BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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v.

PEOPLES NATURAL GAS COMPANY LLC

Docket No. R-2013-2350914

PREPARED DIRECT TESTIMONY OF
ANTHONY CALDRO,
CONSULTANT – RATES AND REGULATORY AFFAIRS
PEOPLES NATURAL GAS COMPANY LLC

DATE SUBMITTED: April 1, 2013
DATE ADMITTED: Peoples Statement No. 2
Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Anthony Caldro. My business address is 375 North Shore Drive, Pittsburgh, Pennsylvania 15212.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Peoples Natural Gas Company LLC ("Peoples") as a Consultant – Rates and Regulatory Affairs.

Q. PLEASE DESCRIBE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I was graduated from The Pennsylvania State University in 1982 with a Bachelor of Science Degree in Mineral Economics. In January 1983, I began full-time employment with the Federal Energy Regulatory Commission ("FERC") as an Industry Economist in the Allocation and Rate Design Branch of the Office of Pipeline and Producer Regulation. Prior to beginning full-time employment, I had worked at the FERC as a co-op student for two six-month terms. While at the FERC, I participated as a member of the FERC staff in various kinds of proceedings, including base rate and certificate proceedings.

In August 1986, I joined the Pricing and Regulatory Affairs Department of Peoples’ predecessor, The Peoples Natural Gas Company. In my current position, my responsibilities have included the preparation and coordination of Peoples’ §1307(f) filings, take-or-pay filings, and other filings before the Commission.
Q. WHAT ARE YOUR RESPONSIBILITIES FOR PURPOSES OF THIS PROCEEDING?

A. I am responsible for describing Peoples’ efforts and activities in 2012 and 2013 with respect to FERC matters. I am also responsible for the development of the natural gas supply rates that Peoples proposes to place into effect on October 1, 2013, utilizing cost projections, sales projections and the reconciliation process.

FERC PARTICIPATION

Q. WHY DOES PEOPLES PARTICIPATE IN PROCEEDINGS AT THE FERC?

A. As a distributor of natural gas, Peoples is concerned with minimizing the price and assuring adequate availability of its gas supplies in order to provide reasonably priced, reliable service to our residential, commercial and industrial ratepayers. Thus, we monitor and participate in various proceedings before the FERC – the federal agency that regulates the interstate pipelines from which we obtain the delivery of a substantial portion of our gas supply – as a means of assuring for our ratepayers the future availability of reasonably priced, reliable gas supplies.

Peoples has monitored and participated in proceedings at the FERC and the FERC’s predecessor agency, the Federal Power Commission, since the early 1950’s. Of course, since 1985, Peoples has had a statutory duty to participate in FERC proceedings in accordance with the requirements of the Public Utility Code, as amended by Act 74 of 1984 and as interpreted by the Commission in
Peoples’ previous 1307(f) proceedings. Peoples’ involvement in the FERC’s activities has been reviewed and endorsed by the Commission in each of the Company’s twenty-seven 1307(f) proceedings since the implementation of the 1307(f) process in 1985.

Q. WHO AT PEOPLES IS INVOLVED IN FERC MATTERS AND HOW ARE THEIR EFFORTS COORDINATED?

A. FERC responsibilities are primarily performed by a consultant to the Rates and Regulatory Affairs department. Responsibilities include monitoring FERC activities, analyzing the various FERC issues, and developing and recommending Company positions to be taken before the FERC. My department worked with the consultant to review and evaluate the various positions taken before the FERC on behalf of Peoples.

Q. DOES PEOPLES WORK WITH ANY OTHER ORGANIZATIONS IN MATTERS BEFORE THE FERC?

A. Peoples is a member of the American Gas Association ("AGA"). The AGA FERC Regulatory Committee is charged with the responsibility to act upon federal and regulatory policy issues of interest and importance to its members, which consist of more than 200 local natural gas utility companies like Peoples.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 17?
A. Yes. **Peoples Exhibit No. 17** is a multi-paged document that provides a detailed identification and explanation of all of the various FERC proceedings involving Peoples' interstate pipeline providers and other FERC proceedings that Peoples monitored and/or participated in over the last year or so. I should note that Peoples previously filed these materials with the Commission on March 1, 2013 as part of the 30-day pre-filing required by the Commission’s 1307(f) regulations. As this description of Peoples’ FERC activity reveals, Peoples has fully and vigorously represented the interests of its ratepayers at FERC during the time periods relevant to this case.

**1307(f) CALCULATIONS**

Q. **ARE YOU RESPONSIBLE FOR ANY OF THE MATERIALS THAT APPEAR ON PEOPLES EXHIBIT NOS. 2 AND 3?**

A. Yes. I am responsible for all of the information that appears under the general heading “DOLLARS” in each of those Exhibits. Those Exhibits present a summary, by month and by supplier, of Peoples’ actual natural gas costs for the 1307(f)-2013 reconciliation period of February 1, 2012 through January 31, 2013 (**Peoples Exhibit No. 3**) and projected natural gas costs for the 1307(f)-2013 projected period of February 1, 2013 through September 30, 2014 (**Peoples Exhibit No. 2**).
Q. WHAT ARE PEOPLES’ PROJECTED NATURAL GAS COSTS FOR THE 1307(F)-2013 PROJECTED PERIOD OF FEBRUARY 1, 2013 THROUGH SEPTEMBER 30, 2014?

A. $189,754,753.

Q. HOW MUCH OF PEOPLES’ TOTAL PROJECTED NATURAL GAS COSTS ARE REPRESENTED BY PROJECTED PURCHASES OF LOCAL GAS?

A. $110,323,843.

Q. HOW WAS THAT AMOUNT CALCULATED?

A. Based upon monthly information supplied by Peoples’ witness, Jon H. Skoog, regarding projected volume levels of all local gas purchases by vintage and the related projected rates, I derived a projected monthly cost for all local gas purchases by multiplying the anticipated volumes by the applicable price per Mcf.

Peoples’ local gas contracts generally can be broken down into three groups. The first group of contracts contains prices that are fixed. The second group of contracts contains various kinds of escalation clauses; however, because of other terms and conditions of those contracts, the prices in the contracts have become frozen over time. The third group of contracts also contains various kinds of escalation clauses, but those clauses still continue to vary the prices paid by Peoples under the contracts from year to year. The various kinds of escalation...
clauses in the third group include clauses that are tied to an inflation factor, to an index-based spot market price or to a combination of those two factors.

Q. **CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 12?**

A. Yes. **Peoples Exhibit No. 12** is a one-page document, prepared by Peoples’ Rates and Regulatory Affairs Department, to illustrate the development of our projected cost of local gas of $110,323,843 for the 1307(f)-2013 projected period. Column 1 contains our projected volumes of local gas purchases for the projected period as supplied by Mr. Skoog. Column 3 sets forth the total costs for those volumes.

Q. **HOW MUCH OF PEOPLES’ TOTAL PROJECTED NATURAL GAS COSTS ARE REPRESENTED BY SERVICES PROVIDED BY PEOPLES TWP LLC (“PEOPLES TWP”)?**

A. The Company no longer purchases gas from Peoples TWP but rather receives gas under a Commission-approved exchange agreement. Refer to the testimony of Peoples’ witness Jon H. Skoog for a description of this arrangement.

Q. **CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 13?**

A. Yes. **Peoples Exhibit No. 13** is a one-page document, prepared by Peoples’ Rates and Regulatory Affairs Department, to illustrate the development of our...
projection of purchased gas costs associated with hedging, risk management, imbalance buybacks, local gas transportation and exchange activities of $2,985,602 for the 1307(f)-2013 projected period. Column 1 contains our projected hedging costs/ (savings) for the projected period as supplied by Mr. Skoog. Column 2 contains our projected costs associated with risk management activities as more fully described by witness Skoog, Column 5 contains our projected costs associated with the transportation by other parties of local gas volumes purchased by Peoples. Columns 3, 4, 6 and 7 reflect that Peoples does not make projections of volumes and costs associated with imbalance buybacks and exchanges.

Q. BEFORE TURNING TO THE COST INFORMATION PERTAINING TO PEOPLES' VARIOUS DIRECT AND INDIRECT INTERSTATE PIPELINE SUPPLIERS, CAN YOU INDICATE WHETHER PEOPLES MADE ANY EFFORT IN THE COURSE OF PREPARING THIS FILING TO OBTAIN PROJECTED RATE INFORMATION DIRECTLY FROM THOSE PIPELINES?

A. Yes. We contacted each of our interstate pipeline suppliers via email, in which we requested projected rate information for 2013 and 2014. Of the pipelines that we contacted, Dominion Transmission, Inc. (“DTI”), Texas Eastern Transmission Corporation (“TETCO”), National Fuel Gas Supply Corporation (“NFGS”) and Equitrans responded to our request, and simply referred us to their existing tariff rates.
Q. HOW MUCH OF PEOPLES' TOTAL PROJECTED NATURAL GAS COSTS ARE REPRESENTED BY PEOPLES' PURCHASE OF FIRM TRANSPORTATION AND STORAGE SERVICE FROM NATIONAL FUEL GAS SUPPLY CORPORATION ("NFGS") AND THE RELATED PRODUCER/MARKETER CONTRACTS THAT PROVIDE SUPPLIES INTO NFGS?

A. $6,744,475. This number consists of $2,493,052 in transportation and storage costs for NFGS EFT (Enhanced Firm Transportation) and ESS (Enhanced Storage Service) services and $4,251,423 for purchases delivered to Peoples by NFGS.

Q. HOW WAS THAT AMOUNT CALCULATED?

A. By the application of NFGS' existing demand and commodity rates to the daily demand entitlement levels and projected commodity volumes to which Mr. Skoog has testified. The commodity supply prices for all supply sources were provided by Mr. Skoog.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 9?

A. Yes. Peoples Exhibit No. 9 is a three-page document, prepared by Peoples' Rates and Regulatory Affairs Department, to illustrate the development of the $6,744,475 in natural gas costs that we expect to pay NFGS for firm
transportation and storage service and to pay for related commodity supply
purchases during the 1307(f)-2013 projected period.

Q. **WHAT COSTS ARE INVOLVED WITH DTI FIRM TRANSPORTATION SERVICE?**

A. As more fully described in Mr. Skoog's testimony, DTI's firm transportation service has two components: our firm transportation from DTI and the producer/marketer contracts that provide supplies into DTI.

Q. **HOW MUCH OF PEOPLES' TOTAL PROJECTED NATURAL GAS COSTS ARE REPRESENTED BY DTI FIRM TRANSPORTATION AND RELATED SERVICES?**

A. $62,306,567. This number consists of $6,144,854 in transportation costs for DTI FTNN service and $56,161,713 for commodity purchases delivered to Peoples by DTI.

Q. **CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 5?**

A. Yes. **Peoples Exhibit No. 5** is a two-page document, prepared by Peoples’ Rates and Regulatory Affairs Department, to illustrate the derivation of projected natural gas costs that we expect to incur for DTI firm transportation and related services. All of the demand quantities, commodity volumes, and other units of measurement that appear on **Peoples Exhibit No. 5** were provided by Mr. Skoog.
The applicable rates and charges for DTI are from its currently effective, FERC-approved tariff. The commodity supply prices for all supply sources were provided by Mr. Skoog.

Q. OF PEOPLES’ TOTAL PROJECTED NATURAL GAS COSTS, WHAT PORTION IS REPRESENTED BY PEOPLES’ PURCHASE OF CONTRACT STORAGE SERVICE AND ASSOCIATED TRANSPORTATION SERVICE FROM DTI?
A. $19,353,223.

Q. HOW WAS THAT AMOUNT DETERMINED?
A. First, we applied DTI's demand and capacity rates to the units of storage demand and capacity that Peoples has reserved throughout the 1307(f)-2013 projected period, and applied DTI's injection and withdrawal rates to our projections of the volumes that we will inject and withdraw throughout the projected period. Second, we applied DTI's transportation rate to deliveries of gas out of storage and to Peoples' city gate. As explained in Mr. Skoog's testimony, Peoples' source of supply may be impacted by the resolution of the Joint Application that was filed by Peoples and others seeking approval of Peoples' acquisition of Equitable Gas Company and of certain commercial agreements that will change Peoples' source of supply. The Company is not including any projected supply costs from the Joint Application proceeding in this filing but is preparing this filing to reflect the status quo.
Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 6?

A. Yes. Peoples Exhibit No. 6 is a two-page document, prepared by Peoples’ Rates and Regulatory Affairs Department, to illustrate the calculation of the $19,353,223 in natural gas costs that we would project to incur for contract storage service from DTI. The demand and capacity units and injection and withdrawal volumes were supplied by Mr. Skoog. All of the rates are from DTI’s currently effective tariff. The second page of the Exhibit illustrates our projected costs for DTI’s transportation of withdrawals from the storage pools to Peoples’ city gate. Here again, the demand and commodity information on this page was supplied by Mr. Skoog. The rates are from DTI’s tariff.

Q. IN PROJECTING NATURAL GAS COSTS OVER THE 1307(F)-2013 PROJECTED PERIOD, DOES PEOPLES ALSO ASSIGN A VALUE TO THE VOLUMES OF GAS THAT ACTUALLY WILL BE INJECTED INTO AND WITHDRAWN FROM STORAGE?

A. Yes. And we do so for all of the volumes that we will inject into or withdraw from storage during the course of the projected period, including the volumes under contract storage service with NFGS and DTI, and the volumes of gas that will be injected into and withdrawn from Peoples’ own storage pools.
Q. OF PEOPLES’ TOTAL PROJECTED NATURAL GAS COSTS, WHAT PORTION IS REPRESENTED BY THE VALUE OF THE VOLUMES OF GAS ACTUALLY INJECTED INTO AND WITHDRAWN FROM STORAGE?

A. $(30,531,019)$, with the parenthetical indicating a net injection over the projected period.

Q. HOW WAS THAT AMOUNT CALCULATED?

A. I applied a weighted average storage value to the volumes of gas that Mr. Skoog has projected for injection into and withdrawal from all storages.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 11?

A. Yes. Peoples Exhibit No. 11 is a one-page document, prepared by Peoples’ Rates and Regulatory Affairs Department, to illustrate the development of the $(30,531,019)$ net value of volumes injected into and withdrawn from storage over the 1307(f)-2013 projected period. On that Exhibit, injections are represented by parentheticals. All of the volumes, whether injections or withdrawals, were provided by Mr. Skoog. The storage values that appear in the next to the last column on the Exhibit are based on the weighted average of Peoples’ total cost per Mcf of locally purchased gas and on the price of gas brought into Peoples’ system over interstate pipelines. For 2013, the weighted average price is $4.2132 per Mcf, and for 2014, $4.6820 per Mcf. Because the
The overall value assigned to storage volumes for the 1307(f)-2013 projected period is a negative value, that means we are projecting that the value of volumes injected into storage will exceed the value of the volumes withdrawn from storage by $30,531,019.

Q. OF PEOPLES’ TOTAL PROJECTED NATURAL GAS COSTS, WHAT PORTION IS REPRESENTED BY SERVICES WITH TETCO, RELATED COMMODITY PURCHASES INTO TETCO AND THE WINTER-ONLY FIRM COMMODITY SERVICES?

A. $12,631,976.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 7?

A. Yes. Peoples Exhibit No. 7 is a two-page document, prepared by Peoples’ Rates and Regulatory Affairs Department, to illustrate the derivation of the $12,631,976 in total projected natural gas costs associated with interstate pipeline services from TETCO, related commodity supply purchases into TETCO and the winter-only firm commodity service. All of the demand quantities and commodity volumes that appear on Peoples Exhibit No. 7 were provided by Mr. Skoog. The rates and charges for TETCO are from their currently effective tariffs. The commodity supply prices for all supply sources were provided by Mr. Skoog.
Q. OF PEOPLES' TOTAL PROJECTED NATURAL GAS COSTS, WHAT PORTION IS REPRESENTED BY THE COMMODITY PURCHASES INTO TENNESSEE AND THE WINTER-ONLY FIRM COMMODITY SERVICES?
A. $6,564,934.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 8?
A. Yes. Peoples Exhibit No. 8 is a four-page document, prepared by Peoples' Rates and Regulatory Affairs Department, to illustrate the derivation of the $6,564,934 in total projected natural gas costs associated with commodity purchases into Tennessee and the winter-only firm commodity service. All of the commodity volumes and prices that appear on Peoples Exhibit No. 8 were provided by Mr. Skoog.

Q. HOW HAVE NATURAL GAS COST REVENUES AND EXPENSES BEEN RECONCILED FOR 1307(F)-2013?
A. The reconciliation period for 1307(f)-2013 is the 12-month period from February 1, 2012 through January 31, 2013, and we have reconciled actual natural gas costs against actual natural gas cost revenues over that time period. To calculate the experienced net collection or "E" factor that we use in calculation of our natural gas supply rates, however, we have also included actual and projected data through September 30, 2013, the day before the rates will go into effect. We have
calculated the “E” factor in that way ever since we started using the 1307(f) process in 1985.

Q. FROM WHERE DID YOU OBTAIN THE ACTUAL REVENUES AND COSTS USED FOR THE 12-MONTH RECONCILIATION PERIOD?
A. The actual revenues and costs came from our books of account.

Q. HOW HAS PEOPLES TREATED REVENUES RECEIVED FOR CAPACITY RELEASES DURING THE RECONCILIATION PERIOD?
A. We used our supply customers’ share of the capacity release revenues as an offset against our natural gas supply costs over the reconciliation period.

Q. WHAT IS THE SUPPLY CUSTOMERS’ SHARE?
A. We have segregated our releases over the 1307(f)-2013 reconciliation period into three categories. The first is the routine release of capacity that has been mandatorily assigned to our P-1 customers. We treat all of the revenues generated by this category as part of our supply customers’ share of the revenues that we generate through capacity releases.

The second category is capacity released in accordance with the settlement in Peoples’ 1307(f)-2010 proceeding which is described by Peoples’ witness Skoog. We treat all of the revenues generated by this category as part of our supply customers’ share of the revenues that we generate through capacity releases.
The third category is other routine releases of capacity subject to Peoples’ capacity release sharing mechanism under which all revenues generated by these other routine releases are split between Peoples and its supply customers, with Peoples getting 25% and the customers 75%.

Q. WHAT WAS THE CAPACITY RELEASE REVENUE CREDIT OVER THE 1307(F)-2013 RECONCILIATION PERIOD?

A. $5,229,568. Of that amount, $4,267,865 was attributable to releases of capacity that was mandatorily assigned to P-1 customers, $763,864 was attributable to the release of capacity in accordance with the 1307(f)-2010 settlement and $197,839 was attributable to the release of capacity to other parties.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 18?

A. Yes. Peoples Exhibit No. 18 is a document prepared by Peoples’ Rates and Regulatory Affairs Department to demonstrate and illustrate the derivation of the experienced net collection or “E” factor for 1307(f)-2013. The first page of Peoples Exhibit No. 18 is a summary of the four components of the demand-related “E” factor used to produce a demand-related experienced net collection for 1307(f)-2013 of $(4,340,070). A similar summary for the commodity-related “E” factor is shown on page 9 of the Exhibit. The commodity-related “E” factor reflects an experienced net collection of $(13,434,723). The remaining pages of Peoples Exhibit No. 18 are supporting schedules.
Q. HOW HAS THE EXPERIENCED NET COLLECTION OR "E" FACTOR BEEN USED IN THE CALCULATION OF THE NATURAL GAS SUPPLY RATES THAT PEOPLES PROPOSES TO PLACE INTO EFFECT ON OCTOBER 1, 2013?

A. Because the demand-related experienced net collection or "E" factor is negative – that is, a net undercollection – that amount will be recovered from our customers in the supply rates that we will charge starting October 1, 2013. The commodity-related experienced net collections or "E" factor is also a negative number – that is, a net undercollection – and therefore, will also be collected from our customers in the supply rates that we will charge starting October 1, 2013.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 19?

A. Yes. Peoples Exhibit No. 19 is a four-page document, prepared by Peoples' Rates and Regulatory Affairs Department, to illustrate the development of the natural gas supply rates that we propose to charge as of October 1, 2013. Those supply rates include a commodity charge that will apply to all supply and standby customers, a capacity charge that will apply to all supply and standby customers, a gas cost adjustment charge that will apply to all supply and standby customers, and the banking, balancing and advancing ("BB&A") charges that will apply to our Non-Priority One customers who buy their supplies from someone other than Peoples.
Q. PLEASE DISCUSS THE DERIVATION OF THE BB&A CHARGES.

A. The derivation of BB&A charges reflects the new customer classes that were established in the Company's most recent base rate case. In the past, BB&A related costs were allocated between industrial customers and commercial customers consistent with the Company's rate class designations based on how the customer used the gas. The allocation of BB&A costs reflected that industrial customers, as a group, are generally higher usage customers and consume gas at a higher load factor than other end users, resulting in less use of the facilities that provide BB&A service. In the most recent base rate case, the Company established volume-based customer classes for non-residential customers that assign customers with the same usage levels to the same customer class. The allocation of BB&A related costs to LGS customers continues to reflect higher usage customers consuming gas at a higher load factor than other end users, resulting in less use of the facilities that provide BB&A service.

Q. CAN YOU IDENTIFY AND DESCRIBE THE DOCUMENT THAT HAS BEEN MARKED AS PEOPLES EXHIBIT NO. 20?

A. Yes. It is a one-page document that shows Peoples' gas cost revenues and expenses for the 1307(f)-2013 reconciliation period. When we made our 1307(f) prefiling on March 1, 2013, we included estimates for the month of January 2013. Peoples Exhibit No. 20 updates the information provided in the prefiling.
Q. **DO YOU WISH TO COMMENT ON ANYTHING ELSE WITH REGARD TO THE PROJECTIONS USED IN THIS FILING?**

A. Yes. I would like to discuss one other matter. The 1307(f)-2013 gas cost calculations are based on natural gas price projections supported by Mr. Skoog in his testimony. As Mr. Skoog describes in his testimony, these price projections are based, in part, on the latest available NYMEX projections. As we have in the last several 1307(f) proceedings, for Peoples’ quarterly filings up to and including the implementation filing, I will update the gas cost calculations Peoples uses for the 1307(f)-2013 projected period based on the latest available NYMEX price projections for the remaining 1307(f)-2013 projected period.

Q. **DOES THAT CONCLUDE YOUR TESTIMONY?**

A. Yes.