Unified Sharing Mechanism Study

I. Introduction

During Columbia Gas of Pennsylvania, Inc.'s (CPA or Columbia) 2014 1307(f) process, certain parties raised questions related to the allocation of the customers' share of net proceeds derived from Off System Sales, Asset Management Arrangements (AMA) and Capacity Release transactions. Currently, the mechanisms by which customers receive their allocated share of these proceeds are the Purchased Gas Demand Charge (PGDC) and Purchased Gas Commodity Cost (PGCC). Certain parties in the 2014 1307(f) process made the claim that additional weight should be applied to the PGDC allowing CHOICE customers to benefit more than the current process allows. Other parties strongly disagreed with this position. Although CPA responded to discovery requests from parties related to the issue, CPA did not take a position on this dispute.

In its Final Order in the 2014 1307(f) proceeding, the Commission directed CPA to develop a study to be filed with its 2015 1307(f) pre-filing application to address the issue of whether the existing methodology appropriately allocates the customers' share of net USM proceeds between the PGDC and PGCC. This study examines historical Off System Sales, AMA and Capacity Release revenues to determine if the current split of revenues between the PGDC and PGCC is appropriate and, if not, suggests a more equitable split.

The Commission order identifies six questions which at a minimum must be addresses in this analysis. Specifically:

- Are transportation and storage assets equally allocated between CHOICE and PGC customers, taking into account base-load assignments of firm transportation given to and paid for by NGS's? If not, describe and specifically quantity any differential.
- Do both NGSs and PGC customers pay a roughly equal load-weighted share of total system storage and transportation costs, taking into account NGS-assigned capacity and balancing costs? If not, specifically quantify this differential.
- Can Columbia definitely identify any off-system sales that do not involve the use of its transportation and storage assets? If so, describe and specifically quantify each of these transactions.
- Under Columbia's AMAs, are the underlying released transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load? If not, describe and specifically quantify any differential.
- Under Columbia's released capacity transactions, are the released transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load? If not, describe and specifically quantify any differential.

- Under Columbia's off-system sales transactions, are the underlying transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load? If not, describe and specifically quantify any differential.

II. Current USM Methodology

The current USM Methodology has been in place since 2002. Prior to that, capacity release and off system sales had separate sharing mechanisms. Currently 75% of net proceeds under the USM are returned to customers through the PGDC and PGCC with CPA retaining the remaining 25%. Consistent with the order in CPA's 2008 1307(f) settlement, 60% of the amount provided to customers is credited through the PGCC, which is refunded only to PGC customers and 40% of the amount provided to customers is credited through the PGDC, which is refunded to CHOICE and PGC customers.

The total cost of capacity that CPA has under contract to provide firm service is split between CHOICE and PGC customers based on forecasted annual firm demand. CPA determines the PGDC based on the total forecasted firm demand of both CHOICE and PGC customers. The PGDC is then charged to PGC customers on a throughput basis. For CHOICE customers, CPA deducts the cost of assigned Columbia Transmission and Columbia Gulf capacity from the PGDC paid by PGC customers in determining the PGDC that is charged CHOICE customers on a throughput basis. Thus, in total CHOICE and PGC customers pay for and receive the benefits of CPA's capacity portfolio in an equitable manner.

Following are responses to the questions which the Commission specifically directed CPA to address:

- Are transportation and storage assets equally allocated between CHOICE and PGC customers, taking into account base-load assignments of firm transportation given to and paid for by NGS's? If not, describe and specifically quantity any differential.
- **Response: Yes, transportation and storage assets are equally allocated between CHOICE and PGC customers from a total demand cost perspective as described above.**

- Do both NGSs and PGC customers pay a roughly equal load-weighted share of total system storage and transportation costs, taking into account NGS-assigned capacity and balancing costs? If not, specifically quantify this differential.
- **Response: Yes, since the allocation is developed based on the total cost of the capacity and is allocated based on annual demand for CHOICE and PGC customers it is developed on an equitable basis.**

- Can CPA definitely identify any off-system sales that do not involve the use of its transportation and storage assets? If so, describe and specifically quantify each of these transactions.

- **Response: While it is possible to structure various off system sales arrangements that do not use capacity assets, the vast majority of CPA's off system sales currently involve the use of CPA's transportation or storage assets.**

- Under CPA's AMAs, are the underlying released transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load? If not, describe and specifically quantify any differential.
- **Response: Yes.**

- Under CPA's released capacity transactions, are the released transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load? If not, describe and specifically quantify any differential.
- **Response: Yes.**

- Under Columbia's off-system sales transactions, are the underlying transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load? If not, describe and specifically quantify any differential.
- **Response: Yes.**

III. Off System Sales/AMA/Capacity Release

CPA's Unified Incentive Program has generated on average approximately $10 million annually for the past several years, ranging from $5.7 million in 2011-12 to $15.9 million in 2013-14. A number of products make up the program, including: Sales, Options, AMA, Exchanges and Capacity Release. Table 1 shows the annual revenue by product.

Table 1

Unified Incentive Program Results ($millions)

Year	Sales	Options	AMA	Exchanges	Capacity Release	Total
2010-11	$2.91	$1.07	$0.87	$3.33	$2.06	$10.24
2011-12	$0.51	0	$1.06	$2.90	$1.20	$5.67
2012-13	$1.16	$0.52	$1.71	$2.71	$1.38	$7.48
2013-14	$1.84(1)	$0.16	$2.66	$2.02	$1.37	$8.05(1)
Average	$1.60	$0.44	$1.58	$2.74	$1.50	$7.86

(1) Three year average for Jan 2014, due to one-time sales opportunity

While the vast majority of the transactions included in each of these product categories use CPA's capacity, Sales, Options and Exchanges are products that also involve the use of natural gas

supply. AMA value is a combination of capacity release value and commodity values in the market place that may vary from time to time. The relative weighting used by counter-parties is determined solely by the counter-party in coming to a negotiated value for the various products. Capacity Release is the only product that uses only capacity and since capacity is paid for by both CHOICE and PGC customers, both groups of customers should benefit from this product through a credit to the PGDC.

Over the past four years, as shown in Table 1, Sales, Options, AMA and Exchanges have averaged $6.36 million or 80.9% of the total off system sales results. Capacity Release revenues have averaged $1.50 million or 19.1% of the total.

IV. Findings/Recommendations

The Commission directed CPA to provide the foregoing evaluation and to address whether the current allocation between the PGDC and PGCC continues to be appropriate. CPA recognizes that parties may take different positions regarding allocation of the customer share or net proceeds from the five categories set forth above.

As described above, CPA's firm customers, CHOICE and PGC, equally pay for the total transportation and storage capacity held by CPA to provide safe and reliable service.

Capacity Release utilizes only capacity in the determination of its value. These products have averaged 19.1% of the total USM net revenue over the past four years. The remaining products utilize capacity AND natural gas supply. These products (Sales, Options, AMA and Exchanges) have provided 80.9% of the total USM net revenue over the past four years.

Recognizing the blended nature of the resources utilized for off system sales other than Capacity Release, the allocation procedure could be modified such that the percentage of revenues allocated to the PGDC could be based on two factors. The first being the percentage of Capacity Release to total Off System Sales and Capacity Release based on a four year average. The second factor would be calculated based on the current CHOICE participation rate applied to the percentage of revenues derived from Sales, Options, AMA and Exchanges based on a four year average. The revenues allocated to the PGCC would be the remainder following the calculation of the PGDC percentage. This methodology would allocate a portion of the value of non-capacity release revenue to the CHOICE customers commensurate with levels of CHOICE participation. If CHOICE participation reached 100%, then 100% of the customers' share of the Capacity release and Off System Sales would be credited to the PGDC.

Note that the Off System Sales and Capacity Release credits to the PGDC and the PGCC in Exhibit 1-A of this filing have been calculated in accordance with the currently effective tariff. Should the Commission determine that CPA's proposed treatment of off system sales and Capacity Release credits as presented herein is appropriate, the PGDC and PGCC credits presented on Exhibit 1-A of this filing would require changing consistent with this revised methodology.