructuring and the
11 efficacy of natural gas retail choice that the assets of gas pipeline and
12 transportation and storage capacity should be made available and follows the
13 shopping customers of each utility, regardless of where they purchase their natural
14 gas supply, subject only to the NGDC’s valid system reliability and FERC
15 constraints.

16 (*Id.* at 47.)

17 **Q. What does the Commission state regarding the capacity that is released?**

18 A. The Commission states as follows:

19 [W]e want to ensure that useable capacity is released to marketers at fair and
20 equitable rates, not the most expensive and least usable capacity. However, we
21 want to ensure that such capacity release is priced at a rate so that shopping and
22 non-shopping customers are treated equally and that NGDCs have the flexibility
23 to meet this goal based upon their respective capacity portfolios.

24 (*Id.* at 47.)

25 **Q. Please provide revised regulatory language related to capacity release that will be
26 put in effect once the Competitive Markets Order is published in the Pennsylvania
27 Register.**

1 A. That provision, as it is included in on pages 61-62 of the Competitive Markets Order
2 (with the revised language in all capital letters but with deletions omitted), is:

3 **“§ 62.225. Release, assignment or transfer of capacity.**

4 (a) An NGDC holding contracts for firm storage or transportation capacity,
5 including gas supply contracts with Commonwealth producers, or a city natural
6 gas distribution operation, may release, assign or transfer the capacity or
7 Commonwealth supply, in whole or in part, associated with those contracts to
8 licensed NGSS or large commercial or industrial customers on its system.
9

10 (1) A release, assignment or transfer shall be made on a nondiscriminatory basis
11 AS TO PRICE, RELIABILITY AND FUNCTIONALITY.
12

13 (2) A RELEASE OF AN NGDC'S PIPELINE AND STORAGE CAPACITY
14 ASSETS SHALL FOLLOW THE CUSTOMERS FOR WHICH THE NGDC
15 HAS PROCURED THE CAPACITY, SUBJECT ONLY TO THE NGDC'S
16 VALID SYSTEM RELIABILITY AND FERC CONSTRAINTS.
17

18 (3) A release, assignment or transfer shall be BASED UPON the applicable
19 contract rate for capacity or Pennsylvania supply and be subject to applicable
20 contractual arrangements and tariffs.
21

22 (4) The amount released, assigned or transferred shall be sufficient to serve the
23 level of the customers' requirements for which the NGDC has procured the
24 capacity determined in accordance with the NGDC's tariff or procedures
25 approved in its restructuring proceedings.”
26

27 (*Id.* at 61-62.)
28

29 **Q. Is the UGI plan for mandatory capacity release non-discriminatory?**

30 A. No it is not. It discriminates in availability by not releasing the same mix of system
31 assets to Choice Suppliers that it uses to supply the needs of the sales customers.
32 Moreover, it discriminates in functionality because it allocates the costs that Choice
33 Suppliers must pay for the capacity that UGI does plan to release (interstate pipeline
34 capacity), based on peak day requirements, even though UGI did not purchase that
35 capacity for peaking purposes to begin with, but rather purchased that capacity for base
36 load purposes, to meet the system's average day in the coldest month. Finally, it is

1 discriminatory with respect to price. The Company charges the weighted average
2 demand cost of all UGI PGC capacity, storage, and peaking assets, yet will release only
3 the interstate pipeline capacity.

4 **Q. From November 1, 2012 on, you previously mentioned Option One and Option Two**
5 **of the UGI Mandatory Assignment plan. Please summarize those options again.**

6 A. Option One assigns interstate pipeline capacity to Choice Suppliers in an amount
7 equivalent to the PDDR. Option Two releases interstate pipeline capacity (still no
8 storage assets) to meet a portion of the PDDR, but charges the same total amount for
9 capacity as Option One, and meets the balance of the PDDR through a bundled city-gate
10 sale of gas to the Choice Suppliers priced at (1) the average published April through
11 October INSIDE FERC FOM Natural Gas monthly price for Columbia Gulf Mainline,
12 plus (2) the variable transportation and storage charges associated with the delivery path
13 of the gas.

14 **Q. Is Option Two the most economically attractive method for an NGS participating in**
15 **the Choice program?**

16 A. No. This method is supposed to mimic purchases of gas during the summer period when
17 such gas is placed into storage and withdrawn to meet customer needs in the winter. On
18 the surface it might appear reasonable; that is, an NGS could buy FOM index gas and
19 deliver it and store it as Option Two describes. An NGS, however, does not actually buy
20 gas that way. Instead, to fill storage an NGS will buy the gas either at FOM index or in
21 the spot market in the summer months and inject it at or below the injection rate specified
22 in the contract. The key is to fill it up at a low price, so an NGS gas trader will try to get
23 a price below index and inject more in the months when prices are depressed. The other

1 half of the equation is dispatching the gas from storage in the winter on peak days as
2 opposed to every single day (which is the way the UGI bundled package works).
3 Operational flexibility enhances the value of storage. With UGI taking away the
4 flexibility, it is in effect taking away the value.

5 **Q. How would an NGS perform this function with greater economic efficiency?**

6 A. It is difficult to provide an apples-to-apples comparison between UGI's weighted average
7 storage price and the average price of an NGS summer gas purchase. UGI calculates its
8 price by taking an individual FOM index for each summer month at the receipt point,
9 adding the costs to transport, inject and withdraw that gas, and then averages all of the
10 summer months together to come up with a weighted average cost of gas. This is the gas
11 price that an NGS would pay for the "storage" portion of the bundled capacity in the
12 winter under Option Two.

13 If an NGS actually controlled the storage capacity there would be two key differences in
14 how it would use it. First, an NGS would not buy FOM index exclusively. Instead, the
15 NGS would incorporate a strategy of buying FOM index in some months while trying to
16 capture low spot prices in other months. Because it is not necessary to put gas into
17 storage at the same rate every day of the summer, the NGS would try to buy gas to fill its
18 storage capacity at the lowest price possible.

19 Additionally, an NGS would not always buy gas at the receipt point. There are times
20 when capacity at the receipt point is out of the money, or more expensive when
21 transportation costs are included and it would be less expensive to just buy the gas at the
22 delivery point rather than buy it at the receipt point and pay the variable transmission
23 costs to inject into storage.

1 **Q. How would the mandatory capacity allocation planned by the Company be**
2 **determined in the first year?**

3 A. The marketer will be assigned capacity based on the normal January day. Remember that
4 the Company plans to only assign pipeline capacity. A customer's peak day will go
5 above a normal January day, and as such will need to be supplemented with gas
6 withdrawn from storage or gas purchased at the city-gate. Since the Company is
7 planning to assign only pipeline assets to the NGSs using the normal January day as the
8 basis for this assignment, but since storage assets are not part of the actual assignment,
9 UGI's actual costs incurred will be different than the capacity assignment costs. This
10 would further complicate a verifiable audit of the projected costs being charged to an
11 NGS as compared to the actual costs incurred.

12 **Q. What is the Company planning to do on November 1, 2012 with regard to capacity**
13 **assignment determination for Options I and II?**

14 A. It plans to dramatically increase the amount assigned to the NGS by using the peak day as
15 the basis for determining the capacity amount to be assigned. As is seen from the
16 Company filing that shows how UGI will meet a peak day, a peak day is not met by UGI
17 with pipeline capacity, which is the only capacity UGI will release to the NGS. Instead,
18 it is met with storage capacity and peaking assets.

19 **Q. What is the forecast average day in the peak month vs. the peak day?**

20 A. In Book 1, Attachment 1-B-2, page 2 of 9, the peak month of January has a demand
21 forecast of 6,282,027 Dth, which is an average over 31 days of 202,646 Dth. Also, in
22 Book 1, Section 11, page 2, the peak day projection is 606,000 Dth. Those data are for
23 the entire system. Choice customers are residential and small commercial customers with

1 temperature-sensitive profiles and, in general, the average January day can be in the
2 range of 40% to 60% of the peak day. This effectively increases the cost of capacity for
3 the NGSs significantly, and will make Choice unattractive on UGI. This planned change
4 should be denied.

5 **Q. Please summarize why a Choice Supplier should not pay for pipeline capacity based**
6 **on peak day capacity?**

7 A. The Company plans to charge the NGS based on peak day capacity but not assign assets
8 that are actually used for peak day capacity, specifically storage and other peaking assets.
9 A Choice Supplier should pay for pipeline capacity based on the same methodology that
10 UGI uses to acquire its pipeline capacity. Examining an NGS's aggregate annual load
11 and comparing it to UGI's aggregate annual load, that ratio should be the same ratio used
12 to allocated UGI's actual assets. In this manner, if 100% of the customers chose an NGS,
13 no more and no less than 100% of UGI's capacity would be assigned. In using a peak
14 day capacity methodology, if 100% of the customers chose an NGS, UGI would
15 ultimately be assigning more than 100% of its actual pipeline capacity, because UGI does
16 not use only pipeline capacity to satisfy the peak day demands. Lastly, if the Company
17 has an affiliate, or any other company, managing the assets on its behalf under an asset
18 management agreement and that asset manager releases unutilized capacity, then it would
19 further suggest that the NGSs are paying for more capacity than is needed to meet the
20 system requirements. The NGSs should be charged only for assets that it can control and
21 manage.

22 **Q. The Company has stated that the direct assignment program is mandatory. Is this**
23 **necessary?**

1 A. It is neither necessary nor desirable to have this program be a mandatory program.
 2 Choice Suppliers like the Supplier Group are in the business of making decisions
 3 associated with gas purchase, supply, and transportation. While it is an important feature
 4 that the Company offer upstream pipeline capacity and storage assets to an NGS serving
 5 Choice customers, acceptance of such an offer should be voluntary, and the NGS should
 6 be free to make a decision to participate or not, on an annual basis, in accordance with the
 7 March 1, 2012, election date stated by the Company.

8 **Q. Please elaborate on your concern with the mandatory nature of the Company's**
 9 **capacity assignment approach?**

10 A. The Supplier Group believes imposing mandatory capacity assignment obligations on
 11 Choice Suppliers unreasonably and unnecessarily restricts natural gas competition in the
 12 Company's service territory, by eliminating their ability to possibly acquire such capacity
 13 under better terms from another source and thereby causing them to incur higher than
 14 necessary costs for such capacity, which are passed on to their Choice customers.
 15 Upstream capacity, including storage capacity, held but not reasonably needed by UGI
 16 should be made available for release to Choice Suppliers, but on a voluntary basis for the
 17 Choice Supplier, and it should be free to make a decision to participate or not in UGI's
 18 capacity assignment, on an annual basis, in accordance with the March 1, 2012, election
 19 date stated by the Company.

20 **Q. What assets are used to create revenue for the revenue sharing incentive mechanism**
 21 **("RSIM")?**

22 A. The assets used are the underutilized pipeline capacity and storage that the Company
 23 contracts for and controls. Historically those assets were arranged for the benefit of all

1 system customers. Some of those customers have moved to Choice service and some
2 Choice providers may be using their own capacity to bring gas to the customer.

3 **Q. Who makes the decisions regarding the use of assets to produce off-system sales**
4 **revenues?**

5 A. The Company makes the decisions regarding the level of capacity and storage assets that
6 it has in its portfolio and makes decisions regarding how much of those assets are able to
7 be used in off-system sales activities. The Company decides whether or not to engage the
8 services of an asset manager. The Company, as a supplier of last resort, has the ability to
9 release unutilized capacity and storage assets to create off-system revenue. Because it
10 receives 25% of any off-system revenues produced, that creates a financial incentive for
11 the Company to maintain excess capacity for use in off-system sales. Those revenues are
12 also shared with the PGC customers (including applicable firm transportation customers),
13 who currently receive 75%. As such, the costs associated with the assets required for
14 being the supplier of last resort are already being maximized through asset management
15 agreements. Under these agreements, asset managers are already taking unutilized assets
16 and making the most money possible for them.

17 **Q. What choices or involvement do NGSs have in creating off-system sales**
18 **opportunities?**

19 A. The NGSs have no choice in creating off-system sales opportunities. All of those
20 decisions are made by the Company or its asset manager. The resources used to provide
21 such sales opportunities are some of the same resources that were acquired for use by the
22 Choice customers and therefore they should share the revenues.

1 **Q. Should Company decisions regarding the proper amount of assets (capacity and**
2 **storage) be forced upon Choice Suppliers?**

3 A. Not at all. There are a plethora of supply choices, and the Company makes business
4 decisions without input from Choice Suppliers. The choices that the Company makes,
5 either good or bad, have effects that are realized by and shared with the PGC customers.
6 Having those decisions and structure forced on a Choice Supplier reduces the supplier's
7 opportunity to create innovative solutions for customers. There is no reason why they
8 should require those choices to be allocated to suppliers.

9 **Q. Should the Choice program actually be about Choice?**

10 A. It absolutely should. Not only should Choice provide the customers with options to
11 choose from alternate suppliers with alternate cost structures, it must give suppliers
12 enough freedom to make their own business decision choices in how they will arrange for
13 and supply gas to their customers. Asset assignment should be voluntary, to allow for
14 Choice Suppliers to make their own business decisions when creating gas supply offers
15 for customers.

16 **Q. What tariff language would be needed to represent the change from mandatory to**
17 **voluntary?**

18 A. In Section 7.3 the word "Mandatory" should be replaced with "Voluntary" along with
19 several related verb changes of "must" to "may."

20 **OTHER CHOICE PROGRAMS IN PENNSYLVANIA**

21 **Q. Do the other major NGDCs in Pennsylvania offer a Choice program?**

22 A. Yes. Examination of the Choice programs of the other NGDCs will provide some
23 perspective on the unsatisfactory aspects of the UGI program and show why my

1 recommendations should be adopted. Exhibit SG-3 is the OCA's Switching Statistics
2 Report as of April 1, 2011, and it shows greater shopping activity than what is currently
3 experienced on the UGI System on Columbia Gas, Equitable Gas, National Fuel Gas,
4 Peoples Natural Gas, and a lesser degree of shopping activity on PECO Gas. All of those
5 companies have capacity assignment characteristics that are superior to UGI's plan. I
6 will review them individually.

7 **Q. What are the details of the Columbia Gas program?**

8 A. Columbia has a flat load program in which the supplier delivers the same amount of gas
9 for a customer each day of the year. Columbia assigns pipeline capacity (FTS) on
10 Columbia Transmission ("TCO") and the amount assigned is the daily average quantity.
11 The supplier does not deal with storage issues as Columbia manages those and delivers
12 the necessary amount of gas to the customer. The supplier does have the option of
13 providing its own FTS. The features of this program are superior to UGI's plan.

14 **Q. What are the details of the Equitable Gas program?**

15 A. Equitable assigns the supplier the necessary amount of both pipeline and storage capacity
16 on a non-discriminatory, pro-rata basis, based on the peak design day. Because the
17 supplier is provided both pipeline *and* storage capacity, this program is superior to UGI's
18 plan.

19 **Q. What are the details of the National Fuel Gas program?**

20 A. The supplier must supply 63% of peak day using capacity that it has contracted for
21 independently. NFG provides peaking and temporary swing storage using its system
22 assets that are paid for through base rates and then assigns the supplier the necessary
23 amount of both pipeline and storage capacity based on 37% of peak day. Once again

1 because the supplier is provided both pipeline *and* storage capacity, this program is
 2 superior to UGI's plan.

3 **Q. What are the details of the Peoples Natural Gas program?**

4 A. Peoples assigns the supplier the necessary amount of both pipeline and storage capacity
 5 on a non-discriminatory pro-rata basis in accordance with the supply portfolio held by
 6 Peoples at the time of assignment to serve its Priority-One customers. Peoples also will
 7 assign gas commodity which is Pennsylvania gas produced from wells under gas
 8 purchase contracts to Peoples. Suppliers have control over the released capacity and
 9 storage and may trade such capacity with other suppliers. Because the supplier is
 10 provided both pipeline *and* storage capacity and has full control over the use of those
 11 assets, this program is superior to UGI's plan.

12 **Q. What are the details of the PECO Gas program?**

13 A. PECO assigns the supplier an amount of pipeline capacity (FT) based on the average
 14 demand contract quantity ("ADCQ"). Because the assignment of only pipeline capacity
 15 is based on the average, not peak, demand and the cost of the capacity to the supplier is
 16 the maximum rate of just the pipeline capacity, and not all system supply assets, this
 17 program is superior to UGI's plan.

18 **Q. Could you summarize your view of the features of the other NGDCs' capacity
 19 assignment programs as compared to the Company's?**

20 A. Yes. In summary, the features of all five natural gas distribution companies in
 21 Pennsylvania that have an active Choice program are superior to what UGI is planning. I
 22 also point out that of the five utilities I described, two of them, Columbia and PECO,
 23 serve areas in the central and eastern part of the Commonwealth. I make this observation

1 because they are similarly situated geographically with the service territory of the
2 Company.

3 **Q. How do those five natural gas distribution companies address the possible situation
4 of a supplier default?**

5 A. Generally, all require the suppliers to be financially sound to even begin providing a
6 Choice program on their system. All the capacity assets, pipeline and storage, are
7 released on a recallable basis, meaning that if the supplier fails to perform appropriately,
8 then the NGDC can recall the capacity and use it to provide for the needs of the Choice
9 customers.

10 **Q. What happens if the recalled storage capacity contains natural gas commodity that
11 was injected by the supplier?**

12 A. That gas is purchased by the utility from the supplier at a predetermined formula, which
13 is generally some type of market price. That way the utility has the commodity necessary
14 to supply the customers for whom the gas was intended.

15 **OFF-SYSTEM SALES**

16 **Q. Does the Company's off-system sales program discriminate against the Choice
17 customers?**

18 A. Yes. The Company's RSIM unreasonably discriminates against the Choice customers by
19 depriving them of the opportunity to benefit from the off-system sales of excess capacity
20 by the Company.

21 **Q. What is a storage asset manager?**

22 A. That is a company that manages the storage assets on behalf of the Company. UGI
23 Energy Services, the unregulated affiliate of UGI, is the asset manager for UGI.

1 **Q. What benefit does the Company realize by using an asset manager?**

2 A. The asset manager has capabilities to produce revenue through the use of those assets.
3 Such revenues flow back to the Company and are credited to the PGC through the
4 capacity release credit and are indicated in Book 2, Schedule B, pages 9 and 18, as the
5 "Non-Choice Capacity Release/Sharing Mechanism Credit."

6 **Q. What happens to the revenues produced when the Company conducts an off-system
7 sale of assets such as unused pipeline capacity or storage capacity?**

8 A. Those revenues flow through the RSIM, which is described by Mr. McAllister (UGI
9 Statement No. 1) beginning on page 11. The Company retains 25% of the revenues, and
10 the remaining 75% of the revenues are credited to the PGC, which is then further
11 allocated so that 92% goes to the PGC and 8% to firm transportation customers who
12 utilize PGC capacity. This benefits the PGC and certain transportation customers but not
13 the Choice customers.

14 **Q. Are all of the off-system revenues produced by using the excess PGC customer
15 assets?**

16 A. No. While some of the revenues may be generated by the off-system sale of PGC
17 customer assets, off-system revenues may also be realized from the sale of system storage
18 and other assets, the costs of which are assigned to Choice customers through the
19 Company's mandatory capacity assignment program, as discussed above. In other words,
20 both sales and Choice customers pay for the assets used to produce off-system revenues,
21 yet as it is currently structured, only the sales customers benefit from those revenues.
22 This is unfair and creates a barrier to competition.

1 **Q. Does the Company's mandatory capacity assignment methodology mitigate the**
2 **discriminatory impact on Choice customers vis-à-vis PGC customers resulting from**
3 **the RSIM?**

4 A. No. In fact, the Company's method for assigning capacity aggravates the discriminatory
5 impact on Choice customers resulting from the RSIM, because under that method the
6 only capacity assets that the Company will assign are the lower value pipeline assets and
7 not the higher value storage assets. Therefore, even though Choice customers are
8 required to pay for such assets under the Company's plans for the mandatory assignment
9 of capacity, they not only are effectively prohibited from utilizing those assets for their
10 own needs, but they also, under the RSIM, are entitled to none of the revenues generated
11 from the Company's off-system sale of those assets to others. Such a plan tilts an already
12 uneven playing field even further away from an effectively competitive market and is
13 contrary to the Commission's policy concerning Choice programs.

14 **Q. Why is that?**

15 A. The Company is planning on not providing the storage capacity to the Choice Suppliers
16 who need such capacity to serve the residential and small commercial customers, even
17 though they pay for the use of that storage. The excess storage capacity is then sold by
18 the Company to produce off-system revenues which then flow back as a credit to the
19 PGC, creating a price disadvantage for Choice customers. These revenues flow back to
20 the Company and are credited to the PGC through the capacity release credit and are
21 indicated in Book 2, Schedule B, pages 9 and 18, as the "Non-Choice Capacity
22 Release/Sharing Mechanism Credit." Both of these actions are detrimental to the Choice
23 customers.

1 Q. Will you summarize your recommendations?

2 A. Yes. They are:

3 1. Capacity assigned to Choice Suppliers should include all interstate pipeline
4 transportation *and* storage capacity that was procured to serve a Choice Supplier's
5 customers.

6 2. The price charged for assigned capacity should be derived from the actual contract
7 rate for the assigned capacity; not a weighted average cost of all capacity that the
8 Company has acquired which includes capacity that has no connection to a natural gas
9 supplier's customers.

10 3. The derivation of the capacity assigned to a natural gas supplier should be based on
11 the average day in the month of highest usage on the Company's system, as it is today in
12 some parts of the current UGI tariff. An NGS's capacity assignment should then equate
13 to its proportional share of the actual capacity UGI has under contract so that UGI does
14 not over or under allocate its actual capacity.

15 4. The Company's capacity assignment program should be voluntary.

16 5. The 75% customer share of off-system sales revenues should be credited to both PGC
17 customers (including applicable firm transportation customers) and Choice customers.

18 Q. Does this conclude your testimony?

19 A. Yes, although I have recently received highly sensitive data responses that may require
20 more analysis and follow-up, and I may have supplemental testimony on these issues.

Exhibit SG-1

OCA-I-6
Dave Lahoff

UGI Utilities, Inc.
Docket No. R-2011-2238953

Responses
to Interrogatories of
The Office of Consumer Advocate
Set I

OCA-I-6

Provide actual and weather normalized sales and transportation volumes by rate schedule for each month from April 2010 through present. For each month, provide the workpapers and calculations showing the derivation of normalized sales from actual sales, including heating load per Mcf per customer per degree day by rate schedule.

Response:

Please refer to Attachment OCA-I-6 pp.1-5.

ATTACHMENT
OCA-1-8
PAGE 1

UGI Utilities, Inc
Actual Sales by month
April 2010- April 2011

	RG *	RH	RT	CG *	CIAC	CH	NT	IG	IH	DS	Large Transp-Other	Total
Apr-10	49,712	970,917	34,911	44,908	6,566	359,316	300,840	2,439	31,682	123,027	3,195,114	5,119,432
May-10	45,905	607,317	18,130	44,359	2,891	245,735	232,690	(917)	25,244	141,507	4,366,229	5,729,089
Jun-10	36,620	428,725	12,392	37,378	3,065	197,008	202,103	2,230	6,840	97,067	5,363,069	6,386,497
Jul-10	32,603	390,679	12,187	34,886	3,011	242,327	185,093	1,942	12,050	96,987	5,980,274	6,992,037
Aug-10	31,497	368,511	11,364	33,654	3,250	88,040	210,283	1,255	11,093	101,148	5,594,260	6,454,353
Sep-10	35,805	415,415	13,255	35,408	1,627	179,126	225,504	1,572	10,129	108,366	5,127,124	6,153,332
Oct-10	45,158	909,991	38,452	41,450	1,711	290,941	367,305	5,405	21,704	148,255	5,757,090	7,625,460
Nov-10	56,364	2,050,438	73,603	43,408	(1,911)	710,293	604,095	5,254	48,750	290,077	4,782,956	8,683,325
Dec-10	77,686	4,092,851	166,504	57,971	0	1,645,355	1,210,094	6,432	122,839	515,695	4,381,390	12,276,817
Jan-11	82,087	4,262,879	211,696	59,528	0	1,614,018	1,386,197	8,402	134,222	610,972	4,097,485	12,467,283
Feb-11	71,513	3,158,044	167,561	53,387	0	1,165,782	1,082,583	7,747	118,770	487,733	4,241,679	10,564,797
Mar-11	63,353	2,796,970	142,983	48,061	716	894,445	858,720	3,737	64,668	363,559	6,346,887	11,604,098
Apr-11	57,768	1,236,053	75,833	44,385	6,241	443,331	531,426	2,697	42,802	234,206	5,383,191	8,057,934

* Includes GL

UGI Utilities, Inc
Normalized Sales by month
April 2010- April 2011

	RG *	RH	RT	CG *	CIAC	CH	NT	IG	IH	DS	Large Transp-Other	Total
Apr-10	54,534	1,229,962	46,784	45,606	6,566	445,853	359,651	2,439	40,290	137,319	3,195,114	5,564,119
May-10	48,419	690,223	21,891	44,723	2,891	276,014	256,231	(917)	29,849	158,712	4,366,229	5,894,265
Jun-10	36,620	598,731	25,512	37,378	3,065	296,813	296,373	2,230	6,840	115,485	5,363,069	6,782,115
Jul-10	32,603	390,679	12,187	34,886	3,011	242,327	185,093	1,942	12,050	96,987	5,980,274	6,992,037
Aug-10	31,497	368,511	11,364	33,654	3,250	88,040	210,283	1,255	11,093	101,148	5,594,260	6,454,353
Sep-10	44,667	499,952	16,748	38,096	1,627	212,032	291,150	1,572	10,129	130,309	5,127,124	6,373,405
Oct-10	45,356	918,003	38,855	41,558	1,711	292,840	369,867	5,462	21,857	146,968	5,757,090	7,639,587
Nov-10	55,748	2,008,071	72,035	43,177	(1,911)	696,470	593,790	5,161	47,807	285,234	4,782,956	8,588,536
Dec-10	71,149	3,560,943	144,340	54,576	0	1,433,327	1,065,071	5,740	106,901	458,015	4,381,390	11,279,451
Jan-11	76,252	3,809,869	188,383	56,581	0	1,445,068	1,247,604	7,609	119,920	551,279	4,097,485	11,600,049
Feb-11	71,292	3,142,487	166,688	53,280	0	1,160,179	1,087,572	7,712	118,169	485,557	4,241,679	10,534,616
Mar-11	62,154	2,704,362	137,957	47,532	716	866,507	833,396	3,655	81,888	353,426	6,346,887	11,438,461
Apr-11	60,311	1,320,731	82,166	45,385	6,241	470,831	564,423	2,806	45,890	247,568	5,383,191	8,229,543

* Includes GL

UGI Utilities, Inc

ATTACHMENT
OCA-1-6
PAGE 2

RG

Month	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	36,852	49,712	38,233	11,479	288	39.8573	409	4,823	54,534
May 10	38,613	45,905	38,233	7,672	119	64.4714	158	2,514	48,419
Jun 10	36,382	36,620	36,620	0	7	0.0000	23	0	36,620
July 10	36,248	32,603	32,603	0	0	0.0000	0	0	32,603
Aug 10	38,101	31,497	31,497	0	0	0.0000	5	0	31,497
Sep 10	38,051	35,805	32,050	3,755	25	150.2060	84	8,862	44,667
Oct 10	38,051	45,158	32,050	13,108	331	39.6017	336	198	45,356
Nov 10	38,103	56,384	32,050	24,315	631	38.5334	615	(817)	55,748
Dec 10	38,094	77,686	32,050	45,636	1,103	41.3747	945	(6,537)	71,149
Jan 11	35,858	82,087	32,050	50,037	1,192	41.9776	1,053	(5,835)	76,252
Feb 11	35,635	71,513	32,050	39,463	893	44.1913	888	(221)	71,292
Mar 11	35,651	63,353	32,050	31,304	757	41.3524	728	(1,199)	62,154
Apr 11	35,482	57,768	32,050	25,718	354	72.6510	389	2,543	60,311

RH

Month	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	257,568	970,917	354,348	616,569	288	2,140.8661	409	258,045	1,229,962
May 10	257,230	607,317	354,348	252,969	119	2,125.7912	158	82,906	690,223
Jun 10	256,502	428,725	354,348	74,377	7	10,625.3500	23	170,006	598,731
July 10	256,166	390,679	390,679	0	0	0.0000	0	0	390,679
Aug 10	256,182	368,511	388,511	0	0	0.0000	5	0	368,511
Sep 10	256,747	415,415	379,595	35,821	25	1,432.8200	84	84,536	499,952
Oct 10	257,683	909,981	379,595	530,386	331	1,602.4042	336	8,012	918,003
Nov 10	259,106	2,050,438	379,595	1,670,843	631	2,647.9285	615	(42,367)	2,008,071
Dec 10	259,422	4,092,851	379,595	3,713,257	1,103	3,366.5064	945	(531,908)	3,569,943
Jan 11	260,161	4,262,679	379,595	3,883,084	1,192	3,257.8208	1,053	(452,809)	3,809,869
Feb 11	260,262	3,158,044	379,595	2,778,449	893	3,111.3654	888	(15,557)	3,142,487
Mar 11	260,678	2,796,970	379,595	2,417,375	757	3,193.3620	728	(92,607)	2,704,362
Apr 11	259,531	1,238,053	379,595	856,458	354	2,419.3746	389	84,678	1,320,731

* Baseload is the average of July and August sales

UGI Utilities, Inc

ATTACHMENT
OCA-1-6
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CO

Month	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	3,175	44,908	43,247	1,661	288	5,7663	409	698	45,606
May 10	3,168	44,359	43,247	1,112	119	9,3420	158	364	44,723
Jun 10	3,115	37,378	37,378	0	7	0,0000	23	0	37,378
July 10	3,029	34,886	34,886	0	0	0,0000	0	0	34,886
Aug 10	3,005	33,654	33,654	0	0	0,0000	5	0	33,654
Sep 10	2,968	35,409	34,270	1,139	25	45,5540	84	2,688	38,098
Oct 10	2,951	41,450	34,270	7,180	331	21,6908	336	108	41,558
Nov 10	2,937	43,408	34,270	9,139	631	14,4826	615	(232)	43,177
Dec 10	2,905	57,971	34,270	23,701	1,103	21,4877	945	(3,395)	54,576
Jan 11	2,876	59,528	34,270	25,258	1,192	21,1877	1,053	(2,945)	56,581
Feb 11	2,865	53,387	34,270	19,117	893	21,4079	988	(107)	53,280
Mar 11	2,860	48,061	34,270	13,791	757	18,2178	728	(528)	47,532
Apr 11	2,873	44,385	34,270	10,115	354	28,5744	389	1,000	45,385

CH

Month	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	24,730	359,318	153,343	205,973	288	715,1828	409	86,537	445,853
May 10	24,543	245,735	153,343	92,392	119	778,4013	158	30,280	276,014
Jun 10	24,007	197,008	153,343	43,665	7	6,237,8214	23	99,805	296,813
July 10	23,220	242,327	242,327	0	0	0,0000	0	0	242,327
Aug 10	22,938	88,040	88,040	0	0	0,0000	5	0	88,040
Sep 10	22,578	179,126	165,183	13,943	25	557,7200	84	32,905	212,032
Oct 10	22,428	290,941	165,183	125,758	331	379,9320	336	1,900	292,840
Nov 10	22,449	710,293	165,183	545,109	631	863,8816	615	(13,822)	696,470
Dec 10	22,487	1,645,355	165,183	1,480,172	1,103	1,341,9509	945	(212,028)	1,433,327
Jan 11	22,487	1,614,018	165,183	1,448,835	1,192	1,215,4653	1,053	(168,950)	1,445,068
Feb 11	22,477	1,185,782	165,183	1,000,598	893	1,120,4908	988	(5,602)	1,160,179
Mar 11	22,497	894,445	165,183	729,261	757	963,3569	728	(27,937)	866,507
Apr 11	22,438	443,331	165,183	278,148	354	785,7277	389	27,500	470,831

* Baseload is the average of July and August sales

UGI Utilities, Inc

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IG

Month	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	103	2,439	2,439	0	288	0.0000	409	0	2,439
May 10	103	(917)	-917	0	119	0.0000	158	0	(917)
Jun 10	102	2,230	2,230	0	7	0.0000	23	0	2,230
July 10	100	1,942	1,942	0	0	0.0000	0	0	1,942
Aug 10	97	1,255	1,255	0	0	0.0000	5	0	1,255
Sep 10	94	1,572	1,572	0	25	0.0000	84	0	1,572
Oct 10	93	5,405	1,598	3,807	331	11.5006	336	58	5,462
Nov 10	92	5,254	1,598	3,656	531	5.7932	615	(93)	5,161
Dec 10	93	6,432	1,598	4,834	1,103	4.3828	945	(692)	5,740
Jan 11	92	6,402	1,598	6,804	1,192	5.7081	1,053	(793)	7,609
Feb 11	90	7,747	1,598	6,149	893	6.8854	888	(34)	7,712
Mar 11	90	3,737	1,598	2,139	757	2.8262	728	(82)	3,655
Apr 11	89	2,697	1,598	1,099	354	3.1048	389	109	2,806

IH

Month	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	708	31,682	11,192	20,489	288	71.1436	409	8,608	40,290
May 10	699	25,244	11,192	14,051	119	118.0769	158	4,605	29,849
Jun 10	672	6,840	6,840	0	7	0.0000	23	0	6,840
July 10	640	12,050	12,050	0	0	0.0000	0	0	12,050
Aug 10	631	11,093	11,093	0	0	0.0000	5	0	11,093
Sep 10	598	10,129	10,129	0	25	0.0000	84	0	10,129
Oct 10	585	21,704	11,572	10,132	331	30.6113	336	153	21,857
Nov 10	583	48,750	11,572	37,178	631	58.9194	615	(943)	47,807
Dec 10	580	122,839	11,572	111,268	1,103	100.8774	945	(15,939)	106,901
Jan 11	578	134,222	11,572	122,651	1,192	102.8948	1,053	(14,302)	119,920
Feb 11	576	118,770	11,572	107,198	893	120.0427	888	(600)	118,169
Mar 11	575	84,668	11,572	73,097	757	96.5808	728	(2,800)	81,868
Apr 11	571	42,802	11,572	31,230	354	88.2213	389	3,088	45,890

* Base load is the average of July and August sales

UGI Utilities, Inc

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RT	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	7,870	34,911	6,653	28,258	288	98.1208	409	11,873	46,784
May 10	7,855	18,130	6,653	11,477	119	96.4462	158	3,761	21,891
Jun 10	7,989	12,392	6,853	5,740	7	819.9714	23	13,120	25,512
July 10	8,092	12,187	12,187	0	0	0.0000	0	0	12,187
Aug 10	8,095	11,364	11,364	0	0	0.0000	5	0	11,364
Sep 10	8,170	13,255	11,775	1,480	25	59.1920	64	3,492	16,748
Oct 10	8,698	38,452	11,775	26,677	331	80.5943	338	403	38,855
Nov 10	9,315	73,603	11,775	61,827	631	97.9829	615	(1,568)	72,035
Dec 10	10,943	166,504	11,775	154,729	1,103	140.2797	945	(22,164)	144,340
Jan 11	11,646	211,696	11,775	199,921	1,192	167.7185	1,053	(23,313)	188,383
Feb 11	12,093	167,581	11,775	155,785	893	174.4518	888	(872)	166,888
Mar 11	12,302	142,983	11,775	131,208	757	173.3263	728	(5,026)	137,957
Apr 11	12,335	75,833	11,775	64,057	354	180.9531	389	6,333	82,166

NT	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	4,854	300,840	160,860	139,980	288	486.0420	409	58,811	359,651
May 10	4,895	232,690	160,860	71,831	119	603.6178	158	23,541	256,231
Jun 10	5,433	202,103	160,860	41,243	7	5,891.8857	23	94,270	296,373
July 10	6,293	185,093	185,093	0	0	0.0000	0	0	185,093
Aug 10	6,593	210,283	210,283	0	0	0.0000	5	0	210,283
Sep 10	7,043	225,504	197,688	27,816	25	1,112.6400	84	85,648	291,150
Oct 10	7,318	267,305	197,688	169,617	331	512.4372	338	2,562	369,887
Nov 10	7,525	604,095	197,688	406,407	631	644.0678	615	(10,305)	593,790
Dec 10	7,763	1,210,094	197,688	1,012,407	1,103	917.8663	945	(145,023)	1,065,071
Jan 11	7,896	1,386,197	197,688	1,188,509	1,192	997.0715	1,053	(138,593)	1,247,804
Feb 11	7,933	1,092,583	197,688	894,895	893	1,002.1218	888	(5,011)	1,087,572
Mar 11	7,971	858,720	197,688	661,032	757	873.2260	728	(25,324)	833,396
Apr 11	7,983	531,428	197,688	333,739	354	942.7641	389	32,997	564,423

OS	[1] Number of Customers	[2] Actual Sales	[3] * Base Load	[4] = [2] - [3] Temp Sensitive Load	[5] Actual DD's	[6] = [4] / [5] Temp Sensitive Load/DD	[7] Normal DD's	[8] = ([7] - [5]) * [6] Normalized Sales Adj	[9] = [8] + [2] Total Normalized Sales
Apr 10	398	123,027	89,009	34,018	288	118.1179	409	14,292	137,319
May 10	395	141,507	89,009	52,498	119	441.1559	158	17,205	158,712
Jun 10	384	97,067	89,009	8,058	7	1,151.1071	23	18,418	115,485
July 10	389	96,987	96,987	0	0	0.0000	0	0	96,987
Aug 10	387	101,148	101,148	0	0	0.0000	5	0	101,148
Sep 10	386	108,366	99,067	9,298	25	371.9280	84	21,944	130,309
Oct 10	382	146,255	99,067	47,188	331	142.5807	338	713	146,968
Nov 10	381	290,077	99,067	191,010	631	302.7100	615	(4,843)	285,234
Dec 10	381	515,695	99,067	416,628	1,103	377.7228	945	(59,680)	456,015
Jan 11	380	610,972	99,067	511,905	1,192	429.4505	1,053	(59,694)	551,279
Feb 11	379	487,733	99,067	388,666	893	435.2361	888	(2,176)	485,557
Mar 11	379	363,559	99,067	264,491	757	349.3941	728	(10,132)	353,426
Apr 11	374	234,206	99,067	135,139	354	381.7489	389	13,381	247,568

* Base load is the average of July and August sales

Exhibit SG-2

CES-I-3
Shaun Hart

UGI Utilities, Inc.
Docket No. R-2011-2238953

Responses
to Interrogatories of
CenterPoint Energy Services, Inc.
Set I

CES-I-3

Under the Rules and Regulations of UGI Utilities' current tariff, does the capacity assignment include storage and peaking assets? If it does, please identify the peaking and storage assets. If any peaking and storage assets are excluded from capacity assignment, please explain why they are excluded.

Response:

Storage and peaking assets are not released to Choice Suppliers as part of the capacity assignment in UGI's current tariff, but are used to support a bundled city gate sale in Option II and Option IV at summer index pricing. Storage and peaking is not released to Choice Suppliers for many reasons. First, UGI must maintain reliability of firm deliverability of its storage assets, which could be jeopardized if a Choice Supplier defaults during the heating season and fails to maintain sufficient storage inventory for the remainder of the season. Second, 7(c) contracts are not releasable. Third, peaking assets are not releasable. Lastly, if UGI were to release a sufficient amount of storage, UGI would need to redesign the choice program in order to meet the balancing needs of the system which would place a burden on Choice Suppliers.

Exhibit SG-3

Pennsylvania

Natural Gas Shopping Statistics

April 1, 2011

PA Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
(717) 783-5048 Telephone
(800) 684-6560 (PA Consumers Toll-Free)
consumer@paoca.org • www.oca.state.pa.us
Sonny Popowsky, Consumer Advocate

PA Gas Switching Statistics as of 4/1/2011

Company	Total Residential Customers	Residential Customers Served by Alternate Suppliers	Percent of Residential Customers Served by Alternate Suppliers
Columbia Gas *	379,399	73,375	19
Equitable Gas	242,848	15,280	6.3
National Fuel Gas	197,711	16,983	8.6
PECO Gas	449,393	3,732	0.8
Peoples Natural Gas **	330,339	86,633	26
PGW	465,000	0	0
TW Phillips	56,154	0	0
UGI Central Penn	66,411	0	0
UGI Gas	294,219	12,319	4.2
UGI Penn	144,990	505	0.4
Valley Cities, NUI	5,193	0	0
Totals	2,631,657	208,827	7.94

* Total number of residential customers includes participants in the Customer Assistance Program.

** Formerly Dominion Peoples.

Pennsylvania Office of Consumer Advocate

4-1-2011

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
	:	
v.	:	Docket No. R-2011-2238953
	:	
UGI Utilities, Inc. - Gas Division	:	

**VERIFICATION OF
JAMES L. CRIST**

I, James L. Crist, hereby verify the following facts:

- 1) I am the President of Lumen Group, Inc.;
- 2) I have been duly retained by CenterPoint Energy Services, Inc. ("CES"), Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation ("Rhoads") and Shipley Energy Company and Shipley Choice LLC (collectively "Shipley") to testify on their behalf as a witness in the above-captioned matter. The combined entities are referred to as the "Supplier Group."
- 3) I prepared Supplier Group Statement No. 1, which is my direct testimony in the above-captioned matter on behalf of the Supplier Group, and that Statement includes three (3) exhibits, Exhibits SG-1 through SG-3;
- 4) Supplier Group Statement No. 1 and the accompanying Exhibits are true and correct to the best of my knowledge, information and belief, and if a hearing were held today and I were asked the same questions, my answers would be the same as contained in my Statement. I

understand that my statements are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).



James L. Crist
President, Lumen Group, Inc.

DATE: August 5, 2011

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Before the Honorable Kandace F. Melillo,
Presiding Administrative Law Judge**

Pennsylvania Public Utility Commission, et al. :

v. :

UGI Utilities, Inc. - Gas Division :

Docket No. R-2011-2238953

ORIGINAL

**REBUTTAL TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
CENTERPOINT ENERGY SERVICES, INC.,
JEROME H. RHOADS, INC. D/B/A RHOADS ENERGY CORPORATION,
SHIPLEY ENERGY COMPANY and SHIPLEY CHOICE LLC**

Supplier Group ("SG") Statement No. 2

8/8/11
Handy
WJH

SECRETARY'S BUREAU

2011 AUG 12 PM 12:45

RECORDED

Dated: July 25, 2011

INTRODUCTION

Q. State your name and tell us on whose behalf you are testifying?

A. I am James L. Crist, President of Lumen Group, Inc. I am presenting rebuttal testimony on behalf of CenterPoint Energy Services, Inc., Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation, Shipley Energy Company, and Shipley Choice LLC (collectively the "Supplier Group").

Q. Are you the same James L. Crist that presented direct testimony in this proceeding?

A. Yes.

Q. What issues will you address in this testimony?

A. I will review the issue of inclusion of volumes of the migrating Choice customers in the calculation of the migration rider, as discussed by OTS witness Dorothy Morrissey, and add my support to her recommendation. I will also review the issues identified by OCA witness Jerome Mierzwa, which pointed to UGI Utilities, Inc. - Gas Division ("UGI" or "the Company") planning for and holding peak capacity that exceeds its needs.

Q. What are the details of the OTS observations concerning the migration rider?

A. The OTS raised one issue, which was the E-factor, and submitted testimony in all three cases with regard to that issue. The OTS testimony was similar in each case. The E-factor (think "experience" factor) is the over or under collection of the previous year's gas costs. It affects Choice customers through the migration rider, which is applicable to the first 12 months of service that a Choice customer has with a marketer. The Company may collect any utility sales service gas undercollection from the Choice customer for that period. Likewise, if there is an overcollection, then the Choice customer would receive a refund.

1 **Q. What did the OTS witness conclude from her review?**

2 A. In this year's case there was an undercollection. As stated on page 6, lines 13-14 of Ms.
3 Morrissey's testimony, the individual E-factor collection surcharge of \$0.62/Mcf was
4 claimed by UGI for residential customers. The OTS witness recommended some
5 adjustments to lower this amount. One adjustment is to include the volumes of migrating
6 Choice customers in the E-factor calculation, which would reduce the per-unit amount of
7 the migration rider. I agree with this recommendation.

8 **Q. Moving to the direct testimony filed by the OCA, what issues did the OCA witness,
9 Mr. Mierzwa, raise?**

0 A. He raised three issues, all generally related to the Company having too much capacity.
1 As indicated on page 3, lines 1-12 of Mr. Mierzwa's direct testimony, the three issues are
2 that the design peak day is overstated, the design cold temperature used is too extreme,
3 and the Company should modify its process to obtain replacement capacity based on
4 those two items. The overstated design peak day and the extreme design cold
5 temperature would result in the Company having excess capacity.

6 **Q. Why is the design peak day overstated?**

7 A. As, Mr. Mierzwa explains on pages 6-8 of his direct testimony, the Company
8 overforecast its growth of residential and small commercial customers and hence had too
9 great of a design peak day.

0 **Q. How should this overstatement be addressed?**

1 A. Mr. Mierzwa recommends, on page 8, lines 11-13 of his direct testimony, that UGI
2 "modify its design peak day forecasting procedures to reflect the conservation efforts of

1 its customers, and modify its contracting decisions accordingly.” I agree with Mr.
 2 Mierzwa’s recommendation.

3 **Q. Why is the design cold temperature too extreme?**

4 A. The Company uses a design temperature that represents a winter which is 25% colder
 5 than average. Mr. Mierzwa’s recommendation, as indicated on page 12, lines 2-5 of his
 6 direct testimony, is for the Company to use 10% colder than average. I agree with Mr.
 7 Mierzwa’s recommendation.

8 **Q. Why does the Company hold too much capacity?**

9 A. The effect of having the design peak day overstated and the design cold temperature too
 0 extreme is that the Company forecast of its capacity needs will be overstated. On pages
 1 12-14 of his direct testimony, Mr. Mierzwa identified capacity contracts discussed in Mr.
 2 Beasten’s direct testimony that are up for renewal in the near future, through 2012. The
 3 Company can use this as an opportunity to reduce its contracted capacity.

4 **Q. What are the specific contracts that Mr. Mierzwa identified?**

5 A. UGI holds two peaking contracts with UGI Energy Services (6,500 Dth/day and 80,000
 6 Dth/day) and one FT contract with Dominion Transmission, Inc. (22,155 Dth/day).
 7 These contracts are identified on page 12, lines 11-17 of Mr. Mierzwa’s direct testimony.

8 **Q. How do Mr. Mierzwa’s issues tie into the capacity assignment issue that you
 9 discussed in your direct testimony in this proceeding?**

0 A. All of Mr. Mierzwa’s issues point to the Company having too much capacity and having
 1 opportunities to reduce the amount of capacity it has contracted, yet not acting on those
 2 opportunities. As I discussed in my direct testimony, in 66 PA C.S. § 2204(e), the statute
 3 states that prior to renewing capacity contracts, the NGDC shall offer natural gas

1 suppliers the opportunity to renew such contracts or to enter into other contracts for
2 capacity. In UGI's case the suppliers have entered into their own contracts for capacity
3 or obtained delivery at the city gate by contracting for such service from a wholesale gas
4 supplier that has such capacity.

5 **Q. What recommendations do you have?**

6 A. In addition to the five recommendations I made in my direct testimony, I also recommend
7 that:

- 8 1. The volume of customers that migrate to Choice service be included in the E-factor
9 calculation; and
- 0 2. The Company allow natural gas suppliers to provide their own capacity, instead of
1 continuing to contract for or renew capacity that may not be needed, and then assigning
2 such capacity to suppliers on a mandatory basis.

3 **Q. Does this conclude your rebuttal testimony?**

4 A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
	:	
v.	:	Docket No. R-2011-2238953
	:	
UGI Utilities, Inc. – Gas Division	:	

**VERIFICATION OF
JAMES L. CRIST**

I, James L. Crist, hereby verify the following facts:

- 1) I am the President of Lumen Group, Inc.;
- 2) I have been duly retained by CenterPoint Energy Services, Inc. (“CES”), Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation (“Rhoads”) and Shipley Energy Company and Shipley Choice LLC (collectively “Shipley”) to testify on their behalf as a witness in the above-captioned matter. The combined entities are referred to as the “Supplier Group.”
- 3) I prepared Supplier Group Statement No. 2, which is my rebuttal testimony in the above-captioned matter on behalf of the Supplier Group, and that Statement includes no exhibits;
- 4) Supplier Group Statement No. 2 is true and correct to the best of my knowledge, information and belief, and if a hearing were held today and I were asked the same questions, my answers would be the same as contained in my Statement. I understand that my statements are

made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

A handwritten signature in black ink, appearing to read "James L. Crist", written over a horizontal line.

James L. Crist
President, Lumen Group, Inc.

DATE: August 5, 2011

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Before the Honorable Kandace F. Melillo,
Presiding Administrative Law Judge

Pennsylvania Public Utility Commission, et al. :

v. :

UGI Utilities, Inc. - Gas Division :

Docket No. R-2011-2238953

ORIGINAL

SURREBUTTAL TESTIMONY OF JAMES L. CRIST

ON BEHALF OF

CENTERPOINT ENERGY SERVICES, INC.,

JEROME H. RHOADS, INC. D/B/A RHOADS ENERGY CORPORATION,

SHIPLEY ENERGY COMPANY and SHIPLEY CHOICE LLC

Supplier Group ("SG") Statement No. 3

8/8/11
[Handwritten signature]

Dated: August 3, 2011

SECRETARY'S BUREAU
A.P.U.C.

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INTRODUCTION

- 1
- 2 **Q. State your name and tell us on whose behalf you are testifying?**
- 3 A. I am James L. Crist, President of Lumen Group, Inc. I am presenting surrebuttal
4 testimony on behalf of CenterPoint Energy Services, Inc. (“CES”), Jerome H. Rhoads,
5 Inc. d/b/a Rhoads Energy Corporation (“Rhoads”), Shipley Energy Company and Shipley
6 Choice LLC (“Shipley”) (collectively the “Supplier Group”).
- 7 **Q. Are you the same James L. Crist that presented direct and rebuttal testimony in this**
8 **proceeding?**
- 9 A. Yes.
- 10 **Q. What issues will you address in this testimony?**
- 11 A. My direct testimony attracted comments from the witnesses for OCA (Mr. Mierzwa OCA
12 Statement No. 1-R), OSBA (Mr. Knecht OSBA Statement No. 1), and OTS (Mr. Gruber
13 OTS Statement No. 2-R). Some of their comments were supportive of some of my
14 recommendations, while they disagreed with other aspects of my recommendations, so I
15 will address their comments. I will also address the comments of Mr. Hart, one of the
16 witnesses for UGI Utilities, Inc. – Gas Division (“UGI” or “the Company”). Mr. Hart
17 disagreed with every recommendation I made. He also mischaracterized portions of my
18 testimony, so I will address and correct those. In addition, Mr. Hart made several broad
19 comments, generally attacking my testimony on the whole, and I will respond to those.
- 20 **Q. What was the first broad comment about your testimony made by Mr. Hart?**
- 21 A. On page 3 of his rebuttal testimony, Mr. Hart states that my recommendations run
22 counter to the Natural Gas Choice and Competition Act and the Public Utility
23 Commission’s Final Rulemaking Orders addressing the Promotion of Competitive Retail

1 Markets at Docket No. L-2008-2069114 (“Competitive Markets Orders”). He states that
2 it is inappropriate for me to make my recommendations in a PGC proceeding, rather than
3 raising them with the General Assembly or in a Public Utility Commission rulemaking
4 proceeding.

5 **Q. Do the Natural Gas Choice and Competition Act or the Competitive Markets
6 Orders bar any of your recommendations?**

7 A. No. To the contrary, the Natural Gas Choice and Competition Act and the Competitive
8 Markets Orders do not prescribe one specific way to assign capacity, and they anticipate
9 and allow for the assignment of storage capacity. The Natural Gas Choice and
10 Competition Act and the Competitive Markets Orders merely require that capacity be
11 assigned on a non-discriminatory basis, which is what I proposed in the recommendations
12 I made in my direct testimony. My recommendations are within the bounds of the
13 current statute and regulations, and therefore are appropriately raised in the context of a
14 PGC proceeding.

15 **Q. What was the next broad comment about your testimony made by Mr. Hart?**

16 A. On pages 3-5 of his rebuttal testimony, Mr. Hart discusses the UGI PGC proceedings in
17 the last two years, indicating that it is unfair for Shipley to “attack” UGI’s capacity
18 assignment approach because this approach was the subject of a settlement to which
19 Shipley was a party in last year’s UGI PGC proceeding. Mr. Hart then repeatedly refers
20 to this settlement in his response to several of my specific recommendations.

21 **Q. Does anything from the 2009 or 2010 UGI PGC proceedings prohibit the Supplier
22 Group’s intervention in this year’s PGC proceeding or your recommendations on
23 their behalf made in this year’s PGC proceeding?**

1 A. No. With regard to the 2009 UGI PGC proceeding, none of the members of the Supplier
2 Group was a party to that proceeding. In addition, I did not serve as an expert for any
3 party in the 2009 UGI PGC proceeding. With regard to the 2010 UGI PGC proceeding,
4 neither CES nor Rhoads was a party to that proceeding. While Shipley was a party to
5 that proceeding, nothing in the settlement prohibits Shipley from participating in the
6 current PGC proceeding. In fact, the terms of the settlement are limited to last year's
7 proceeding, and the settlement language explicitly preserves Shipley's (and all other
8 parties to the settlement's) right to advance whatever position they so choose in future
9 PGC proceedings. Moreover, the 2010 settlement represented compromises from the
10 involved parties, including a one year period where capacity assignment was voluntary.
11 This agreement to have a voluntary program during this period was an important
12 consideration that allowed Shipley a further opportunity to evaluate capacity assignment
13 as the Company had structured it. Shipley, and the other members of the Supplier Group,
14 have since analyzed and evaluated the program and determined it is not in their
15 customers' best interest to accept the capacity under any of the four options that the
16 Company had designed. Nothing in the 2010 settlement prevents the Supplier Group
17 from raising these issues in the current PGC proceeding.

18 **Q. What was the next broad comment made by Mr. Hart about your testimony?**

19 A. On pages 6-7 of his rebuttal testimony Mr. Hart opines that I made "selective
20 comparisons among NGDCs" that were "misleading."

21 **Q. Are the comparisons misleading?**

22 A. No. It is an obvious fact that each NGDC in Pennsylvania is a unique entity and each of
23 them must determine how to implement and follow the rules and regulations of the

1 Commission, but in the end the rules must be followed. While there may be differences
2 in some aspects of each NGDC, there may also be similarities in some aspects of each
3 NGDC. When I cite programs of other NGDCs, I am careful to explain the context or
4 characteristic that I am using as a basis of comparison. I never suggested that any other
5 NGDC is identical to UGI, nor did I recommend that UGI adopt another NGDC's
6 capacity assignment program wholesale.

7 **Q. Did Mr. Hart make any other broad comments applicable to your testimony as a**
8 **whole?**

9 A. Yes. Mr. Hart's final broad comment appears on page 7 of his rebuttal testimony. On
10 lines 12-16, he argues that I focus my "testimony almost entirely on potential competitive
11 impacts associated with UGI's capacity assignment program," failing to balance this with
12 "UGI's overarching statutory duty to provide reliable service to all retail customers."

13 **Q. Are competitive impacts the main or exclusive focus of your testimony?**

14 A. No. The main thrust of my testimony is to demonstrate the features of the Company's
15 capacity assignment program that are not in compliance with the laws and regulations of
16 Pennsylvania and to provide specific recommendations on changes that will remedy such
17 deficiencies. The statutes and regulations are designed to increase competition in a way
18 that does not undermine reliability. My recommendations would allow the Company to
19 provide reliable service while adhering to the statutory and regulatory requirements that
20 assets be assigned on a non-discriminatory basis that avoids cross-subsidization. UGI has
21 not referenced any study or focused assessment showing that my recommendations
22 would cause reliability concerns. The amount of storage capacity assigned to natural gas

1 suppliers would be extraordinarily low, with UGI controlling the rest. There is no basis
2 to determine that reliability would be undermined.

3 **Q. What are the five recommendations that you presented in your direct testimony that**
4 **witnesses for other parties addressed in their rebuttal testimony?**

5 A. They are:

6 1. Capacity assigned to Choice Suppliers should include all interstate pipeline
7 transportation *and* storage capacity that was procured to serve a Choice Supplier's
8 customers.

9 2. The price charged for assigned capacity should be derived from the actual contract
10 rate for the assigned capacity; not a weighted average cost of all capacity that the
11 Company has acquired, which includes capacity that has no connection to a natural gas
12 supplier's customers.

13 3. The derivation of the capacity assigned to a natural gas supplier should be based on
14 the average day in the month of highest usage on the Company's system, as it is today in
15 some parts of the current UGI tariff. An NGS's capacity assignment should then equate
16 to its proportional share of the actual capacity UGI has under contract so that UGI does
17 not over or under allocate its actual capacity.

18 4. The Company's capacity assignment program should be voluntary.

19 5. The 75% customer share of off-system sales revenues should be credited to both PGC
20 customers (including applicable firm transportation customers) and Choice customers.

21 **Q. How are each of your recommendations tied together?**

22 A. My first recommendation is the most important in that it will correct the Company's non-
23 compliance with the statute and regulations, including recent rulings, which govern

1 natural gas customer choice in the Commonwealth. As I explained in my direct
2 testimony and will explain in more detail in this testimony as I address the comments of
3 the other witnesses, the Company's choice program is not structured properly, making it
4 detrimental to the competitive market. If the proper asset allocation were undertaken, as I
5 stated in my first recommendation, then several of the actions in my other
6 recommendations would not be necessary or would be necessary only in limited
7 circumstances. I will review each recommendation in order, and discuss the other
8 witnesses' comments.

9 **NON-DISCRIMINATORY CAPACITY ASSIGNMENT**

10 **Q. What was Mr. Hart's reaction to your first recommendation, that capacity assigned**
11 **to Choice suppliers should include all interstate pipeline transportation and storage**
12 **capacity that was procured to serve a Choice supplier's customers?**

13 A. After opining that we addressed this topic last year, he then repeated the several
14 Company arguments that I addressed in my direct testimony this year. First, Mr. Hart
15 went through an explanation of why 7(c) storage contracts could not be assigned to
16 Choice suppliers on pages 8-11 of his rebuttal testimony.

17 **Q. Is his explanation sufficient proof that no storage assets should be assigned to**
18 **Choice suppliers?**

19 A. No it is not. It seems that Mr. Hart is far more concerned with preserving the status quo
20 then seeking out ways to achieve asset allocation on a non-discriminatory basis. I
21 recommended that, since the magnitude of the Choice program volumes was small in
22 comparison to the entire PCG volumes, the storage needs of the Choice customers should
23 be met through use of the assignable contracts. Mr. Hart cites the PNG system, not the

1 UGI system, stating that 7(c) contracts account for sixty-five percent (65%) of storage
2 deliverability on peak day. I thought it was important to look at the UGI system. Using
3 the 7(c) contracts listed on page 10, lines 1-2 of Mr. Hart's rebuttal testimony and the
4 UGI contracts identified in 1-B of UGI's Book 1 filing, I prepared an exhibit that
5 identifies the 7(c) and non-7(c) contracts by adding highlighting to the relevant pages of
6 the Company's Book 1 filing. These pages are attached as Exhibit SG-R1 to my
7 surrebuttal testimony. I then used this information to create a pie chart, attached as
8 Exhibit SG-R2, showing that only about 8% of UGI's storage volume is non-assignable,
9 while 92% is assignable. Considering that only 4.2% of residential customers on the UGI
10 system are served by Choice suppliers, there should be no concern that the storage
11 volumes for Choice customers can be satisfied from the non 7(c) storage contracts. I
12 would also note that two of the 7(c) contracts identified in Mr. Hart's testimony (and
13 correspondingly identified in Exhibit SG-R1) are transportation contracts, yet UGI has
14 not argued that transportation is not assignable due to 7(c) contracts.

15 **Q. On page 10, Mr. Hart references the Company's option that allows suppliers to**
16 **purchase gas at summer prices for winter delivery, and on page 16 states that it is**
17 **"the economic equivalent of storage service." Is this equivalent to simply providing**
18 **the storage to suppliers and allowing them to make their own gas purchase**
19 **decisions?**

20 **A. No it is not. The Company's Option II proposes to purchase gas in the summertime at the**
21 **First of Month ("FOM") index price. Suppliers that have control over storage normally**
22 **would not purchase gas using that method. Instead, suppliers would optimize their**

1 purchases by buying more gas on days when prices are lower and buying less gas on days
2 when prices are higher, filling the storage in accordance with the tariff parameters.

3 **Q. Does the Company purchase gas for PGC supply using FOM pricing?**

4 A. No. In both the 2009 and 2010 PGC case, OCA witness, Mr. Mierzwa, submitted
5 testimony opposing the Company's use of FOM index contracts for its gas purchases. As
6 a result, the settlement in last year's case stated in paragraph 27 that "UGI shall
7 discontinue its practice of purchasing swing gas supplies under contracts with first-of-
8 month pricing provisions."

9 **Q. Mr. Hart discusses peaking services on page 12 of his rebuttal testimony and
10 explains that those contracts are not releasable. How are the peaking services
11 provided?**

12 A. The peaking services are provided by the UGI affiliate, UGI Energy Services, from
13 several LNG or Propane-air facilities. According to Book 1, Attachment 14-1 there was
14 669,052 Dth/d of peak day capacity supply and of that, 111,500 Dth/d would be provided
15 by UGI Energy Services as peaking service. This means that 16.6% of its peak day load
16 is provided by an affiliate at a demand cost of \$21,276,501 in the future period (Book 1,
17 Attachment 1-B-2, p. 7 of 9). This is a large portion of the Company's total demand
18 costs of \$81,042,983 in the future period (*Id.*). Mr. Hart believes that the costs of these
19 expensive peaking services should also be charged to Choice suppliers. Saddling Choice
20 suppliers with such a large cost yet not providing them an effective way to actually
21 manage the asset creates a large challenge for a supplier to overcome in its quest to
22 provide competitive pricing.

1 **Q. Are the costs associated with the peaking service included in the costs allocated to**
2 **the Choice suppliers?**

3 A. Yes. If such assets are to be charged to Choice suppliers, then the Choice customers
4 should receive a proportionate amount of storage that they can effectively use and
5 manage. If they do not then they should receive a proportionate share of any off-system
6 revenue produced using non-assignable storage, which I discuss further in a later section
7 of this testimony describing off-system sales.

8 **Q. Beginning on page 12, Mr. Hart states that one of the reasons he does not wish to**
9 **release any storage contracts to suppliers is his concern over reliability. Is this a**
10 **sufficient reason to deny the suppliers the use of storage?**

11 A. While it is appropriate for Mr. Hart to consider reliability in the Company's role as a gas
12 distribution utility, it is not a sufficient reason to block the release of all storage assets to
13 suppliers. The Competitive Markets Orders make it clear that asset allocation is to be
14 done on a non-discriminatory basis as to both functionality and price. Mr. Hart talks
15 about several concerns that he claims may affect the Company's reliability. Such
16 concerns must be weighed carefully and placed in the proper perspective of considering
17 the probability of their occurrence instead of a knee-jerk "sky is falling" reaction. Such a
18 position will actually create more risk for customers by potentially restricting an
19 otherwise viable Choice program and depriving customers of competitive choices.

20 **Q. On page 14 of his rebuttal testimony, Mr. Hart suggests that there have been**
21 **"several instances" of insolvency that raise concerns. Is it a frequent occurrence**
22 **that marketers become insolvent or go bankrupt such that gas supplies procured by**
23 **the marketer and placed into storage are unavailable to UGI?**

1 A. No. The Supplier Group posed just such a question to UGI, and UGI was unable to
2 identify any natural gas suppliers serving on the UGI system that went bankrupt. The
3 only supplier on any UGI system that UGI was able to identify as going bankrupt was an
4 electricity supplier named Utility.com. UGI's response to this interrogatory is attached as
5 Exhibit SG-R3.

6 **Q. What is your recommendation for how the Company could address its concerns**
7 **about suppliers that go bankrupt?**

8 A. Such concerns should be addressed in the tariff. For example, this additional language
9 could be included:

10 The parties to this Contract expressly agree that this provision [related to the
11 liquidation of stored Gas] is intended to entitle UGI to any and all of the safe
12 harbor protections set forth in section 556 of the Bankruptcy Code. The parties
13 further agree that UGI is a "forward contract merchant" and that this Contract is a
14 "forward contract" as such terms are defined in the Bankruptcy Code. In the
15 event a bankruptcy court determines that the safe harbor provisions set forth
16 above do not apply, then Choice Supplier further agrees that UGI will be entitled
17 to immediate relief from any automatic stay imposed by section 362 of the
18 Bankruptcy Code on or against the exercise of UGI's rights to transfer any and all
19 Gas held by Choice Supplier in UGI-released storage capacity pursuant to this
20 Contract, and Choice Supplier hereby waives the benefit of such automatic stay
21 and consents and agrees to raise no objection to such relief.

22
23 **[BEGIN PROPRIETARY SECTION]**

24
25
26
27 **[END PROPRIETARY SECTION]** The asset management agreements produced by
28 UGI and PNG in these proceedings are attached as Exhibit SG-R4.

29 **Q. On page 14 of his testimony, Mr. Hart also suggests that the issue is not just**
30 **bankruptcy, but it is also the possibility of a supplier deciding to "exit the retail**

1 market and [deciding] to run down its storage inventory levels rather than buying
2 new supplies before its exit,” and that UGI may not be able to be protected from
3 that situation. How do you respond to that?

4 A. Again, Mr. Hart ascribes ill intentions on Choice suppliers, without providing sufficient
5 examples of comparable problems that the Company has faced. The Pennsylvania
6 General Assembly has determined that Choice is good for the state. Raising unfounded
7 concerns as a way to maintain the status quo is not constructive. The Company has the
8 ability to craft tariff and contractual provisions that will guard against these types of
9 issues.

10 Q. On page 16 of his rebuttal testimony, Mr. Hart criticizes your comparisons with
11 other Choice programs, and states that “the only relevant question is whether UGI’s
12 rules are consistent with its statutory obligations.” Is that the only relevant
13 question?

14 A. No. The relevant question is, is the Company’s Choice program in compliance with the
15 rules? It is not. My recommendations bring it into compliance by implementing non-
16 discriminatory asset assignment. This creates a level playing field that will serve to
17 support a fair customer Choice program and enhance competition as desired by the
18 Commission and the General Assembly.

19 Q. When you observed that Columbia and PECO serve areas that are geographically
20 similar to the Company, did that serve to invalidate and dismiss the successful asset
21 assignment programs of Peoples Natural Gas, Equitable Gas, and National Fuel
22 Gas, as Mr. Hart suggests on page 18?

1 A. No. I made several observations about other NGDCs in Pennsylvania and their Choice
2 programs. Pointing out features of one NGDC does not invalidate the strong points of
3 any other NGDC.

4 **Q. On pages 19-20, Mr. Hart addresses the Choice programs of PECO Gas and**
5 **Columbia Gas to illustrate that the Company's program is similar. Is his**
6 **characterization accurate?**

7 A. No. He also brings up the Choice program of PGW as an example, but must not have
8 checked the OCA's shopping statistics that show there are no customers participating in
9 the PGW program. That is an example I would not (and did not) use. Regarding the
10 PECO and Columbia Gas programs, while they do not release the storage assets to
11 suppliers, they also do not charge suppliers the fully bundled cost of all system assets as
12 the Company does. This aspect of the Company's program is something I discussed in
13 my direct testimony as my second point. It is not appropriate for the Company to charge
14 the suppliers the weighted average cost of all capacity that the Company has acquired if
15 those assets are not assigned to the customer. That is discrimination, and not permitted
16 by the regulations.

17 **Q. What is your response to Mr. Hart's claim on page 20 that you misinterpreted a**
18 **Company data response that discusses why the storage and peaking assets are**
19 **excluded from capacity assignment, which was attached to your direct testimony as**
20 **Exhibit SG-2?**

21 A. I have no idea why Mr. Hart would claim I misinterpreted his response. I not only
22 included a copy of the data request as an exhibit, but I included his entire response in my
23 direct testimony, so that all of his rationale was presented. The basis for my assertion

1 that the storage assets and peaking assets are not released because they are being used to
2 support the Choice program is that the first sentence in Mr. Hart's response to the data
3 request is, "Storage and peaking assets are not released to Choice Suppliers as part of the
4 capacity assignment in UGI's current tariff, but are used to support a bundled city gate
5 sale in Option II and Option IV at summer index pricing." The wording I used in my
6 testimony on page 12, which states "the Company is using the [peaking and storage]
7 assets to support the Option II and Option IV bundled city-gate sale portion of its
8 capacity assignment program," is virtually identical to the wording Mr. Hart used in his
9 answer to the data request.

10 **Q. Is it possible, as Mr. Hart states on page 21, that your recommendations that the**
11 **Company come into compliance and release storage contracts could potentially**
12 **require a redesign of the Choice program?**

13 **A.** Not only is it possible that the UGI Choice program would need to be redesigned, it is
14 desirable and I recommend it. The outcome of such a redesign would be to bring the
15 Company's program in compliance and would improve the competitive offerings for the
16 customers without jeopardizing system reliability.

17 **Q. On page 21, Mr. Hart states that your recommendations would place a burden on**
18 **Choice Suppliers with respect to balancing. Did you consider this prior to making**
19 **the recommendations in your direct testimony?**

20 **A.** I developed my recommendations in concert with the wishes of the members of the
21 Supplier Group, who are prepared to take the necessary steps to implement my
22 recommendations. They do not view fair assignment of capacity assets as a burden.

1 Instead, they consider their assignment a desirable and important part of an effective
2 Choice program.

3 **Q. On page 22, Mr. Hart discusses pro rata releases and says that such releases would**
4 **create an administrative burden. Is that a significant concern?**

5 A. While administration of a Choice program is important, it does not negate the obligation
6 to actually follow the Commission regulations that were recently reaffirmed in the
7 Competitive Markets Orders. Page 47 of the June 23, 2011 Order clearly states that “it
8 remains a central principle of natural gas restructuring and the efficacy of natural gas
9 retail choice that the assets of gas pipeline and transportation and storage capacity should
10 be made available and follows the shopping customers.” It is important that NGDCs
11 adhere to this, even if it requires some administrative changes.

12 **Q. In his rebuttal testimony (OCA Statement No. 1-R), what did Mr. Mierzwa of the**
13 **OCA state regarding your first recommendation?**

14 A. He included the regulatory language of the June 23, 2011 Competitive Markets Order that
15 I presented and noted on page 4 of his testimony that the Order “requires the assignment
16 of capacity be done on a non-discriminatory basis and result in no cross-subsidization
17 between PGC and choice customers.” He then said my assignment of storage capacity is
18 conceptual and lacks specific detail and would want to evaluate a plan to see that it meets
19 the non-discrimination criteria, although he did not propose any additional detail for the
20 conceptual plan I discussed.

21 **Q. To satisfy the requirement that the asset allocation plan be non-discriminatory and**
22 **result in no cross-subsidization between choice and PGC customers, what details do**
23 **you recommend?**

1 A. I have presented some additional detail already in this testimony. The key details of a
2 non-discriminatory asset allocation plan are:

3 a. A mix of pipeline capacity assets must be released to choice suppliers on a pro
4 rata basis.

5 b. A mix of storage assets must be released to choice suppliers on a pro rata basis.

6 I have already explained that this would come from the releasable storage assets
7 held by the Company.

8 c. Recognizing that the Company will still retain certain peaking assets and use
9 those assets to produce off-system revenues, such revenues must be shared
10 proportionally with the choice customers to eliminate cross-subsidization.

11 In addition, I have provided a red-line tariff provision, as Exhibit SG-R5, that includes
12 language that can be adopted to implement this approach.

13 **Q. In his rebuttal testimony (OSBA Statement No. 1), what did Mr. Knecht of the**
14 **OSBA state regarding your first recommendation?**

15 A. On page 4, he states that, "Mr. Crist's proposal has a number of advantages over the
16 Company's current tariff. These advantages generally take the form of maintaining a
17 level playing field between the NGDC and the NGSs." He also footnotes the testimony
18 of the Company witness J.P. Ghio in the 2010 PGC case and observes that it appears this
19 was to have been the original intent of UGI when it first introduced its Choice program,
20 citing Mr. Ghio's testimony, "The weighted average cost was intended to be achieved
21 through the requirement to release a *pro rata* share of all supply contracts, although this
22 was not technically possible given that certain PGC assets are not releasable."

23 **Q. Does Mr. Knecht also wish to see more detail of a capacity assignment plan?**

1 A. Yes. In fact, without a specific solution he feels that a capacity assignment plan is not
2 immediately implementable. I have provided additional specifics in this surrebuttal
3 testimony and also will address another issue Mr. Knecht mentioned, which is the
4 minimum fill requirements that the NGS must meet with regard to the assigned storage.
5 Those requirements are as follows: The Company tariff would include a provision that
6 would require that the supplier fill storage in accordance with the FERC tariff or, if there
7 is no FERC tariff requirement, fill in accordance with a schedule that has a minimum fill
8 level on a periodic basis during the injection season. The concept would be, for example,
9 that Minimum Inventory Levels measured as a percentage of storage capacity must be
10 achieved by specified dates ("Target Inventory Date"):

11	40%	July 1
12	65%	August 1
13	80%	September 1
14	95%	November 1

15 I provide further details in Exhibit SG-R5.

16 **Q. In his rebuttal testimony (OTS Statement No. 2-R) what did Mr. Gruber of the OTS**
17 **state regarding your first recommendation?**

18 A. He felt my "contention does have some merit." He then recommended that the
19 Commission direct the Company to provide an analysis of its storage capacity and the
20 load it was intended to serve and if the intended load includes the load proposed to be
21 supplied by an alternative supplier then the Company should make provision for the
22 assignment of storage capacity to suppliers in the next 1307(f) proceeding. I believe that
23 the analysis Mr. Gruber recommends is not necessary, as it is undisputed that the storage
24 assets were acquired by the Company to serve the intended loads of the PGC and Choice
25 customers (who were PGC customers prior to their election to become Choice

1 customers), and that now the Choice customers' loads are proposed to be served by an
2 alternative supplier. Since that fact is agreed upon, there is no need to wait until the next
3 1307(f) proceeding for the Company to make provisions for assignment of storage
4 capacity to suppliers.

5 **Q. What is your opinion of Mr. Gruber's comment regarding safeguards?**

6 A. Mr. Gruber opines that the supplier would have to agree to whatever safeguards the
7 Company feels it needs to ensure that the supply is there when it is needed. This provides
8 the Company far too much latitude in setting such safeguards, and the Company could
9 use such unfettered latitude to structure safeguards that would not permit the necessary
10 asset assignment or create severe economic burdens to choice suppliers and their
11 customers. I have already addressed several aspects of reliability and safeguard issues in
12 this surrebuttal testimony.

13 **NON-DISCRIMINATORY PRICING OF ASSIGNED ASSETS**

14 **Q. Mr. Hart disagrees with your second recommendation regarding the need for non-**
15 **discriminatory pricing of released assets. How do you respond?**

16 A. I will show that my recommendation fulfills the requirement stated in the Competitive
17 Markets Orders. I will provide further clarity in addressing concerns expressed by other
18 witnesses.

19 **Q. What was Mr. Mierzwa's response to your second recommendation?**

20 A. Mr. Mierzwa felt my recommendation was inconsistent with the order, although he did
21 not provide an explanation as to why. On page 2, lines 26-28 of his rebuttal testimony,
22 he provides the language adopted by the June 23, 2011 Competitive Markets Order (with
23 the revised language in all capital letters). It states: "(1) A release, assignment or

1 transfer shall be made on a nondiscriminatory basis AS TO PRICE, RELIABILITY AND
2 FUNCTIONALITY.”

3 **Q. How are functionality and price related?**

4 A. In this case there are two types of functional assets the Company holds. It holds pipeline
5 capacity, which it proposes to release. It also holds storage, which it proposes not to
6 release, but which I recommend releasing. When I spoke of deriving the price charged
7 from the actual contract rate for the capacity assets released, I was speaking of the
8 functional class of assets that are being released. The Order provided for making releases
9 at the weighted average cost of capacity. If the Company only releases pipeline capacity,
10 then the price the supplier should pay would be the weighted average cost of pipeline
11 capacity. Likewise, if the Company releases both pipeline capacity and storage capacity,
12 as I recommend, then the price the supplier should pay would be the weighted average
13 cost of pipeline and storage capacity. This refutes Mr. Mierzwa’s statement that my
14 recommendation was inconsistent with the Order. Indeed, to be consistent with the Order
15 the pricing MUST be the weighted average of the assets that are released as determined
16 by functionality.

17 **Q. What is Mr. Knecht’s view of this second recommendation?**

18 A. He states that it is consistent with basic cost causation principles and consistent with the
19 Public Utility Code (which I cited in my direct testimony). He also cautions that there
20 could be situations where the pricing could place the NGS at a competitive disadvantage
21 and wants to make sure the Commission recognizes this to the extent that it adopts my
22 recommendation.

23 **Q. What is Mr. Gruber’s view of this second recommendation?**

1 A. Mr. Gruber viewed my proposal as improper. In providing his explanation, however, he
2 explained that he was considering only how the Company acquires capacity on a system-
3 wide basis through various contracts for gas delivery at different points on each of its
4 systems, and that charging the weighted average cost for capacity is appropriate. I agree
5 with Mr. Gruber that this is the proper method to determine the pricing for the assignment
6 of pipeline capacity. Mr. Gruber does not discuss the functionality difference of storage
7 assets, but they are clearly functionally different than pipeline capacity and should not be
8 included in the pricing unless they are included in the capacity allocation.

9 **Q. Why does Mr. Hart disagree with your recommendation to have non-discriminatory**
10 **pricing?**

11 A. His argument is that assets should be released at the weighted average cost. I agree with
12 this, with the clarification that the functionality of those assets must be considered as
13 mandated by the Competitive Markets Orders, and in this case, if the Company is not
14 releasing storage assets, then the cost of storage assets must not be included in the
15 weighted average price.

16 **Q. On page 24, Mr. Hart states that pricing based on the weighted average of both**
17 **pipeline and storage assets, but only releasing the pipeline assets, does not place a**
18 **Choice supplier at a competitive disadvantage. Is this correct?**

19 A. No it is not. The way the Company proposes to determine the pricing would result in a
20 higher cost assessed to Choice suppliers while not actually providing them with the
21 storage assets. The supplier would lose two ways. Its price cost would be higher than it
22 should be, and it would lack control of the storage assets that it should have.

1 Q. On page 25, Mr. Hart states that the Company has routinely conducted capacity
2 collaboratives that fulfill the requirements of 66. Pa. C.S. § 2204. Are the meetings
3 the Company held really collaboratives as defined by the statute?

4 A. No. I attended the meeting held by the Company on June 27, 2011, and members of the
5 Suppler Group attended the previous meeting held by the Company. While the Company
6 did a nice job explaining its rate filing and explaining various aspects of its choice
7 program, it certainly was not a collaborative as defined by in subsection (f) which I
8 include here:

9 (f) **Working group and collaborative process.**--In its restructuring proceeding, a
10 natural gas distribution company shall set forth a process to establish a working
11 group of licensed natural gas suppliers having customers on the natural gas
12 distribution company's system and representatives of the residential, commercial
13 and industrial customer classes to:

- 14 (1) Meet on a scheduled basis.
15 (2) Seek resolution of operational and capacity issues related to customer choice.

16
17 The final determination of operational and reliability issues resides with the
18 natural gas distribution company. In addition, the natural gas distribution
19 company shall include in its restructuring filing a collaborative process to address
20 broader issues relating to unbundling, customer choice and deregulation.

21
22 The Company did not engage suppliers to seek resolution of operational and capacity
23 issues in a way that would qualify an informational meeting as a collaborative. The
24 Company has not fulfilled this requirement.

25 **CAPACITY ASSIGNED SHOULD BE BASED ON AVERAGE DAY**

26 Q. Your third recommendation was that capacity be assigned based on average day not
27 peak day. Under what circumstances was this recommendation made?

28 A. The average day assignment was made with the understanding that the Company's choice
29 program would only be assigning the pipeline capacity assets to suppliers and not
30 assigning storage assets. Since pipeline assets are used to fulfill a customer's energy

1 needs during an average day and only pipeline assets will be assigned, then it is
2 appropriate that the assignment be based on average day. Storage assets are used (in
3 conjunction with pipeline assets) to fulfill a customer's energy needs during a peak day
4 and if storage assets were included in the capacity assignment my recommendation would
5 have been different. I would have recommended that the quantity of assets (pipeline
6 capacity and storage) assigned be based on peak day.

7 **Q. What was Mr. Mierzwa's reaction to your recommendation?**

8 A. On page 5 of his rebuttal testimony, he states, "Since UGI has acquired capacity to meet
9 choice customers' design day demands, capacity sufficient to meet a choice supplier's
10 customers' design peak day demands should be released." This is exactly what my first
11 recommendation covers—that the Company release the specific mix of assets it is
12 holding to provide for peak demand. He also says, "The failure to assign capacity to
13 choice suppliers sufficient to meet design peak day demands could result in an
14 inappropriate shifting of costs to PGC customers." I believe Mr. Mierzwa has it
15 backwards. That is, the failure of the Company to assign the functionally correct capacity
16 mix to Choice suppliers sufficient to meet design peak day demands will result in an
17 inappropriate shifting of costs to Choice customers.

18 **Q. What was Mr. Knecht's reaction to your recommendation?**

19 A. He did not agree with the recommendation and provided detailed comments. He states
20 on page 7, "As a general rule, both the amount of upstream capacity and the nature of that
21 capacity that are assigned to Choice NGSs should be consistent with the delivery
22 obligations of the NGS under the Choice plan at the NGDC in question." I agree with
23 Mr. Knecht and throughout this surrebuttal testimony I have been providing additional

1 clarity regarding the nature or functionality of the asset assignment in the Company's
2 Choice program and stressing the importance of providing the correct mix of assets
3 (pipeline capacity and storage) to suppliers. Mr. Knecht continues by explaining that the
4 tariff implies that Choice suppliers are responsible for virtually all load balancing, and
5 that if Choice NGSs retain responsibility for meeting daily peak demands, then it is
6 appropriate to assign capacity to those NGSs based on design day demand. I can agree
7 with this variation of my recommendation with the condition that the functionality of the
8 assigned capacity must be appropriate to meet the design day peak needs. An appropriate
9 mix of assigned capacity for meeting peak day demands includes both pipeline and
10 storage capacity. If the Company will only assign pipeline capacity, that amount
11 assigned should not be based on design day peak needs, because the Company does not
12 provide for its design day peak needs using only pipeline capacity. If the Company is
13 assigning only pipeline transportation capacity, then the amount assigned should be based
14 on average day instead.

15 **Q. What is Mr. Gruber's reaction to your third recommendation?**

16 A. He disagrees and states on p. 6, "The Companies presently assign capacity based upon
17 the peak daily delivery requirement which is essentially the customer's contribution to
18 the peak load on the Companies system." Mr. Gruber did not address the nature of the
19 capacity that the Company wishes to release, nor did he review the functionality or
20 appropriateness of the specific capacity assets the Company will release. Without that
21 more detailed examination of the facts, he has no basis for reaching that conclusion.

22 **THE CAPACITY ASSIGNMENT PROGRAM SHOULD BE VOLUNTARY**

23 **Q. What is Mr. Hart's reaction to your fourth recommendation?**

1 A. As with all my recommendations, he is in disagreement. He states on page 28 that it
2 “would result in undue cost shifting between classes.” While this is true when one
3 considers the Company’s program design, it shifts costs in favor of PGC customers,
4 rather than Choice customers. I have provided considerable explanation that the
5 Company program, which proposes to assign only the lesser valued pipeline capacity to
6 Choice suppliers and retain the more valuable storage capacity for PGC customers, will
7 result in the PGC customers being subsidized by the Choice customers. Such undue cost
8 shifting is not permitted by the regulations. So, if the Company’s program remains in
9 place, unchanged, it is only fair to make it voluntary.

10 **Q. What is Mr. Mierzwa’s reaction to your fourth recommendation?**

11 A. He points out on page 6 of his rebuttal testimony that, “The Commission’s Competitive
12 Markets Order leaves to the discretion of the NGDC whether to release or assign capacity
13 to choice suppliers.”

14 **Q. What is Mr. Knecht’s reaction to your fourth recommendation?**

15 A. He disagrees and explains that I offered no specific mechanisms for protecting PGC
16 customers from absorbing the costs of stranded capacity.

17 **Q. What is your response?**

18 A. I already pointed out that because the Company’s program does not comply with the
19 rules, it is not entitled to have mandatory capacity assignment. Additionally to address
20 Mr. Knecht’s concern, the Company has had opportunities to reduce capacity and in this
21 case Mr. Mierzwa’s testimony described several capacity contracts that will expire over
22 the next few years. Therefore it seems that the existing capacity of the Company is not
23 stranded. Additionally, I also explained that the Company is also not in compliance by

1 failing to hold meaningful collaborative meetings with suppliers to review capacity
2 planning. For all these reasons I believe the Company program as designed must be
3 designated as voluntary.

4 **Q. What is Mr. Gruber's reaction to your fourth recommendation?**

5 A. Mr. Gruber is generally in agreement with my recommendation. He states on page 7, "It
6 is my opinion that, under certain circumstances, it may be appropriate for an alternate
7 supplier to find their own capacity."

8 **Q. What are the circumstances Mr. Gruber describes?**

9 A. On page 8, he explains, "It is my opinion that if a customer or its agent wishes to acquire
10 its own capacity it must wait until the Company has a contract up for renewal. At that
11 point the customer or its agent should inform the Company that it no longer needs to
12 acquire capacity to serve them. At this point the NGDC, here UGI, PNG and CPG can
13 and should make allowances in its own capacity acquisition plan to allow the customer to
14 contract for its own capacity."

15 **Q. How should the process that Mr. Gruber is describing occur?**

16 A. It should occur in collaborative meetings as described in 66 Pa. C.S. § 2204(f).

17 **OFF-SYSTEM SALES**

18 **Q. What is Mr. Hart's reaction to your fifth recommendation?**

19 A. Mr. Hart disagrees with my recommendation that Choice suppliers who pay for
20 unreleased assets such as storage and peaking should receive the off-system sales and
21 capacity release revenues, as discussed in his rebuttal testimony on pages 29-30.
22 However, his reasoning contains faulty logic. He states that Choice suppliers should not
23 share in revenues from released assets just because they are paying a PGC rate that

1 reflects of the costs of those assets. He then points out that suppliers can use the pipeline
2 capacity that is released to them to produce their own revenues. That is fine, but the flaw
3 in his reasoning is that both PGC and Choice customers pay for pipeline capacity
4 separately and can receive the revenues from those assets, but both PGC and Choice
5 customers (or their suppliers) pay for storage and peaking assets, yet only the PGC
6 customers are allowed the use of storage and Choice customers receive no benefit from
7 that asset.

8 **Q. What is Mr. Mierzwa's reaction to your fifth recommendation?**

9 A. Mr. Mierzwa does not agree entirely, but does explain on page 7 that "choice suppliers
10 are not currently provided direct access to storage but pay for storage. UGI uses storage
11 to generate off-system sales margins. Thus, it would not be unreasonable for a portion of
12 storage-related off-system sales margins to be credited to choice customers." This is
13 reasonable. Mr. Mierzwa then comments that I have not presented details on my
14 proposal, so he cannot assess it and thinks it should not be adopted at this time. I believe
15 I have provided enough description but I will provide additional details now.

16 **Q. What are the specifics of your proposal?**

17 A. Additionally, Mr. Knecht recommends that if the upstream capacity resources that are
18 used to provide balancing services are being paid for by Choice NGSs, then it is
19 appropriate that margins earned from off-system sales and capacity release transactions
20 should be credited proportionally. Similar logic would also apply to the peaking assets.

21 **Q. What is Mr. Knecht's reaction to your fifth recommendation, which he discusses on**
22 **page 9 of his rebuttal testimony?**

1 A. He believes that Choice suppliers should only receive a share of margins from off-system
2 sales and capacity release transactions generated from upstream assets held by the
3 Company, but that the Choice suppliers are paying for. If the Company were providing a
4 fair mix of assets in its allocation to Choice suppliers, I would agree with Mr. Knecht.
5 Because the Company retains the valuable storage capacity and is able to generate
6 revenues using that capacity, however, such revenues should be shared with the Choice
7 suppliers, assuming storage capacity is not assigned. Additionally, Mr. Knecht
8 recommends that if the upstream capacity resources that are used to provide balancing
9 services are being paid for by Choice NGSs, then it is appropriate that margins earned
10 from off-system sales and capacity release transactions should be credited proportionally.
11 Similar logic would also apply to the peaking assets.

12 **Q. What is Mr. Gruber's reaction to your fifth recommendation?**

13 A. He disagrees with my recommendation but provides an explanation that shows a
14 misunderstanding of the nature of the assets used for off-system sales. He states on page
15 9, "It is my understanding based upon my experience with the operation of NGDCs that
16 the Companies use PGC assets to enact these transactions. As such it is the PGC
17 customers who should benefit from the sharing mechanism approved by the Commission
18 for each of these three UGI NGDCs." It has been established that the Company uses both
19 PGC assets along with storage and peaking assets which Choice customers pay for,
20 therefore Mr. Gruber's limiting the off-system credits to only PGC customers is incorrect.

21 **Q. Does this conclude your surrebuttal testimony?**

22 A. Yes.



Exhibit SG-R1

UGI UTILITIES, INC. - GAS DIVISION
6/1/11 SECTION 1307(f) FILINGSECTION 1-B [52 Pa. Code §53.64(c)(1)] SOURCES OF GAS SUPPLY

Provide the quantity, price, and sources of gas contemplated to be used during each of the next twenty (20) months, including:

- (1) The expiration date of each contract;
- (2) The date which each contract was most recently negotiated and the details of such negotiations (e.g., meetings held, offers made, and changes in contractual obligations);
- (3) Whether any current proceedings, negotiations or renegotiations are pending (before the FERC, etc.) to modify the price, quantity, or any other condition of purchase, and if so, the details of such proceedings, negotiations or renegotiations.

RESPONSE:

The quantity, price, and sources of gas contemplated for use during each of the next eight months (April 2011 through November 2011) are shown on Attachment 1-B-1; and for the 1307(f) Purchased Gas Cost Period, December 2011 through November 2012, on Attachment 1-B-2. Please also reference testimony provided in Book 2.

Contract Dates: The following is a listing of firm contract terms and expiration dates for all applicable services and contracts. UGI will renew or replace contacts as appropriate during the next twenty month period.

Contract Title	MDQ/ SCQ	Start Date	End Date	Notice Date	Comments
Amerigas Propane, LP	GBM	7/1/2010	6/30/2013	None	Gas Beyond the Main propane supplier.
ANR FSS - 114585	2,766,521	4/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114586	14,800	4/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114588	5,311	4/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114590	10,575	4/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114591	8,600	4/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114592	21,150	11/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114593	12,440	11/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
ANR FTS-1 - 114594	5,123	11/1/2009	3/31/2019	11/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.

7(c) Storage Contracts

non-7(c) Storage Contracts

7(c) Transportation Contracts

UGI UTILITIES, INC. - GAS DIVISION
6/1/11 SECTION 1307(f) FILING

Contract Title	MDQ/ SCQ	Start Date	End Date	Notice Date	Comments
ANR FTS-1 - 114595	13,941	4/1/2009	10/31/2018	5/1/2018	Termination with 6 months notice per tariff. Right of First Refusal Applicable.
Columbia FSS - 38013	93,867	11/1/1993	3/31/2014	11/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FSS - 79028	5,090,400	11/1/2004	3/31/2014	11/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FTS - 46284	50,412	11/1/1993	10/31/2013	5/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FTS - 80021	20,000	11/1/2004	10/31/2013	5/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FTS - 80095	14,500	11/1/2004	3/31/2019	10/1/2018	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FTS - 80835	10,000	11/1/2004	10/31/2013	5/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FTS - 80836	1,500	11/1/2004	10/31/2019	5/1/2019	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia FTS - 78653	42,000	5/15/2004	10/31/2029	5/1/2029	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia Gulf FTS-1 - 46283	51,598	11/1/1993	10/31/2013	5/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia Gulf FTS-1 - 80834	10,219	11/1/2004	10/31/2013	5/1/2013	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia NTS - 80837	19,520	11/1/2004	10/31/2019	5/1/2019	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Columbia SST - 79133	46,933	11/1/2004	10/31/2014	5/1/2014	Pregranted Abandonment. Termination with 5 months notice per tariff. Right of First Refusal Applicable.
Dominion FT - 200095	22,155	10/1/1996	10/31/2012	10/31/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Dominion GSS - 300126	666,667	11/1/1998	3/31/2022	4/1/2020	Automatic 1 year extensions. Termination with 2 yrs. prior written notice.
Dominion GSS TE - 600038	941,176	10/1/1993	3/31/2016	4/1/2014	Automatic 1 year extensions. Termination with 2 yrs. prior written notice.
Egan FSS - 310191	500,000	9/17/2001	3/31/2019	12/30/2018	Automatic 1 year extensions. Termination with 90 days prior written notice.
Panhandle EFT - 011579	10,513	11/1/1993	10/31/2013	5/1/2013	None.
Tennessee FT-A - 73903	10,492	11/1/2009	10/31/2013	8/2/2013	Automatic 1 year extensions. Termination with 1 mo. prior written notice.
Tennessee FT-A - 73905	10,000	11/1/2009	10/31/2013	8/2/2013	Automatic 1 year extensions. Termination with 1 mo. prior written notice.
Texas Eastern CDS - 800239	25,000	6/1/1993	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.

7(c) Storage Contracts

non-7(c) Storage Contracts

7(c) Transportation Contracts

UGI UTILITIES, INC. - GAS DIVISION
6/1/11 SECTION 1307(f) FILING

Contract Title	MDQ/ SCQ	Start Date	End Date	Notice Date	Comments
Texas Eastern CDS - 800397	41,000	11/1/1993	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1 - 800345	4,000	10/1/1995	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1 - 800394	32,475	11/1/1993	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern CDS - 820019	10,000	11/1/2000	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1 - 800240	25,000	6/1/1993	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1 - 910180	10,000	11/1/2003	10/31/2012	11/1/2011	Automatic 1 year extensions. termination with 1 yr. prior written notice. UGI released 4,512 dth/d to UGI Central Penn Gas effective 11/1/2010 to 10/31/2011.
Texas Eastern FT-1 - 910181	12,000	11/1/2004	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1 - 910417	11,713	11/1/2003	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1- 800504	4,000	11/1/1995	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Texas Eastern FT-1 - 800373	20,000	11/1/1994	10/31/2014	11/1/2012	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern FT-1 - 800468	10,000	11/1/1995	10/31/2015	11/1/2013	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern FT-1 - 830067	10,000	12/1/1999	10/31/2013	11/1/2011	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern FTS-5 - 330910	6,667	6/1/1993	3/31/2014	4/1/2012	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern FTS-7 - 331721	5,880	11/1/1994	4/15/2015	4/16/2013	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern LLFT - 870001	10,575	11/1/1993	3/31/2014	4/1/2012	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern LLFT - 870004	10,468	11/1/1994	10/31/2013	11/1/2011	Automatic 1 year extensions. Termination with 2 yr. prior written notice.
Texas Eastern LLFT - 870202	12,390	11/1/2003	10/31/2012	11/1/2011	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Transco- ESS - 9072829	1,980	8/1/2008	2/28/2012	9/1/2011	Automatic 1 year extensions. Termination with 6 mos. prior written notice.
Transco FT - 1002594	5,072	8/1/1991	3/31/2017	4/1/2014	Automatic 1 year extensions. Termination with 3 yrs. prior written notice.
Transco FT - 1002595	2,081	4/10/1990	3/31/2017	4/1/2014	Automatic 1 year extensions. Termination with 3 yrs. prior written notice.
Transco FT - 1013596	22,770	10/1/1996	3/31/2017	3/31/2016	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Transco FT - 1005004	1,346	8/1/1991	3/31/2017	4/1/2014	Automatic 1 year extensions. Termination with 3 yrs. prior written notice.
Transco GSS - 1000749	102,129	7/1/1996	3/31/2013	10/1/2012	None.

7(c) Storage Contracts

non-7(c) Storage Contracts

7(c) Transportation Contracts

UGI UTILITIES, INC. - GAS DIVISION
6/1/11 SECTION 1307(f) FILING

Contract Title	MDQ/ SCQ	Start Date	End Date	Notice Date	Comments
Transco FT - 9089608	7,000	11/1/2009	10/31/2029	11/1/2027	Automatic 1 year extensions. Termination with 2 yrs. prior written notice.
Transco SS-2 - 1003973	796,950	7/25/1990	3/31/2013	4/1/2012	Automatic 1 year extensions. Termination with 1 yr. prior written notice.
Trunkline FT - 013199	10,619	11/1/1993	10/31/2013	5/1/2013	Continue until terminated with 6 mos. prior written notice.
UGI Central Penn Gas, Inc.	2,500	10/1/1996	9/30/2011	9/30/2009	UGI Central Penn Gas provided notice to terminate the agreement on 9/30/2011. Currently renegotiating.
UGI Energy Services - Peaking	6,500	11/1/2007	3/31/2012	N/A	None.
UGI Energy Services - Peaking	80,000	11/1/2007	3/31/2012	N/A	Year to year extension upon agreement in price.
UGI Energy Services - Peaking	25,000	11/1/2009	3/31/2017	N/A	Year to year extension upon agreement in price.

Current Federal Energy Regulatory Commission (FERC) Proceedings

UGI has FERC jurisdictional firm transportation and storage agreements with ANR, Columbia, Columbia Gulf Transmission Company (Columbia Gulf), Dominion, Egan Hub Partners, Equitrans, Panhandle, Tennessee, Texas Eastern, Transco and Trunkline. Cost and terms of service are addressed in Natural Gas Act Section 4(e) base rate, rulemakings, and certificate proceeding before the FERC. FERC orders in any of these proceedings will change UGI's purchased gas costs during the next twenty months. Columbia Gulf and Tennessee have pending base rate cases in front of the FERC. UGI will be subject to any outcomes.

Other Renegotiations - Purchase Contracts

The majority of UGI firm purchases are acquired using UGI's Master Purchase and Sales Agreement and Gas Industry's Standards Board (GISB) and North American Energy Standards Board (NAESB) Agreements. Over the past year UGI has entered into six (6) new NAESB agreements with counterparties. UGI will renegotiate prices and terms with suppliers on the applicable renegotiation dates.

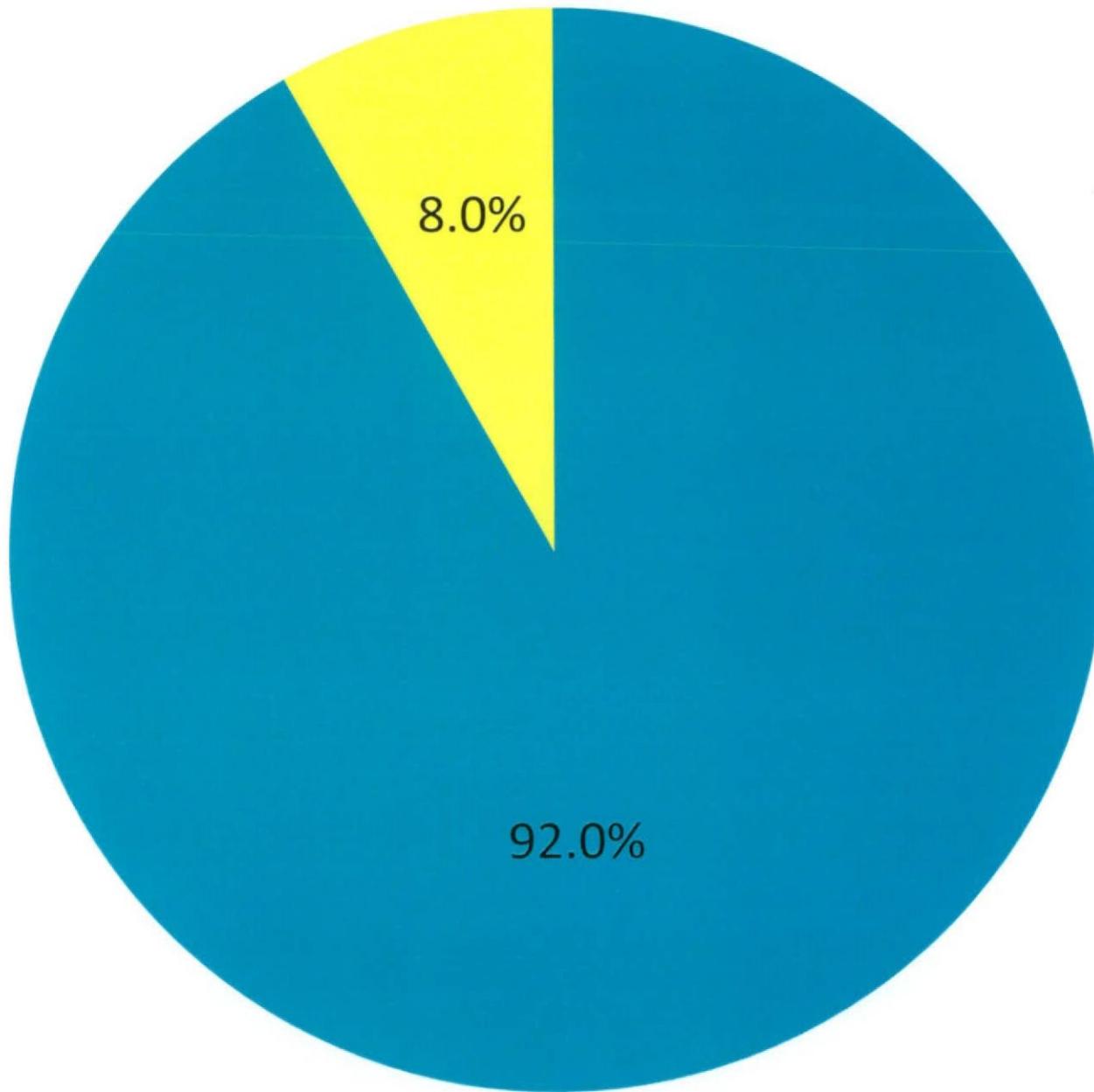
7(c) Storage Contracts

7(c) Transportation Contracts

non-7(c) Storage Contracts



Exhibit SG-R2



UGI

- non-7(c) Storage Contracts
- 7(c) Storage Contracts per Book 1 filing



Exhibit SG-R3

CES-IV-11
Shaun Hart

UGI Utilities, Inc.
Docket No. R-2011-2238953

Responses
to Interrogatories of
CenterPoint Energy Services, Inc.
Set IV

CES-IV-11

Provide a comprehensive list since the inception of Choice at the Company of all Choice suppliers that have sought protection under bankruptcy law.

Response:

The only choice supplier serving customers on UGI that sought protection under bankruptcy law was Utility.com. Utility.com was serving customers on UGI's Electric Division at the time it sought bankruptcy protection. While not serving UGI choice customers at the time, UGI also notes that companies as large as Enron have sought protection under bankruptcy law.

Public Version

Exhibit SG-R4

OCA-I-48
Dave Beasten

UGI Utilities, Inc.
Docket No. R-2011-2238953

Responses
to Interrogatories of
The Office of Consumer Advocate
Set I

OCA-I-48

Provide a copy of all agreements wherein the Company contracted with a third-party to fill the Company's contract storage. That is, UGI released contract storage to a third-party who subsequently filled the storage for UGI.

Response:

Please see Attachment OCA-I-48

***THIS RESPONSE IS CONFIDENTIAL AND SHALL BE RELEASED TO PARTIES
WHICH HAVE EXECUTED THE STIPULATED PROTECTIVE AGREEMENT***

Pages 2 - 67 omitted as proprietary

OCA-I-35
David Beasten

UGI Penn Natural Gas, Inc.
Docket No. R-2011-2238943

Responses
to Interrogatories of
The Office of Consumer Advocate
Set I

OCA-I-35

Please provide a copy of all agreements wherein the Company contracted with a third-party to fill the Company's contract storage. That is, UGI released contract storage to a third-party who subsequently filled the storage for UGI.

Response:

Please see Attachment OCA-I-35

THIS RESPONSE IS CONFIDENTIAL AND SHALL BE RELEASED TO PARTIES WHICH HAVE EXECUTED THE STIPULATED PROTECTIVE AGREEMENT

Pages 69 - 110 omitted as proprietary

understand that my statements are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).



James L. Crist
President, Lumen Group, Inc.

DATE: August 5, 2011