COLUMBIA STATEMENT NO. 112-R

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

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

July 16, 2015

Columbia Gas Stmt.
No. 112-R HR 4 BP
R-2015-2468056 8/10/15

I. Introduction

Q. Please state your name and business address.

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

Q. Are you the same Nancy J. D. Krajovic that served direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to portions of the direct testimony of witnesses, Jeremy Hubert filed on behalf of the Bureau of Investigation and Enforcement ("I&E"), Thomas Butler, Matthew Sommer and Matthew White filed on behalf of the Natural Gas Suppliers Parties ("NGSs"), James Crist, filed on behalf of the Pennsylvania State University ("PSU"), Frank Plank filed on behalf of the Columbia Industrial Intervenors ("CII"), Roger Colton filed on behalf of the Office of Consumer Advocate ("OCA") and Mitch Miller filed on behalf of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA").

Q. How will your rebuttal testimony be organized?

A. I will discuss the following topics: Rider GPC, Rider CAC, other NGS Issues, Rider USP costs, CAP Plus, Universal Service Program Coordination and other CAUSE-PA issues and address the testimony of each of the witnesses listed above as they relate to those topics.

II. <u>Rider GPC</u>

Q. Is Columbia's current Gas Procurement Charge ("GPC") rate of $0.0695 per dth based upon specifically identified costs?

A. No. In Columbia's last base rate proceeding the Company proposed a revised cost-based GPC calculation of $0.0149 in rebuttal testimony. The currently effective rate is the result of the Settlement Agreement reached among the parties to the proceeding.

Q. On page 14, lines 14-19 of NGS Witness White's testimony (NGS Parties Statement No. 3), Mr. White has identified what he claims are several deficiencies in the Company's calculation of the GPC. Does the Company agree?

A. No.

Q. Mr. White contends that storage working capital should be included in the Company's GPC. Does the Company agree?

A. No. I would like to clarify that storage working capital is incurred equally for sales service customers and CHOICE® customers and is, therefore, already allocated between sales service and CHOICE® customers through base rates.

Q. Please describe Columbia's CHOICE® average day program.

A. The Company's CHOICE® Program provides its highest priority customers (residential and small commercial customers consuming 64,400 therms or less per year), the opportunity to select a supplier of natural gas other than the Company to provide their natural gas commodity requirements. Once a customer contracts with a CHOICE® NGS for its natural gas commodity service, that NGS provides the Company with specific customer information and becomes responsible for purchasing natural gas and transporting that gas on interstate pipelines to the Company's gas distribution system.

Q. How are the CHOICE® Program natural gas requirements determined for the NGSs?

A. Prior to the beginning of each month, the Company determines the normalized annual demand of each NGS's customer group and determines the daily delivery requirement for the subsequent month by dividing that total normalized annual demand by 365. The product of this calculation (1/365th of the normalized annual demand) is the quantity that the NGS is required to deliver under the CHOICE® Program each day of the subsequent month. In compliance with the Company's tariff, the NGS must purchase firm gas supply for the months of November through March to meet this delivery requirement. This process is repeated each month to account for new customers or customers who have left the NGS's service. This constant delivery requirement each day of the year is why the Company's CHOICE® Program is referred to as an "Average Day Program."

Q. Does Columbia's average day CHOICE® Program have a defined annual term?

A. Yes, the average day CHOICE® Program's program year runs August 1st through the following July 31st.

Q. Is there a reconciliation of the NGSs' average day deliveries based on a normalized projected customer's annual usage, and actual consumption over the program year?

A. Yes. Records of deliveries vs. consumption are maintained for each month. At the end of July, the NGSs' deliveries and their customers' billed consumption are trued up. NGSs buy gas quantities from Columbia adequate to zero out the true-up if they have under-delivered for the year or will sell their excess delivery to Columbia if they have over-delivered.

Q. What does this average day program have to do with gas storage?

A. Columbia manages differences between NGS deliveries and their customers' consumption through storage management. By the end of December, the suppliers' cumulative deliveries are less than customers' cumulative requirements, and Columbia must call upon its inventory of gas in storage to make up the deficiency between cumulative NGS deliveries and customers' requirements. This deficiency continues on throughout the end of the CHOICE® delivery year in August, when the supplier is cashed in or out. In addition, because storage provides a "no-notice" service (that is, deliveries are not pre-scheduled), Columbia's gas storage inventory is considered to provide intra-month balancing between customer requirements and NGS deliveries, as well as to provide needed supplies to meet CHOICE® customer requirements in years in which customer usage exceeds average deliveries.

Q. Can you provide an analysis that depicts the annual cycle of over and under supply?

A. Yes. Exhibit NJDK-1R demonstrates that NGSs will over-deliver in August, September and October and will under-deliver in the months from November through April, followed by another period of over-delivery from May through July.

Q. What else does the analysis show?

A. The analysis clearly demonstrates that over deliveries made August through October are quickly offset by under deliveries November through March. The under delivery in the heating season erodes away any over deliveries on a net basis by January. In fact, the NGS is left owing Columbia gas in January and this continues until July when the true up again occurs. So the NGS owes the Company gas 6 months of the year. During this time, the CHOICE® customer and its NGS are both relying upon Columbia's gas in storage and its purchases of such gas injected into storage. This is what allows the average day program to operate. As designed, the average day program significantly reduces the NGS administrative tasks and risk associated with providing natural gas service.

Q. Please summarize the NGS's position throughout this cycle.

A. While this will vary by month based on when an NGS first begins serving a customer, on average, using normal weather assumptions, the NGS is projected to have an average monthly under-delivered balance of 1.18 therms for each residential CHOICE® customer. This means that CHOICE® customers are benefitting from storage working capital, and it would be improper to adopt Mr. White's adjustment.

Q. How does the average day program compare to other utilities' choice programs that may require NGSs to deliver to a load curve?

A. If NGSs were required to deliver to a load curve, they would need to deliver volumes of gas to meet a customer's requirements every day of the year, and would not be allowed the delivery deficits inherent under the average day program. In such cases, it could be argued that storage working capital does solely or substantially benefit sales customers, as storage is not used, or only used to a limited extent, by Choice customers in a non-average day program.

Q. Aside from providing winter requirements and daily and monthly balancing, are there other gas delivery benefits that Columbia's storage gas provides to the CHOICE® NGSs and therefore their customers?

A. Yes. Columbia's average day program does not require CHOICE® NGSs to meet design day or design winter conditions because CHOICE® NGSs deliver gas to meet their customers' *normalized* demand. Columbia, as the Supplier of Last Resort, maintains storage capacity and fills that storage capacity by the beginning of the winter period in order to meet customer requirements in the event of a colder than normal winter. Therefore, a portion of storage gas must be available to serve the requirements of CHOICE® customers demand in excess of normalized annual requirements upon which NGS deliveries are based. Finally, Columbia has an open enrollment policy for CHOICE®. That is, the NGSs are free to sign up customers in any month of the year and are not restricted to signups matched to the beginning of the program year. To provide this opportunity for open enrollment, Columbia must operate its storage to have sufficient gas supplies to serve each firm service customer throughout the winter, without regard to when the customer elects CHOICE® service and consequently NGSs begin delivery of supplies. Without gas storage working capital invested by Columbia, NGSs could not have the benefit of an average day mechanism and year round customer enrollment. As can be seen from my Exhibit NJDK-1R, any new CHOICE® customers signed up between the months of October through February are served on a net basis with gas supplied in part by Columbia throughout the end of the initial CHOICE® delivery year. Furthermore, with the average day program the NGS administration costs are greatly reduced as compared to a demand day design program. In the average day program the NGS has the ability to schedule the gas and delivery for an entire month on a day of its choosing prior to the beginning of the month. In a demand day design program the NGS has to have staff available on weekends and holidays in order to meet their scheduling requirements.

Q. Do you agree with Mr. White's assertion that Columbia uses working capital dollars to purchase its storage gas volumes for sales customers?

A. No. It is clear that even if all customers were in the CHOICE® Program, it would be necessary for Columbia to continue making gas storage working capital investment to serve CHOICE® customers under the average day program, in order to continue to meet customers' requirements throughout the winter until the July cash-out. In addition, Columbia would continue to have a substantial additional investment in storage gas that is necessary to meet colder than normal and design day winter criteria. I also note that OSBA witness Knecht, in a prior Company base rate proceeding stated that he understands and accepts the Company's logic for excluding storage working capital from the GPC, and "based on my rough calculations, it appears that, under this policy, Columbia is providing at least as much gas in storage working capital to the NGSs as to its own purchased gas cost ("PGC") customers."[1] He reiterated that position again in the most recent Columbia base rate proceeding.[2]

Q. But can it be argued that NGSs are providing gas at the beginning of the storage injection cycle, and thus are always in a net positive position under normal conditions?

A. No. To argue this one has to ignore the program year. Specifically, as I explained earlier, the program year begins August 1, with the reconciliation of prior year deliveries to actual customer usage. Deliveries for the months of April – July preceding August 1 are part of that prior period reconciliation, and do not carry over as a supplier balance.

Q. On page 20 of his testimony, Mr. White states that "Columbia has failed to include the GP1 systems that had been attributable to the GPC in previous rate cases." How do you respond?

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[1] Columbia v. Pa. P.U.C., Docket No. R-2012-2321748, OSBA St. No. 1, p. 50, lines 4-6.
[2] Columbia v. Pa. P.U.C., Docket No. R-2014-2406274, OSBA St. No. 2, pp 13-14.

A. A the outset, I note that GP1 was a gas management system designed to post quantities and payments on contracts to purchase Appalachian gas supplies from local gas producers tied directly to Columbia's distribution facilities. It also released payments to the accounting system. As indicated in the rate case at Docket No. R-2014-2406274, the process and functionality of GP1 was rolled into GasSource during the historic test year of TME 11/30/14, and therefore the Company has no expenses related to GP1 and consequently no costs available to be assigned to the GPC. Please see Exhibit NJDK-2R for a copy of the discovery response provided on that issue in the last case. No costs were assigned to the GPC in the calculation in the prior case. The NGS parties did not question the absence of GP1 through discovery.

Q. Mr. White further claims that "Columbia assigns only 72% of those costs to the GPC with no explanation why the full costs of these systems are not allocated to the GPC." Is Mr. White's statement true?

A. No. In response to the NGS Parties Data Request No. 1-010, attached to this testimony as Exhibit NJDK-3R, pages 1 and 2 of 3 Columbia stated the following:

> The costs to operate GasSource for the fully forecasted rate year total $53,614.31. 72% of that total is proposed to be recovered through the GPC as 72% of Columbia's customers take sales service from Columbia. The remaining 28% is reflected in base rates.

A description of GasSource and its function, clearly indicating that it is used to support and provide benefit to both sales and CHOICE® customers, was provided in response to NGS Parties Data Request No. 1-007 and included as page 3 of 3 of NJDK-3R , stated the following:

> GasSource is a gas management system utilized by Northern Indiana Public Service Company, Columbia Gas of Massachusetts, Columbia Gas of Kentucky, Inc., Columbia Gas of Maryland, Inc., Columbia Gas of Ohio, Inc., Columbia Gas of Pennsylvania, Inc., and Columbia Gas of Virginia, Inc. The application focuses on natural gas distribution company gas supply processes including, a) maintenance and administration of pipeline transportation and storage contracts, as well as natural gas supply contracts, including the maintenance of the respective pipeline rates, index rates, and negotiated rates; b) trading activity for both system supply and off system sales including the electronic generation of the respective transaction confirmations; c) scheduling activities for both system supply and off system sales on the various pipelines; d) capacity release activities including those required under the Choice Program; e) maintaining a real-time view of the available capacity on each of the respective pipeline contracts; f) providing a means of reconciling the pipeline invoices, gas supply invoices, and generating off system sales invoices; and g) report generation and electronic feed of information to the accounting system.
>
> Many of these activities, such as the administration and maintenance of pipeline contracts and the respective rates, capacity release and invoice reconciliation provide support to natural gas distribution company activity as well as NGS activity. In addition, the items related to off system sales help reduce costs to the customers through the sharing mechanism.

Q. Are the total costs associated with GasSource included in the $53,614.31 that you allocated between shopping and non-shopping customer for recovery through the GPC?

A. Yes. These costs represent the ongoing expenses related to the operation and maintenance of that system. As indicated in last year's base rate filing, GasSource is fully depreciated, so there is no applicable depreciation.

Q. Mr. White also suggests that Columbia has not allocated sufficient IT costs to the GPC because there is no assignment of DIS costs, which is used to track sales. For what purpose does DIS track sales?

A. DIS tracks throughput to all customers for the purpose of applying all billing components, including distribution charges and gas supply charges (whether the supply is from the Company or an NGS) and is not related to the procurement of gas and therefore would be inappropriately assigned to the GPC. I will describe later in my testimony why a portion of the DIS related expenses are appropriately proposed for recovery through the CAC.

Q. On page 17 of his testimony, Mr. White states that the Commission should assign a minimum of 5% of Columbia's total IT costs to the GPC. Do you agree?

A. The Company disagrees with this for several reasons. First, witness White states that other utilities have allocated "substantially" more IT costs to the GPC than Columbia. Using another utility's costs or charges as a basis for what Columbia "should be" charging is pointless and unsubstantiated. Every utility is different in that each has its own cost structure, and Columbia's costs may be lower than what exists for other utilities. Mr. White's argument that Columbia's IT costs should be comparable to Peoples Natural Gas Company ("Peoples") because "Peoples utilizes the same Gastar systems CPA uses" is without merit. Columbia's GasSource system is owned and maintained by Columbia's parent, NiSource Inc., and the costs associated with that system are allocated among all of the NiSource distribution systems. Thus, it is inaccurate to suggest that GasSource IT costs between Columbia and Peoples should be comparable because they have a comparable customer base, since the NiSource GasSource system costs are actually spread over a much larger customer base. Second, Mr. White has not provided any support as to why the Commission should allocate a minimum of 5% of total IT costs to the GPC, and this is an arbitrary assignment of costs not supported by any relevant analysis and should be rejected.

Q. Are there any IT costs incurred to support gas procurement other than what Columbia has already identified?

A. No.

III. Rider CAC

Q. Does the Company currently recover through distribution rates the costs that Columbia is including in Rider CAC?

A. Yes. However, in the rate design proposed in this case, witness Balmert has deducted these costs from the Company's base distribution revenue requirement and calculated proposed distribution rates on this adjusted base distribution revenue requirement (Exhibit 103, Schedule 8, Page 2, lines 15-28).

Q. Several witnesses, including Mr. Hubert, Mr. White and Mr. Crist put forth an asymmetrical argument that the GPC is charged to sales service customers because they are the only customers who receive default gas supply, despite default supply being available to all, but all customers should pay costs associated with CHOICE® and

transportation service because they benefit by having the option to take competitive supply even if they do not choose to do so. Do you agree?

A. No. The Company agrees that there are benefits to all customers from the availability of CHOICE® as well as benefits to all customers from the availability of default supply. However, making the argument that those benefits justify all customers bearing the cost of CHOICE® while simultaneously stating that only the customers who use the default service should pay for its availability is rather disingenuous.

In fact, in its Final Revised Rulemaking Order at Docket No. L-2008-2069114 issued June 23, 2011, the Commission dismissed the "all customers benefit argument" as noted in the following passage:

> "EAPA and others argued that a sub-set of natural gas procurement costs of the NGDC, particularly the costs incurred to provide SOLR, are unavoidable and will continue to be incurred by the NGDC. A common criticism by many utilities was that SOLR service benefits both shopping and non-shopping customers, therefore these SOLR costs should be socialized and paid for by all customers. However, these same arguments can be espoused for competitive offers to non-SOLR customers. All customers benefit from the robust availability of competitive offers. As with SOLR service, customers can choose to avail themselves of these opportunities, or pass.
>
> Several parties also argued that, since some SOLR costs are often relatively fixed over the year and thus "unavoidable," such costs should be socialized. *See EAPA ANOFR Comments* at 4; *Equitable ANOFR Comments*, Appendix A at 2; *NFG ANOFR Comments* at 4-5; *OCA ANOFR Comments* at 7. This position ignores competitive equity, since NGSs may also have fixed costs for participating in a market, yet such costs are not socialized. Moreover, whether or not a cost is fixed is not relevant to the designation of who benefits from the service. **<u>Clearly, those who use the service should pay for it."</u>**

The costs included in the GPC represent the costs that the Company incurs in carrying out its obligation as Supplier of Last Resort. All customers in Columbia's territory benefit from that safety net and the Commission has seen fit to not eliminate this requirement. The Company must stand ready to operate its system and to supply any and all Choice-eligible customers at their election. However, through the GPC, the costs of fulfilling that obligation have been assigned only to the customers who take sales service, even though all customers have the benefit of having default service upon which to rely. Likewise, the costs and associated services that have been identified for recovery through the CAC are incurred only because there are transportation customers and suppliers who serve them. Furthermore, the costs included in the calculation of the CAC are a small subset of the costs of providing service to transportation service customers.

Q. Mr. Hubert suggests that Rider CAC would penalize customers who elect CHOICE® or transportation service. Do you view Rider CAC as a penalty?

A. No. Rider CAC simply represents the allocation of identifiable costs to specific groups of customers for administration and maintenance of the Choice and GDS programs as well as costs for enhancements to these programs sought by NGSs or in compliance with changes ordered by the Commission as a result of NGS intervention.

Q. Witnesses White and Crist contend that Columbia's proposed Rider CAC are anti-competitive. Please comment.

A. Initially, I emphasize that Columbia supports the right of all customers to choose their supplier. Columbia has a long history of transporting gas of third party providers to its customers. In the late 1980s, Columbia began transporting natural gas purchased from third party natural gas suppliers for large commercial and industrial customers.

Columbia piloted its CHOICE® Program in 1996 for 36,000 customers in Washington County. Year one results included four marketers and 5,300 participants (15%). In 1997 Columbia expanded the pilot to include Allegheny County and a total of 137,000 customers. Year two results included nine marketers, 27% of the eligible customers enrolled equaling a total of 37,000 participants, and savings of 8.7% over eight months compared to Columbia's regulated gas supply cost. Further pilot expansion to Beaver, Butler, York, Franklin, and Adams County occurred in 1998 increasing the eligible customer count to 270,000. In the third quarter of 1998 Columbia also introduced the first Purchase of Receivables Program in Pennsylvania. In January 1999 Columbia released its first CHOICE® eligible customer list. As of June 1999, 39% of eligible CHOICE® customers had chosen from one of eleven active gas suppliers, and CHOICE® customers had saved approximately $3,500,000 since the program's inception. All this CHOICE® Program activity occurred before the legislature passed the Natural Gas Choice and Competition Act in June of 1999. Today Columbia continues its successful track record of being a proponent of Choice with 25 suppliers providing gas service to customers in the CHOICE® Program. As of July 1, 2015, the Monthly PAGasSwitch Update on the Commission's PAGasSwitch Website reflects Columbia as the leader among NGDC Choice programs, with 27.0% of its residential customers using an alternate gas supplier, and 29.4% of the residential load being delivered by an NGS. As evidenced by the preceding history, Columbia was the NGDC pioneer of Choice in Pennsylvania, and continues to be the leader in residential customer participation. The proposal to implement Rider CAC is not an indication that the Company's longstanding support of competition is changing, but rather an effort to appropriately assign costs to the products in the competitive market.

Q. What is the status of Columbia's transportation programs for commercial and industrial customers?

A. Again referring to the Monthly PAGasSwitch Update on the Commission's PAGasSwitch Website as of July 1, 2015, 51.4% of the commercial load and 98.1% of the industrial load is supplied by NGSs. There are 22 NGSs serving those customers.

Q. Do you have any other comment regarding Columbia's distribution service for transportation customers?

A. Yes. Witness Crist, who has testified on behalf of the NGS Parties in previous Columbia base rate cases (see, e.g., R-2009-2149262, R-2010-2215623, and R-2012-2321748) states in his testimony in this case:

> "Almost the entire industrial throughput, most of the commercial throughput, and a healthy percentage of the residential throughput, is gas delivered to transportation customers."

PSU St. 1, pp. 11-12. Witness Crist recognizes Columbia's successes in offering natural gas supply choice to customers.

Q. Turning now to address the specifics of Mr. White's testimony, he claims that the current regulatory construct in Pennsylvania does not provide competitive parity for supply products and opines that the greatest advantage granted to the PGC product is that all customers are automatically assigned to that product by default. Can you comment on that?

A. Yes. I would note that the Retail Market Investigation ongoing at M-2015-2468991 is examining the potential application of instant connects, seamless moves and accelerated switching as well as a Standard Offer Program similar to the one instituted in the electric industry for use in the competitive gas market. The instant connects and seamless moves could mean that a new or moving customer would never have to receive default service at the initiation of a new account. The Standard Offer Program designs being discussed involve offering non-shopping customers the opportunity to shop at each customer contact with their gas distribution company (except contacts related to emergencies or termination matters.)

Q. Mr. White claims that the default assignment ensures that Columbia maintains a significant portion of the market share, but provides no

statistical evidence. Can you quantify the portion of Columbia's load that is served by a competitive supply?

A. Yes. As shown on Exhibit 3, pages 6 and 7 sales service throughput during the historic test year was 34,450,179.9 Dth and transportation service throughput was 47,599,151.0Dth At 58%, transportation service actually maintains a meaningful majority of the market share.

Q. On page 5, Witness White continues to talk about the costs he claims contribute to the lack of parity that NGSs must include in their gas supply cost, such as contact requirements, verification requirements, notice requirements and other consumer protection rules. Do you agree?

A. I do not agree that the costs identified by Mr. White create a lack of parity. Columbia does have regulatory and compliance requirement costs associated with gas supply. The Commission ensured that those costs were added to all NGDC gas supply costs when it approved regulations that included a Gas Procurement Charge ("GPC") in Docket No. L-2008-2069114. Therefore, those costs are included in Columbia's Rider GPC to ensure parity. Furthermore, various requirements noted by Mr. White were developed by the Commission to provide consumer protections unique to the transportation market.

Q. Does Columbia incur the same types of expenses identified by Mr. White when providing distribution service?

A. Columbia does incur expenses for contact, verification and notice requirements when providing distribution service that it recovers through base rates. These expenses include contact, notification and verification requirements related to the distribution of gas supply to all customers, whether an NGS's gas supply, or Columbia's gas supply.

Q. Witness White claims that the CAC will "further the favored regulatory treatment granted to the default rate product". Is this true?

A. No, it is not true. Columbia is not attempting to give its gas supply rate a benefit over transportation service by requesting Rider CAC. Columbia has no reason to encourage customers to choose Columbia as their gas supplier, since, as an NGDC, Columbia does not make a profit on the gas it purchases and sells to customers. Instead, Columbia is following the lead the Commission set in establishing the GPC by further unbundling rates, and using the standard rate-making principle of cost causation to assign costs to the customers who generate these costs. Transportation programs generate specific costs which should be borne by the customers using those services.

Q. How does Rider CAC follow the cost causation rate-making principle and further unbundling?

A. Columbia has identified a portion of the costs that are incurred by Columbia specifically to administer, maintain, and revise the CHOICE® Program and the GDS Program. Columbia is proposing to bill those incremental costs to the customers that participate in CHOICE® and GDS Programs, rather than spreading the costs of these programs to all customers, including customers who do not use those services. As an example, included in the Rider CAC calculation are fully loaded labor and benefits costs for 27 employees who spend all or a portion of their time working on Columbia Gas of Pennsylvania CHOICE® and/or GDS Programs. These employees address NGS inquiries, provide password protected access to the secure ColumbiaSuppliers.com website, develop reports for NGSs to access, answer NGS questions about specific customers who have granted the NGS agent status, ensure compliance with regulations specific to those programs, work with IT to make changes as a result of new regulations, review reports, receive and confirm NGS's gas supply nominations, update NGSs with regard to changes, provide training on the use of the Aviator nominations system to new NGS employees or NGSs new to the Columbia system, and provide other necessary support to the CHOICE® and GDS Programs. It is important to note that labor and associated benefit costs of these employees would not exist if the CHOICE® and GDS Programs did not exist because those employees do not contribute to the distribution service of gas to Sales Service customers. This is not a situation where the employees would shift to "comparable" duties associated with sales service, or perform distribution service, absent the CHOICE® and GDS Programs. Therefore, the principle of cost causation, echoed by the Commission's Order cited on page 12 of this testimony, indicates those customers should bear that cost.

Columbia has included in the CAC all costs associated with Aviator, which was described in the Company's response to OCA 1-012, attached here as Exhibit NJDK-4R, as follows:

> Aviator was developed in-house and first utilized in October 2003.
>
> Aviator is an interactive, web-based application available 24 hours a day 7 days a week enabling customers and suppliers to:
>
> - Arrange for transportation of gas on the local distribution companies' systems (Nominations)
> - Allow access to view daily and hourly measurement data for electronic measured meters (EMDCS)
> - View GTS/Tariff invoices (GTS Bill Viewer)
> - View GTS billing reports (GTS Reports)
> - View and manage Choice concerns (Choice Concerns)
> - View tariffs of the local distribution companies
> - View Notices which communicate a variety of information from the local distribution company to its customers

Aviator's function is solely for the use of transportation customers and their NGSs and provides no value to the Company for the provision of either distribution or default service.

Also included for recovery through Rider CAC are the costs for programming changes to the billing systems the Company uses to bill GDS and CHOICE customers, <u>where those changes have been requested by NGSs or required by new regulations regarding transportation services</u>. No costs associated with the ongoing billing function or maintenance of the billing function are included for recovery in

Rider CAC, as Columbia clearly has the obligation to issue bills to all of its customers, regardless of the source of the gas supply. Those costs remain bundled in distribution rates.

Exhibit NJDK-5R contains copies of the Company's response to NGS 1-013 and 1-002, demonstrating the detailed information provided to support the charges sought for recovery through Rider CAC.

Q. On page 7 of Witness White's testimony, he lists eleven items that he refers to as a "non-exhaustive list of costs incurred by NGSs to make a retail product available in the market". What is the point Witness White is attempting to make?

A. Based on the subsequent question in his testimony it appears he is attempting to say that all of Columbia's costs to provide Sales Service are not included in the GPC.

Q. Does Columbia also incur such costs?

A. Yes. In fact, of the eleven items Witness White mentions, ten of the items are necessary for Columbia to provide distribution service.

Q. What are those ten items?

A. To provide standard distribution service to all customers Columbia needs: 1) call center infrastructure and employees; 2) internal and external legal counsel; 3) Information Technology ("IT") employees; 4) office space; 5) administrative and HR staff; 6) office supplies; 7) IT infrastructure; 8) accounting and auditing services; and 9) printing and postage to communicate with customers.

Q. That is only nine items. What is the tenth item?

A. Columbia incurs incremental costs to provide the CHOICE® and GDS programs when it employs personnel to receive and confirm the NGS nominations (scheduling of gas delivery). Columbia has included that cost in the calculation of the proposed Rider CAC.

Q. Are you saying that the remainder of these costs incurred by Columbia are recovered through distribution rates?

A. No. Pursuant to the Commission's regulations, Columbia identifies the portion of these costs incurred to provide gas supply service, and recovers them through its GPC.

Q. What about Witness White's other item, employees for hedging and risk management?

A. Employee costs associated with hedging and risk management are included in the GPC because those costs are specific to the purchase of gas supply.

Q. On page 9, lines 16 through 19 Witness White lists four labor costs that are included in distribution rates that he claims are labor costs associated with making Columbia's gas supply rate available in the market. What is your response to his claim?

A. I will address each of the four items separately.

The first item mentioned is "calculate and publish the default rate". Columbia's labor costs for calculating the purchased gas cost, filing it with the Commission, establishing the purchased gas cost rate in the billing system, and publishing the rate in its tariff and on the Commission's website are included in the calculation of the GPC.

The second item, "bill the default rate" is included in Columbia's distribution rate. The customer bills that Columbia generates each month include distribution rates and either NGS or Columbia gas supply charges. Columbia does not charge NGSs for including the NGS gas supply charge on Columbia's bill. If the NGSs paid a fee to include the gas supply cost on Columbia's bill, then it might be appropriate to include the cost of billing the purchased gas cost in the GPC. However, since NGSs are not charged billing costs, then Columbia should not include the cost of one or two line items reflecting its gas supply rate in the Rider GPC. Today, the costs are appropriately included in distribution rates.

"Collects for the default rate" is the third item mentioned. Similar to the second item, when Columbia "collects", it is collecting for the distribution charge as well as the gas supply charge, whether the customer received Sales Service or NGS gas supply. The collection costs would not be less if gas supply costs were not included in what was being collected, and, therefore, are appropriately included in distribution rates. I emphasize that under the POR program, Columbia purchases CHOICE® receivables, and must collect them. Columbia does not charge NGSs for this collection. There is an uncollectible accounts expense discount, but this discount is the same amount reflected in the Merchant Function charge applied to sales rates and reflected in the price to compare.

The fourth and final labor item mentioned by witness White is "answer questions *for the default rate through their call center and other customer service channels*". Columbia's experience with customer contacts through its call center indicate that the purchased gas cost is not the reason for the majority of customer inquiries. Therefore, the costs to address that customer contact are similar when a customer purchases their gas supply from an NGS. The customer contact costs are appropriately included in distribution rates. Furthermore, the Company has not asked to include in the Rider CAC the cost of customer contacts regarding the supplier portion of the bills or questions or complaints about the transportation service or provider that are received through its call center.

Q. Witness White states that costs Columbia has included in the Rider CAC calculation are largely at Columbia's discretion (page 12, lines 5 through 8). Please comment.

A. I disagree with this characterization. I doubt the NGS Parties would agree that Columbia has "discretion" to provide support for transportation customers and NGSs, even where those services are separate and in addition to distribution service support. He also claims that the Company's employees get to "estimate" the time that they spend on certain activities. As stated in my direct testimony, labor and benefit costs associated with 32 employees are included in the calculation of Rider CAC. Of those 32, 27 of them spend 100% of their time on transportation activities and the other five spend between 10 and 20% on CHOICE® and GDS.

Q. Mr. White claims that while the IT costs needed to bill and collect for PGC customers are recovered through base rates, the Company is attempting to recover IT costs associated with the DIS billing system utilized for CHOICE® through the CAC. Are these comparable costs?

A. No. The Company recovers through distribution rates the DIS IT costs associated with billing distribution service and gas supply service for <u>all</u> customers, whether that supply is default or competitive. As I mentioned earlier on pages 20-21 of this testimony, the IT costs associated with the DIS billing system that are proposed for recovery through Rider CAC represent costs incurred to implement modifications to the DIS billing system at the request of the NGSs or in compliance with changes ordered by the Commission as a result of NGS intervention. These are not ongoing operational costs of billing and collections, nor are they costs that have anything to do with default service customers.

Q. Does that conclude your rebuttal with respect to Mr. White's testimony?

A. Yes, it does.

Q. Please summarize witness Crist's Rider CAC testimony.

A. Witness Crist questions the name of the Rider and labels it misleading. He also says the Rider is unnecessary, and that manpower and services necessary to distribute transportation gas are a fundamental part of business for NGDCs. He states two reasons why Rider CAC is unnecessary, and finally, he states Rider CAC should be rejected.

Q. Do you agree with Witness Crist's concern about the name of Rider CAC?

A. I understand his concern, however, while a significant part of the Natural Gas Choice and Competition Act of 1999 ("Act") is specific to Choice programs that serve residential and small business customers, there are parts of the Act that apply to all gas transportation service. That is how Columbia chose the name. However, Columbia is willing to discuss a different name for Rider CAC.

Q. Why does Witness Crist say Rider CAC is unnecessary?

A. Witness Crist provides two reasons why Rider CAC is unnecessary: 1) Sales service customers benefit by having transportation programs in place; and 2) Columbia's primary business is distributing gas to its customers.

Q. Are these two reasons justification for the Commission to reject the Rider CAC?

A. No, they are not.

Q. Is the fact that all customers have supply options a basis for rejecting Rider CAC?

A. No. I previously addressed the incongruence of the "all customers benefit" argument.

Q. Is Columbia's primary business of distributing gas impacted by Rider CAC?

A. No. Rider CAC seeks to collect certain incremental costs unrelated to the provision of distribution service.

Q. At page 12, lines 3 through 5, Witness Crist asserts that you are suggesting that manpower and services necessary to distribute transportation gas are not part of the fundamental business of a gas distribution company. Is that accurate?

A. No. Columbia agrees that delivering gas to all customers is a fundamental part of an NGDC's business. However, the labor, benefits and "services" included in Rider CAC are incremental to expenses to provide standard distribution service to all customers. The CHOICE® and GDS Program labor, benefits, and "services" costs included in Rider CAC are incremental to standard distribution service. Those incremental costs are properly borne by the customers taking advantage of those programs.

Q. Does witness Crist address flex customers and the Rider CAC?

A. Witness Crist suggests an additional sentence to proposed tariff page 176 containing Rider CAC as follows: "Rider CAC shall not apply to customers receiving service under the rules of paragraph 20, Flexible Rate Provisions".

Q. Does Columbia agree with the suggested tariff revision?

A. Not exactly. However, recognizing the validity of Mr. Crist's concern, the Company would alternatively propose language for Rider CAC similar to that contain in Rider DSIC that would read as follows: "The Company may reduce or eliminate the Rider CAC to any customer with competitive alternatives who are paying flexed or discounted rates and customers having negotiated contracts with the Company, if it is reasonably necessary to do so."

Q. Does Witness Crist cite any regulations as argument against the Rider CAC?

A. Yes, Witness Crist cites Chapter 60.2 of the Pennsylvania Code, paragraphs (3), (4), and (5).

Q. Do you agree with Witness Crist's reference to these paragraphs as justification for denying a Rider such as Rider CAC?

A. No, I do not. These paragraphs are specifically talking about transportation rates for transporting natural gas. Paragraph (3) specifies the transportation rate shall be the retail rate less the costs for natural gas supply, demand, commodity and storage. Paragraph (4) is talking about the transportation rate for gas produced in Pennsylvania. I note that Paragraph (5) requires that the rates in Paragraphs (3) and (4) be maintained as tariffed rates. As proposed, Rider CAC is not a rate for distribution or transportation of natural gas. Instead it is a rate to recover incremental costs Columbia incurs for administering and revising CHOICE® and GDS Programs above and beyond standard distribution service. Chapter 60.1 of the Pennsylvania Code states:

> *The transportation of natural gas by jurisdictional gas utilities is in the public interest. Transportation service should be provided under terms, conditions and rates which minimize the shifting of costs to retail customers and provide the natural gas utility with an opportunity to recover the fixed costs incurred to serve the transportation service customers. The development of Pennsylvania natural gas should be promoted, because it will achieve benefits that accrue to gas utilities and their customers.*

Rider CAC does exactly what Chapter 60.1 instructs. It minimizes the shifting of costs to retail customers (those customers purchasing gas supply from Columbia) and provides the natural gas utility with an opportunity to recover fixed costs (costs to maintain the CHOICE® and GDS Programs, not transport the gas) incurred to serve transportation service customers.

Q. For equality and balance, should the IT and labor costs that Columbia incurs to provide sales service be removed from distribution rates and charged through a Rider to sales service customers?

A. Those costs are already removed from distribution rates and charged to Sales Service customers through Rider GPC, which is included in the Gas Supply Charge line on sales service customer bills.

Q. Does that conclude your rebuttal with respect to Mr. Crist's testimony?

A. Yes, it does.

Q. Did any other parties to this case comment on the CAC?

A. Yes, the CII witness, Mr. Plank commented on the CAC.

Q. Witness Plank's testimony raises concern about the impact that Rider CAC billed on a per therm basis will have on his company, Knouse Foods Cooperative, Inc. and recommends that if Rider CAC is approved it should be applied on a per customer basis. How do you respond?

A. As indicated in my direct testimony, the Company has calculated the Rider CAC charges by first allocating those costs between CHOICE® and GDS customers and then calculating a per therm rate for CHOICE® customers and a per customer charge for GDS customers. Mr. Plank's testimony indicates that his company's accounts are GDS accounts and would therefore not be subject to a per therm charge if Rider CAC is approved.

IV. <u>Other NGS Issues</u>

Q. Do you have any general comments on the testimony provided by Mr. Butler?

A. Yes, I do. Mr. Butler seems confused with the CHOICE® and General Distribution Service ("GDS") Programs, the Company's tariff and the charges associated with each program. In this rebuttal testimony, I will clarify the programs and the charges associated with them. Mr. Butler also makes several recommendations that the charges should be based upon the Columbia Gas Transmission index since as stated beginning at Line 5 on Page 7 of Mr. Butler's testimony, the "vast majority of gas moved to Columbia of PA is delivered via Columbia Transmission (TCO)". With the background in the natural gas business provided in his testimony, certainly Mr. Butler must realize that gas supplies can move across many interstate pipelines and to many different markets. In order to ensure gas supplies on the Company's system, at a minimum, penalties and charges must be designed to take into account the prices across the marketplace. Otherwise, as a good business decision, an NGS will take advantage of the opportunity to sell their gas at higher prices elsewhere to the detriment of the Company's distribution system and its PGC customers.

Q. Earlier in your testimony beginning at page 2 you described the CHOICE® Program, the methodology by which NGSs' daily natural gas requirements are determined and the annual reconciliation and cash-

out process. Can you now describe how the NGS gets its gas to its customers on the Company's distribution system?

A. Yes. Once the Company determines the CHOICE® NGS's daily delivery obligation, it makes an assignment of its contractual interstate pipeline Firm Transportation Service ("FTS") capacity equal to the delivery requirements of each CHOICE® NGS. That FTS capacity ensures the gas scheduled on the interstate pipeline will reach the Company's distribution system. As designed, this assignment of FTS capacity is then used by the CHOICE® NGSs to deliver the identified supplies to the Company on a constant daily basis each day of the month. The assignment of FTS capacity eliminates the risk of an NGS not being able to obtain the appropriate firm capacity to serve its CHOICE® customers. The simple delivery obligation required of the CHOICE® NGSs, one that stays constant for the month, reduces the NGSs' risks by allowing them to make a gas supply nomination for the same quantity each day of a given month.

Q. Please describe the penalties associated with the CHOICE® program.

A. A daily penalty of $2.33 per therm is charged to a CHOICE® NGS when the Company does not receive gas equal to the amount of the daily delivery requirement. That penalty increases to a daily penalty of $4.66 per therm during Operational Flow Orders.

Q. What is an Operational Flow Order?

A. An Operational Flow Order ("OFO") is a demand by the Company for specific actions on the part of shippers that are serving customers without daily measuring devices and may be issued whenever the Company believes that the daily safe and/or reliable operations of its distribution system may be jeopardized including, without limitation, the need to protect the daily supply of sales and CHOICE® customers.

Q. Is this penalty a charge for gas supply?

A. No, it is a penalty for non-compliance. The difference between total CHOICE® NGS deliveries and their customers' requirements is reconciled in the annual cash out in July.

Q. Why are penalties necessary?

A. To protect customers who purchase their natural gas from the Company, also referred to as "PGC customers" or "Sales Service customers".

Q. Please provide further explanation.

A. The CHOICE® Program has been specifically designed with the expectation of even, daily deliveries by CHOICE® NGSs. Consequently, the Company plans its least cost purchase activity for its PGC customers by taking into consideration these expected deliveries by CHOICE® NGSs. Allowing CHOICE® NGSs to deviate from this delivery requirement places additional uncertainty on the Company's purchasing plans. Uncertainty generally increases the costs of such purchases to the detriment of PGC customers. For example, if CHOICE® NGSs under deliver on a normal winter day when customer requirements are being met, in part, by storage withdrawals, the Company could be forced to increase planned gas supply purchases on short notice in order to comply with contractual obligations on the interstate pipeline for daily storage withdrawal limitations. Conversely, on a summer day, if a CHOICE® NGS over delivers, the Company could be forced on short notice to cut back on scheduled purchases in order to stay within storage injection limitations.

The CHOICE® Program has been designed such that it is easily manageable for CHOICE® NGSs to serve these firm requirements customers and a failure to deliver deserves a more severe penalty because of the differing nature of CHOICE® customers relative to GDS customers. Because the design of the CHOICE® program is dependent upon the delivery each day, it is appropriate that a penalty be applicable each day that a delivery failure occurs.

Q. Why is it so important that an NGS meet his daily delivery requirement?

A. As previously stated, the CHOICE® program has been designed with the expectation of even daily deliveries by CHOICE® NGSs. With that expectation the Company plans its least cost purchase activity for its PGC customers. It can be very difficult if not impossible to identify precisely the effect of non-compliance on PGC costs, and thus a penalty is applied. Allowing CHOICE® NGSs to deviate from this delivery requirement places additional uncertainty on the Company's purchasing plans increasing the costs of such purchases to the detriment of PGC customers and putting at risk the Company's obligation for least cost purchases. With the assignment of FTS capacity and the simple delivery obligation required of the CHOICE® NGSs, one that stays constant each day of the month, the CHOICE®

Program should be easily managed by the CHOICE® NGSs with little risk of differences between the required and scheduled deliveries. In fact, if the CHOICE® NGS is fulfilling its contractual obligations to the Company there is virtually no reason why the daily delivery requirement would not be met.

Q. Why doesn't the Company allow NGSs to make up the gas imbalance for its CHOICE® customers as referenced on Page 4 of Mr. Butler's testimony?

A. A "make up" concept just means that CHOICE® NGSs can decide daily what volumes they will deliver to Columbia. Allowing the NGSs to "make up" an imbalance will only serve to increase the frequency of NGS imbalances because it will give NGSs the opportunity to "make up" the deficiency in their deliveries when the market has recovered from a correction or an event that has caused natural gas prices to swing significantly. If an NGS can send its gas to a market other than the Company's system where the gas commodity is selling at a higher rate without incurring a penalty that is greater than the financial gain that can be made in another market, the NGS is making a good business decision. Knowing that it can make up a previous deficiency to avoid paying a penalty is an incentive for an NGS to under deliver gas supply to its customers when an opportunity for financial gain arises. The Company is not trying to stand in the way of an NGS making a profit but it should not be at the expense of PGC customers or threaten the reliability of natural gas service to the Company's customers.

Q. Starting at Line 2 on Page 5 of Mr. Butler's testimony, he states "we

suspect that Columbia is concerned that NGSs may game the difference in daily prices, but Columbia will not even let NGSs cure their imbalances when it is obvious that there were no gaming opportunities on daily prices". Do you have a response for this?

A. Yes. It is not possible for Columbia to know why a CHOICE® NGS would fail to meet a simple daily scheduling requirement that is established each month. The Company has no way of determining when there are gaming opportunities for the NGSs, obvious or otherwise. To imply such is presumptive at best.

Q. Do you have a comment on Mr. Butler's proposal for a "parking fee" starting at Line 6 on Page 5 of his testimony?

A. Yes, I do. As previously stated, the CHOICE® Program has been designed with the expectation of even daily deliveries by CHOICE® NGSs. Allowing deviation from this delivery requirement places additional uncertainty on the Company's purchasing plans which could increase the costs to the detriment of PGC customers. Allowing the CHOICE® NGSs to cure imbalances later in the month puts additional risk on the Company's purchase activity, makes it more difficult to manage within pipeline storage limitations and increases costs to the PGC customers.

Q. Do you have any comment on the question and answer regarding the relationship between the "Imbalance Fee" and the price the Company pays for "replacement gas" starting at Line 14 on Page 5 of Mr. Butler's testimony.

A. Yes, I do. The charge for non-compliance paid by CHOICE® NGSs is designed to ensure deliveries in accordance with the program design. The price the Company may pay for replacement gas is totally irrelevant. As I noted previously, the reconciliation of actual deliveries and customer consumption is made at the July cash out.

Q. Mr. Butler asserts at page 5 lines 19-22 that CHOICE® customers pay for no-notice service and they should have access to those rights. Please comment.

A. The CHOICE® customers do receive no-notice service, as Columbia balances daily the difference between average deliveries and actual customer requirements. The existence of no-notice service is not a basis for allowing NGSs to ignore the structure of the average day program and deliver when they choose.

Q. Do you have comments on Mr. Butler's tariff language proposal starting at Line 15 on Page 9 of his testimony?

A. Yes, I do. Mr. Butler's simplified view of the marketplace is astounding. He must realize that gas supplies can move across many pipelines and to many different markets. In order to ensure CHOICE® supplies are scheduled properly on the Company's system, the penalties must be designed to take into account the prices across the marketplace and recognize that NGSs may take advantage of higher prices elsewhere to the detriment of the Company's distribution system and the PGC customers. To include only the Company purchases or the Columbia Appalachia Index does not recognize the impact of prices elsewhere in the market.

If the prices are higher on Texas Eastern, Dominion Transmission or Tennessee Gas Pipeline for example, the NGSs could choose to move their gas to those markets or focus their efforts in those markets and pay the modest non-compliance penalties proposed by Mr. Butler. Mr. Butler's proposed tariff language removes the increased charges on days when there is an OFO in effect. It is even more critical on these days that CHOICE® NGSs schedule to their delivery obligation. The penalties on OFO days must therefore remain increased commensurate with the criticality of the situation.

Q. Would the Company be willing to entertain market based charges?

A. Yes, the Company would consider a penalty structure that reflects marketplace pricing provided it is not limited to the Company purchases or the Columbia Appalachia Index as suggested by Mr. Butler. However, this would still remain a penalty pursuant to the structure of the CHOICE® Program and not a purchase or sale of gas. In addition, should an OFO be called, the charges must escalate as such charges may be escalated on the upstream pipelines.

Q. Please explain the purpose of GDS.

A. GDS is a program that gives Commercial and Industrial ("C&I") customers the opportunity to purchase their natural gas supply from an NGS.

Q. How is GDS different than CHOICE®?

A. Please see Table 1 for the high level program differences between the GDS and CHOICE® Programs.

Table 1

	CHOICE®	GDS
Eligibility	Residential & Small Commercial	All Commercial & Industrial
Capacity	Assigned Firm Capacity	No Capacity Assigned
Gas Delivery Volume & Scheduling	Company provides NGS a daily delivery requirement for a calendar month	NGS determines the quantity and frequency of gas deliveries subject to certain tariff limitations
Distribution Service Provided	Firm	Firm provided the supply is delivered to the Company on a firm basis
Penalties	$2.33 / therm $4.66 / therm during an OFO	$2.33 / therm during an OFO/OMO
Gas Bank	No	Yes, with tolerances

Q. What options does a GDS customer have for Firm service?

A. A GDS customer has a few options to obtain different levels of Firm service. He may contract for firm gas supply and firm pipeline capacity for all or a portion of his demand with his chosen NGS. He also has the option of purchasing firm interstate pipeline capacity from the Company under the Standby Service rate schedule in the Company's tariff. Standby Service does not provide Firm gas supply. Standby Service is required for human needs customers who do not have operable alternate fuel. If a GDS customer's gas is delivered directly to the market area in which the customer is located, that gas will be delivered on the Company's system and therefore is considered firm delivery on the Company's system. A Standby Service customer has the option of purchasing Firm gas supply from an NGS.

Q. Would you please describe a GDS program gas bank?

A. The Company affords GDS customers a banking service that provides the ability to bank gas supplies for subsequent use under Rider EBS – Elective Balancing Services. Such banks are available to all GDS customers and also to NGSs who opt to "aggregate" their customers ("NGS Aggregator") to reduce risk. As long as GDS customers and/or NGS Aggregators maintain their bank balances within the generous limits provided by the Company under Rider EBS there are no "penalties". Rider EBS provides that a sale/purchase occurs whenever a bank balance, measured at the end of each month (not daily), falls outside the tolerance levels of the gas bank. If a GDS customer or NGS Aggregator depletes their bank, and the customer(s) continue using gas, the GDS customer(s) begin to burn gas supply originally obtained for the Company's PGC customers. Such use is considered imbalance gas and it is sold to the customer or NGS Aggregator by the Company. If a customer or an NGS Aggregator exceeds its bank tolerance level, which is the maximum amount of banked gas the customer/NGS Aggregator may have at the end of the month, the Company purchases these excess volumes. The Company has these sale/purchase provisions in order to maintain the integrity of its supply portfolio and comply with its least cost purchasing obligations.

Q. Please describe EBS Option 1.

A. By electing EBS Option 1 (Full Balancing Service), the customer or its NGS Aggregator has the opportunity to: (1) maintain a bank from month to month on the Company's system; (2) access banked gas on a firm basis even during periods when there are operational limitations on the system; and (3) add to its bank on any day at its determination. For larger GDS customers that have selected EBS Option 1 under the Company's Tariff, the customer's bank tolerance level is equal to 5% of their current annual quantity. For smaller GDS customers that have selected EBS Option 1, their bank tolerance level is equal to 10% of their current annual quantity November through September, and 5% of their current annual quantity for the month of October. For example, an NGS serving a larger customer using 1,200,000 therms per year (or an average of 100,000 therms per month) can have a bank of up to 60,000 therms, or an average of 18 days supply, at any time. Moreover, an NGS Aggregator aggregates multiple customers into a single group for banking purposes, thus increasing the maximum bank quantity up to the sum total of the individual aggregated customers' maximum bank quantities, providing even more flexibility to stay within tolerance. The Company's bank provides the customer, or it's NGS Aggregator, with a significant tolerance and these sale/purchase costs are not intended to be punitive in nature. The bank tolerance levels provide NGSs more than adequate room to manage their supply on a monthly basis. Falling outside of those bank tolerance levels, or using more gas in a month than the sum of deliveries and banked gas, which are the reasons why the sale/purchase occurs, is not the result of an inadvertent mistake or restriction on delivery rules, but the result of a failure to coordinate customer requirements and the volume of gas to deliver during the month.

Q. Beyond the generous bank levels provided by the Company to GDS

customers and their NGSs, are other options available to the GDS customers and their NGSs to avoid a sale/purchase?

A. Yes. The Company provides Imbalance Trading Services, which include Bank Balance Transfers and Gas Transfer Service. These are services that were developed at the specific request of the NGSs. These services allow customers that have selected EBS Option 1, or their NGS Aggregator, to transfer gas in accordance with the Company's tariff. These services provide customers, or their NGS Aggregators, the opportunity to reduce or eliminate the risk of sale/purchase charges by arranging a sale of gas or bank transfer to another customer or NGS Aggregator

Q. Are there ever daily penalties under GDS?

A. Yes. In the event the Company is required to issue Operational Flow Orders (OFO) or Operational Matching Orders (OMO) that restrict deliveries by GDS customers, a $2.33 per therm charge is assessed on the difference between the Daily OFO/OMO Level and the actual daily OFO/OMO compliance quantities scheduled. The $2.33 will not be assessed if the difference results from the customer/NGS Aggregator delivering more than the Daily OFO/OMO Level during an OFO/OMO that restricts under-deliveries, or from the customer/NGS Aggregator delivering less than the Daily OFO Level during an OFO/OMO that restricts over-deliveries. In addition, the customer/NGS Aggregator must pay for all other charges incurred by the Company on the date of the OFO/OMO that results from the customer's/NGS Aggregator's failure to comply with the OFO/OMO, including a proportionate share of any pipeline penalties that were incurred by the Company. It should be noted that during OFOs and OMOs, the GDS customers and/or their NGS Aggregators still have access to their banks. A typical cold weather OFO may direct a customer or their NGS Aggregator to deliver no less than a specified percentage of their maximum daily quantity while a typical cold weather OMO may direct a customer or their NGS Aggregator to deliver no less than a specified percentage of their actual daily demand. Customers/NGS Aggregators receiving service under EBS Option 1 that have a positive bank balance will be provided an under delivery tolerance of 5% of their maximum daily quantity.

Q. Please explain why the penalties during OFO periods are less for GDS than for CHOICE®.

A. Unlike GDS customers, these high priority residential and small commercial customers do not have the same opportunities to reduce usage or change to an alternate fuel as do larger commercial and industrial customers. Thus, a CHOICE® NGS's failure to deliver has a greater impact upon the CHOICE® customers and thus a higher penalty is warranted.

Q. At Line 22 on Page 10 of Mr. Butler's testimony, he states "NGSs are required by the General Transportation Tariff to deliver a monthly gas quantity equal to its actual customer metered consumption for each nomination group. An imbalance occurs if there is a difference between the NGS's deliveries and the actual use by the nomination groups". Do you have a comment?

A. Yes, I do. His statement that NGSs are required to deliver a monthly gas quantity equal to actual metered consumption is simply incorrect. Mr. Butler has obviously ignored or failed to acknowledge the fact that GDS customers who elect EBS Option 1 are provided gas banks to enable them to manage their gas delivered to the Company's distribution system versus their consumption on a monthly basis. There does not need to be equality each month between NGS deliveries and customer requirements, as differences can be managed within the generous allowance of the monthly banks. And finally, his references throughout this section of his testimony should have referred to "General Distribution Service" as specified in the Company's tariff rather than "Gas Transportation".

Q. Beginning at Line 30 on Page 10 and continuing through Line 2 on Page 11, Mr. Butler states "Columbia has 7 market areas in Pennsylvania. Meaning, an NGS that has general transportation customers in each market area has to balance at least 7 nomination groups individually". Do you have a comment?

A. Yes, I do. Rather than market areas, the tariff refers to these city gate delivery points as Pipeline Scheduling Points (PSP) and there are actually eight PSPs associated with deliveries for GDS customers, not seven as Mr. Butler states in his testimony. The tariff does require balancing by PSP which is reflective of the upstream pipeline requirements imposed on the Company to balance each city gate on a daily basis. Due to the diverse and non-contiguous nature of the Company's distribution system and the Company's existing capacity portfolio, the Company does not have the assets that would be necessary to balance across the distribution system. That is, an NGS could not schedule its supplies to one PSP if its customers are located in another PSP.

Q. Beginning at Line 17 on Page 11 of Mr. Butler's testimony, he states that an NGS is expected to balance exactly, even when there is a functional mismatch between the customer's meter read dates and calendar month deliveries. Is this true?

A. The first part of his statement is incorrect. Once again, Mr. Butler has ignored or failed to acknowledge the fact that GDS customers are provided gas banks to enable them to manage their gas delivered to the Company's distribution system versus their consumption. Additionally, an NGS can aggregate multiple customers into a single group for banking purposes, thus increasing the maximum bank quantity tolerance up to the sum total of the individual customers' maximum bank quantities, providing even more flexibility to stay within the permitted gas bank parameters. While there are differences between the customer meter read dates and calendar month deliveries, the permitted and generous bank quantities should be more than adequate to allow the customers and their NGS Aggregators to manage their deliveries versus consumption.

Q. At Line 19 on Page 11 of Mr. Butler's testimony, he states "I believe it is important for Columbia to release the meter reading information as soon as it is available and the imbalance system should be based on monthly quantities and prices as I will propose". Do you have a comment?

A. Yes, I do. The customer meters on the Company's distribution system include both daily read meters and monthly read meters. Unless there are issues with a specific meter, the meter reading information is generally available no later than the third business day of the following month. Both customers and their NGSs are always able to work with the Company to install daily metering with telemetry, meaning the customer and the NGS, with the customer's written permission, can have access to a meter reading on any day and time with computer access. The Company's entire customer base should not bear the expense of additional computer programming to provide GDS customer meter readings sooner so that an NGS can meet very generous gas banking criteria. At some point it becomes the NGS's financial responsibility to meet his contractual obligations to his customers and the Company.

Q. Beginning at Line 6 on Page 12 of his testimony, Mr. Butler states "when customers pay for balancing service, NGSs should be able to manage banks more effectively and trade gas once they know the level of their potential imbalances. Columbia only gives NGSs to the third day of the following month to trade banked imbalances". Do you have a comment?

A. Yes, I do. The Company provides very generous bank levels to GDS customers and their NGS Aggregators, as well as Imbalance Trading Services. In addition, meter reading information is generally available by the third business day of the following month. In fact, upon review of May 2015, well over 99% of the meter reading data was available by the third business day. This level of availability has long been typical. This, coupled with the ability to install telemetered daily measurement, is designed to be more than adequate for customers and their NGSs to manage their gas banks within tolerance without the need to extend the trading period.

Q. Do you have comments regarding Mr. Butler's proposal for settling the excess or deficient bank volumes on page 15, beginning on Line 19 of his testimony?

A. Yes, I do. The tariff language under Rider EBS – Option 1 provides for a price equivalent to the greater of (1) the average of the highest City Gate price for deliveries to Columbia Gas for ten (10) consecutive days during the calendar month as published in Platts Gas Daily "Daily Price Survey" under the heading "Texas Eastern, M-3" or (2) the highest commodity cost of purchases by the Company during the calendar month, including the delivered cost of purchases at the city gate...". The pricing was structured in this manner to recognize the ability of customers and their NGS Aggregators to take gas quantities off the Company's system when a pricing arbitrage exists and the inability of monthly meter reads to recognize when the purchase or sale occurred. Mr. Butler must realize that gas supplies can move across many pipelines and to many different markets. The marketplace has become more diverse and dynamic in recent years and in order to ensure supplies are scheduled and managed properly on the Company's system, the OFO/OMO penalties and sale prices must take into account the prices across the marketplace and recognize that NGSs may make decisions that financially benefit themselves by taking advantage of higher prices elsewhere to the detriment of the Company's distribution system and its PGC customers. Actions taken by GDS customers and their NGSs have a direct impact on the Company's ability to manage its system and thus a direct impact on the PGC customers. With the generous banks and Imbalance Trading Services offered, the customers and their NGS Aggregators, provided they are managing their business properly, should have no problem managing their gas banks within tolerance.

Q. Do you have a market based proposal that you would consider?

A. Not at this time. The Company believes the penalties, cash out pricing and multipliers are appropriate and working as intended.

Q. At line 18 of page 16, Mr. Butler refers to a "hammer" – or a way to enforce delivery obligations and claims that his proposal provides a significant deterrent to bad behavior. Do you agree?

A. No. He proposes that multipliers be eliminated and the imbalance price be based on the highest price paid by Columbia or the highest Columbia Appalachia index price. If the market prices in other areas where the NGSs could sell their gas are higher than either of those prices, the NGSs could take advantage of that, not meet their contractual obligations, pay the imbalance charges and still profit. I see no deterrent or disincentive to "bad behavior" in that proposal, merely a price cap beyond which such transactions would lose their attractiveness.

Q. Do you have comments regarding Mr. Butler's summary of recommendations beginning at Line 16 on Page 18 of his testimony?

A. Yes. With regard to the meter reads, the meter reading information is generally provided no later than the third business day of the following month. Customers and their NGS agents have the option of installing telemetered daily measurement that is available 24 hours/day with computer access. With the generous banks and Imbalance Trading Services offered, the customers and their NGS Aggregators, provided they are properly managing their business, should have no problem operating within the gas bank tolerances.

With regard to the splitting of nomination groups between Priority 1 and non-Priority 1, although the Company has some concerns with combining these two groups, the Company will further review this issue and consider potential modifications.

With regard to the banks and the imbalance trading comments on page 19 of Mr. Butler's testimony, the customers and their NGS Aggregators, utilizing the banks and Imbalance Trading Services offered by the Company, and having the option of telemetered daily measurement have all the tools necessary to manage their gas banks. The Company is not willing nor should it extend the gas bank trading beyond the third day of the following month. This would unnecessarily extend the Company's Accounting Department closing process which is unacceptable.

Q. How was the CHOICE® and GDS performance on the Company's distribution system this last winter?

A. Over the five winter months, November 2014 through March 2015, the CHOICE® NGSs were 99.98% in compliance delivering to CHOICE® daily delivery requirement. During OFOs and OMOs, the GDS customers and the NGS Aggregators were 99.76% in compliance.

Q. Are the Company's penalties appropriate?

A. Upon review of only these winter months, it appears that the penalties are appropriate and are working as intended. In addition, with the high percentage in compliance, it would appear the customers and NGS Aggregators are able to operate within tolerance levels. Reducing the penalties would increase the arbitrage opportunities for the customers and NGS Aggregators reducing the compliance level to the detriment of the PGC customers.

Q. Is this last winter's performance typical of the NGSs historical ability to comply with their contractual obligations?

A. Yes.

Q. Do you consider the penalties to be a barrier to entry or a cause for restricting NGSs from participating in the programs?

A. No, there are currently 25 NGSs participating in the Company's CHOICE® Program and 22 NGSs participating in the Company's GDS Program. The penalties can hardly be considered as being a hindrance to these programs.

Q. Do you have any concluding comments regarding Mr. Butler's testimony?

A. Yes. Many of the recommendations provided in Mr. Butler's testimony could serve to provide opportunity and incentive to customers and their NGS Aggregators to take advantage of pricing arbitrage in lieu of fulfilling their delivery obligation.

Arbitrage opportunities act to serve only the economic benefits of the customers or NGS Aggregators at the direct expense of the Company and its PGC customers. NGDCs are obligated to operate their systems to provide safe and reliable service in their service territories. The Company has constructed an additional framework that specifically supports reliable service to customers who choose to participate in the CHOICE® or GDS Programs. The Company is not and should not be required to create and support a framework that will facilitate arbitrage commodity trading to the potential detriment of sales service customers.

Q. Does that conclude your rebuttal to Mr. Butler's testimony?

A. Yes, it does.

Q. Turning to Mr. Sommer's testimony, he states on Page 2, starting on Line 17 that "this past winter the annual volume review document was not distributed, however, until February 20th" and on Page 2, starting on Line 6 that "the report is generally distributed in mid-February, which is problematic for NGSs". Are these statements correct?

A. No, they are not. The information is provided to the NGSs in January of each year through an email that is sent to their designated representatives. Shipley was provided this information through an email that was sent to Ms. Cara Passalacqua, Ms. Laura Greenholt and Ms. Brandy Stiles on January 23, 2015, in advance of the February 1 effective date. This should provide adequate time for the NGSs to prepare and schedule gas supplies for February 1. If Shipley would prefer these notices be sent to alternate or additional representatives, the Company would be happy to include them in the notification.

Q. Concerning the Customer Info Report, on Page 3, starting on Line 12 of Mr. Sommer's testimony, he states "this report is not available until midway through the month for when it is effective, generally it is made available the day after Columbia posts the bank and burns report. Is this correct?

A. No, it is not. This information is posted by the 20th of the month prior to the month in which it is effective. Therefore, Shipley should have the necessary information prior to the beginning of the effective month. If there is confusion with regard to the information, the Company is willing to work with Shipley to help them understand what information is available to them and when.

Q. Do you have comments regarding what Mr. Sommer refers to as the "customer enrollment name game"?

A. Yes I do. As Mr. Sommer should appreciate, the Company must have the complete legal entity name in order to ensure that the contract is binding. Columbia must also act in accordance with its tariff and Commission regulations.

Q. Does that conclude your rebuttal to Mr. Sommer's testimony?

A. Yes, it does.

V. <u>Rider USP</u>

Q. Please briefly describe Columbia's proposed changes related to its USP Rider cost recovery.

A. Columbia is proposing two changes relative to the USP Rider. The first is to move recovery of fees charged to the Company by the third party contractor to administer the CAP Program, including CAP application processing, re-verification processing, agency training and database administration from distribution rates into Rider USP. These fees represent recovery of external administrative costs only.

The second change is to move recovery of all costs charged to the Emergency Repair Program from distribution rates into Rider USP and simultaneously increase the budget for the program from $500,000 to $600,000 to meet increased demand. Currently the program is administered by a third party and all costs are external charges.

Q. Do you have any general comments on the testimony provided by Mr. Colton?

A. Yes, I do. Mr. Colton appears to view the Company's proposed changes as an attempt to move internal administrative costs associated with LIURP and WarmWise: Audits and Rebates into Rider USP for recovery.

Q. Is that correct?

A. No. The costs proposed to be moved into Rider USP recovery and described above are currently all external expenses.

Q. Are there currently internal administrative costs associated with LIURP and WarmWise: Audits and Rebates (A&R) recovered through Rider USP?

A. Yes. As a result of the settlement of Columbia's 2008 base rate case, Columbia was authorized to recover its new LIURP spending level (at that time) of $3.0 million, as well as the annual budget of $750,000 for the Energy Efficiency Program (now referred to as A&R) through Rider USP. It is important to note that those annual spending levels include all internal administrative costs as well as external administrative costs in addition to the costs of the benefits (weatherization services) provided to the customers.

Q. Is there any regulatory authority or provision that permits the recovery of administrative costs as part of usage reduction program funding?

A. Yes. 52 Pa. Code §58.5 provides for administrative costs and 52 Pa. Code §58.2 defines them as follows:

> *Administrative costs*—Expenses not directly related to the provision of program services. The term may include salaries, fringe benefits and related personnel costs for administration, secretarial and clerical support involved in fiscal activities, planning, personnel administration, and the like; office expenses, such as rents, postage, copying and equipment; and other expenses, such as audit and evaluation expenses, advertising and insurance.

Q. Based on the provisions of the Settlement of the 2008 rate case providing for Rider USP recovery of LIURP and WW: A&R in conjunction with 52 Pa. Code §58.2 as stated above, is it your contention that Rider recovery of internal labor, benefits, call center expenses is appropriate and has the approval of the Commission?

A. Yes, it is.

Q. Is the inclusion of these costs in Rider USP subject to Commission review and audit?

A. Yes. Columbia provides detailed information on calendar year costs recovered through the Rider with the annual 1307(e) reconciliation statement to the Commission's Bureau of Audits and with the April 1 quarterly Rider USP filing.

Q. Does the information show labor, benefits, call center expenses?

A. Yes.

Q. Have Rider USP revenues and expenses been subject to Commission audit?

A. Yes. The Rider revenues and expenses that have flowed through Rider USP through December 2012 have been subject to audit by the Commission's staff, with no disallowances.

Q. Mr. Colton expresses concern that there might be "double recovery" of internal costs if the Company is assigning internal administrative costs to Rider USP. Are the labor, benefits and call center costs subject to Rider USP also reflected in base rates?

A. No. Through the use of code patterns for and specific accounting identifiers referred to as cost objects, costs assigned to Rider USP cannot simultaneously be charged to general O&M costs. These identifiers are also utilized in the budgeting process so that rates are based on the net allocation of costs between distribution rates and Rider USP rates.

Q. Is there another benefit to recovery of these costs through Rider USP?

A. Yes. In the past, the OSBA has criticized recovery of low income customer program costs from non-residential customers. Recovery of these costs through Rider USP addresses those criticisms.

Q. What is your recommendation with regard to Mr. Colton's conclusion "that internal administrative costs should be collected in base rates rather than through the Universal Service Rider"?

A. Considering that such costs have been recovered through Rider USP as a result of the 2008 base rate case Settlement approved by the Commission, have been subject to Commission review and audit and are not subject to any change proposed by the Company in this proceeding, I recommend that Mr. Colton's conclusion and proposal be rejected.

Furthermore, if the Company determines that a program whose costs are recoverable through Rider USP can be more cost effectively administered by internal resources and brings a program in-house, it reserves the right to replace the external administrative costs recovered through the Rider with internal administrative costs that would be reflected in the Rider, not in distribution rates.

Q. Does this conclude your rebuttal to Mr. Colton's testimony?

A. Yes, it does.

VI. CAP Plus

Q. CAUSE-PA witness Miller suggests in his testimony that "it is critical for the Commission to examine the legitimacy and legality of the CAP Plus

Program in light of Columbia's request to increase the fixed customer charge. How do you respond?

A. The CAP Plus Program was challenged by CAUSE-PA's predecessor Pennsylvania Communities Organizing for Change ("PCOC") in Columbia's 2011 base rate proceeding docketed at R-2010-2215623. PCOC requested and was granted Commission reconsideration of its Order dated October 14, 2011 relative to the CAP Plus amount. The Commission ultimately upheld the application of the CAP Plus amount as a component of the CAP customer's "asked to pay" amount. The Commission recognized that there is to be a balancing between the interest of CAP customers and the interest of the customers who bear the cost of the program. PCOC subsequently appealed that decision to the Commonwealth Court of Pennsylvania, which upheld the Commission's decision in its Opinion filed April 10, 2014 at No. 635 C.D. 2012. Clearly the legality of the CAP Plus should not be in question.

Q. Mr. Miller asserts that the CAP Plus amount added to an increased customer charge results in an unacceptably high energy burden not in line with the Commission's guideline for affordability. How has the annual CAP Plus amount impacted the annual average "asked to pay" amounts?

A. The CAP Plus amount is intended to recognize that CAP participants also receive LIHEAP benefits that reduce the average amount actually paid by CAP customers. Columbia began billing the CAP Plus amount in November, 2010 and adjusts the amount with the first billing unit each November. Columbia's average CAP bill in 2011 was $58 per month. In 2014, the average CAP bill was $59 per month, although the CAP Plus amount has decreased from $17.00 to $6.00 over the same time period.

The table below shows the average CAP bill from 2005 through the present. Note that the CAP Plus amount is part of, not in addition to, the average CAP bill amount.

	Average CAP Bill	CAP Plus Included in Average CAP Bill *
2005	$48	
2006	46	
2007	45	
2008	47	
2009	49	
2010	49	
2011	58	$17
2012	51	18
2013	53	13
2014	54	9
2015	59	6
* began in November 2010.		

As can be seen from the table, the average asked to pay amount is $1.00 more in 2015 than it was in 2011 and in that time period the Company has received approval to increase base rates in 2011, 2013 and 2014.

In addition, in 2013, Columbia had the lowest average CAP bill of all Pennsylvania gas utilities according to the Commission's Universal Service Report. Finally, Columbia's rate for removal due to non- payment was 3.2% in 2014. For these reasons, the Company believes its CAP bill structure with CAP Plus strikes the appropriate balance between affordability for CAP customers and cost of the program for non-CAP customers.

Q. Mr. Miller expresses concern that the CAP Plus amount is "rounded up" and suggests that amount be refunded to CAP customer to account for that rounding. Please respond.

A. The Plus amount is intended to reflect an approximation of LIHEAP benefits to be received in the upcoming period, based upon LIHEAP benefits received by CAP customers in the prior year. At no time was the CAP plus formula described as a one to one recovery of any amount or subject to a reconciliation of LIHEAP benefits and the Plus amount. Columbia has charged CAP customer's only whole Plus dollars since the inception of the CAP Plus Program, just as it has always charged whole dollars for the base CAP amount, since the inception of the CAP Program. A whole dollar is amount is easier to remember and increases the likelihood of consistent regular payments, a primary goal of the CAP Program. Columbia uses generally accepted mathematical principles to round to the nearest dollar every year. In 2010/11, 2013/14 and 2014/15 program years the number was rounded up. In years 2011/12 and 2012/13, the number was rounded down. I would observe that any credit or debit adjusts the shortfall or CAP credit amount, which is the amount paid by the non-CAP customers through Rider USP. Every CAP customer receives a discounted bill paid for by residential non-CAP customers. The suggestion to bill the non-CAP customers more to further discount a CAP customer's bill that was already paid defies logic.

Q. Will CAP customers pay more under a higher customer charge rather than higher volumetric rates?

A. On average, no. CAP customers tend to be high use customers. Their average normalized usage in the historic test year was 1,223 therms, compared to 891 therms for non-CAP customers. Nearly 50% of our CAP customers have CAP amounts based on "percentage of budget bill." For those with higher than average usage, their budget bills will increase more under a higher volumetric charge than under a higher customer charge. CAP customers on % of income, minimum payment or average of payments amounts will not be impacted by a rate increase either in the customer charge or the volumetric charge. I would also observe that CAP customers' bills are reviewed for affordability each year, and changes may be made to the payment plan based upon that review.

VII. Universal Service Program Coordination

Q. Would you like to address any other concerns raised by Witness Miller?

A. Yes. Mr. Miller states that increased program outreach is necessary to ensure all programs are accessible. While the Company's current outreach efforts are extensive and the results show they are effective, the Company continuously seeks opportunities for new avenues through which to reach customers. Current outreach efforts include attendance at 15 or more legislative fairs, three Be Utility Wise events, and three senior partnership events each year. The Company recently completed community roundtable events to promote universal service programs. These events were held at local sites across Columbia's service territory with over 90 legislative office representatives and local community-based agencies. Brochures and handouts were offered for distribution at all locations. Social media has been tapped with the Company using Facebook and Twitter to promote programs to all customers. References to the availability of programs for low income or payment troubled customers are made on most Company press releases. The Company holds press conferences on LIHEAP, makes outbound calls to all previous and potentially income eligible LIHEAP households and includes information about LIHEAP and CRISIS in bills and termination notices. The Company's website provides up-to-date information on all programs and information is delivered to every household without service as part of the cold weather survey. As part of the discovery process, the Company submitted a detailed procedure identifying call center scripting and processes which outlined the exhaustive efforts to ensure every customer calling for restoration and/or payment arrangements is notified and referred to the appropriate programs with that initial contact.

Mr. Miller further supports his statement that increased outreach is necessary since "just 20% of Columbia's confirmed low income customers are in CAP". In 2014, there were 26,663 customers enrolled in CAP at some point during the year. In addition, in the most recent heating season, 15,214 customers received LIHEAP but were not in CAP. Therefore, a total of 41,877 customers received payment assistance in 2014. Columbia's confirmed low income customer count includes all customers that verify income through LIHEAP, CRISIS and CAP as well as any customers that self-declare their income as level one when making payment arrangements. Many customers who self-declare their income to be level one do not follow through with the CAP application process upon hearing that income must be verified. It is possible that some of these customers actually have higher than reported income.

Q. Mr. Miller correctly identifies several of the reasons why customers are not in CAP, but seems to suggest that more should be. Columbia's CAP Program requires that a customer be "payment troubled" to enroll. Can you explain that?

A. Yes, in an effort to balance the needs of CAP customers and non-CAP customers, Columbia does require that a customer have difficulty paying their bill prior to CAP entry. Otherwise, non-CAP customers could be paying to resolve a problem that doesn't exist. Current Commission policy dictates that the Company must offer as an alternative a 1/24th of the total balance for restoration instead of CAP. Many customers who could be in CAP are choosing to pay 1/24th of a very small balance, thanks to prior CAP forgiveness, to restore service. Ultimately, customers will wait until a large balance amasses again and use energy assistance funds to reenter CAP. The Company terminated 5,737 non-CAP low-income customers in 2014. Scripting and policies set forth dictate that all customers identified as level one are referred to appropriate programs at each contact. These facts should lead one to conclude that the majority of the remaining 60,000 "confirmed" low income, non-CAP customers are able to pay their bill and do not need the assistance of CAP or other programs.

Q. Do you believe that once a low income payment troubled customer is enrolled in CAP, that they should be required to remain in CAP, even if the service is shut-off?

A. Yes. This would support Mr. Miller's aim to have more customers in the CAP program and make the number of participants in the program a more accurate metric.

Q. Do you agree with Mr. Miller's assertion on page 13 of his testimony that the number of accounts reported as without service annually in the Cold Weather Survey under 56 PA Code 56.100 (h) could be understated?

A. No. Mr. Miller states that the number of electric and gas accounts without utility service only reflect the number of households without a central heating source and households with a potentially unsafe heating source. If a household has natural gas as a central heating source and their electric service is also off, it only makes sense that the electrics survey these accounts as well, even though the customer may not have electric as their primary heating source. To my knowledge, the electric utilities are surveying all off accounts and including these numbers in their survey results, even though electric is not the central heating source. Consequently, I believe that a dwelling where both gas and electric are both off are counted twice in the survey numbers.

Q. Mr. Miller states that there is a lack of cross program referrals and specifically cites a lack of overlap between ERP and LIURP and ERP and CAP. (LIURP and CAP are above 80% overlap and were not mentioned.) Do you agree with that conclusion?

A. No. As a general rule ERP and LIURP are not expected to overlap. ERP was developed to assist low income property owners with heating system related emergencies. LIURP strives to reduce overall usage of low income customers but also repairs and replaces broken or inefficient heating systems. LIURP has a usage eligibility threshold of 170 therms, ERP has no such usage requirement. If a customer presents with a heating emergency and meets the LIURP guidelines, the emergency will be resolved immediately but paid through LIURP and then the customer will be offered other LIURP services as well. Generally, therefore, customers are either served through ERP or LIURP and the determination occurs at intake based on usage. It is possible that a LIURP customer may need new assistance in a subsequent year and could then utilize ERP or the ERP Program could fund a heating related emergency and LIURP will fund weatherization measures, but by design, this is not most often the case. Based on usage data provided by the Company to CAUSE it is clear that higher usage customers are in CAP and would therefore qualify for and be referred to LIURP, not ERP. Some ERP customers have subsequently been referred to CAP, but that would not be the expectation since their usage was not high enough to be LIURP eligible and they can most likely afford their bill. Furthermore, CAP, CARES and Hardship funds are relatively mutually exclusive by design.

LIURP, ERP and LIHEAP are woven through each customer's circumstance as appropriate. A CAP customer who was referred by CARES will not be identified as CAP and CARES, just CAP. A customer on CAP will not receive a Hardship fund grant unless it is needed to restore service in the fall, by design, prior to joining CAP. Unfortunately, the reality that a LIHEAP customer can apply for the grant to be used for their secondary heat source negates the possibility that all CAP customers will receive LIHEAP and post it to their Columbia bill. In addition, regardless of the outreach, some customers are reluctant or unwilling to apply for LIHEAP. Columbia continues to take a holistic approach to customers' payment problems but only refers to the most appropriate programs. In summary, Mr. Miller's cross-program enrollment data only indicates that not all low-income customers reap benefits from every program that Columbia offers, which is appropriate since not all low-income customers have the same needs. His data does not support his contention of a need for more targeted coordination.

VIII. Other CAUSE-PA Issues

Q. Mr. Miller states that Columbia's year-over-year terminations increased 44% from April, 2014 to April, 2015 and compared that rate to industry increase of 14%. He did not reference the 64% increase in reconnections in the same period. Did Columbia explain these increases?

A. Yes. In response to CAUSE-PA data request 2-005 (attached as Exhibit NJDK-6R), Columbia stated the following:

> Due to the extreme cold weather, referred to as the Polar Vortex, that impacted Pennsylvania during the winter heating season of 2013-2014, State Representative Peter Daley requested that western Pennsylvania utility companies delay collection action on residential customers for the first two weeks of April 2014, providing residential customers additional time to contact the utilities and make payment arrangements on the higher than normal bills they received as a result of the cold winter.
>
> Columbia honored Representative Daley's request and postponed collection actions across its service territory for the first two weeks of April 2014.
>
> Therefore, terminations for April 2014 were lower than would normally be expected. A similar delay did not occur in April 2015, making a year over year comparison show a notable increase.
>
> Additionally, this would explain Columbia's 64% increase in reconnections for the same period.

Q. Does the fact that there are substantially more terminations than reconnections provide evidence that customers are without gas service?

A. No. One can draw many assumptions from data, but it is important to consider that customers also move to new residences and establish new service, rather than have service reconnected, or have service connected in the name of another resident at the current premise. These are not counted as reconnections.

Q. Mr. Miller suggests that Columbia be required to provide greater funding and additional data collection than is currently available. He also recommends quantifiable goals and an enforcement mechanism. Do you find those recommendations appropriate?

A. No. Again, Columbia must balance the needs of all of its customers in providing funding for universal services and spending resources on the study of societal economic challenges and how to solve them. The Company already has a significantly higher LIURP budget than that of other Pennsylvania utilities. Furthermore, Columbia complies with all of the extensive regulatory requirements for data collection and reporting. Mr. Miller has failed to provide justification that Columbia should be singled out among Pennsylvania utilities with even greater requirements and a potential enforcement mechanism. If the Commission believes additional reporting and goals for low income participation should be considered, that should occur in a generic proceeding in which all utilities with low income programs are invited to participate. Therefore his recommendations in that regard should be rejected.

Q. Does this conclude your rebuttal of Mr. Miller's testimony?

A. Yes, it does.

Q. Does this complete your rebuttal testimony in its entirety?

A. Yes, it does.

Exhibit NJDK-1R

COLUMBIA GAS OF PENNSYLVANIA, INC.
IMPACT of CHOICE PROGRAM on STORAGE
December 31, 2016

Ln. No.	Year 1								Year 2													Mktr Adv/(Dis)	
	'une	July 31	Aug 31	Sep 30	Oct 31	Nov 30	Dec 31	Annual 365	Jan 31	Feb 28	Mar 31	Apr 30	May 31	June 30	July 31	Aug 31	Sep 30	Oct 31	Nov 30	Dec 31	Annual	Avg Aug-Jul	Avg Pre-Aug
1 Typical Resider in DTH - See			1.39	1.44	2.39	6.17	12.01	87.35	16.51	16.29	14.19	8.87	4.38	2.28	1.43	1.39	1.44	2.39	6.17	12.01	87.35		
2 Mktr De			7.42	7.18	7.42	7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
3 CPA J				1.92	4.28	9.09	14.26		16.40	15.24	11.53	6 63	3.33	1.86	1.41								
4 Ji																							
5				(1.27)	(14.41)	(12.50)	(5.66)		3.33	11.87	15.98	15.42	11.33	6.01	-							1.18	13.95
					7.42	7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
					4.28	9.09	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41								
						(12.50)	(5.66)		3.33	11.87	15.98	15.42	11.33	6.01	-							1.18	5.33
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
						9.09	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41								
						(12.50)	(5.66)		3.33	11.87	15 98	15.42	11.33	6.01	0.00							1.18	(1.79)
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
						9.09	14.26		16 40	15.24	11.53	6.63	3.33	1.86	1.41								
						(12.50)	(5.66)		3 33	11.87	15.98	15 42	11.33	6.01	-							1.18	(5.04)
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
						9.09	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41								
						(12.50)	(5.66)		3.33	11.87	15.98	15.42	11.33	6.01	-							1.18	(4.41)
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
						9.09	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41								
						(12.50)	(5.66)		3 33	11.87	15.98	15.42	11.33	6.01	-							1.18	(2.29)
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42								
						9.09	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41								
						(12.50)	(5.66)		3 33	11.87	15.98	15.42	11.33	6.01	-							1.18	0.70
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42	7.42							
						9.09	14.26		16 40	15.24	11.53	6.63	3.33	1.86	1.41	0 70							
						(5.08)	1.76		10.74	19.28	23 40	22.84	18.75	13.43	7.42	0.70						1.18	8.59
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42	7.42	7.18						
						9.09	14.26		16 40	15.24	11.53	6.63	3.33	1.86	1.41	1.42	0.72						
						(0.03)	6.81		15.79	24.33	28.44	27.89	23.80	18.47	12.46	6.46	0.00					1.18	14.29
						7.18	7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42	7.42	7.18	7.42					
						9.09	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41	1.42	1.92	1.20					
						5.00	11.84		20.82	29.36	33.47	32.91	28 83	23.50	17.49	11.49	6.22	(0.00)				1.18	20.63
							7.42		7.42	6.70	7.42	7.18	7.42	7.18	7.42	7.42	7.18	7.42	7.18				
						6.01	14.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41	1.42	1.92	4.28	3.09				
						6.01	12.85		21.83	30.37	34.48	33.92	29 83	24.51	18.50	12.50	7.23	4 09	(0.00)			1.18	23.59
									7.42	6.70	7.42	7.18	7.42	7.18	7.42	7.42	7.18	7.42	7.18	7.42			
							8.26		16.40	15.24	11.53	6.63	3.33	1.86	1.41	1.42	1.92	4.28	9.09	6.01			
							8.26		17.24	25.78	29.89	29.33	25 24	19.92	13.91	7.91	2.64	(0.50)	1.41	-		1.18	21.19

7.89 Avg/Cust

Question No. NGS Parties 3-001
Respondent: M.J. Bell
K.K. Miller
Page 1 of 1

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2014-2406274

Data Requests

NGS Parties – Set 3

Question No. NGS Parties 3-001:

Regarding Exhibit MJB-4:

A. Provide the total system costs of the Gas Source and GPl systems;

B. What percentage of those costs are attributed to the GPC; and

C. What percentage of those costs are recovered through Columbia's distribution rates?

Response:

A. The Company has identified $90,504.60 depreciation expense on $451,397.94 investment and $67,072.00 maintenance expense for Gas Source. As of April 1, 2014, the process and functionality of GP1 has been rolled into Gas Source and the Company should have no further expense associated with GP1. While preparing this response and reviewing the information provided by the Company in response to I&E-RE-75 and NGS-2-017 Attachment B, the Company has determined that it has incorrectly included the depreciation expense of $90,504.60 as this system has been fully depreciated as of March 2014, but will remain in service. In addition, the IT maintenance expense included in Exhibit MJB-3 and Exhibit MJB-4 are historic test year costs as of November 30, 2013 and were not adjusted for the fully forecasted rate year, December 31, 2015. This caused the IT maintenance expense to be understated by $1,466. A revision to Exhibit MJB-3 is being provided as Attachment A to this response and a revision to Exhibit MJB-4 is provided as Attachment B.

B. 100%.

C. 0%.

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-010:

Identify all computer systems, software and or computer programs used by Columbia to purchase natural gas, nominate deliveries, manage its supply portfolio, and track sales to customers. For each item identified, provide the total cost; the percentage of that cost recovered in base rates, and the percentage recovered through any other mechanisms, whatever they may be.

Response:

GasSource (described in the response to NGS 1-007) is the system Columbia utilizes to purchase natural gas, nominate deliveries, and manage its supply portfolio.

The costs to operate GasSource for the fully forecasted rate year total $53,614.31. 72% of that total is proposed to be recovered through the GPC as 72% of Columbia's customers take sales service from Columbia. The remaining 28% is reflected in base rates.

The Company's Distributive Information System (DIS) tracks sales to customers, among many other functions. DIS is the primary Customer Service and Customer Information system. It is actually a collection of many subsystems that support the use of a broad range of customer and operations information. The system consists of a large database and supports the collection, storage and retrieval of mission-critical Customer Service data for approximately two million customers. The DIS system integrates the information exchange for numerous operational activities that are part of daily customer services. The information and system logic supports the following types of customer services and interactions: customer meter reading and billing, on-line customer inquiries, payment options, accounting and adjustment processing, service order scheduling and execution, credit and collections, meter and service line information, usage history, premise and marketing information and other such customer information requirements. Total costs of DIS reflected in the historic test year consist of $896,545 in Annual Application Maintenance and Support expenses and depreciation of $13,537.75. Of the total Annual Application Maintenance and Support expenses, $186,706.80, or 20.8% is being proposed to be recovered through Rider CAC and the remaining 79.2% would be reflected in base rates.

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-007:

With regard to the expense items listed under the heading "Information Technology Systems Maintenance", and in particular the item identified as "Gas Source" on line 11 of Exhibit NJDK-2, please provide a detail description of "Gas Source" and the how "Gas Source" is involved in gas procurement for Columbia Gas.

Response:

GasSource is a gas management system utilized by Northern Indiana Public Service Company, Columbia Gas of Massachusetts, Columbia Gas of Kentucky, Inc., Columbia Gas of Maryland, Inc., Columbia Gas of Ohio, Inc., Columbia Gas of Pennsylvania, Inc., and Columbia Gas of Virginia, Inc. The application focuses on natural gas distribution company gas supply processes including, a) maintenance and administration of pipeline transportation and storage contracts, as well as natural gas supply contracts, including the maintenance of the respective pipeline rates, index rates, and negotiated rates; b) trading activity for both system supply and off system sales including the electronic generation of the respective transaction confirmations; c) scheduling activities for both system supply and off system sales on the various pipelines; d) capacity release activities including those required under the Choice Program; e) maintaining a real-time view of the available capacity on each of the respective pipeline contracts; f) providing a means of reconciling the pipeline invoices, gas supply invoices, and generating off system sales invoices; and g) report generation and electronic feed of information to the accounting system.

Many of these activities, such as the administration and maintenance of pipeline contracts and the respective rates, capacity release and invoice reconciliation provide support to natural gas distribution company activity as well as NGS activity. In addition, the items related to off system sales help reduce costs to the customers through the sharing mechanism.

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

OCA – Set 1

Question No. OCA 1-012:

Reference page 6, line 1. Please explain when the Aviator system was acquired and identify all of the functions it performs for the Company.

Response:

Aviator was developed in-house and first utilized in October 2003.

Aviator is an interactive, web-based application available 24 hours a day 7 days a week enabling customers and suppliers to:

• Arrange for transportation of gas on the local distribution companies' systems (Nominations)

• Allow access to view daily and hourly measurement data for electronic measured meters (EMDCS)

• View GTS/Tariff invoices (GTS Bill Viewer)

• View GTS billing reports (GTS Reports)

• View and manage Choice concerns (Choice Concerns)

• View tariffs of the local distribution companies

• View Notices which communicate a variety of information from the local distribution company to its customers

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-013:

Please provide a detailed explanation of the process employed by Columbia to determine what particular costs and/or expenses where eligible for recovery as part of the CHOICE Administration Charge.

Response:

The costs included for recovery through the CHOICE Administrative Charge (CAC) are labor (including benefits and overheads) and IT expenses.

Labor

To calculate labor expenses to include, Columbia determined which departments within NiSource Corporate Services provide resources to manage and administer Columbia's provision of transportation services to General Distribution Service (GDS) and CHOICE customers and their suppliers. Individuals within those departments were asked to identify what percentage of their time they charged to the Company was related to either CHOICE or GDS service.

Each individual's labor and benefits charged to Columbia Gas of Pennsylvania by month for TME 11/31/14 were summed and a benefits and overhead factor was calculated. The total labor expenses were then annualized to reflect 2015 and 2016 labor cost increases to forecast labor costs for the FFRY ended 12/31/16. The benefits and overhead factor was applied to the annualized labor expenses to generate forecasted benefits and overhead. The percentages identified by individuals noted above were applied to the forecasted labor and benefits and overheads to be charged to the Company, which were then summed to arrive at the forecasted 2016 labor (including benefits and overheads) allocable to the CAC.

IT Expenses

As explained in my testimony, the Company seeks to recover a portion of the costs that it incurs to enhance and maintain the systems that support the CHOICE program and GDS where those costs are incurred solely for the benefit of the CHOICE and GDS customers and or their NGSs. The Company identified the entire cost of the Aviator system (programming changes and ongoing operating and maintenance costs) and the costs of certain programming changes to the GTS and DIS billing systems to meet those criteria.

Columbia personnel who are identified in the response to NGS 1-014 reviewed descriptions of all programming changes made to the GTS and DIS systems that impacted the processing of GDS or CHOICE transactions. Any changes that included impact on non-GDS or CHOICE transactions (sales service transactions) were excluded in total. Any changes that were implemented for Company business purposes (for example, bill redesign, zip code reassignment, etc.) were excluded in total. Any changes to reflect the implementation of new base rates or rate design changes were excluded in total. Only those changes that occurred for the benefit of GDS or CHOICE customers or their NGSs were included.

The identification of the IT costs included in the Rider CAC calculation is contained in the response to NGS 1-002.

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-002:

With regard to Exhibit NJDK-3, and specifically for the categories of expenses listed as Aviator, GDS, and CHOICE, please provide a detailed description of the types of costs that are included in each category are they are charged to both CHOICE and GDS customers.

a) Are any costs associated with either Aviator, GDS or CHOICE recovered in base rates? If the answer is "yes", what percentage of those costs are recovered in base rates and on what bases are the costs allocated? If the answer is "no" explain why.

b) With regard to costs associated with the categories labeled: Aviator, GDS and CHOICE, are these IT services shared with or used by any affiliate? If the answer is "yes", list the affiliated companies with which each service is shared, the percentage of costs allocated to each affiliate, and the basis for the allocation methodology.

Response:

The categories of Aviator, GDS and CHOICE are a reference to the subject of the IT programming changes which generated the IT expenses included in the calculation of the CAC.

The expenses for all programming changes to and ongoing operating and maintenance of the Aviator system during the TME 11/30/14, totaling $71,486.90, were included as the Aviator system exists only to support transportation service customers and/or the NGSs that serve them. The Aviator expenses were allocated between General Distribution Service (GDS) and CHOICE service based upon the ratio of each category's proportionate share of the combined Dth deliveries for TME 11/30/14.

Expenses associated with programming changes made during the TME 11/30/14 to the Company's Distributive Information System (DIS) and the Company's Gas Transportation Service system (GTS) because of the CHOICE program or strictly for the benefit of CHOICE customers and/or their suppliers are included and allocated wholly to CHOICE in the amount of $186,706.80.

Expenses associated with programming changes made during the TME 11/30/14 to the Company's Distributive Information System (DIS) and the Company's Gas Transportation Service system (GTS) strictly for the benefit of GDS customers and/or their suppliers are included and allocated wholly to GDS in the amount of $9,262.00.

DIS is the system that, among many other functions, provides for the tracking of all customer consumption and monthly customer billing for all CHOICE eligible customers. Ongoing operations and maintenance expenses for the DIS system are NOT included here as DIS would be used to track consumption for all customers and issue bills to CHOICE customers whether or not they were CHOICE customers. GTS is the system that, among many other functions, provides for the monthly customer billing for all GDS customers. Ongoing operations and maintenance expenses for the GTS system are NOT included here, as GTS is the system used by the Company to issue bills to GDS customers. The Company's obligation to issue monthly bills is independent of the existence of transportation service.

a) All costs associated with the Aviator system are proposed to be recovered through Rider CAC. The IT costs included on Exhibit NJDK-3 labeled as GDS and CHOICE for recovery through Rider CAC represent programming changes to GTS or DIS explicitly for the benefit of GDS and CHOICE customers and/or their suppliers. The allocation of the costs between CHOICE and GDS customers is discussed above.

   IT expenses for Application Maintenance and Support (maintenance) for the historic test year were $896,545 for DIS and $241,060 for GTS. The Company proposes that 17.2% of that total be reflected in Rider CAC. In base rates, IT maintenance costs are allocated to customers using Allocation Factor#19 from Exhibit 111, Schedule 1, Page 13 of 18.

b) The IT costs categorized as Aviator, GDS and CHOICE on Exhibit NJDK-3 represent Columbia Gas of Pennsylvania's portion of the expenses associated with programming changes (and ongoing operation and maintenance for Aviator) discussed above. If a programming change was generated by and benefits only

transportation services in Pennsylvania then all resources spent to implement the change are billed to Pennsylvania. IT services are shared among the Columbia Gas distribution companies. When a programming change benefits more than only one distribution company, then the costs are allocated among each distribution company. For programming changes made to Aviator and GTS, costs are allocated based on 50% Total Gross Fixed Assets and 50% Total Operating Expenses. Costs associated with programming changes to DIS are allocated based on number of retail customers.

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

CAUSE-PA - Set 2

Question No. CAUSE-PA 2-005:

Reference http://www.puc.state.pa.us/general/pdf/Terminations_Table_Apr-Apr14-15.pdf. Why did Columbia's termination rate rise 44% year over year, April 2014 to April 2015?

Response:

Due to the extreme cold weather, referred to as the Polar Vortex, that impacted Pennsylvania during the winter heating season of 2013-2014, State Representative Peter Daley requested that western Pennsylvania utility companies delay collection action on residential customers for the first two weeks of April 2014, providing residential customers additional time to contact the utilities and make payment arrangements on the higher than normal bills they received as a result of the cold winter.

Columbia honored Representative Daley's request and postponed collection actions across its service territory for the first two weeks of April 2014.

Therefore, terminations for April 2014 were lower than would normally be expected. A similar delay did not occur in April 2015, making a year over year comparison show a notable increase.

Additionally, this would explain Columbia's 64% increase in reconnections for the same period.

COLUMBIA STATEMENT NO. 112-RJ

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

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

July 31, 2015

Columbia Gas Stmt.
No. 112-RJ HR 4
R-2015-2468056 8/10/15

Q. Please state your name and business address.

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

Q. Are you the same Nancy J. D. Krajovic that served direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rejoinder testimony?

A. The purpose of my testimony is to respond to portions of the surrebuttal testimony of witnesses Roger Colton on behalf of the Office of Consumer Advocate ("OCA").

Q. How will your rebuttal testimony be organized?

A. I will first address the OCA surrebuttal.

Q. What issue would you like to address in the testimony of Mr. Colton?

A. I would like to address the matter of the recovery of the Hardship Funds through the Universal Service Program Rider ("Rider USP").

Q. Would you please provide background on this matter as it was not included in direct testimony?

A. Yes. As part of the Settlement of the Company's base rate case at R-2012-2321748, Columbia was permitted to move recovery of $375,000 of its Hardship Funds funding from the Purchased Gas Costs, where it was funded only by sales service customers, including residential and non-residential customers alike, to the Rider USP where the funding would come from all of the residential customers (except CAP customers) in Columbia's territory and not non-residential customers. The

$375,000 was a result of a contract with Citizens Energy Corporation ("Citizens") dating back several decades.

Q. Please give a brief background on Columbia's partnership with the Citizens Energy Corporation.

A. Columbia entered into an agreement with Citizens in 1984 that provided for the purchase of gas through Citizens as a broker at a benchmark rate. Citizens would then donate the margin between the benchmark price and the current spot market price to the Dollar Energy Fund for disbursement to Columbia's low income customers. The gas purchases from Citizens were reflected and recovered as Purchased Gas Costs.

Q. Has this agreement continued since 1984?

A. Yes. However, as a result of FERC Order 636, "pipeline" price of gas, which had been the benchmark price for determining the fuel fund program gas purchases, was eliminated. The agreement was consequently amended and approved by the Commission in 1994 to maintain the annual funding. The payments by Columbia to Citizens continued to be reflected as Purchased Gas Costs. Also, in accordance with the Commission's Order at P-840506 entered January 17, 1989, each year the Company submitted a report of the funding to the Commission.

Q. Please explain why Columbia cancelled the agreement with Citizens Energy Corporation.

A. In 1984, all residential customers bought their gas supply through Columbia Gas. Today, under CHOICE, customers can choose an alternate supplier and in doing so are exempt from paying the cost of this program. There is no justification that only a portion of the residential customers should support the Hardship Fund. Secondly, the transaction was subject to administrative fees retained by the Citizens Energy Corporation that could be avoided by canceling the contract.

Q. How did Columbia propose to replace the proceeds of the Citizens Energy transaction to maintain the existing level of funding for its fuel fund program?

A. Columbia proposed to increase the USP rider by $375,000 to provide an annual funding supply to its fuel fund.

Q. What was the funding level under Citizens Energy Corporation?

A. The funding level was $375,000. However, once Citizens took the contracted administrative fee, only $361,875 was left over to be directed to the Hardship Fund. Eliminating Citizens as a funding conduit reduced the administrative costs, making the program more cost effective without raising the cost or reducing the benefits to customers. And again, with the proposed change the cost would be paid by all non-CAP residential customers regardless of how they purchase their gas supply. This effectively lowered the cost that each customer paid to support this funding.

Q. Is the funding previously obtained from PGC customers through the Citizen's contract needed?

A. Yes. Columbia continues to see an increase in fuel fund utilization. Although Columbia has petitioned the Commission and has received approval to use pipeline refunds and credits, the Rider USP funding stream offered a predictable replacement for the Citizens transaction and actually increased the minimum annual funding because of the elimination of Citizens' administrative fee.

Q. What is your response to the testimony provided by witness Colton on the matter of Rider USP recovery of the $375,000 of Hardship funding at issue here?

A. Columbia endorses the OCA's proposal to allow the current recovery to continue until the Company's next base rate case but in the meantime ramp up the fundraising efforts and seek a replacement for this funding.

Q. Does that conclude your rejoinder testimony to Mr. Colton's surrebuttal testimony?

A. Yes, it does.

Q. Does this conclude your rejoinder testimony?

A. Yes, it does.