

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

COLUMBIA GAS OF PENNSYLVANIA, INC.

Docket No. R-2018-2647577

SURREBUTTAL TESTIMONY

OF

ORLANDO MAGNANI

July 17, 2018

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Orlando (Randy) Magnani. My business address is 19561 Caladesi Drive,
3 Estero, FL, 33967.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. Yes. I submitted direct testimony, pre-marked as Direct Energy St. 1, and Rebuttal
7 Testimony, pre-marked as Direct Energy St. 1-R, on behalf of Direct Energy Business,
8 LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC
9 (collectively, "Direct Energy"), and served to the parties on June 7, 2018 and July 3,
10 2018, respectively.

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS**
12 **PROCEEDING?**

13 A. The purpose of my testimony is to respond to the Rebuttal Testimony of Columbia Gas of
14 Pennsylvania, Inc. ("Columbia" or the "Company") witness Nancy J.D. Krajovic
15 ("Columbia St. No. 10-R") and Office of Consumer Advocate ("OCA") witness Jerry
16 Mierzwa ("OCA St. No. 3-R") related to the installation of telecommunications
17 equipment needed to permit the real time reading, transmission and availability of usage
18 data by Industrial and Commercial customers (hereinafter referred to as "the C&I
19 Network.") I will also respond to certain statements made by Columbia witness Michele
20 Caddell related to Operational Matching Orders ("OMOs") and Operational Flow Orders
21 ("OFOs").

22 **Q. PLEASE BRIEFLY SUMMARIZE MS. KRAJOVIC'S TESTIMONY RELATED**
23 **TO THE C&I NETWORK INSTALLATION.**

24 A. In her testimony, Ms. Krajovic seems to imply that the issue of suppliers not having
25 access to customer usage data during critical periods has been resolved. Ms. Krajovic

1 notes that Columbia complied with the settlement provisions in the 2016 case, wherein
2 the Company insured that a customer's Aviator data would be available to the customer's
3 current supplier. Ms. Krajovic further disagrees with my characterization of the
4 increased costs for the installation of the C&I Network as "slight," claiming that the
5 increase in initial capital costs is 39.5% and that the ongoing capital investment has
6 increased as well. Ms. Krajovic also testifies that Columbia is concerned that some
7 customers who are faced with such an increase might look to a competitive alternative,
8 perhaps leaving the Company with stranded costs. Ms. Krajovic also disagrees that
9 Columbia failed to comply with any settlement provisions in the 2016 case or the
10 Commission's order in the Tariff Supplement No. 255 proceeding. Columbia St. No. 10-
11 R at 34-40.

12 **Q. DO YOU AGREE THAT THE ISSUE OF SUPPLIERS BEING UNABLE TO**
13 **OBTAIN CUSTOMER USAGE DATA DURING CRITICAL PERIODS HAS**
14 **BEEN RESOLVED?**

15 A. Absolutely not. The fact that Columbia may have complied with the settlement terms
16 related to the Aviator data does not fully resolve the issue, nor does it excuse Columbia
17 for its failure to comply with the terms related to installation of the equipment necessary
18 to transmit customer daily usage data. As noted by Ms. Krajovic, the settlement terms at
19 Docket No. R-2016-2529660 related to the Aviator system provided that "Columbia shall
20 insure that a customer's Aviator data shall be available to the customer's current
21 supplier." The intent was to ensure that once a customer was properly and timely
22 enrolled by a supplier that supplier shall be given access to all metering information for
23 the customer. No additional access, authorizations or approvals would be necessary or
24 required for the supplier to gain that information. The Aviator website, the EMDCS site
25 and the GTS005 report all contain the same information; however, none guarantee

1 accuracy of the information. The only way to have confidence in what is being provided
2 by Columbia is to enhance the integrity of the system by upgrading the metering and
3 telemetry devices. That would provide customers with access to state of the art, reliable
4 and timely information via all three of the previously mentioned methods. Just by
5 allowing access via a sole source authorization only solves part of the problem. Again,
6 this settlement provision was to be executed *in addition to* the provision related to the
7 installation of equipment necessary to transmit daily usage data. It was not an “either or”
8 situation.

9 While the settlement provision related to insuring the availability of Aviator data
10 can be a useful “back-up” tool to help suppliers receive timely usage information when
11 the main source of data from the Company is not available, it does not fully or
12 sufficiently address Direct Energy’s concerns. For instance, the settlement provision
13 does not contain any requirement that Columbia make this information available within a
14 certain timeframe, or a requirement that Columbia notify suppliers when the information
15 has been finalized. As a result, the Aviator data is frequently not posted in a timely
16 manner and Direct Energy can never be sure if and when the information is finalized. As
17 a result, Direct Energy is forced to repeatedly check the information and compare it to the
18 information that was previously available to see if any updates have been provided.

19 Direct Energy has noticed that during certain time periods, including weekends and
20 holidays, this information is not up to date, and Direct Energy cannot rely on it.

21 **Q. DO YOU AGREE WITH MS. KRAJOVIC’S TESTIMONY REGARDING THE**
22 **REVISED ESTIMATE OF CAPITAL COSTS AND HER CHARACTERIZATION**
23 **OF THE INCREASE AS SIGNIFICANT?**

24 A. No. Ms. Krajovic’s testimony is flawed in that she only considered the increase in
25 overall capital costs. Annual and capital costs are only one component of customers’

1 rates. An analysis of total annual costs of the C&I Network shows that the impact of the
2 change in total forecasted costs on customers' rates would be a *reduction*, not an increase
3 compared to the original estimate. I have prepared Exhibit OM-1, attached to this
4 testimony, which shows the impact of the change in forecasted costs of the C&I Network.
5 The allowed rate of return, grossed up for taxes, is unknown at this time but is expected
6 to be lower than 15% so I first used 15% to demonstrate my point. That analysis shows
7 that the annual impact of the change in estimated costs of the onetime installation is a
8 reduction of 18%. The impact of the change in ongoing costs is a reduction of 13%.

9 In an effort to look at an extreme case, I performed the same analysis using a 20%
10 annual carrying cost, and that analysis showed corresponding reductions of 12% and
11 13%. The net result of my analysis is that the increase in projected capital costs is more
12 than offset by the reduction in O&M costs compared to the original estimates.

13 Accordingly, Columbia's concerns about the installation of the C&I Network and
14 its customers looking to a competitive alternative seem unfounded. It should also be
15 noted that installation of the C&I Network will benefit Columbia and the C&I customers.
16 More accurate, timely data will likely result in more accurate deliveries by suppliers,
17 thereby avoiding flow order penalties and the need for Columbia to manage excessive
18 under or over deliveries. This in turn will produce lower commodity costs to customers.
19 More accurate deliveries will also improve the efficiency of the Columbia gas supply and
20 delivery process. A more efficient gas distribution system will benefit all customers in
21 the long run.

22 **Q. DID MS. KRAJOVIC EXPLAIN WHAT COMPETITIVE ALTERNATIVES THE**
23 **COMPANY IS CONCERNED ABOUT?**

1 A. No. In response to discovery, Ms. Krajovic stated that the Company has thirteen (13)
2 customers with negotiated contracts and thirty (30) customers that qualify for the flexible
3 rate provision. The Company states that all increases in rates may make alternatives
4 more attractive, whether fuel, alternative gas distribution, or an alternate operating
5 location or process. The Company, however, has not performed any studies to determine
6 whether any of those customers have an alternative fuel source available, the likelihood
7 of the customers choosing an alternative option, or a cost/benefit analysis.¹

8 If Columbia learns that a particular customer has a competitive alternative option
9 once the C&I Network is installed, Columbia can always flex that rate down. There may
10 also be other ways of ameliorating the effect on individual customers, like including this
11 cost in the cost of service and then allocating the cost to all customer in accordance with
12 the cost of service. Columbia, however, has not attempted to come up with any solutions.

13 **Q. DO YOU AGREE WITH MS. KRAJOVIC'S TESTIMONY IN WHICH SHE**
14 **IMPLIES THAT COLUMBIA HAS ABIDED BY THE TERMS OF THE 2016**
15 **SETTLEMENT AND THE COMMISSION'S ORDER IN COLUMBIA'S TARIFF**
16 **SUPPLEMENT NO. 255 FILING AT DOCKET NO. R-2017-2586190 ("TARIFF**
17 **ORDER")?**

18 A. No. I discussed how Columbia has failed to comply with the 2016 settlement and the
19 Commission's Tariff Order in my Direct and Rebuttal Testimonies, and I incorporate
20 those arguments herein. Direct Energy St. No. 1 at 4-10; Direct Energy St. No. 1-R at 2-
21 3. I also want to address a specific statement made by Ms. Krajovic in support of her
22 argument that Columbia complied with the 2016 Settlement and the Commission's Tariff

¹ Columbia Response to Direct Energy Set III-1.

1 Order. Ms. Krajovic states, “Recovery of reasonable and prudent costs is an integral part
2 of the agreement to install the C&I Network [...]” Columbia St. No. 10-R at 38. First, it
3 bears repeating that the revised forecast of costs for the C&I Network will actually reduce
4 customers’ rates from the original estimate and is beneficial to the system as a whole.
5 Second, Columbia did not seek recovery of reasonable and prudent costs in this
6 proceeding, but rather made the unilateral decision to forego the installation of the C&I
7 Network. The fact that Columbia’s agreement to this Settlement provision was contingent
8 upon the Company’s ability to recover the “reasonable and prudent costs” of the project
9 does not logically imply that it had the right to unilaterally decide that it was no longer
10 interested in installing the equipment that it had previously said was necessary. Finally,
11 pursuant to the 2016 Settlement, Columbia is only entitled to recover reasonable and
12 prudent costs associated with the installation of the C&I Network. To the extent the
13 Commission determines that the costs, or some portion of the costs, of installing the C& I
14 Network are not reasonable, then that portion should be borne by Columbia shareholders
15 and not charged to or recovered from customers. This recommendation would be
16 completely consistent with the Settlement Terms.

17 **Q. DO YOU HAVE ANY OTHER CONCERNS WITH MS. KRAJOVIC’S**
18 **TESTIMONY?**

19 A. Yes. Ms. Krajovic states that the Company never indicated that the C&I Network is
20 necessary for NGSs to comply with OMOs. Columbia St. No. 10-R at 37. The
21 Company, however, has admitted that daily customer usage data is necessary for NGSs to
22 comply with OMOs and has stated that dedicated phone lines are necessary for the
23 Company to provide timely data. Specifically, as noted by the Commission in its Tariff
24 Order at Docket No. R-2017-2586190: “The Company affirms that the efficient

1 communication of daily customer usage data is necessary so that all NGSs can comply
2 with Operational Matching Orders (OMOs) when they are issued [...]” Tariff Order at
3 2. Additionally, in the last rate case, Columbia relied on the fact that customers did not
4 have dedicated phone lines as an explanation of why it was unable to fulfill its
5 obligations to provide timely data to suppliers, thereby forcing them to not meet OMO
6 obligations and incurring unreasonable and unnecessary penalties. Specifically, in that
7 proceeding, Columbia witness Michele L. Caddell testified, “If the daily read meter with
8 an [Electronic Flow Corrector] does not have a dedicated telephone line or if the
9 telephone line is not operable, daily usage data would not be accessible on a next day
10 basis.” Docket No. R-2016-2529660, Columbia St. No. 15-R at 9. Ms. Caddell made
11 similar statements in other places of her rebuttal as well. *See, e.g.*, Docket No. R-
12 2016-2529660, Columbia St. No. 15-R at 9, 19, 23. It is entirely inappropriate for
13 Columbia to now assert that the C&I Network is not necessary for NGSs to comply with
14 OMOs.

15 **Q. PLEASE BRIEFLY SUMMARIZE THE TESTIMONY OF JERRY MIERZWA**
16 **TO WHICH YOU WISH TO RESPOND.**

17 A. While Mr. Mierzwa takes no position as to whether Columbia has complied with the
18 provisions of the 2016 settlement, Mr. Mierzwa is concerned that if suppliers are not
19 penalized for violating OFOs/OMOs, it is less likely that they will respond to the
20 OFOs/OMOs issued by the Company. Mr. Mierzwa states, “If suppliers do not respond
21 to OFOs and OMOs, system reliability may be threatened and CPA may be required to
22 pursue actions that increase its purchased gas costs such as buying high-cost gas supplies
23 during peak periods.” OCA St. No. 3-R at 3.

24 **Q. WHAT IS YOUR RESPONSE TO MR. MIERZWA’S TESTIMONY?**

1 A. First, I would like to clarify that it is not my position that penalties for OFO/OMO non-
2 compliance should be eliminated altogether. Rather, it is my position that NGSs should
3 not be penalized for non-compliance until Columbia has fully implemented the C&I
4 Network. I take this position, because the C&I Network Installation is necessary for
5 compliance, and Columbia has failed to begin installation, despite the fact that the
6 Company had promised to do so. Natural Gas Suppliers are aware of their
7 obligations to deliver gas and support the system. They don't do so to avoid penalties.
8 The problem that needs to be addressed is the fact that suppliers may be penalized
9 because they don't have access to accurate data and because Columbia hasn't done what
10 it promised to do to provide accurate data. That isn't fair and something should be done
11 about that.

12 Second, with respect to the appropriate level of penalty, by setting the penalty as a
13 multiple of the highest posted daily index, CPA is assured that suppliers can't decide to
14 incur the penalty in order to sell the gas at a higher price. There is no other higher price
15 as the penalty is already based on the highest price. Mr. Christ is correct in saying that a
16 20% multiple of the daily index is an appropriate disincentive. There can be no
17 advantage to a supplier to incur the penalty because they can't find a higher price at
18 which to sell the gas.

19 **Q. BUT ISN'T IT POSSIBLE THAT A SUPPLIER COULD DIVERT GAS**
20 **INTENDED TO SERVE A COLUMBIA-PA CUSTOMER TO SOME OTHER**
21 **SERVICE TERRITORY BECAUSE THE PRICE THERE IS MANY MULTIPLES**
22 **OF THE OF THE HIGHEST PRICE ON COLUMBIA-PA'S SYSTEM?**

23 A. No and that concern misunderstands how gas markets work. If gas being delivered into
24 Columbia's system could be easily rerouted to New England, for example, then the prices
25 in New England would be reflective of the prices experienced on the Columbia system.

1 If a supplier incurs a penalty it is because they made a mistake or because they relied on
2 bad data. It is those types of circumstances that Columbia should legitimately be trying
3 to avoid and a penalty of 20% is more than adequate for that purpose; Columbia's penalty
4 is punitive and goes beyond what is necessary to protect against arbitrage. A supplier
5 will do anything in their power to avoid paying a premium of 20% on the highest cost of
6 gas. Setting the penalty at three times the highest price can't get the supplier to do
7 something that is physically impossible.

8 **Q. PLEASE BRIEFLY SUMMARIZE THE TESTIMONY OF MS. CADDELL TO**
9 **WHICH YOU WISH TO RESPOND.**

10 A. Ms. Caddell testified that the Company is facilitating a collaborative process with
11 marketers to discuss OMO/OFO issues.

12 **Q. WHAT IS YOUR RESPONSE TO THIS TESTIMONY?**

13 A. I would just like to note that Direct Energy has participated in the only two collaboratives
14 related to OMO/OFO issues that Ms. Caddell references. Direct Energy has not been
15 notified of a collaborative related to this issue in several months. If the Company had
16 concerns about increased costs related to the installation of the C&I Network, the
17 Company could have addressed these concerns through the collaborative process.
18 Instead, the Company remained silent about the issue, failed to begin installation in early
19 2018, and reneged on a previous settlement agreement, without even attempting to collect
20 reasonable and prudent costs first.

21 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

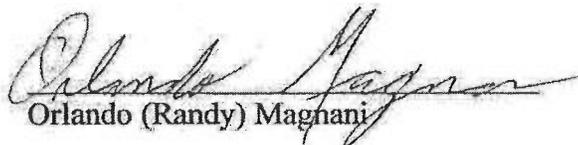
22 A. Yes. It does. I reserve my right to supplement this testimony should new information
23 become available.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-2647577
Office of Consumer Advocate	:	C-2018-3000582
Office of Small Business Advocate	:	C-2018-3000073
The Pennsylvania State University	:	C-2018-3001034
Columbia Industrial Intervenors	:	C-2018-3001047
G. Blair Bauer	:	C-2018-3001319
Philip L. Bloch	:	C-2018-3001634
	:	
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	
	:	
and	:	
	:	
Petition of	:	P-2018-2641257
Columbia Gas of Pennsylvania, Inc. for	:	
Authorization to Defer, for Accounting Purposes,	:	
Certain Costs Associated With a Prepayment to the	:	
NiSource, Inc. Pension Trust	:	

VERIFICATION

I, Orlando (Randy) Magnani, hereby state that the facts set forth in my Direct Testimony, (Direct Energy St. 1), Rebuttal Testimony (Direct Energy St. 1-R), and Surrebuttal Testimony (Direct Energy St. 1-SR) in the above-captioned proceeding are true and correct to the best of my knowledge, information and belief. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to sworn falsification to authorities).


Orlando (Randy) Magnani

Date: July 23, 2018