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June 16, 2015

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
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Harrisburg, PA 17105-3265

Re: Pa. Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.
Docket No. R-2015-2469665, etc.

Dear Secretary Chiavetta:

Enclosed please find the Main Brief of Columbia Gas of Pennsylvania, Inc. for the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

Michael W. Hassell

MWH/skr
Enclosures

cc: Certificate of Service
Honorable Mark A. Hoyer

CERTIFICATE OF SERVICE
(Docket No. R-2015-2469665)

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: June 16, 2015

Michael W. Hassell

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	Docket No. R-2015-2469665
	:	C-2015-2474515
v.	:	C-2015-2475969
	:	
Columbia Gas of Pennsylvania, Inc.	:	
	:	
	:	

MAIN BRIEF OF COLUMBIA GAS OF PENNSYLVANIA, INC.

TO ADMINISTRATIVE LAW JUDGE MARK A. HOYER:

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I. INTRODUCTION AND PROCEDURAL HISTORY

On February 27, 2015, as required by 52 Pa. Code §§ 53.64 and 53.65, Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") filed with the Pennsylvania Public Utility Commission ("Commission") its "Information Submitted in Compliance with Act 74 of 1984 and Pursuant to Title 52, Pennsylvania Code, Sections 53.64 and 53.65 Supporting Recovery of Purchased Gas Costs" containing certain pre-filing data required under the Commission's regulations concerning annual changes to rates for recovery of purchased gas costs ("PGC"). That pre-filing data reflected a proposed decrease of $0.14050/Therm from Columbia's then-effective rate for recovery of PGC costs to sales customers.

On April 1, 2015, Columbia filed Supplement No. 230 to Tariff Gas Pa. P.U.C. No. 9 ("Supplement No. 230") to become effective for service rendered on and after October 1, 2015. In Supplement No. 230, Columbia proposed a decrease in its PGC rates of $0.14050/Therm. Supplement No. 230 was docketed by the Commission at Docket No. R-2015-2469665 and was assigned to Administrative Law Judge Mark A. Hoyer (the "ALJ").

On March 12, 2015, the Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance. On March 27, 2015, Dominion Retail, Inc., Shipley Energy Company, and Interstate Gas Supply, Inc. (collectively, the "NGS Parties") filed a Petition to Intervene. On March 30, 2015, the Office of Consumer Advocate ("OCA") filed a Notice of Appearance, Formal Complaint and Public Statement, which was docketed at C-2015-2474515. Also on March 30, 2015, the Columbia Industrial Intervenors ("CII") filed a Petition to Intervene.[1] On April 8, 2015, the Office of Small

[1] CII's members are Glen-Gery Corporation ("Glen-Gery"), Knouse Foods Cooperative, Inc. and Harley Davidson Motor Company, Inc.

Business Advocate ("OSBA") filed its Notice of Appearance, Formal Complaint and Public Statement, which was docketed at C-2015-2475969.

A prehearing conference was held before the ALJ on April 7, 2015. At the prehearing conference, the ALJ established the litigation schedule. On April 8, 2015, the ALJ issued a Scheduling Order that confirmed the litigation schedule established at the Prehearing Conference.

The parties to this proceeding conducted substantial formal and informal discovery. Pursuant to the established litigation schedule, I&E, OCA, OSBA, and the NGS Parties served their direct testimony and exhibits on May 5, 2015. Columbia, I&E, OCA, and the NGS Parties served their rebuttal testimony and exhibits on May 22, 2015. On May 28, 2015, Columbia, I&E, OCA, OSBA, and the NGS Parties served their surrebuttal testimony and exhibits.

The Parties held several settlement conferences. As a result of those conferences and the efforts of the parties to examine the issues raised in the proceeding, a settlement in principle of all but two issues was achieved prior to the date scheduled for the evidentiary hearing. On June 3, 2015, a hearing was held for the submission of all testimony and exhibits. The parties waived cross-examination of witnesses and agreed to brief the issues reserved for litigation.

II. LEGAL STANDARD

Pursuant to Section 332(a) of the Public Utility Code, 66 Pa.C.S. § 332(a), Columbia has the burden of proof in this proceeding as to the rates and modifications included in its original filing. The burden of proof, also known as the burden of persuasion, means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery v. Margulies,* 364 Pa. 45, 70 A.2d 854 (1950). However, a party that offers a proposal not included in the Applicant's filing bears the burden of proof for such proposal. *See, e.g., Pa.P.U.C. v. Philadelphia Gas Works,* Docket No. R-00061931, 2007 Pa. P.U.C. LEXIS 45 at *165-68 (Sept. 28, 2007); *Pa. P.U.C. v. Metropolitan Edison Company,* Docket No. R-00061366, 2007 Pa. P.U.C. LEXIS 5 at *111-12 (Jan. 11, 2007). If the proponents and the parties in opposition to the proposals present evidence found to be of precisely equal weight, then the proponents will not have carried their burden of proof. Otherwise, the side that presented evidence found to be more persuasive, even by the slightest amount, will prevail. *Morrissey v. Commonwealth of Pennsylvania,* 424 Pa. 87, 225 A.2d 895 (1986); *Burleson v. Pa. P.U.C.,* 501 Pa. 433, 436, 641 A.2d 1234, 1236 (1983); *V.J.R. Bar Corp. v. P.L.C.B.,* 480 Pa. 322, 390 A.2d 163 (1978); *Milkie v. Pa. P.U.C.,* 768 A.2d 1217, 1220 (Pa. Cmwlth. 2001).

Columbia is not the proponent with respect to the two issues remaining in this proceeding. The first issue concerns the allocation of the customer share of Unified Sharing Mechanism ("USM") net margins between the Purchased Gas Demand Charge ("PGDC") and the Purchased Gas Commodity Charge ("PGCC"). Columbia's filing proposed no change to the existing 60 percent PGCC/40 percent PGDC allocation, although Columbia did present an alternative calculation that would increase the allocated share to the PGDC as CHOICE participation increases. (Columbia Ex. No. 16, p. 4).[2] Proposals to modify the USM allocation of the customer share between the PGDC and PGCC were made by OCA, I&E and the NGS Parties. Columbia has taken no

[2] CHOICE customers are residential and small commercial customers served under Columbia's RDS (Residential Distribution Service) and SCD (Small Commercial Distribution) rate schedules. These customers purchase their gas supply from Natural Gas Suppliers ("NGSs"), and are subject to the PGDC less a credit for capacity assigned to their NGS. Columbia maintains firm capacity to serve these customers. The term CHOICE does not include larger volume transportation service customers. (Columbia St. 2SR, p. 4; Columbia Ex. No. 5, pp. 10, 21).

position as to the most appropriate proposal to allocate the customer share of USM net proceeds.

The second issue reserved for litigation is the NGS Parties' proposal that Columbia undertake an analysis of how its retained pipeline capacity is used. The asserted purpose of this analysis is to segregate certain capacity costs and assign them to the PGCC, to be charged only to sales customers and not to CHOICE customers. (NGS Parties St. 1, p. 17). The NGS Parties bear the burden of proof as to this proposal. As Columbia will explain more fully herein, the NGS Parties have not met their burden of proof with regard to their proposal for a study regarding cost recovery of pipeline assets to serve the PGC. As a result, the NGS Parties' proposal should be denied.

III. SUMMARY OF ARGUMENT

The parties have reserved two issues related to Columbia's PGC for litigation in this proceeding. The first issue, which is a continuation of an issue first raised by the NGS Parties in Columbia's 2014 Section 1307(f) proceeding, is a proposal to change the Company's current allocation of the customer share of net proceeds associated with off-system sales and capacity releases that are subject to sharing under Columbia's USM.[3] The NGS Parties proposed that the Company's current allocation of 60 percent of the customer share of net proceeds to the PGCC and 40 percent to the PGDC should be modified to allocate 100 percent of net proceeds to the PGDC. (NGS Parties St. No. 1, p. 7). OCA proposes to retain the current allocation percentages, or alternatively, to reduce the PGDC portion of net margins to approximately 20 percent, based upon a four-year average of capacity release net margins. (OCA St. No. 1-R, p. 13). OSBA and I&E present alternative calculations, which operate similar to the alternative mechanism

[3] Under the USM, Columbia retains 25% and customers receive 75% of all net proceeds as a PGC credit. The issue in this case concerns the way in which that PGC credit is provided. Columbia's share of net proceeds was not at issue in this case. (Columbia St. No. 2, p. 5).

presented by Columbia in its Exhibit No. 16, but with somewhat different inputs. Columbia does not take a position on these proposals, but will provide brief explanations that may be relevant to the Commission's resolution of this issue.

The second issue in this proceeding that was reserved for litigation was raised by the NGS Parties. The NGS Parties request that Columbia conduct a study regarding cost recovery of pipeline assets to serve the PGC. (NGS Parties St. No. 1, p. 17). The NGS Parties seek to segregate the cost of certain pipeline capacity and charge that cost to sales customers through the PGCC rate. (NGS Parties St. No. 1, p. 17). Columbia opposes this proposal. Any study would be unreasonable and unnecessary. Columbia maintains interstate pipeline capacity to serve the design day needs of its firm sales and CHOICE customers. Consistent with decades of past practice, Columbia charges all customers in its service territory the same average cost of capacity, without regard to the actual interstate pipelines that physically provide gas to the separate distribution areas serving the customers. (Columbia St. No. 2-R, pp. 10-11). The NGS Parties have not asserted that CHOICE customers are charged more for pipeline capacity costs than sales customers. Any change to the process of charging all firm service customers, sales or CHOICE, the same demand charges, based upon a contention that CHOICE customers do not "use" certain capacity, would be contrary to physical fact and would result in a detrimental change to capacity assignment under Columbia's CHOICE program. For the reasons explained more fully in this Main Brief, the NGS Parties' request should be denied.

IV. ARGUMENT

A. PROPOSED MODIFICATIONS TO THE USM.

1. Background.

Columbia is responsible for fulfilling the needs of its firm service customers, including CHOICE and PGC sales customers. (Columbia St. No. 1, p. 12). To meet its obligation, Columbia purchases gas supply and pipeline capacity.[4] Excess supply and/or capacity can result when the actual requirements of firm service customers on any day are less than the supply and/or capacity that Columbia has obtained to meet the expected demand of firm service customers. (Columbia St. No. 1-R, p. 4). When supply and/or capacity are not needed to meet the requirements of its firm service customers, Columbia seeks out transactions to earn revenue from the unused supply and/or capacity. (*Id.* at pp. 2-3). The Commission has encouraged gas utilities to undertake such transactions through sharing mechanisms. (Columbia St. No. 2-R, p. 8).

The USM is a method for distributing the net proceeds that Columbia earns from transactions involving excess supply and/ or capacity. (Columbia St. No. 2, p. 5). Under the USM, 75 percent of the proceeds are credited to customers and Columbia retains 25 percent. *See Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2009-2093219 (Order entered September 30, 2009). The USM encourages Columbia to seek out those transactions that maximize net margins, while maintaining safe and adequate service. (Columbia St. No. 1-R, p. 3). The 75 percent that is credited to customers is further split between the PGCC and the PGDC. (Columbia St. No. 2-R, p. 6). CHOICE and PGC sales customers receive the PGDC credit because both groups pay the PGDC charge. (Columbia St. No. 2, pp. 15-16). Only PGC sales customers pay the

[4] CHOICE NGS suppliers provide the gas supply for their customers pursuant to Columbia's CHOICE average day program, which is described later in this Brief.

PGCC charge; therefore, only PGC sales customers receive the PGCC credit. (*Id.*). Columbia's current Commission-approved tariff provides for a credit of 60 percent of the customer share of total USM revenues to the PGCC and 40 percent to the PGDC. (Columbia St. No. 2, p. 28).

Columbia engages in five types of transactions to produce net proceeds that are shared through the USM: (1) capacity release, (2) options, (3) exchanges, (4) off system sales, and (5) asset management agreements ("AMAs"). (Ex. HAC 1-R). The market determines the value of each transaction at any point in time. (Columbia Ex. No. 16).

Capacity release is a transaction, completed under Federal Energy Regulatory Commission ("FERC") regulations and interstate pipeline tariffs, that "releases" firm contract capacity rights to a third party shipper. (Ex. HAC 1-R). Releases can be recallable or nonrecallable. Under FERC rules, Columbia identifies potential buyers of such capacity, negotiates the release price and completes the transaction utilizing the pipeline's internet based system. (*Id.*). An Options agreement or sale is an arrangement in which Columbia sells a counter party the right, but not the obligation, to sell natural gas to Columbia at a specific location at an agreed-to purchase price and agreed-to volume. (*Id.*). An Exchange Agreement is an arrangement between Columbia and a counter party in which like volumes of natural gas, adjusted if needed for pipeline retention, are exchanged at specific agreed-to locations. (*Id.*). Exchanges can occur during the same day or can span a defined time period. (*Id.*). An off-system sale is an arrangement between Columbia and a buyer for the sale of natural gas at a specific location and at an agreed-to purchase price. (*Id.*). An AMA is an arrangement in which Columbia releases specific capacity assets to a seller that provides a delivered natural gas service to Columbia to serve its customers. (*Id.*).

2. The Commission's Order in Columbia's 2014 Section 1307(f) Proceeding.

In Columbia's 2014 Section 1307(f) proceeding, the NGS Parties challenged the 60 percent PGCC/40 percent PGDC allocation in the USM mechanism. Although the Final Order did not direct any change to the mechanism at that time, the Commission did direct Columbia to undertake a study of its allocation of net proceeds between the PGCC and PGDC. *Pa. P.U.C. et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2408268 (Order entered September 18, 2014). The Commission's Order directed Columbia to address six questions in its study: (1) 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 NGSs?; (2) 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?; (3) Can Columbia definitely identify any off-system sales that do not involve the use of its transportation and storage assets?; (4) Under Columbia's AMAs, are the underlying released transportation and storage assets paid for by CHOICE and PGC customers in proportion to their load?; (5) 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?; and (6) 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? (*Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2408268 (Order entered September 18, 2014)).

As required by the Commission's Final Order in the 2014 1307(f) proceeding, Columbia presented answers to these questions in Exhibit 16 of its pre-filing in the present case. In response to the first question, Columbia answered that its transportation and storage assets are, in fact, equally allocated between CHOICE and PGC Customers from a total demand cost perspective. (Columbia Ex. 16). Columbia responded to the second question by explaining that total system storage and transportation costs are allocated between CHOICE and PGC customers based on total capacity cost and annual demand for CHOICE and PGC customers, and therefore are allocated in an equitable manner. (*Id.*). The third question resulted in a finding that, while it is possible to structure various off system sales arrangements that do not use capacity assets, the vast majority of Columbia's off system sales currently involve the use of Columbia's transportation or storage assets. (*Id.*). Columbia answered the final three questions in the affirmative. (*Id.*).

As a result of its study, Columbia determined that capacity releases, which derive their value solely from the use of capacity assets, accounted for 19.1 percent of the total USM net revenue over the past four years. (Columbia Ex. 16). Sales, options, AMAs, and exchanges, which utilize both supply and capacity, account for 80.9 percent of the total USM net revenue over the past four years. (*Id.*). When a transaction involves both supply and capacity, it is impossible for Columbia to determine which aspect of the transaction, supply or capacity, provides value. (Columbia St. No. 2-R, p. 6). The inherent value of a product in providing gas supply and capacity is encompassed within the negotiated value for the various products, and is determined solely by the counter-party (Columbia Ex. 16). As a result, Columbia could not conclude what portion of USM net proceeds from these other transactions are derived because a counter-party values the capacity or values the gas supply used to accomplish the transaction. (Columbia St. No. 2-R, p. 6). OSBA witness Knecht expressed a similar conclusion, stating:

> I conclude there is no perfect answer to this question. Columbia is able to obtain the values associated with the USM because (a) it has

> excess transportation and storage capacity that is not always needed to meet its PGC obligations, and (b) it is active in the gas markets in order to serve the needs of its gas sales customers. A solution should therefore reflect a reasonable compromise among the various arguments listed above, as well as consideration of rate stability and simplicity.

(OSBA St. No. 1, p. 5).

Although Columbia did not offer any new proposal for allocating the customer share of net proceeds between the PGCC and the PGDC, it did recognize that if CHOICE participation increased, the use of fixed allocation percentages between the PGDC and PGCC would increase the per therm PGCC credit. (Columbia St. No. 1-R, pp. 2, 7). To address this situation, Columbia presented an alternative USM calculation. The alternative calculation would base the allocation to the PGDC on two factors: (1) the percentage of capacity release to total off system sales and capacity release based on a four year average; and (2) the current CHOICE participation rate applied to the percentage of revenues derived from sales, options, AMAs, and exchanges based on a four year average. Following the calculation of the PGDC percentage, the remainder of the customer share of net margins would be allocated to the PGCC. (Columbia St. No. 2, p. 28).

Under this alternative calculation, the share of USM credits allocated to the PGDC revenue would change in direct relation to CHOICE participation levels. (*Id.*). Under this alternative calculation, at a 100 percent CHOICE participation rate, 100 percent of the customers' share of USM credits would be credited to the PGDC. (Columbia St. No. 2, pp. 28-29).

3. Other Parties' Proposals.

Other parties in this proceeding have suggested various alterations to the current allocation of USM revenues. Columbia has not taken a position with regard to the other parties' proposals to revise the allocation of USM net proceeds between the PGDC and the PGCC. However, the Company does oppose two proposals raised by OCA for the first time in its rebuttal testimony: (1) that Columbia redo its USM study to account for capacity assigned to marketers on behalf of CHOICE customers, including capacity for standby and balancing service; and (2) that Columbia bid capacity and supply products in an AMA separately.[5]

OCA's proposal that Columbia redo its USM study to take into account capacity assigned to third party marketers on behalf of Choice customers, "including for standby and balancing services," is unnecessary and inappropriate. Initially, it is important to understand who does and who does not receive USM credits. Firm sales customers and CHOICE customers (i.e., transportation customers receiving service under Rate RDS and Rate SCD) are the only customers who receive the USM credit, through either the PGDC rate (sales and CHOICE) or both the PGDC and PGCC rate (sales). Other General Distribution Service ("GDS") transportation customers are not subject to the PGDC and do not purchase gas under the PGCC rate. (Columbia St. No. 2SR, p. 4). It is also necessary to understand that standby service and EBS – Elective Balancing Service are services available only to GDS customers. (Columbia St. No. 2SR, pp. 4-5). As a result, there is no reason to redo Columbia's USM study to account for the provision of standby or balancing service as the customers who are eligible for these services do not receive USM credits.

A further flaw in OCA's proposal to redo the USM study is its failure to distinguish between capacity used to serve CHOICE customers and that acquired to provide EBS. OCA contends that CHOICE customers receive EBS and that EBS

[5] It was improper for OCA to raise these proposals directed to Columbia for the first time in rebuttal testimony. (OCA St. No. 1-R, p. 13). Because of this timing, Columbia had less than one week to prepare a response.

amounts to a mandatory assignment of PGC capacity to provide balancing. (OCA St. No. 1-R, p. 9). OCA is wrong on both counts.

First, CHOICE customers are not eligible for and do not receive EBS. (Columbia St. No. 2-SR, p. 4). CHOICE customers pay for firm service through a combination of: (1) the cost of capacity assigned to and paid by their CHOICE NGS; and (2) the PGDC rate net of the credit for assigned capacity. The balancing between CHOICE customers' requirements and daily deliveries by CHOICE NGSs pursuant to the CHOICE average day program are managed through use of the retained assets, including storage, paid by all sales and CHOICE customers. (Columbia St. No. 1, p. 34). Thus, CHOICE customers pay the same amount for capacity as firm sales customers and receive the same level of firm service as sales customers. (Columbia St. No. 2-R, pp. 10-11). They do not use EBS, and there is no reason for Columbia to redo its study to account for CHOICE customers' use of EBS.

Second, the additional capacity used to provide balancing and banking service to GDS customers under EBS Option 1 is not reflected as a PGC cost.[6] Columbia acquires separate capacity to meet the balancing and banking services provided under EBS. As set forth in the settlement that established EBS at Docket No. R-00016668, neither the cost of additional capacity acquired to provide EBS service, nor the revenues from EBS customers are included in the PGC. (*Id.*). The OCA was a signatory party to that settlement. (*Id.*). Because EBS is made possible through non-PGC capacity assets, there is no need to account for EBS capacity in a revised USM study of PGC credits.

For the foregoing reasons, OCA's proposal that Columbia redo the USM study directed by the Commission should be rejected.

[6] No GDS customers currently have elected EBS Option 2, which is an intra month balancing service. (Columbia St. No. 1, p. 29).

OCA's second proposal is that Columbia should be required to bid capacity and supply products in an AMA separately. That proposal should be rejected. OCA's proposal would be contrary to AMA rules established by FERC. (Columbia St. No. 1, p. 3; NGS Parties St. No. 1, p. 8; OCA St. No. 1-R, p. 13). As explained above, an AMA is an arrangement in which Columbia releases specific owned assets to a seller that provides a delivered natural gas service to Columbia to serve its tariff customers. (Ex. HAC 1-R). To qualify as an AMA, the AMA counter party must hold the asset as part of a bundled package and deliver certain quantities as part of the AMA. (Columbia St. No. 2-SR, p. 6).

If Columbia were required to bid capacity and supply products separately as OCA suggests, Columbia would be unable to engage in AMA transactions. (*Id.*). Therefore, OCA's proposal would effectively eliminate Columbia's ability to utilize AMAs as a source of USM revenue. The Company's inability to enter into AMA contracts could harm Columbia's customers who receive a share of USM revenues by reducing total USM proceeds.[7] Columbia should not be required to forgo engaging in AMAs that benefit its USM customers. Therefore, OCA's proposal that Columbia refrain from engaging in AMA transactions and, instead, bid capacity and supply products separately should be denied.

B. THE NGS PARTIES' REQUEST THAT COLUMBIA CONDUCT A STUDY ON HOW COLUMBIA'S RETAINED PIPELINE CAPACITY IS UTILIZED SHOULD BE DENIED.

1. Introduction.

In this proceeding, the NGS Parties have proposed that Columbia be required to submit in its next 1307(f) proceeding an "analysis on how the pipeline capacity it retains

[7] A condition that effectively eliminates AMAs as a USM option will reduce total USM proceeds where AMAs would produce the greatest margins.

is being utilized." (NGS Parties St. No. 1, p. 17). The analysis proposed by the NGS Parties would require Columbia to calculate: (1) the portion of pipeline assets retained for system peaking needs; and (2) the portion of pipeline assets utilized for PGC delivery needs. (NGS Parties St. No. 1, p. 17). The stated purpose of this proposed study is to identify pipeline capacity costs to "be allocated to the PGCC". (NGS Parties St. No. 1, p. 17). The effect could be to charge sales and CHOICE customers different capacity costs.

The NGS Parties assert that "the peaking pipeline assets Columbia retains should be paid for by CHOICE and PGC customers equally."[8] (NGS Parties St. No. 1, p. 17). According to the NGS Parties, the study is necessary to ensure that this result is achieved. (NGS Parties St. No. 1, p. 17). However, CHOICE and PGC customers already pay the same unit rates for the cost of capacity and should continue to pay an equal amount for the cost of capacity because all of Columbia's contracted pipeline capacity is utilized to serve both PGC and CHOICE customers. (Columbia St. No. 1-R, p. 9). The NGS Parties' proposal is unnecessary as it is improper to charge sales and CHOICE customers different amounts for pipeline capacity that is reserved to meet the service requirements of all firm customers, sales and CHOICE. Not only is an allocation study unnecessary as all firm sales and CHOICE customers properly pay the same cost for pipeline capacity, it is impossible for Columbia to conduct such a study because there is no way for Columbia to determine which capacity is used to physically serve CHOICE versus sales customers. Therefore, the NGS Parties' proposal should be denied.

[8] The NGS Parties incorrectly use the term "peaking assets" to refer to "pipeline and storage assets that allow Columbia to serve PGC customers, balance the system and otherwise maintain reliability during periods of high gas usage." (NGS Parties St. No. 1, p. 4). Columbia uses all retained pipeline assets throughout the year, not just during periods of high usage, to balance the system and maintain reliability for both CHOICE and sales customers. (Columbia St. No. 1-R, p. 2).

2. Columbia's Sales and CHOICE Customers Currently Pay the Same Average Cost of Capacity.

In order to understand why the NGS Parties' proposal for a study regarding cost recovery of capacity assets is improper, it is first necessary to briefly explain Columbia's CHOICE program and the recovery of capacity costs incurred to serve sales and CHOICE customers.

Under Columbia's average day CHOICE program, each CHOICE NGS must deliver every day of the year an amount of gas equal to 1/365th of the NGS customer group's annual normalized consumption. (Columbia St. No. 2, p. 8). In accordance with the provisions of Section 2204(d) of the Public Utility Code, 66 Pa. C.S. § 2204(d), and Columbia's approved restructuring, Columbia assigns Columbia Gas Transmission ("TCO") firm transportation ("FT") capacity to NGSs and, if the NGS elects, upstream Columbia Gulf ("Gulf") FT capacity to meet the average day requirements of CHOICE customers. (Columbia St. No. 2, p. 11). CHOICE NGSs pay for the released capacity at its full contract rate. (Columbia St. No. 2-R, p. 12). Because average day deliveries would be inadequate to meet peak day needs and may be either more or less than the daily requirements of a CHOICE NGS's customers, Columbia manages daily imbalances and meets peak needs through retained FT capacity and storage. (Columbia St. No. 2, p. 8).

Although CHOICE NGSs are assigned TCO and Gulf capacity, and schedule supplies for delivery on those pipelines, their CHOICE customers physically may be served by gas supplies scheduled by Columbia via other pipelines.[9] This is because some of Columbia's local distribution markets are directly connected to other pipelines. (Columbia St. No. 1-R, p. 6). As Columbia's witness Mr. Catron explained:

[9] As explained more fully in Section IV.B.4.ii below, NGSs are assigned TCO and Gulf capacity in order to make participation in the CHOICE program more convenient for NGSs.

> For example, a residential customer located in the market area connected to National Fuel who elects CHOICE physically does not receive gas from TCO, but instead receives gas obtained via upstream Tennessee Gas Pipeline Capacity. Columbia manages this situation by scheduling gas supplies into the market served by National Fuel and adjusting its receipts into markets served by TCO.

(Columbia St. No. 1-R, p. 7). As a result, Columbia must use its retained capacity to deliver gas to these customers. (*Id.*).

Columbia's CHOICE program is structured so that CHOICE and PGC sales customers pay the same amount for capacity costs. (Columbia St. No. 2-R, p. 11). Columbia accomplishes this in two steps. First, Columbia determines the PGDC rate by dividing total demand costs by the sum of sales and CHOICE throughput. (Columbia Ex. 1-E). PGC sales customers pay that demand rate. (*Id.*). CHOICE customers pay that demand rate net of a Capacity Assignment Factor credit[10] for the cost of capacity assigned to NGSs to meet their average day delivery requirements. (Columbia St. No. 2-R, p. 12). Thus, the PGDC rate paid by CHOICE customers is approximately 3.5 cents per therm (35 cents/Dth) less than the PGDC rate charged to PGC sales customers. (*Id.*). The NGSs pay for the cost of their assigned capacity and, presumably, pass the cost to CHOICE customers through rates. (*Id.*). Therefore, both CHOICE and PGC sales customers effectively pay the same per unit demand charge.

As explained next, charging PGC sales and CHOICE customers the same capacity cost per therm is proper from both an operational and ratemaking standpoint.

[10] The published Price to Compare accounts for the CHOICE credit so that CHOICE customers are not disadvantaged with respect to the capacity costs that NGSs include in the charge to their customers. (Columbia St. No. 2-R, p. 12 at 8-11).

3. Operational Reasons Support CHOICE and Sales Customers Paying the Same Cost of Capacity.

i. Columbia uses all of its contracted pipeline capacity to serve the design day needs of both sales and CHOICE customers and to manage daily imbalances.

The NGS Parties contend that CHOICE customers are paying for assets that are being utilized to serve the delivery needs of sales customers. (NGS Parties St. 1, p. 16 at 9-18). The NGS Parties appear to contend that certain capacity held by Columbia can be delineated as used to serve CHOICE customers while other capacity is used to meet the needs of PGC customers. Such contention is erroneous from an operational perspective.

Columbia does not reserve certain capacity to meet the design day needs of only PGC customers, nor does it reserve certain capacity to meet the design day needs of only CHOICE customers. Columbia contracts for pipeline capacity to meet its obligation to serve the total design day needs of its firm sales and CHOICE customers. (Columbia St. No. 1, p. 12; Columbia Ex. No. 5, p. 10). Columbia makes no distinction between sales or CHOICE service in acquiring capacity, as Columbia has the Supplier of Last Resort responsibility to hold sufficient capacity to serve these customers without regard to whether they select sales or CHOICE service. 66 Pa. C.S. § 2207(a). In total, all of the capacity contracted for by Columbia is needed to serve the peak demand requirements of both sales and CHOICE customers across Columbia's system. (Columbia St. No. 2-SR, p. 5).

The physical use of all of Columbia's diverse pipeline assets to serve the requirements of sales and CHOICE customers is not limited to design day conditions. Throughout the year, Columbia uses its retained pipeline assets, including FT and storage, to balance the system and maintain reliability. (Columbia St. No. 1-R, p. 2). As explained above, under the CHOICE average day program, NGSs are required to deliver an equal amount of supply into the system every day of the year. (Columbia St. No. 2, p. 8). The total amount each CHOICE NGS delivers into the system over a year's time is the amount needed to satisfy the normalized consumption for the year of CHOICE customers served by that supplier. (*Id.*). The amount an NGS delivers into the system on a given day oftentimes will not equal the total demand of the NGS's customers on that day. When a NGS's daily deliveries into the system are insufficient to meet the daily requirements of its CHOICE customers, Columbia will use its retained FT and FSS/SST capacity to ensure that an adequate amount of supply is delivered to CHOICE customers on that day. (Columbia Exh. No. 5, p. 19). Conversely, when an NGS's deliveries into the system are in excess of its customers' requirements on a given day, Columbia will adjust its use of retained capacity to balance the system. (*Id.*).

Thus, CHOICE and PGC customers properly should pay the same amount for retained capacity because Columbia has acquired and uses all of its retained capacity to fulfill its responsibility of serving both PGC and CHOICE customers under both design day and actual day conditions. (Columbia St. 1-R, p. 6).

ii. Columbia uses its retained capacity to physically deliver gas to CHOICE customers outside of the local distribution markets served by TCO or Gulf.

Another operational reason why it is improper to segregate retained pipeline capacity as serving PGC or CHOICE customers is because retained capacity is needed to offer CHOICE to all eligible customers across Columbia's diverse distribution system.

While CHOICE NGSs are required to deliver supply into Columbia's system that is adequate to meet the normalized yearly consumption of their CHOICE customers, NGSs do not necessarily schedule delivery that is capable of physically supplying gas to all CHOICE customers. (Columbia St. No. 2, p. 8). Under Columbia's CHOICE program, suppliers are required to schedule delivery on only TCO and Gulf. (Columbia St. No. 2-R, p. 11). However, CHOICE participation is not limited to where TCO and Gulf interconnects exist, and not all CHOICE customers on Columbia's complex, widespread distribution system are located in local distributions markets capable of receiving gas from TCO or Gulf. (Columbia St. No. 1-R, p. 7). As a result, Columbia must use its retained capacity to physically serve CHOICE customers wherever they are located on the system. (*Id.*).

Columbia's system is a collection of over 70 separate local distribution systems serving in total over 419,000 customers in 26 counties through approximately 240 interstate pipeline delivery points. (Columbia Ex. 10; Columbia St. No. 2, p. 3). Columbia's distribution system is highly fragmented, including numerous distribution systems that are isolated or have limited interconnectivity. (Columbia St. No. 1, pp. 12-13). This system configuration requires Columbia to exercise considerable effort to manage the supplies scheduled for delivery to Columbia each day. (*Id.*). On a daily basis, Columbia receives supplies nominated by Columbia for its sales customers, as well as supplies nominated for delivery by NGSs to serve CHOICE customers.

The vast majority of gas supplies received by Columbia, both for sales and CHOICE customers, are delivered to Columbia's city gates by interstate pipelines. Columbia has interconnections with seven interstate pipelines: TCO, Columbia Gulf, Texas Eastern Transmission, LP, Tennessee Gas Pipeline Company, LLC, Dominion Transmission Inc., Equitrans L.P., and National Fuel Gas Supply Corporation. (Columbia St. No. 1, p. 11).

While most of Columbia's customers are located in distribution markets that receive gas from TCO, some market areas within Columbia's distribution system are directly connected to other pipelines or are capable of accepting gas from multiple pipelines. (Columbia St. No. 1-R, p. 6). For example, the Warren, Pennsylvania market is served only by National Fuel and is not capable of accepting deliveries from TCO. (Columbia St. No. 1, p. 16 at 11-13). If not for the capacity Columbia retains to deliver supplies to CHOICE customers located in distribution markets that are not connected to TCO or Gulf, customers in Warren would be physically incapable of being eligible for CHOICE service.

The CHOICE program works for customers who are located in distribution systems not physically connected to TCO because of the availability of other pipeline assets. Any contention that CHOICE customers do not "use" certain capacity is contrary to physical fact.

4. Ratemaking Principles Support CHOICE and Sales Customers Paying the Same Cost of Capacity.

i. It is impracticable to charge customers different demand rates based on the pipeline(s) that serves their distribution location.

Despite receiving gas supply from multiple pipelines, Columbia's firm service customers are not charged different demand rates based on the interstate pipeline that serves them. (Columbia St. No. 2, p. 10). Rather, all firm customers pay the same amount per Dth for the cost of capacity. (Columbia St. No. 2, p. 11). This practice is consistent with the operational use of all capacity to serve design day needs. This practice further supports a conclusion that capacity costs should not be segregated between sales and CHOICE customers, but should be paid equally.

A number of practical reasons support a single demand rate rather than attempting to "stream" demand charges to individual customers. First, certain local distribution systems in Columbia's system are served by multiple pipelines. (Columbia

St. No. 2-R, p. 11). In an area fed by multiple pipelines, Columbia would be unable to define the cost of capacity used to serve those customers as the capacity in use at any time may vary. (*Id.*).

Second, it would be impracticable to distinguish FT capacity used to deliver supplies to serve sales customers daily needs from FT capacity used to facilitate storage. FT capacity can serve different purposes. (*Id.*). FT capacity may be used at one time to manage storage and at other times to deliver flowing gas to customers. (*Id.*). For instance, when supply delivered directly to a market cannot be absorbed by that market, Columbia can divert that supply to secondary delivery points or inject it into storage. (*Id.*). The amount of Columbia's available capacity may vary depending on the time of year, which would add further difficulty in defining the cost of capacity used to serve each customer. (Columbia St. No. 2-R, p. 11). TCO SST capacity, for example, is halved during the months of April through October. (*Id.*).

Another reason to charge all customers a single demand rate is that charging separate demand rates based on actual physical capacity serving a local market could result in significant confusion when customers in nearby, but physically separate, market areas received different bills for the same usage, based solely upon the charges of the interstate pipelines serving each market. (Columbia St. No. 2, p. 11). Since each pipeline sets its own rates, subject to FERC approval, significant price differentials could arise. (*Id.*). A single demand rate for all firm customers eliminates the problems associated with charging different demand rates based on location. (*Id.*).

Finally, charging customers different demand rates based on the pipeline that serves them would be contrary to historical practice. (Columbia St. No. 2-R, pp. 1, 11). For at least the past thirty years, Columbia has charged all firm service customers the same demand rate. (*Id.*). This practice is consistent with the practice of other utilities in Pennsylvania. The institution of CHOICE as an option for residential and small commercial customers is not a reason to change this historical practice. Continuing to charge all firm customers the same demand rate following the institution of the CHOICE program preserves historical practice and maintains consistency in rates.

ii. Columbia assigns solely TCO and Gulf capacity to NGSs in order to facilitate NGSs' participation in the CHOICE program.

The NGS Parties assert that CHOICE suppliers are assigned TCO/Gulf capacity, and thus should not pay for capacity used to meet sales customers' requirements. (NGS Parties St. No. 1-SR, p. 7). However, the assignment of TCO/Gulf capacity is not a basis for charging CHOICE and sales customers different demand rates.

As explained above, Columbia's distribution systems are widespread and dispersed across Pennsylvania, with a large number of physical supply receipt points, and the use of seven interstate pipelines to receive supplies. (Columbia St. No. 1, pp. 11-13). Although TCO points of delivery represent the overwhelming majority of all of Columbia's interstate pipeline receipt points, some local distribution systems are served solely by other pipelines, and others may have multiple pipeline interconnections. (Columbia St. No. 1-R, pp. 6-7).

Given this situation, Columbia's CHOICE program assigns TCO and Gulf capacity to CHOICE NGSs, rather than assigning capacity to CHOICE NGSs on a pro rata basis,[11] to make nominations simpler for NGSs and, ultimately, to encourage CHOICE participation. (*Id.*). Pro rata assignment would add complexity to the delivery process for CHOICE NGSs by requiring them to make very small nominations on several

[11] Although Columbia has elected to assign NGSs TCO and Gulf capacity to make participation in the CHOICE program easier for NGSs, Sections 4.10 and 4.10.1.1 of Columbia's tariff authorizes it to assign a pro rata share of all FT capacity to CHOICE NGSs. (Columbia St. No. 1-R, p. 8).

pipelines in which Columbia has capacity, in addition to larger nominations on TCO and Gulf. (*Id.*).

While a pro rata assignment of FT capacity would complicate Columbia's CHOICE program for suppliers, it would still result in CHOICE customers paying the same demand costs as sales customers. The Capacity Assignment Factor credit calculation could differ slightly to reflect the weighted average cost of all assigned FT capacity rather than just the cost of TCO/Gulf capacity, but the sum of (1) assigned capacity costs and (2) the PGDC rate net of the Capacity Assignment Factor credit would still result in CHOICE customers paying the same demand charges as sales customers. (Columbia St. No. 1-R, pp. 7-8).

Assignment of TCO/Gulf capacity to CHOICE suppliers is done as a convenience, to encourage CHOICE supplier participation through simplicity. It is not a basis to assert that sales and CHOICE customers should ultimately pay different capacity charges.

5. Conclusion.

The study requested by the NGS Parties is not only unreasonable and unnecessary, it is impossible to conduct because Columbia cannot identify capacity used to serve sales customers versus capacity used to serve CHOICE customers. Since all of Columbia's retained capacity is used to serve the design day needs of both CHOICE and sales customers, there is no way to distinguish between the cost of capacity used to serve either sales or CHOICE customers. (Columbia St. 1-R, p. 6). For this reason and for the reasons explained more fully above, it is proper that all CHOICE and sales customers pay the same per unit rate of demand costs. An analysis of the use of Columbia's retained pipeline capacity would reveal no additional information that the parties do not currently have at their disposal because Columbia already has explained that *all* of its pipeline capacity is used to meet its obligation of providing firm service to CHOICE and PGC sales customers and to ensure system reliability. (Columbia St. 1-R, p. 6). Therefore, the NGS Parties' proposal for a study should be denied.

V. **CONCLUSION**

For the foregoing reasons, Columbia Gas of Pennsylvania, Inc. respectfully requests that the NGS Parties' request for a study concerning cost recovery of pipeline assets to serve the PGC should be denied.

Respectfully submitted,

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I. FINDINGS OF FACT[1]

1. The USM is a method for distributing the net proceeds Columbia earns from transactions involving excess supply and/ or capacity. (Columbia St. No. 2, p. 5).

2. Under the USM, 75% of the proceeds are credited to customers and Columbia retains 25%. *Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2009-2093219 (Order entered September 30, 2009).

3. The 75% that is credited to customers is further split between the PGCC and the PGDC. (Columbia St. No. 2-R, p. 6).

4. CHOICE and PGC sales customers receive the PGDC credit because both groups pay the demand charge. (Columbia St. No. 2-R, pp. 10-11).

5. Only PGC sales customers pay the commodity charge; therefore, only PGC sales customers receive the PGCC credit. (Columbia St. No. 1-R, pp. 2-3).

6. Columbia's current Commission-approved tariff provides for a credit of 60% of the customer share of total USM revenues to the PGCC and 40% to the PGDC. (Columbia St. No. 2, p. 28).

7. Columbia engages in five types of transactions to produce net proceeds that are shared through the USM: (1) capacity release, (2) options, (3) exchanges, (4) off system sales, and (5) asset management agreements ("AMAs"). (Ex. HAC 1-R).

8. The mechanism encourages Columbia to seek out those transactions that maximize net margins, while maintaining safe and adequate service. (Columbia St. No. 1-R, p. 3).

[1] These Findings of Fact and Conclusions of Law are specific to the issues reserved for litigation in this proceeding. The Joint Petition for Partial Settlement will contain Findings of Fact and Conclusions of Law relevant to the issues addressed in the Settlement.

9. Capacity release is a transaction, completed under FERC regulations and interstate pipeline tariffs, that "releases" firm contract capacity rights to a third party shipper. Releases can be recallable or nonrecallable. Under FERC rules, Columbia identifies potential buyers of such capacity, negotiates the release price and completes the transaction utilizing the pipeline's internet based system. (Ex. HAC 1-R).

10. An off-system sale is an arrangement between Columbia and a buyer for the sale of natural gas at a specific location and at an agreed-to purchase price. (Ex. HAC 1-R).

11. An AMA is an arrangement in which Columbia releases specific capacity assets to a seller that provides a delivered natural gas service to Columbia to serve its customers. (Ex. HAC 1-R).

12. An Options agreement or sale is an arrangement in which Columbia sells a counter party the right, but not the obligation, to sell natural gas to Columbia at a specific location at an agreed-to purchase price and agreed-to volume. (Ex. HAC 1-R).

13. An Exchange Agreement is an arrangement between Columbia and a counter party in which like volumes of natural gas, adjusted if needed for pipeline retention, are exchanged at specific agreed-to locations. Exchanges can occur during the same day or can span a defined time period. (Ex. HAC 1-R).

14. The Commission's Final Order in Columbia's 2014 1307(f) proceeding required Columbia to address six questions regarding the allocation of the customer share of USM net proceeds, all of which Columbia answered in its pre-filing. (Columbia Ex. 16).

15. Capacity releases, which derive their value solely from the use of capacity assets, accounted for 19.1% of Columbia's total USM net revenue over the past four

years. Sales, options, AMAs, and exchanges, which utilize both supply and capacity, accounted for 80.9% of Columbia's total USM net revenue over the past four years. (Columbia Ex. 16).

16. When a transaction involves both supply and capacity, it is impossible for Columbia to determine which aspect of the transaction, supply or capacity, provides value. (Columbia St. No. 2-R, p. 6).

17. In its pre-filing, Columbia presented an alternative methodology for allocating the customer share of the PGC credit. The alternative mechanism would base the allocation to the PGDC on two factors: (1) the percentage of capacity release to total off system sales and capacity release based on a four year average; and (2) the current CHOICE participation rate applied to the percentage of revenues derived from sales, options, AMAs, and exchanges based on a four year average. Following the calculation of the PGDC percentage, the remainder of revenues would be allocated to the PGCC. (Columbia Ex. 16).

18. General Distribution Service ("GDS") transportation customers are not subject to the PGDC and do not purchase gas under the PGCC rate. (Columbia St. No. 2SR, p. 4).

19. Standby service and Elective Balancing Service ("EBS") are services available only to GDS customers. (Columbia St. No. 2SR, pp. 4-5).

20. CHOICE customers are not eligible for and do not receive EBS. (Columbia St. No. 2-SR, p. 4).

21. CHOICE customers pay the same amount for capacity as firm sales customers and receive the same level of firm service as sales customers. (Columbia St. No. 2-R, pp. 10-11).

22. GDS customers and their suppliers receive no benefit from the USM credit. (Columbia St. No. 2-SR, p. 4).

23. As set forth in the settlement that established EBS at Docket No. R-00016668, neither the cost of additional capacity acquired to provide EBS service, nor the revenues from EBS customers are included in the PGC. (Columbia St. No. 2-SR, p. 4).

24. To qualify as an AMA, the AMA counter party must hold the asset as part of a bundled package and deliver certain quantities as part of the AMA. (Columbia St. No. 2-SR, p. 6).

25. Under Columbia's average day CHOICE program, each NGS must deliver every day of the year an amount of gas equal to 1/365th of the NGS customer group's annual normalized consumption. (Columbia St. No. 2, p. 8).

26. Because an NGS's average day deliveries may be either more or less than the daily requirements of an NGS's customers, Columbia manages daily imbalances and meets peak needs through retained capacity and storage. (Columbia St. No. 2, p. 8).

27. Although CHOICE NGSs are assigned Columbia Gas Transmission ("TCO") and Columbia Gulf ("Gulf") capacity, and schedule supplies for delivery on those pipelines, their CHOICE customers physically may be served by gas suppliers delivered via other pipelines. This is because some of Columbia's local distribution markets are directly connected to other pipelines. (Columbia St. No. 1-R, p. 6).

28. Columbia determines the PGDC rate by dividing total demand costs by the sum of sales and CHOICE throughput. PGC sales customers pay that demand rate. (Columbia Ex. 1-E).

29. CHOICE customers pay the demand rate net of a Capacity Assignment Factor credit for the cost of capacity assigned to NGSs to meet their average day delivery requirements. The PGDC rate paid by CHOICE customers is approximately 3.5 cents less than the PGDC rate charged to PGC sales customers. (Columbia St. No. 2-R, p. 12).

30. NGSs pay for the cost of their assigned capacity and, presumably, pass the cost to CHOICE customers through rates. (Columbia St. No. 2-R, p. 12).

31. Columbia contracts for pipeline capacity to meet its obligation to serve the total design day needs of its firm sales and CHOICE customers. (Columbia St. No. 1, p. 12; Columbia Ex. No. 5, p. 10).

32. In total, all of the capacity contracted for by Columbia is needed to serve the peak demand requirements of both sales and CHOICE customers across Columbia's system. (Columbia St. No. 2-SR, p. 5).

33. Throughout the year, Columbia uses its retained pipeline assets, including FT and storage, to balance the system and maintain reliability. (Columbia St. No. 1-R, p. 2).

34. When a NGS's daily deliveries into the system are insufficient to meet the daily requirements of its CHOICE customers, Columbia will use its retained FT and FS capacity to ensure that an adequate amount of supply is delivered to CHOICE customers on that day. Conversely, when an NGS's deliveries into the system are in excess of its customers' requirements on a given day, Columbia will adjust its use of retained capacity to balance the system. (Columbia St. No. 2, p. 9).

35. CHOICE participation is not limited to where TCO and Gulf interconnects exist, and not all CHOICE customers on Columbia's complex, widespread distribution

system are located in local distributions markets capable of receiving gas from TCO or Gulf. (Columbia St. No. 1-R, p. 7).

36. Columbia's system is a collection of over 70 separate local distribution systems serving in total over 419,000 customers in 26 counties through approximately 240 interstate pipeline delivery points. (Columbia Ex. 10; Columbia St. No. 2, p. 3).

37. Columbia's distribution system is highly fragmented, including numerous distribution systems that are isolated or have limited interconnectivity. This system configuration requires Columbia to exercise considerable effort to manage the supplies scheduled for delivery to Columbia each day. (Columbia St. No. 1, pp. 12-13).

38. Columbia has interconnections with seven interstate pipelines: TCO, Columbia Gulf, Texas Eastern Transmission, LP, Tennessee Gas Pipeline Company, LLC, Dominion Transmission Inc., Equitrans L.P., and National Fuel Gas Supply Corporation. (Columbia St. No. 1, p. 11).

39. The Warren, Pennsylvania market is served only by National Fuel and is not capable of accepting deliveries from TCO. (Columbia St. No. 1, p. 16 at 11-13).

40. Columbia's firm service customers are not charged different demand rates based on the interstate pipeline that serves them. (Columbia St. No. 2, p. 10).

41. In a distribution area fed by multiple pipelines, Columbia would be unable to define the cost of capacity used to serve those customers as the capacity in use at any time may vary. (Columbia St. No. 2-R, p. 11).

42. FT capacity can serve different purposes. FT capacity may be used at one time to manage storage and at other times to deliver flowing gas to customers. (Columbia St. No. 2-R, p. 11).

43. When supply delivered directly to a market cannot be absorbed by that market, Columbia can divert that supply to secondary delivery points or inject it into storage. (Columbia St. No. 2-R, p. 11).

44. The amount of Columbia's available capacity may vary depending on the time of year. TCO capacity is halved during the months of April through October. (Columbia St. No. 2-R, p. 11).

45. Charging separate demand rates based on actual physical capacity serving a local market could result in significant confusion when customers in nearby, but physically separate, market areas received different bills for the same usage, based solely upon the charges of the interstate pipelines serving each market. Since each pipeline sets its own rates, subject to FERC approval, significant price differentials could arise. (Columbia St. No. 2, p. 11).

46. For at least the past thirty years, Columbia has charged all firm service customers the same demand rate. (Columbia St. No. 2-R, pp. 1, 11).

47. Columbia's CHOICE program assigns TCO and Gulf capacity to CHOICE NGSs, rather than assigning capacity to CHOICE NGSs on a pro rata basis, to make nominations simpler for NGSs. (Columbia St. No. 1-R, p. 7).

48. Pro rata assignment would add complexity to the delivery process for CHOICE NGSs by requiring them to make very small nominations on several pipelines in which Columbia has capacity, in addition to larger nominations on TCO and Gulf. (Columbia St. No. 1-R, p. 7).

49. A pro rata assignment of FT capacity to NGSs would result in CHOICE customers paying the same demand costs as sales customers. (Columbia St. No. 1-R, pp. 7-8).

II. CONCLUSIONS OF LAW

1. The burden of proof, also known as the burden of persuasion, means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery v. Margulies,* 364 Pa. 45, 70 A.2d 854 (1950).

2. A party that offers a proposal not included in the Applicant's filing bears the burden of proof for such proposal. *See, e.g., Pa.P.U.C. v. Philadelphia Gas Works,* Docket No. R-00061931, 2007 Pa. P.U.C. LEXIS 45 at *165-68 (Sept. 28, 2007); *Pa. P.U.C. v. Metropolitan Edison Company,* Docket No. R-00061366, 2007 Pa. P.U.C. LEXIS 5 at *111-12 (Jan. 11, 2007).

3. The side that presented evidence found to be more persuasive, even by the slightest amount, will prevail. *Morrissey v. Commonwealth of Pennsylvania,* 424 Pa. 87, 225 A.2d 895 (1986); *Burleson v. Pa. P.U.C.,* 501 Pa. 433, 436, 641 A.2d 1234, 1236 (1983); *V.J.R. Bar Corp. v. P.L.C.B.,* 480 Pa. 322, 390 A.2d 163 (1978); *Milkie v. Pa. P.U.C.,* 768 A.2d 1217, 1220 (Pa. Cmwlth. 2001).

4. The NGS Parties have not met their burden of proof in this proceeding with respect to their proposal to require Columbia to undertake a study of the use of PGC assets.

5. The OCA has not met its burden of proof in this proceeding with respect to its proposal to require Columbia to redo its USM study to account for all capacity assigned to third party marketers on behalf of CHOICE customers, including for standby and balancing services

6. The OCA has not met its burden of proof in this proceeding with respect to its proposal to require Columbia to bid capacity and supply products in AMAs separately.

7. In accordance with the provisions of Section 2204(d) of the Public Utility Code, 66 Pa. C.S. § 2204(d), and its approved restructuring, Columbia assigns TCO FT capacity to NGSs and, if the NGS elects, upstream Gulf FT capacity to meet the average day requirements of CHOICE customers.

III. ORDERING PARAGRAPHS

1. The NGS Parties' proposal for a study regarding cost recovery of Columbia's pipeline assets to serve the PGC is denied.

2. The OCA's proposal that Columbia redo its USM study to account for all capacity assigned to third party marketers on behalf of CHOICE customers, including for standby and balancing services is denied.

3. The OCA's proposal to require Columbia to bid capacity and supply products in AMA separately is denied.