



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

3 A. I am James L. Crist, President of Lumen Group, Inc., presenting Rebuttal Testimony on  
4 behalf of The Pennsylvania State University (“Penn State” or “PSU”). I previously  
5 presented Direct Testimony and Rebuttal Testimony in this case.

6  
7 **Q. WHAT ARE THE ISSUES YOU WILL DISCUSS IN THIS SURREBUTTAL**  
8 **TESTIMONY?**

9 A. Specifically, in my surrebuttal testimony I will address Columbia witness Ms. Straus’s  
10 comments on how flex customers’ revenue requirements should be determined and explain  
11 the mistaken view of OCA witness Mr. Mierzwa’s concerning flex revenues, along with  
12 addressing a new topic for him of flow order penalties.

13 Flow orders and the associated penalties were also discussed by Columbia’s Ms. Caddell  
14 and Mr. Catron, and I will explain the faults with their views that continue to support the  
15 Company’s discriminatory and manipulative flow order/penalty system which in actuality  
16 is anti-shopping and contrary to the Commission’s policy of promoting competition for  
17 supply. Finally, I will address Columbia witnesses Ms. Paloney’s and Mr. Moul’s  
18 comments about risk.

19

20 **Q. WHY IS COLUMBIA WITNESS MS. STRAUSS’ RECOMMENDATION**  
21 **REGARDING FLEX CUSTOMER REVENUES UNREASONABLE?**

22 A. Ms. Strauss recognizes that revenues received from flex-rate customers benefit all the  
23 customers on the Columbia system. In her direct testimony she stated, “Without the

1 revenues from flex rate customers, the Company's non-flex customers would be assigned  
2 additional fixed cost recovery responsibility and their rates would increase." (Statement  
3 No. 12, 21:20-22:2.) I agree with Ms. Strauss and note that she and I both recognize that  
4 the presence of flex rate customer revenues benefit *all* non-flex customers. Both Ms.  
5 Strauss and I agree that flex customers cannot be assigned any rate increase and she  
6 explains that in her rebuttal testimony, "Flex rate agreements are individually negotiated,  
7 and generally, the associated revenues are not increased as a result of a rate case filing."  
8 (Statement No. 12-R, 43:3-5.)

9 The Allocated Cost of Service Study ("ACOSS") of the Company (the Average ACOSS)  
10 determines revenue requirement assigned to the LDS class based on the total throughput  
11 of that class, without splitting the class and related throughput into subclasses of flex and  
12 non-flex customers. The ACOSS does not consider that approximately half of the load in  
13 the LDS class are flex customers that cannot bear an increase of revenue requirement. Ms.  
14 Strauss continues in her rebuttal testimony to explain that the Company limited the increase  
15 to the LDS class to 12.83% as though that somehow is justified because it did not exceed  
16 an even higher limit of 2% greater than the system average increase of 11.04%. Her  
17 reasoning is illogical.

18 It has been established and accepted that flex customers can bear no increase; therefore,  
19 the portion of revenue requirement that would have been borne by flex customers if they  
20 did not have competitive alternatives must be borne by other customers who benefit from  
21 the presence of flex customers in that flex revenues make a contribution to fixed costs. That  
22 would be all other customers, not just the non-flex customers in the LDS class. The  
23 Commission recognized this in its Final Order at Docket P-2011-2277868 and stated,

1 “These flexible rate mechanisms are intended to preserve an NGDC’s load *for the benefit*  
2 *of all of the NGDC’s customers.*” Order at 52. (emphasis added).

3 OSBA’s Mr. Knecht recognizes this benefit to all customer classes during his proposed  
4 allocation of revenue requirement and states in his direct testimony:

5 ...recognizing that roughly half of the load in the Large General Service class  
6 is subject to negotiated “flex” rates, which are not assigned any of the rate  
7 increase. Because retaining these [flex] customers should reduce the revenue  
8 requirement that gets assigned to all other classes, I did not assign any increase  
9 to those customers.”

10 (OSBA Statement No. 1, 30:19-31:2).

11 I am willing to accept Ms. Strauss’ tweak of the percentage of load of customers that are  
12 flex customers (I stated 50.8% and she states 51.08%, with the remaining 48.92% of the  
13 LDS customers as non-flex.). Those LDS non-flex customers should bear only 48.92% of  
14 revenues allocated to the LDS class, or \$870,943.

15  
16 **Q. WHY IS OCA’S MR. MIERZWA’S RECOMMENDATION REGARDING NON-**  
17 **FLEX CUSTOMER PROPOSED REVENUE INCREASE UNREASONABLE?**

18 A. In his rebuttal testimony (OCA Statement No. 3-R, 5:19-22), he claims that just because  
19 the percent increase to the non-flex LDS customers is approximately 20% that is not  
20 excessive compared to CPA’s overall increase of 12.4%. There are several things wrong  
21 with Mr. Mierzwa’s view on this issue, not to mention it is contrary to job creation and  
22 attraction and retention of businesses to Pennsylvania.

23  
24 **Q. WHAT IS CONSIDERED EXCESSIVE?**

25 A. I will start with the semantics of the term Mr. Mierzwa uses of “excessive.” Examining the  
26 percentage increases, the increase of 20% compared to 12.4% is a huge premium. Twenty

1 less 12.4 is 7.6, divided by 12.4 is 61%. I claim that an increase of 61% is best described  
2 as “excessive”. What is more relevant than the term used by Mr. Mierzwa, who apparently  
3 extolls subsidies, is the fact that no party disputed the benefit of retaining flex customers,  
4 or that the revenue contributed by flex customers benefits all customers, not just the non-  
5 flex customers on LDS. Therefore, it is only just and reasonable that all customers assume  
6 the revenue requirement that is unable to be assigned to flex customers and not added to  
7 the revenue increase that is already determined for the non-flex LDS customers.

8  
9 **Q. WHAT ARE THE SHORTCOMINGS IN THE RECOMMENDATIONS THAT**  
10 **OCA’s MR. MIERZWA MAKES CONCERNING FLOW ORDER PENALTIES?**

11 **A.** The bottom line is that he is seeking subsidies for certain customer classes from other  
12 customer classes. Mr. Mierzwa stated that the costs incurred by CPA to remedy an OMO  
13 violation may be less than the daily market index price used to compute the penalty and  
14 that would motivate a supplier to incur the penalty rather than comply with the OMO. This  
15 simply is not true. It is an extremely unlikely situation and is not the case. In addition to  
16 the Company’s non-compliance penalty amount based on the daily market index price, the  
17 Company also charges a customer “a proportionate share of any pipeline penalties that are  
18 incurred by the Company.” (Tariff, §3.8.5.4) While camouflaged in jargon, Mr. Mierzwa’s  
19 position is that exorbitant and unreasonable non-cost-based penalties should be charged to  
20 large shopping customers, such as PSU, which is a state-related institution of higher  
21 education that receives funding from our Commonwealth, simply so there can be a windfall  
22 penalty to the residential customers for which he advocates.

23

1 **Q. WHAT PROOF DOES MR. MIERZWA OFFER FOR HIS POSITION?**

2 A. Notably Mr. Mierzwa offers no proof or example of how an OMO violation penalty would  
3 be less than the daily market index price. If Columbia must go into the market to purchase  
4 gas during an OMO it would be entering the same marketplace that a natural gas supplier  
5 would enter to procure gas. Either entity, Columbia or the NGS, would be seeking gas in  
6 the same competitive market and be paying the same price.

7 There is not a financial driver for an NGS to engage in arbitrage by procuring gas on an  
8 OMO day yet not delivering it to its customer, forcing the customer to use gas that  
9 Columbia provides, because both Columbia and the supplier would have access to the same  
10 gas during that day. If Columbia had a penalty of any magnitude, even 1%, that would be  
11 a financial disincentive to the supplier because the supplier would have to pay for the gas  
12 provided by Columbia to the customer along with paying the penalty. There would be no  
13 financial incentive to not take action and procure gas and then to pay Columbia for the gas  
14 plus a penalty. Even though a 1% penalty provides enough financial rationale for a supplier  
15 to procure its own gas instead of relying on non-action and procurement and delivery of  
16 gas supply by Columbia, I proposed out of an abundance of caution a perhaps too liberal  
17 penalty amount of 20% in my direct testimony, for that would clearly be satisfactory  
18 motivation for a supplier to remedy their own gas supply shortfalls instead of waiting for  
19 Columbia to do so. Mr. Mierzwa recommends a penalty *10 times higher* than what I did  
20 and that is simply unnecessary, overkill and clearly a reach for an excessive non-cost-based  
21 remedy. Rates must be just and reasonable and cost-based, not a disguised vehicle to  
22 subsidize Mr. Mierzwa's constituency. I do, however, appreciate that Mr. Mierzwa did not  
23 attempt to support the Company's reprehensible and non-cost-based penalty amount of

1 300%. In fact, the Commission should investigate the Company's penalty structure and do  
2 a management audit of its extreme amount of flow orders which are in place approximately  
3 23% of the time in contrast to other local gas distribution companies that appear to be better  
4 managed in terms of balancing non-shopping, shopping and NGS interests.

5  
6 **Q. WHY DOES MR. MIERZWA'S SUGGESTION EXACERBATE CROSS-CLASS**  
7 **SUBSIDIES?**

8 A. Mr. Mierzwa also recommends not using those penalty charges paid for by transportation  
9 customers to provide additional banking and storage and he claims that such use would  
10 discourage compliance; however, he does not provide any rationale for that illogical view.  
11 In short, he wants to use one class of customer to subsidize another class. Having  
12 additional banking and storage capability that is paid for by penalties collected from  
13 transportation customers would enable Columbia to improve the banking and balancing  
14 capabilities offered to those transportation customers. Mr. Mierzwa claims that CPA may  
15 incur incremental gas costs that are recovered through PGC rates; however, this is not  
16 correct. If Columbia incurs incremental gas costs, the tariff section 3.11.2 Consumption  
17 In Excess of Deliveries (Under-Deliveries) states:

18           Furthermore, if, in any month, Company incurs other charges,  
19           including gas costs, penalty charges or cash-outs caused by excess  
20           monthly under deliveries, the customer or NGS shall be charged its pro  
21           rata share of such charges.

22  
23 **Q. WHO BEARS THESE COSTS?**

24 A. Contrary to Mr. Mierzwa's apparent belief, it would be Columbia's transportation  
25 customers, not the PGC gas supply customers, that would bear such costs.

1 Mr. Mierzwa objects to my proposal to allow the transportation customer that is out of  
2 balance on an OMO day to provide makeup gas to remedy any deficiency within 24  
3 hours of the close of the gas day, again claiming that it would could result in  
4 incremental gas costs incurred by Columbia. Once again, he is incorrect. Any  
5 incremental gas costs incurred by Columbia would be recovered from those  
6 transportation customers that are in noncompliance with the OMO. It is simply a clear  
7 and fair cost causation-based remedy to the issue.

8  
9 **Q. WHAT OBJECTIONS DID THE COMPANY HAVE TO YOUR**  
10 **RECOMMENDATIONS TO IMPROVE THE FLOW ORDER PROCEDURES**  
11 **AND ASSOCIATED PENALY STRUCTURE?**

12 A. Company witnesses Mr. Catron and Ms. Caddell commented about the issues causing  
13 transportation customers difficulty complying with flow orders issued by the Company. I  
14 will address their comments.

15  
16 **Q. WHY IS THE DATA MR. CATRON PRESENTS SHOWING A LARGE NUMBER**  
17 **OF FLOW ORDERS ISSUED BY UPSTREAM PIPELINES NOT PERTINENT TO**  
18 **THE STATE COLLEGE MARKET AREA?**

19 A. Mr. Catron illustrates that Columbia Gas Transmission (“TCO”) issued flow orders on 255  
20 days during the May 1, 2017 through May 1, 2018 period, whereas Tennessee Gas Pipeline  
21 (“TGP”) issued orders on only 85 days, Texas Eastern Transmission (“TETCO”) on 32  
22 days, Dominion Transmission (“DTI”) on 28 days, and Equitrans (“EQT”) on 5 days during  
23 that same period. The State College market is serviced by TCO, a former affiliate of the

1 Company although the Company planned to discontinue service from TCO to State College  
2 as of July 1 this year. That leaves TETCO and DTI as the upstream pipelines servicing the  
3 State College area. PSU holds capacity on DTI to meet its needs and has used DTI to  
4 transport gas to the State College market area since 2013. Similarly, Columbia uses DTI,  
5 and also TETCO, to serve this market. While I understand that Mr. Catron has pointed  
6 out that its upstream pipeline TCO has issued a large number of flow orders, Penn State  
7 has planned for deliveries through DTI for years, and DTI has issued a relatively small  
8 amount of flow orders.

9  
10 **Q. MR. CATRON CLAIMS THE COMPANY DOES NOT DISCRIMINATE AGAINST**  
11 **TRANSPORTATION CUSTOMERS. WHAT DOES HE REVEAL THAT**  
12 **DEBUNKS THIS?**

13 **A.** He states on pages 4 and 5 of his Rebuttal Testimony that the Company uses flow orders  
14 to manage its gas supply on its system “to *minimize* (emphasis added) the likelihood that  
15 the firm sales customers would incur penalty costs.” If the Company is minimizing the  
16 costs to sales customers then by definition the transportation customers must be receiving  
17 detrimental treatment from the Company. This is illustrated in how the Company uses  
18 flow orders to deliver to extremes by the use of MDQs and OMOs on very cold days. In  
19 fact, this Commission should institute an investigation of Columbia’s practices including  
20 its anti-competition practice of using transportation customers to substitute for prudent  
21 balancing and purchasing of supply for its system. It is absolutely contrary to the letter and  
22 spirit of the great steps this Commission has previously taken to make Pennsylvania energy  
23 competitive. The investigation should also include the impact that Columbia selling and

1 cashing-out on its affiliate Columbia Transmission has had on customers, particularly  
2 transportation customers and suppliers relative to the huge spike of flow orders and  
3 proliferation of penalties and manipulation of these large users or suppliers to facilitate  
4 Columbia's balancing and supply practices.

5  
6 **Q. WHY SHOULD ELECTIVE BALANCING SERVICES ("EBS") BE INCLUDED IN**  
7 **THE DISCUSSION OF HOW THE COMPANY PROVIDES SERVICES TO**  
8 **GENERAL DELIVERY SERVICE ("GDS") CUSTOMERS?**

9 A. EBS should not be excluded from that discussion as Mr. Catron does. (Statement No. 16-  
10 R, 5:10). EBS is a monthly balancing service that is paid for by the GDS customers, yet  
11 on flow order days, for those customers under an OMO, their EBS becomes restricted to a  
12 daily balancing service. The Company's strategy does not treat transportation customers  
13 as firm or deliver what the EBS is intended to provide and what the GDS customers have  
14 paid to receive. While Columbia charges GDS customers for a service, the Company does  
15 not back that up with contracts dedicated to transportation customers, and then it provides  
16 an inferior service to monthly balancing by restricting it to daily balancing during an OMO.  
17 This clearly is anti-competition and does not promote what the Commission has worked  
18 hard to do to enable a competitive supply regime.

19  
20 **Q. MR. CATRON CLAIMS THE COMPANY'S TRANSPORTATION PROGRAMS**  
21 **ALLOW CUSTOMERS TO DELIVER AS MUCH GAS AS WISHED, MORE**  
22 **THAN OTHER LDCs IN PENNSYLVANIA. IS THIS ACCURATE?**

1 A. While his claim that, “[t]he Company allows its GDS customers to deliver ANY volume  
2 of gas on a day when it has not issued an OFO/OMO,” (*id.*, 8:13-14) is superficially  
3 accurate that the Company can allow GDS customers to deliver any volume of gas, it is  
4 only on days that a flow order has not been issued and those days are irrelevant to the issue  
5 here. He omits the extremely high number of days Columbia, unlike other Local  
6 Distribution Companies, calls flow orders. He then goes on to claim that “The Company  
7 does not put firm customers at risk by relying on an unpredictable source of supply like  
8 some GDS marketers.” (*id.*, 9:13-15). That is nonsense given the Company issued flow  
9 orders on 23% of the days and on those days, which are the most critical days for a customer  
10 to receive supplies, the Company treats the customers as non-firm and uses flow orders to  
11 skew the market. This is another reason the Commission needs a management audit and  
12 investigation into Columbia’s aberrant flow order practices.

13  
14 **Q. DOES MR. CATRON’S STATEMENT THAT THE COMPANY DOES NOT PLAN**  
15 **FOR GDS CUSTOMERS CAUSE CONCERN?**

16 A. I am greatly concerned if “Columbia does not have the flexibility to balance the GDS  
17 market because it is outside of the Company’s planning criteria” (*id.*, 10:15-16). GDS  
18 volumes represent approximately 41.6% of the throughput on the system so they must not  
19 be ignored. This comment by Mr. Catron shows Columbia is not prepared to provide  
20 adequate and reasonable service and management to its GDS market who are customers  
21 too.

22

1 **Q. WHAT DO YOU LEARN FROM MR. CATRON'S EXPLANATION OF WHY THE**  
2 **COMPANY RESTRICTS GAS BROUGHT TO THE SYSTEM BY MARKETERS?**

3 A. When he states, "The Company must manage these volumes in order to remain in  
4 compliance with TCO's FERC-approved tariff, which may cause the Company to restrict  
5 volumes that are brought on to the system by GDS Marketers," (*id.*, 11:1-3), it shows that  
6 the Company flat-out is providing preferential treatment to the system supply customers  
7 over the transportation customers. This is plainly discrimination and undermines this  
8 Commission's policy to foster shopping for supply. It is not a good thing for Pennsylvania  
9 to attract and retain businesses and the development of its economy.

10  
11 **Q. WHAT DOES MR. CATRON SAY ABOUT THE CURRENT PENALTY**  
12 **AMOUNT?**

13 A. He states, "The penalty amount is designed to be severe enough to encourage compliance  
14 with Company directives, while also not being overly punitive." (*id.*, 11:11-13). The  
15 current penalty amount is 300% of the highest gas cost that the Company could *potentially*  
16 be charged times the out of balance amount of the customer even if the Company is not out  
17 of balance and is charged nothing by the upstream pipeline company. Moreover, it is  
18 contingent upon prices by a group of suppliers or prices that this Commission has no  
19 control over, which calls into question how they can be just and reasonable and more  
20 importantly, prudent and cost-based. This delegation of rate setting to third parties without  
21 any touchstone to prudence or actual prices of supply that Columbia would purchase is bad  
22 policy. I will note that Mr. Catron did not actually defend that outrageous 300% amount  
23 but he did express concern that the 20% penalty I proposed "might not be punitive enough

1 to encourage GDS customers to comply with Company directives.” (*id.*, 11:13-14). I have  
2 already proven that an out of compliance GDS marketer could not benefit from ignoring a  
3 flow order to comply thinking it would get off cheaper by taking gas while being penalized  
4 by the Company. On a compliance day the marketer and the Company both would have  
5 access to the same gas at the same market price and a marketer that does not act to remedy  
6 a deficiency but instead ends up receiving balancing gas from the Company is just going  
7 to pay what it would have paid plus the penalty amount, so the 20% I recommend is clearly  
8 a disincentive for a marketer not to bring volumes into compliance.

9  
10 **Q. IS MR. CATRON’S COMMENT IN HIS REBUTTAL ON WHEN A PENALTY IS**  
11 **ASSESSED CONTRADICTIONARY TO THE CURRENT TARIFF AND PRACTICE?**

12 A. Yes it is. He states, “Assessing a premium to non-compliant customers after the fact, would  
13 not be a reasonable or prudent gas purchasing method and would not result in service to  
14 firm customers in a least cost manner.” (*id.*, 12:2-4) He is describing the current practice  
15 of Columbia. After the close of the gas day the Company compares its daily metering data  
16 with deliveries in the case of OMOs and assesses a premium of 300% of the highest market  
17 price that day, even if the Company did not pay such a price, or pay anything at all.  
18 Therefore, Mr. Catron’s view that assessing penalties after the gas day has ended must be  
19 disregarded. Under my recommended plan the Company would still be able to assess  
20 penalties upon the close of the gas day, however those penalties would be based on amounts  
21 the Company has actually had to pay and would not bear a ridiculous and harmful 300%  
22 premium. Also, selecting the highest market price day is arbitrary and erroneously assumes  
23 that is the price Columbia would actually pay when that is clearly not the case. Thus, it is

1 not cost-based and is not just and reasonable in addition being a delegation of ratesetting  
 2 (a penalty is a rate) to a third party over which this Commission has no control or regulation  
 3 over prices.  
 4

5 **Q. WHAT IS MR. CATRON’S NEXT CONTRADICTION STATEMENT?**

6 A. He comments on my recommendation to remedy a gas supply deficiency by delivering the  
 7 out of balance amount following the gas day by saying “This is illogical; if the customer  
 8 were to over deliver during an OMO period limiting deliveries to make up for a prior  
 9 delivery deficiency, they would be violating the OMO. Over delivering in the following  
 10 month to make up for a deficiency would cause operational issues for the Company.” (*id.*,  
 11 12:10-13) What actually is illogical is Mr. Catron’s explanation. If a customer is deficient  
 12 in its gas deliveries and must make up volumes during a cold weather situation then it is  
 13 illogical that the OMO period would be limiting deliveries. Such a limitation would occur  
 14 on a warm weather day, not a cold weather day. During periods of cold weather, the  
 15 Company actually should prefer for the customer to have more, not lesser, amounts of gas  
 16 delivered.  
 17

18 **Q. WHY DO MS. CADDELL’S COMMENTS NOT ACCURATELY DESCRIBE THE  
 19 DIFFICULTIES SUPPLIERS HAVE WITH THE FLOW ORDERS ISSUED BY  
 20 THE COMPANY?**

21 A. Columbia is unique in its excessive use of operational alerts and flow orders compared to  
 22 other gas distribution utilities. Ms. Caddell stated her observation in her rebuttal testimony,  
 23 “The Company has generally found that issuing Operational Alerts prior to issuing

1 Operational Orders results in little compliant action from Gas Distribution Service  
2 (“GDS”) Customers and Suppliers.” (Statement No. 17-R, 5:4). I am not surprised by Ms.  
3 Caddell’s observation. Columbia issued Operational Alerts *70% of the days during the*  
4 *past year*. An alert issued 70% of the days can hardly be considered an alert, in fact it is  
5 more alarming not have an alert on the Columbia System and suggests an immediate need  
6 for the Commission to investigate and audit Columbia’s practices or inability to run its  
7 system properly to the harm of shopping and transportation customers. Flow orders are  
8 commonly preceded by alerts. Last year Columbia issued flow orders 23% of the days.  
9 This amount is an incredibly high number of flow orders compared to other local  
10 distribution companies in Pennsylvania. PSU provided data on this topic to the Company  
11 in HIGHLY CONFIDENTIAL data response PSU Set II-7 and I have included this as  
12 Exhibit PSU-SR-1. Ms. Caddell continues her claim on line 10 of her rebuttal that because  
13 the Company provides consumption data the customer can determine the demand and plan  
14 and nominate sufficient gas to meet that demand. Examining the timetable of when  
15 information is available compared to when nominations must be made and when gas is  
16 actually consumed illustrates the fallacy of her comment. Although Columbia has the data,  
17 that data is not provided to marketers in time for the marketers to nominate sufficient gas  
18 on an intraday cycle to meet the demand during that gas day. On page 6, Ms. Caddell  
19 provided a table showing the NAESB cycles and tries to explain that a customer should be  
20 able to adjust nominations to align with demand, however this is not an exact match up of  
21 data. The data provided is not the actual consumption data for the day but instead is data  
22 for the previous day, which requires the customer to adjust nominations based on the  
23 customer guessing what Columbia’s meter reading will be at the end of the current day.

1 On page 7, Ms. Caddell touts Columbia's gas transfer service as a solution for out of  
2 balance customers. While CPA does offer this service, it is unlikely that a customer can  
3 locate a supplier that had delivered additional gas to a specific delivery point on the day  
4 needed. To determine if another supplier has surplus gas requires seeking out such  
5 information from each supplier, making the service difficult to use. This could be  
6 improved if CPA would add that feature to its EBB and that might make the process  
7 workable. As it is designed now, it is very difficult due to the lack of easily accessible  
8 information. Finding someone who has excess gas on a cold weather day is very rare. In  
9 practice is not a satisfactory solution.

10  
11 **Q. MS. CADDELL DISPUTES NGS PARTIES WITNESS MS. GREENHOLT-**  
12 **TASTO'S EXPLANATION OF HOW SUPPLIERS RELY ON THE MDQ**  
13 **PROVIDED BY THE COMPANY. DOES MS. CADDELL'S POINT MAKE**  
14 **SENSE?**

15 **A.** No. Just as the name "Maximum Daily Quantity" states, when Columbia notifies the  
16 supplier what the MDQ is, the supplier actually believes that amount is the maximum that  
17 a customer will consume in a day. In her testimony, NGS Parties Statement No. 1, Ms.  
18 Greenholt-Tasto explained that the only data the Company supplies monthly metered  
19 transportation customers is the MDQ. In determining the amount of gas to schedule for a  
20 customer a supplier must use the MDQ for it is the only data Columbia provides, as the  
21 real consumption data is not available. Because the MDQ assigned to customers is not  
22 based on the design day there can be situations that occur on very cold days where the  
23 Company issues a flow order and the supplier may be supplying the amount the Company

1 directed base on a percentage of MDQ and it still may not match with the customer's  
2 demand. In fact, the Company's extreme and excessive use of flow orders results in the  
3 situation that Penn State, and NGS Parties have identified that is unfair. By frequently  
4 (more so than any other gas distribution utility in the Commonwealth) pushing suppliers to  
5 increase or decrease deliveries via the use of flow orders the Company is using that  
6 authority to lower its own system supply gas costs and compete unfairly with suppliers that  
7 way.

8  
9 **Q. HOW DOES OVERUSE OF FLOW ORDERS LOWER THE COMPANY'S**  
10 **SYSTEM GAS COST?**

11 A. When a supplier must comply with a flow order on a cold day the supplier must procure  
12 gas in the marketplace, and prices on such a day will be higher than typically exists on a  
13 warmer day when a flow order is not in effect. At the end of such a day to meet the demands  
14 on the entire distribution system the Company uses all the gas provided by the  
15 transportation customers and gas it has procured itself. A greater amount of gas brought  
16 in by suppliers eases the amount of gas that must be supplied by the Company, and if it is  
17 holding any surplus gas it can sell it. The opposite is also true on days when the Company  
18 issues flow orders restricting over-deliveries. Such actions will result in lower system gas  
19 costs.

20  
21 **Q. WHY DO COLUMBIA WITNESS MR. MOUL'S COMMENTS NOT**  
22 **ACCURATELY DESCRIBE THE REDUCTION OF RISK TO THE COMPANY?**

1 A. In Mr. Moul's rebuttal testimony, Statement No. 8-R, he cites three considerations that he  
2 wishes to influence the Commission's decision on rate of return.

3 1) A rate of return that will be reflective of rising capital cost rates and the higher  
4 risk associated with the TCJA.

5 2) A rate of return that will reflect and be supportive of the Company's financial  
6 risk profile.

7 3) The management effectiveness displayed by CPA.

8 Mr. Moul recognizes that I did not conduct a cost of equity financial analysis, as I instead  
9 based my comments opposing the provision of any risk premium to the Company on my  
10 actual observations of the decrease in the competitiveness of the marketplace that  
11 Columbia has experienced over the past several years in the Commonwealth due to the  
12 consolidation of natural gas distribution utilities in Western Pennsylvania and the actions  
13 and statements by the Public Utility Commission concerning gas on gas competition. On  
14 page 35 of his rebuttal testimony, Mr. Moul attempts to justify a rate of return on equity  
15 above the midpoint as recognition of what Mr. Moul refers to as exemplary performance  
16 of the Company's management. I am sure that Mr. Moul has never experienced dealings  
17 with the Company as a customer because Mr. Moul does not reside in the Company's  
18 service territory. The Pennsylvania State University however has several campuses within  
19 the Company's service territory and in addition to being familiar with the performance of  
20 the Company, Penn State is familiar with the performance of several other distribution  
21 utilities including Peoples Gas, UGI, National Fuel Gas, and FirstEnergy. In the view of  
22 Penn State, Columbia would rank last in a relative comparison of management performance  
23 based on the actual interactions that have been experienced with Company representatives

1 and management. Mr. Moul's plea to somehow reward the Company should be ignored.  
2 If anything, due to the poor performance of Columbia in declaring alerts for flow orders on  
3 70% of the days, and issuing flow orders on 23% of the days, it should be denied the  
4 requested rate increase and maintain the overall rate of return at 6.30% for inadequate  
5 service and for actions which are harmful to competition.

6 On page 35 of his rebuttal testimony, Mr. Moul claims that assigning a lower equity return  
7 to the Company because it included a new Revenue Normalization Adjustment Rider  
8 ("RNA") in its filing is not merited because the risk attributes of the proposed RNA are  
9 reflected in the analysis he did based on his Gas Group. Reviewing Mr. Moul's pages  
10 seven and eight of Statement No. 8 shows Mr. Moul does claim that all but one company  
11 in the Gas Group has some form of weather normalization ("WNA") he provides absolutely  
12 no evidence or even claims that any of the companies in the Gas Group have an RNA,  
13 therefore his wish should not be granted. An RNA clearly would reduce the risk that the  
14 Company faces and therefore there should be a reduction in the cost of equity that the  
15 Company would be granted.

16  
17 **Q. COLUMBIA WITNESS MS. PALONEY ALSO ATTEMPTS TO ADDRESS**  
18 **COMPETITIVE RISK ISSUES. IS HER EXPLANATION CREDIBLE?**

19 **A.** No, and I will review every unfounded statement she made and explain why her comments  
20 are not credible. First, as a reminder, my Direct Testimony did not state that all competitive  
21 threats to the Company were eliminated but did provide an important comparison between  
22 the level of competition historically and the competition prospectively, for Mr. Moul  
23 claimed that the Company should receive a premium to its equity rate of return in the

1 FPPTY because of competition. Future competition for LDC bypass will be decreased  
 2 compared to the historical level.

3  
 4 **Q. ARE NATURAL GAS SUPPLIERS PROMOTING BYPASS OPPORTUNITIES?**

5 A. No. While Ms. Paloney claims that customers have communicated to Columbia that  
 6 natural gas suppliers share opportunities to bypass Columbia's system, either on an  
 7 interstate pipeline or other LDCs, she offers no proof of this. She provides no details of  
 8 any customer discussions she has had, or any reports from other Company employees about  
 9 such discussions. I on the other hand, am aware of the changes in the competitive  
 10 marketplace for Gas-on-Gas competition, which I did reference in my direct testimony.  
 11 Discussions I have had with employees of other LDCs and natural gas marketers point to  
 12 a marked decrease in bypass activity compare to the past, and with the Commission's  
 13 rulemaking on the issue there will be an even greater decrease in the future. Ms. Paloney  
 14 mentions shale gas and the developing pipeline system to move such gas to market and  
 15 claims that will become a bypass threat but does not provide one firm example of such a  
 16 situation.

17 Examining the response to I&E RR-013 concerning major account customers shows that

18 **BEGIN CONFIDENTIAL** [REDACTED]

19 [REDACTED] **END CONFIDENTIAL** and I have included this as Exhibit PSU-  
 20 SR-2. Ms. Paloney's claim is refuted.

21  
 22 **Q. DOES MS. PALONEY'S CLAIM THAT AN ANALYSIS WAS NOT CONDUCTED**  
 23 **CONCERNING PIPELINE BYPASS HAVE SUBSTANCE?**

1 A. No. First, the Company is the party responsible to support its contention that there is a  
 2 bypass threat that is substantially greater than experienced by members of the Gas Group.  
 3 Examining Mr. Moul’s response to I&E-RR-012-D (which and I have included as Exhibit  
 4 PSU-SR-3) states,

5 Mr. Moul did not study in detail the bypass threat of each company  
 6 in his proxy group. However, he is aware that bypass is usually a  
 7 threat to LDCs when there are a number of interstate pipelines in  
 8 close proximity to large volume users served by an LDC, when  
 9 customers of the LDC are in close proximity to gas producing wells,  
 10 or when other competing LDCs have their facilities within the LDCs  
 11 service territory. As to the issue of bypass by interstate pipelines,  
 12 most LDCs, including companies in the Gas Group, are faced with  
 13 this threat. Noteworthy, CPA has six interstate pipelines traversing  
 14 its service territory. As to bypass that might be associated in  
 15 proximity to producing wells, there are no companies in the Gas  
 16 Group that operate in the Marcellus shale formation like CPA.  
 17 Atmos Energy, one member of the Gas Group, does have extensive  
 18 operations in gas producing regions. Gas on gas competition from  
 19 other LDCs is unique to western Pennsylvania and no member of  
 20 the Gas Group is faced with this risk.

21  
 22 This shows that Mr. Moul did not preform a study. Examining the members of the Gas  
 23 Group (Atmos, Chesapeake, NJ Resources, Northwest Natural Gas, One Gas, South Jersey  
 24 Industries, Southwest Natural Gas, Spire) Mr. Moul states that “[a]s to the issues of bypass  
 25 by interstate pipelines, most LDCs, including companies in the Gas Group, are faced with  
 26 this threat” and then continues, “[g]as on gas competition from other LDCs is unique to  
 27 western Pennsylvania and no member of Gas Group is faced with this risk.” Ms. Paloney’s  
 28 contention is refuted by Mr. Moul’s response.

29  
 30 **Q. IS THERE ANY CREDIBILITY TO MS. PALONEY’S CLAIM THAT LOCAL**  
 31 **LDC BYPASS HAS INCREASED?**

1 A. Ms. Paloney has not provided any credible evidence. Two of the points I made in my direct  
2 testimony are simply facts and cannot be refuted. First, western Pennsylvania no longer  
3 contains multiple natural gas utilities engaged in aggressive competition with each other.  
4 Due to merger activities, Peoples Gas and Columbia Gas are the only two remaining. Gone  
5 are T.W. Phillips Gas & Oil, Equitable Gas, Apollo Gas and Carnegie Gas, which were  
6 all in competition during the “Gas Wars” that began in the mid-1980s. The second  
7 irrefutable fact is the Commission’s Rulemaking, which she actually noted that I addressed  
8 in my testimony but then claims that the Commission’s order does not change how  
9 Columbia sees the underlying risk of customer’s bypassing the Columbia system. My view  
10 of her assertion is that perhaps Columbia may choose to ignore the purpose of the  
11 Commission’s Order but it should not. When the Commission has provided a clear  
12 indication that aggressive discounting for Gas-on-gas competition is no longer encouraged  
13 Columbia should pay attention.  
14 My best advice for Ms. Paloney is that if Columbia wishes not to lose major accounts to  
15 bypass, then it should improve the manner in which it treats its major accounts so they are  
16 not motivated to seek an alternative.

17  
18 **Q. WHY HAVE COMPANY WITNESSES POINTED TO THE SETTLEMENT IN ITS**  
19 **2016 BASE RATE CASE?**

20 A. In her rebuttal testimony, Statement No. 18-R, Ms. Paloney references the settlement in  
21 Columbia’s last base rate case. Also, in his rebuttal testimony, Mr. Catron includes at  
22 Exhibit HAC-1R the Joint Petition for Settlement at Docket R-2016-2529660 and points  
23 out that Penn State was a party to the settlement, as though that should somehow be enough

1 to satisfy Penn State forever. Ms. Paloney, Mr. Catron or counsel should certainly be aware  
2 that a settlement by its very nature is a compromise of positions of many parties and does  
3 not represent the complete and total satisfaction of every issue for every party. It is  
4 disappointing that Ms. Paloney and Mr. Catron misuse settlements against settling parties  
5 as that will discourage settlements contrary to the policy of the Commission in its  
6 regulations at 52 Pa. Code § 69.401. The settlement document itself states:

7 65. This Settlement and its terms and conditions may not be cited as precedent  
8 in any future proceeding, except to the extent required to implement this Settlement.

9 66. The Commission's approval of the Settlement shall not be construed to  
10 represent approval of any Joint Petitioner's position on any issue, except to the  
11 extent required to effectuate the terms and agreements of the Settlement in these  
12 and future proceedings involving Columbia.

13 67. It is understood and agreed among the Joint Petitioners that the Settlement  
14 is the result of compromise, and does not necessarily represent the position(s) that  
15 would be advanced by any Joint Petitioner in these proceedings if they were fully  
16 litigated.

17 68. This Settlement is being presented only in the context of these proceedings  
18 in an effort to resolve the proceedings in a manner which is fair and reasonable.  
19 The Settlement is the product of compromise between and among the Joint  
20 Petitioners. This Settlement is presented without prejudice to any position that any  
21 of the Joint Petitioners may have advanced and without prejudice to the position  
22 any of the Joint Petitioners may advance in the future on the merits of the issues in  
23 future proceedings except to the extent necessary to effectuate the terms and  
24 conditions of this Settlement. This Settlement does not preclude the Joint  
25 Petitioners from taking other positions in proceedings involving other public  
26 utilities under Section 1308 of the Public Utility Code, 66 Pa.C.S. § 1308, or any  
27 other proceeding.

28  
29 To be clear, if Ms. Paloney or Mr. Catron are citing the settlement as a precedent that  
30 violates paragraph 65. If either of them expects this to brush away the important issues  
31 concerning flow orders and penalties at this time, that will not happen. Moreover,  
32 Columbia or its unrealistic witnesses cannot state that the absurd and extremely penal  
33 results that the settlement penalty provision yielded due to Columbia's penchant to declare  
34 alerts and declare flow orders coupled with aberrant and skewed midpoint prices would

1 result in 300x penalties having no relation to cost to Columbia. Nor were such extreme  
2 penalties anything that the parties contemplated—including Columbia. The Company's  
3 policies and procedures are always fair game for improvement that will eliminate barriers  
4 to customers' freedom to select alternative suppliers.

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

7 A. I have shown that:

8 1. Flex rate customers benefit all customers and any uncovered revenue responsibility  
9 should be borne by all customers.

10 2. The Company's use of flow orders and its penalty structure is discriminatory to  
11 transportation customers and must be changed.

12 3. The Commission needs to conduct an investigation and focused management audit of  
13 Columbia's excessive and abnormal flow order alerts and declarations, its practices in  
14 using transportation customers, shopping customers and suppliers as a balancing tool or as  
15 a mechanism to depress competition and shopping, and the impact of the Columbia and  
16 NiSource sale of Columbia Transmission upon deliveries to Pennsylvania and the State  
17 College Market.

18 4. The Company has reduced its risk of LDC bypass and does not merit a risk premium  
19 in its equity rate of return.

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

21 A. Yes.



# **Exhibit PSU-SR-1 Flow Orders**

**Pennsylvania Public Utility Commission**

**v.**

**Columbia Gas of Pennsylvania, Inc.**

**Docket No. R-2018-2647577**

**THE PENNSYLVANIA STATE UNIVERSITY'S ANSWERS TO INTERROGATORIES  
OF THE COLUMBIA GAS OF PENNSYLVANIA, INC. (SET II)**

7. On page 14 of Mr. Crist's testimony he indicates the flow order frequency for the other distribution utilities were much less than Columbia. Please provide all flow orders by date, amount of restriction, pipeline and reason from 2014 through 2018 for each LDC serving Penn State by Penn State Location. Also indicate Penn State's compliance for those orders. If not in compliance provide level and penalty Penn State was issued.

**RESPONSE:**

**Provided by: Michael Prinkey**

See attached II. 7 (HIGHLY CONFIDENTIAL), which contains all data collected for LDCs where Penn State is a transportation customer. Note that four years of history of notifications was not available for all LDC's.

**Exhibit PSU-SR-1 Table**  
**HIGHLY CONFIDENTIAL**

**Exhibit PSU-SR-1 I&E Set RR-013 –  
Acct gainloss  
CONFIDENTIAL**

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2018-2647577

Data Requests

Bureau of Investigation & Enforcement – Set RR

Question No. I&E-RR-013:

Reference Columbia Statement No. 8, pp. 8-9. Identify all major account customers lost and gained in the twelve months ended December 31, 2015, December 31, 2016, and December 31, 2017.

Response:

Please see CONFIDENTIAL Attachment A to this response.

# **Exhibit PSU-SR-3 I7E Set RR-012-D Bypass**

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2018-2647577

Data Requests

Bureau of Investigation & Enforcement – Set RR

Question No. I&E-RR-012-D:

List all members of the Gas Group which are not susceptible to:

- A. Bypass risk;
- B. Risks associated with the Tax Cuts & Jobs Act of 2017.

Response:

- A. Mr. Moul did not study in detail the bypass threat of each company in his proxy group. However, he is aware that bypass is usually a threat to LDCs when there are a number of interstate pipelines in close proximity to large volume users served by an LDC, when customers of the LDC are in close proximity to gas producing wells, or when other competing LDCs have their facilities within the LDCs service territory. As to the issue of bypass by interstate pipelines, most LDCs, including companies in the Gas Group, are faced with this threat. Noteworthy, CPA has six interstate pipelines traversing its service territory. As to bypass that might be associated in proximity to producing wells, there are no companies in the Gas Group that operate in the Marcellus shale formation like CPA. Atmos Energy, one member of the Gas Group, does have extensive operations in gas producing regions. Gas on gas competition from other LDCs is unique to western Pennsylvania and no member of the Gas Group is faced with this risk.
- B. All members of the Gas Group are susceptible to the provisions of the TCJA.