

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2015-2469665
	:	Section 1307(f)
Columbia Gas of Pennsylvania, Inc.	:	

**MAIN BRIEF
OF THE
BUREAU OF INVESTIGATION & ENFORCEMENT**

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Dated: June 16, 2015

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I. INTRODUCTION AND PROCEDURAL HISTORY.

By overnight delivery dated February 27, 2015, Columbia Gas of Pennsylvania, Inc. (“Columbia” or “Company”) submitted pre-filed information regarding its 2015-2016 Purchased Gas Cost (PGC) rate filing pursuant to Section 1307(f) of the Public Utility Code,¹ and the Commission’s regulations at 52 Pa. Code §§ 53.64-53.65. Columbia’s pre-filed information also included an Exhibit 16 titled Unified Sharing Mechanism Study (“Exhibit 16” or “USM Study”). The USM Study was submitted in response to a mandate set forth in the Commission’s 2014 Opinion and Order² (“2014 Order”) and in a Joint Motion authored by Commissioners James Cawley and Pamela Witmer (“Cawley Witmer Joint Motion”)³ regarding Columbia’s 2014-2015 1307(f) proceeding.

On April 1, 2015, Columbia filed its Supplement No. 230 to Tariff Gas – Pa. PUC No. 9 with a proposed effective date of October 1, 2015 along with its supporting testimony. Supplement No. 230 provides for the Company’s annual adjustment and reconciliation of its gas cost recovery rates. The Company, through Supplement No. 230, proposes a decrease in gas cost recovery rates of \$0.14050/Therm.

On March 11, 2015, the Office of Small Business Advocate (“OSBA”) filed a Complaint in response to Columbia’s February 27, 2015 pre-filing. I&E filed its Notice of Appearance on March 12, 2015. The Office of Consumer Advocate (“OCA”) filed its

¹ 66 Pa. C.S. § 1307(f).

² See generally OPINION AND ORDER, Docket No. R-2014-2408268, September 11, 2014.

³ See generally JOINT MOTION OF COMMISSIONER JAMES H. CAWLEY AND COMMISSIONER PAMELA A. WITMER, Docket No. R-2014-2408268, September 11, 2014.

Notice of Appearance on March 30, 2015 as well as its Formal Complaint. Shipley Energy Company, Interstate Gas Supply, Inc., and Dominion Retail, Inc., collectively, the Natural Gas Supplier Parties (“NGS Parties”), filed a Petition to Intervene on March 27, 2015. And, the Columbia Industrial Intervenors (“CII”) filed a Petition to Intervene on March 30, 2015.

Administrative Law Judge (“ALJ”) Mark A Hoyer conducted a prehearing conference on April 7, 2015. Pursuant to the litigation schedule agreed to among the parties, on May 5, 2015, I&E served to the parties and the ALJ I&E Statement No. 1, the prepared direct testimony of I&E witness Jeremy B. Hubert. On May 22, 2015, I&E served to the parties and the ALJ I&E Statement No. 1-R and I&E Exhibit No. 1-R, the prepared rebuttal testimony and accompanying exhibit of Mr. Hubert.

Through a series of settlement conferences held among the parties, all issues in the proceeding were resolved through a mutually acceptable settlement to be submitted by the parties on the due date for reply briefs in this proceeding, except for the proposed modifications to Columbia’s USM. On June 3, 2015, at the time and place set for the evidentiary hearing, the parties appeared before ALJ Hoyer and stipulated to the admission of all prepared, written and served testimony, and waived cross-examination. At that time, I&E moved into evidence I&E Statement No. 1, I&E Statement No. 1-R, and I&E Exhibit No. 1-R.

I&E will address the settlement in its statement in support. In this brief, I&E addresses the issues as set forth herein.

II. SUMMARY OF ARGUMENT.

Columbia submitted pre-filed information regarding its 2015-2016 Purchased Gas Cost rate filing pursuant to Section 1307(f) of the Public Utility Code. Columbia's pre-filed information also included an Exhibit 16 titled Unified Sharing Mechanism Study. The USM Study was submitted in response to a directive set forth in the Commission's 2014 Order and in a Joint Motion authored by Commissioners James Cawley and Pamela Witmer filed with the 2014 Order.

In the 2014 Order, the Commission concurred with the ALJ's Recommended Decision, finding that that the record evidence established in the 2014 proceeding was not sufficient to support a modification of the Universal Sharing Mechanism ("USM") at that juncture.⁴ The Commission reasoned that absent a more thorough analysis to support a modification to the current USM, the Commission found that the then current 60% / 40% allocation to the PGCC and PGDC was not unduly discriminatory and did not violate 66 Pa. C.S. §§ 1304 and 2203(4) (relating to discrimination in rates).⁵ The Commissioners also felt that the record in the 2014 proceeding clearly indicated that a more rigorous analysis of the underlying sources of revenues flowing through the USM needed to be performed before a ratemaking adjustment derived from changes to the purchased gas commodity costs ("PGCC") and purchased gas demand charge ("PGDC") could be made.

⁴ 2014 Order, p. 31.

⁵ 2014 Order, p. 31.

⁶ As a result, the Commissioners directed that Columbia present an evaluation as part of its pre-filing in 2015's 1307(f) proceeding.⁷

Columbia provided the required evaluation as Exhibit 16 of the pre-filing data submitted on February 27, 2015.⁸ Columbia added that recognizing the blended nature (demand and capacity values) of the resources used for Off-System Sales ("OSS") other than Capacity Release ("CR") (Sales, Options, AMA and Exchanges), 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 CR to total OSS and CR based on a four year average.⁹ 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.¹⁰ The revenues allocated to the PGCC would be the remainder following the calculation of the PGDC percentage.¹¹

I&E witness Hubert recommended that the current allocation of the USM credits between the PGCC and the PGDC be modified to reflect the Company's proposed alternative calculation presented in Exhibit No. 16 and as discussed above, with one modification: the percentage of Capacity Release to total Off System Sales and Capacity Release should be based on the average of the three most recently completed PGC

⁶ 2014 Order, p. 32. *See also* Cawley Witmer Joint Motion, pp. 1-2.

⁷ 2014 Order, pp. 32-33. Cawley Witmer Joint Motion, p. 2.

⁸ *See* Exhibit No. 16, Unified Sharing Mechanism Study, Docket No. R-2015-2469665.

⁹ Columbia Statement No. 2, p. 28. *See also* Exhibit 16, Sheet 4 of 4.

¹⁰ Columbia Statement No. 2, p. 28. *See also* Exhibit 16, Sheet 4 of 4.

¹¹ *Id.*

periods for which data are available at the time of the 1307(f) proceeding, as should the percentage of revenue derived from Sales, Options, AMA and Exchanges.¹²

III. LEGAL STANDARD / BURDEN OF PROOF.

It is axiomatic that the burden of proof in any proceeding involving a utility's existing or proposed rates is on the utility.¹³ To satisfy this burden, Columbia must prove by a preponderance of evidence that its existing and proposed rates are just and reasonable.¹⁴ A preponderance of the evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party.¹⁵ If a preponderance of evidence is submitted, the burden of going forward with evidence shifts to opposing parties to produce credible evidence of at least co-equal weight. While the burden of going forward may shift back and forth between the parties, the ultimate burden of persuasion with respect to the justness and reasonableness of Columbia's present and proposed rates remains with the Company.

Further, this Commission must ensure that any adjudication is supported by substantial evidence. "Substantial evidence" is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion.¹⁶

¹² I&E Statement No. 1, p. 15. *See also* I&E Statement No. 1-R, p. 3.

¹³ *See* 66 Pa.C.S. §§1301, 315(a); *Brockway Glass Co. v. Pennsylvania Public Utility Commission*, 437 A.2d 1067 (Pa. Commw. 1981); *Lower Frederick Twp. v. Pennsylvania Public Utility Commission*, 409 A.2d 505 (Pa. Commw. 1980).

¹⁴ *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).

¹⁵ *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

¹⁶ *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission*, 413 A.2d 1037 (Pa. 1980);

IV. ARGUMENT.

A. Proposed Modifications to the USM.

1. The History of Columbia's Unified Sharing Mechanism.

I&E witness Hubert summarized the history of Columbia's USM in his direct testimony.¹⁷ I&E witness Hubert stated, prior to the creation of the USM, capacity release revenues were credited against PGDC costs as capacity costs, and off-system sales revenues were credited against PGCC costs.¹⁸ Columbia's sharing mechanisms were integrated into a unified approach in the 2002 Section 1307(f) proceeding at Docket No. R-000272004.¹⁹ In the settlement of the Company's 2008 1307(f) filing, the parties agreed to a company/customer sharing mechanism which provided, for all net proceeds up to \$6 million, customers would receive a 75% share and the Company would retain 25%.²⁰ For net proceeds that exceeded the \$6 million threshold, the customer/company sharing ratio would be 70%-30%.²¹ Additionally, in that proceeding it was also established that the portion of the USM credited to customers would be allocated 60% to the PGCC and 40% to the PGDC.²² This USM was to remain in effect through September 30, 2009, and be revisited in the 2009 Section 1307(f) proceeding.²³

The present structure of the USM was approved by the Commission in Columbia's 2009 Section 1307(f) proceeding at Docket No. R-2009-2093219, which established that

¹⁷ I&E Statement No. 1, pp. 4-5.

¹⁸ I&E Statement No. 1, p. 4.

¹⁹ *Id.*

²⁰ I&E Statement No. 1, p. 4.

²¹ *Id.*

²² *Id.*

²³ *Id.*

customers would receive 75% of all net proceeds generated from off system sales and capacity release, and Columbia would retain 25%; however, the 60%/40% sharing ratio between commodity and demand credits was not revisited.²⁴ In Columbia's 2012 Section 1307(f) proceeding (Docket No. R-2012-2293303), the Commission approved the 75% customer / 25% Company USM to continue unless and until changed by the Commission, but there has been no further elaboration on the 60%/40% sharing allocation between the PGCC and the PGDC.

2. The Commission's 2014 Order²⁵ and the Cawley Witmer Joint Motion.²⁶

The Commission explained in its 2014 Order, under Columbia's pre-2014 USM, customers received 75% of all net proceeds generated from off system sales and capacity releases and the Company retained the remaining 25%.²⁷ Explaining further, the customer portion, was split again with 60% of the 75% credited against the PGCC and 40% of the 75% is credited against the PGDC.²⁸ The as stated structure of the 75% / 25% customer/Company split was approved in the 2009 Section 1307(f) proceeding and the 60% / 40% PGCC/PGDC split was approved in the settlement of the 2008 1307(f) filing.²⁹ The Commission then noted, as observed by the ALJ, there was no issue in the 2014 proceeding regarding the 75% / 25% split shared between customers and the Company.³⁰

²⁴

Id.

²⁵

See Footnote 2, *supra*.

²⁶

See Footnote 3, *supra*.

²⁷

2014 Order, p. 17.

²⁸

Id.

²⁹

2014 Order, pp. 17-18. *Citing* I&E witness Jeremy Hubert's 2014 I&E Statement No. 1-R.

³⁰

2014 Order, p. 18.

The Commission then presented a summary of the positions of all of the parties, as well as the ALJ's Recommended Decision, and concurred with the ALJ, finding that the record evidence established in the 2014 proceeding was not sufficient to support a modification of the USM at that juncture.³¹ The Commission reasoned that absent a more thorough analysis to support a modification to the current USM, the Commission found that the then current 60% / 40% allocation to the PGCC and PGDC was not unduly discriminatory and did not violate 66 Pa. C.S. §§ 1304 and 2203(4) (relating to discrimination in rates).³² The Commission stated further that the continuation of the then current 60% / 40% allocation, reached through a Settlement in a prior Columbia Section 1307(f) proceeding, was not unreasonable based on the record evidence presented in the 2014 proceeding.³³

The Commissioners also felt that the record in the 2014 proceeding clearly indicated that a more rigorous analysis of the underlying sources of revenues flowing through the USM needed to be performed before a ratemaking adjustment derived from changes to the PGCC and PGDC could be made.³⁴ And, the Commission indicated that the 2014 proceeding begged the question as to why these revenues should not be more uniformly allocated to both PGC and CHOICE customers.³⁵ As a result, the Commissioners directed that Columbia, the party with the information needed to shed light on this matter, present an evaluation as part of its pre-filing in 2015's 1307(f)

³¹ 2014 Order, p. 31.

³² 2014 Order, p. 31.

³³ *Id.*

³⁴ 2014 Order, p. 32. *See also* Cawley Witmer Joint Motion, pp. 1-2.

³⁵ 2014 Order, p. 32. Cawley Witmer Joint Motion, p. 1.

proceeding.³⁶ The Commission directed that the evaluation discuss whether the existing allocation of USM credits between the PGCC and the PGDC within the PGC should be modified.³⁷ However, the evidence provided in this case demands a further review of the existing USM between now and the next 1307(f) proceeding in order to provide more information for the parties to this case to obtain a just allocation of future net revenues.³⁸ Columbia, as directed by the Commission, presented the requested evaluation as part of its 2015 pre-filing as Exhibit 16.

3. The Columbia Gas Position.

As discussed *supra*, the Commission's 2014 Order and the Cawley Witmer Joint Motion directed Columbia to present an evaluation of whether the existing allocation of USM credits between the PGCC and the PGDC within the PGC should be modified.³⁹ The 2014 Order required that the evaluation be included with the pre-filing data for 2015's 1307(f) proceeding.⁴⁰ Accordingly, Columbia provided the required evaluation as Exhibit 16 of the pre-filing data submitted on February 27, 2015.⁴¹ Exhibit 16 included the Company's evaluation and response to the specific questions set forth in the 2014 Order and the Cawley Witmer Joint Motion.⁴² The Company's responses to the questions which the Commission specifically directed Columbia to address are as follows:⁴³

Are transportation and storage assets equally allocated between CHOICE and PGC customers, taking into account base-load assignments of

³⁶ 2014 Order, pp. 32-33. Cawley Witmer Joint Motion, p. 2.

³⁷ *Id.*

³⁸ Cawley Witmer Joint Motion, p. 1.

³⁹ 2014 Order, p. 32-33. *See also* Cawley Witmer Joint Motion, p. 2; and Columbia Statement No. 2, p. 27.

⁴⁰ 2014 Order, pp. 32-33. *See also* Cawley Witmer Joint Motion, p. 2.

⁴¹ *See* Exhibit No. 16, Unified Sharing Mechanism Study, Docket No. R-2015-2469665.

⁴² *Id.*

⁴³ Exhibit 16, Sheets 2-3 of 4.

firm transportation given to and paid for by NGS's? If not, describe and specifically quantify 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.

Columbia has also submitted data showing that over the four year period from October 2010 through September of 2014 Capacity Release transactions have generated

approximately 19.0% of total revenues subject to the USM and Off-System Sales transactions have generated the balance of approximately 81.0%.⁴⁴ Currently under the USM, 40% of the shared revenues are allocated to the PGDC and 60% are allocated to the PGCC.⁴⁵ Capacity Release utilizes only capacity in the determination of its value.⁴⁶ Recognizing the blended nature (demand and capacity values) of the resources used for OSS other than CR (Sales, Options, AMA and Exchanges), 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 CR to total OSS and CR based on a four year average.⁴⁷ 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.⁴⁸ The revenues allocated to the PGCC would be the remainder following the calculation of the PGDC percentage.⁴⁹ Application of this methodology would allocate a portion of the value of non-capacity release revenue to the CHOICE customers commensurate with levels of CHOICE participation.⁵⁰ If CHOICE participation reached 100%, then 100% of the customers' share of the CR and OSS would be credited to the PGDC.⁵¹ Columbia has not reflected this alternative calculation in the allocation of USM credits between the PGCC and

⁴⁴ Columbia Statement No. 2, p. 28. *See also* Exhibit 16, Sheet 4 of 4.

⁴⁵ Columbia Statement No. 2, p. 28.

⁴⁶ *Id.*

⁴⁷ Columbia Statement No. 2, p. 28. *See also* Exhibit 16, Sheet 4 of 4.

⁴⁸ Columbia Statement No. 2, p. 28. *See also* Exhibit 16, Sheet 4 of 4.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ Columbia Statement No. 2, p. 28. *Accord* I&E Statement No. 1-R, p. 7. *See also* Exhibit 16, Sheet 4 of 4.

PGDC in its filing, but offers it as an alternative methodology.⁵² Should the Commission determine that Columbia's proposed treatment of off system sales and Capacity Release credits as presented on Exhibit 16 is appropriate, the PGDC and PGCC credits presented on Exhibit 1-A of this filing would require changing consistent with this revised methodology.⁵³

4. The Bureau of Investigation and Enforcement Position.

I&E witness Hubert reviewed all of Columbia's pre-filed information, including Exhibit 16, and the Company's written testimony.⁵⁴ Upon completion of his review of Columbia's analysis and evaluation set forth in Exhibit 16, I&E witness Hubert recommended that the current allocation of the USM credits between the PGCC and the PGDC be modified to reflect the Company's proposed alternative calculation presented in Exhibit No. 16 and as discussed above, with one modification: the percentage of Capacity Release to total Off System Sales and Capacity Release should be based on the average of the three most recently completed PGC periods for which data are available at the time of the 1307(f) proceeding, as should the percentage of revenue derived from Sales, Options, AMA and Exchanges.⁵⁵ Citing to Exhibit 16, I&E witness Hubert reiterated Columbia's reasoning recognizing that considering 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

⁵² Columbia Statement No. 2, p. 29.

⁵³ Exhibit 16, Sheet 4 of 4.

⁵⁴ See I&E Statement No. 1, pp. 14-21.

⁵⁵ I&E Statement No. 1, p. 15. See also I&E Statement No. 1-R, p. 3.

could be based on two factors.⁵⁶ The first, as stated by Columbia, being the percentage of Capacity Release to total Off System Sales and Capacity Release based on a three year average.⁵⁷ The second factor, as stated by Columbia, 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 three year average.⁵⁸ And finally, as also stated by Columbia, the revenues allocated to the PGCC would be the remainder following the calculation of the PGDC percentage.⁵⁹

I&E witness Hubert recommends the use of a three year average, instead of the four year average proposed by Columbia, asserting that the three year average is similar to the way that Columbia now determines the retainage rate applied in each calendar year, and, as a result of the partial settlement reached in last year's proceeding at Docket No. R-2014-2408268, is similar to the way the parties agreed to calculate the projected level of USM revenues to be shared with customers.⁶⁰

The basis for I&E's recommendation, as set forth by I&E witness Hubert, is that Columbia's Unified Incentive Program is comprised of Off-System Sales (Sales, Options, AMA, and Exchanges) and Capacity Release.⁶¹ Reasoning further, Capacity Release is the only product that uses only capacity in the determination of its value, and since capacity is paid for by both PGC and Choice customers, both groups of customers should

⁵⁶ I&E Statement No. 1, p. 15. *See also* Exhibit 16, Sheet 4 of 4.

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ I&E Statement No. 1, p. 16.

⁶¹ I&E Statement No. 1, p. 16.

benefit from this product through a credit to the PGDC.⁶² The remaining products (Sales, Options, AMA and Exchanges) utilize capacity and natural gas supply. As shown on Sheet 3 of 4 of Columbia Exhibit No. 16, over the past three year period (October 2011 – September 2014) capacity release transactions have generated on average approximately 19% (\$1.32 million / \$7.07 million) of total USM net revenue, and off-system sales transactions have generated on average approximately 81% (\$5.75 million / \$7.07 million) of total USM net revenue.⁶³ And finally, application of the methodology recommended by I&E, as also described by Columbia in Exhibit 16, would allocate a portion of the value of non-capacity release revenue to the Choice customers commensurate with levels of Choice participation.⁶⁴

I&E confidently endorses Columbia's method of allocating the percentage revenues derived from off-system sales revenue to PGDC based on the current choice participation rate given that it is not possible to predict an exact percentage of Columbia's off-system sales that do not involve the use of Columbia's transportation assets.⁶⁵ Such a calculation requires specific knowledge of what types of products the counter-parties to off-system sales are seeking or willing to enter into as these product values are constantly changing based on then existing market conditions.⁶⁶

Finally, I&E witness Hubert ran through the calculations in his direct testimony and ultimately concluded and recommended that based on the PGCC and PGDC credit

⁶²

Id.

⁶³ I&E Statement No. 1, p. 16. *See also* Exhibit 16, Sheet 3 of 4.

⁶⁴ I&E Statement No. 1, pp. 16-17.

⁶⁵ I&E Statement No. 1, p. 17.

⁶⁶ I&E Statement No. 1, p. 17.

rates projected for the 2015/2016 PGC period the total percentage of USM net revenues that should be allocated to the PGDC is 42.5% (19% + 23.5%) and the revenues allocated to the PGCC would be the remainder of 57.5%.⁶⁷ Stated in dollars, the portion allocated to the PGCC would be \$3,190,968 ($\$5,549,510 \times 57.5\%$) and the portion allocated to the PGDC would be \$2,358,542 ($\$5,549,510 \times 42.5\%$).

5. The NGS Parties' Position.

The NGS Parties' recommend that the total USM credits be shared equally between Columbia's gas sales customers and its Choice program customers through the PGDC mechanism alone rather than through the PGCC and PGDC, as the practice has been since Columbia's sharing mechanisms were integrated into a unified approach in the 2002 Section 1307(f) proceeding.⁶⁸ I&E witness Hubert points out that this would have the net effect of eliminating any portion of the USM being credited to customers on a commodity basis notwithstanding the fact that a portion of the USM revenues being shared are commodity-related as illustrated on I&E Exhibit No. 1-R, Schedule 3.⁶⁹ Furthermore, there are real differences between PGC and Choice customers not only in the revenues shared under the USM but also in the customers receiving those revenues which justify a distinction between PGC and Choice customers.⁷⁰

The NGS parties also claim that the difference in the Choice per customer credit to the PGC per customer credit serves as an artificial limitation on the amount of customers that would be willing to migrate, which in essence, is a hurdle that must be overcome in

⁶⁷ I&E Statement No. 1, pp. 17-19.

⁶⁸ NGS Parties St. No. 1, p. 3.

⁶⁹ I&E Statement No. 1-R, p. 8. *See also* I&E Exhibit No. 1-R, Schedule 3.

⁷⁰ *See* I&E Statement No. 1-R, pp. 8-9.

order for customers to switch from sales service to Choice.⁷¹ However, I&E witness Hubert pointed out that at the current shopping level, the share of credits experienced by PGC and Choice customers is nearly identical under I&E's recommended methodology as under the existing methodology.⁷² I&E witness Hubert also pointed out, because Columbia uses its upstream PGC assets to provide load balancing services to Choice customers and also uses that capacity to make off-system sales, it is reasonable to apply at least some of the USM credit to Choice customers.⁷³ Therefore sharing some portion, at present 40%, of the capacity release and off system sales revenues through the PGDC is appropriate because both PGC and Choice customers pay for, and benefit from, the load balancing services.

And finally, the NGS Parties claim that 100% of the credits should be refunded through the PGDC, because the revenue generated from the USM transactions is solely attributable to the use of peaking assets, which all customers pay for equally through the PGDC.⁷⁴ But, as I&E witness Hubert has made clear, the excess capacity that the Company must retain in order to meet its obligations to PGC and Choice customers can either be released to a third-party, or it can be used to transport gas as part of an off-system sale transaction.⁷⁵ Columbia is able to make off-system sales by integrating those sales with the gas purchasing and storage operations that Columbia conducts to serve its

⁷¹ NGS Parties St. No. 1, p. 7.

⁷² I&E Statement No. 1-R, p. 11. *See also* I&E Exhibit No. 1-R, Schedules 1-2.

⁷³ I&E Statement No. 1-R, p. 11.

⁷⁴ NGS Parties St. No. 1, p. 15.

⁷⁵ I&E Statement No. 1-R, p. 13.

gas sales customers.⁷⁶ The Company's ability to earn the USM net proceeds is related, in part, to its transportation and storage contracts, as well as its efforts to procure the gas commodity.⁷⁷ Therefore, it is reasonable to apply a portion of the USM to the PGDC as well as a portion to the PGCC.⁷⁸

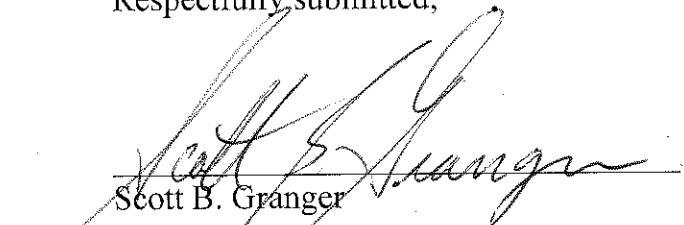
⁷⁶ *Id.*
⁷⁷ *Id.*
⁷⁸ *Id.*

IV. CONCLUSION.

I&E respectfully submits that Columbia has met its burden of proof; and, that there is substantial evidence of record to support I&E's recommendation that ALJ Hoyer and the Commission find that the Company's USM methodology be modified as recommended by I&E witness Hubert.⁷⁹ Mr. Hubert's recommendation mirrors that of the Company's as set forth in Exhibit 16 but for the modification of using a three year average instead of a four year average. Furthermore, the I&E methodology provides for a "just allocation" as sought by the Commission in 2014.⁸⁰

Regarding the settled issues related to Columbia's Section 1307(f) proceeding, I&E will submit a statement supporting the settlement along with the joint petition for settlement.

Respectfully submitted,



Scott B. Granger
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Dated: June 16, 2015

⁷⁹ I&E Statement No. 1, p. 15.

⁸⁰ Cawley Witmer Joint Motion, p. 1. *See also* 2014 Order, p. 32

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 :
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CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Main Brief** dated June 16, 2015,
in the manner and upon the persons listed below, in accordance with the requirements of
52 Pa. Code § 1.54 (relating to service by a party):

Served via Electronic and First Class Mail

Theodore J. Gallagher, Esquire
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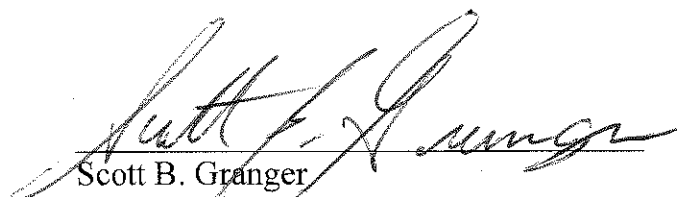
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