COMMONWEALTH OF PENNSYLVANIA

OFFICE OF CONSUMER ADVOCATE
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

June 16, 2015

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

RE: Pennsylvania Public Utility Commission v.
Columbia Gas of Pennsylvania, Inc. 1307(f)
Docket Nos. R-2015-2469665
C-2015-2474515

Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Main Brief, in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. #314639
E-Mail: HWebster@paoca.org

Enclosures
cc: Honorable Mark A. Hoyer, ALJ
Certificate of Service
*204029

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

MAIN BRIEF
OF THE OFFICE OF CONSUMER ADVOCATE

Erin L. Gannon
Assistant Consumer Advocate
PA Attorney I.D. #83487

Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. #314639

For:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

DATED: June 16, 2015

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Proposed Conclusion of Law
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I. INTRODUCTION AND PROCEDURAL HISTORY

On February 27, 2015, Columbia Gas of Pennsylvania (Columbia, CPA, or the Company) submitted its purchased gas cost (PGC) pre-filing information in support of its annual reconciliation of PGC rates pursuant to Section 1307(f) of the Public Utility Code. 66 Pa. C.S. § 1307(f); 52 Pa. Code §§ 53.64, 53.65. On April 1, 2015, Columbia submitted its definitive annual PGC filing, which proposes a rate of $0.39841/Therm for service rendered on and after October 1, 2015.

The Office of Consumer Advocate (OCA) filed a Formal Complaint on March 30, 2015 against the Columbia filing. On March 12, 2015, the Commission's Bureau of Investigation & Enforcement (I&E) filed its Notice of Appearance. On March 11, 2015, the Office of Small Business Advocate (OSBA) filed a Formal Complaint. A Petition to Intervene was filed by Interstate Gas Supply, Inc., Shipley Energy and Dominion Energy Solutions (NGS Parties) on March 27, 2015. In addition, on March 30, 2015, the Columbia Industrial Intervenors (CII) filed a Petition to Intervene.

Pursuant to the procedural schedule adopted by the Presiding Officer, Administrative Law Judge Mark A. Hoyer, the OCA presented the written direct, rebuttal and surrebuttal testimony of its expert witness Melissa Whitten. I&E presented the written direct, rebuttal and surrebuttal testimony of Jeremy B. Hubert. OSBA presented the testimony of Robert D. Knecht. The NGS Parties' filed the written direct, rebuttal and surrebuttal of Matthew White. The parties engaged in discovery and discussions aimed at resolving the issues concerning Columbia's filing. On June 3, 2015, evidentiary hearings were held in this matter.

In accordance with the procedural schedule, the OCA submits this Main Brief in support of its position. The OCA addresses one issue in this Main Brief, the allocation of off-

system sales and capacity release credits between the Purchased Gas Commodity Charge (PGCC) and the Purchased Gas Demand Charge (PGDC). In addition, the parties reached a Partial Settlement in this proceeding that will address the calculation of the Unified Sharing Mechanism (USM) projection of the customer share. The Partial Settlement and supporting statements will be submitted in accordance with the procedural schedule on June 24, 2015.

II. LEGAL STANDARD/BURDEN OF PROOF

In this case, Columbia has the burden of proof with regard to the rates and modifications included in its definitive filing. *See*, 66 Pa.C.S. § 332(a). A party that offers a proposal not included in the original filing bears the burden of proof for such proposal. *See, e.g.*, Pa. Pub. Util. Comm'n v. Metropolitan Edison Co., Docket No. R-00061366 (Opinion and Order entered Jan. 11, 2007) (Met-Ed); *see also*, Joint Default Service Plan Citizens /Wellsboro, Docket No. P-2009-2110780 *et al.* (Final Order entered Feb. 26, 2010).

"Burden of proof" means a duty to establish a fact by a preponderance of the evidence, or evidence more convincing, by even the smallest degree, than the evidence presented by the other party. Se-Ling Hosiery v. Margulies, 364 Pa. 54, 70 A.2d 854 (1950) (Se-Ling Hosiery). If a party with the burden of proof establishes a *prima facie* case, the burden of going forward with the evidence shifts to the other party. If the other party does not rebut that evidence, the original party will prevail. If the other party rebuts the original party's evidence, the burden of going forward with the evidence shifts back to the original party, who must rebut the other party's evidence by a preponderance of the evidence. The burden of going forward with the evidence may shift from one party to another, but the burden of proof never shifts; it always remains on the original party. Replogle v. Pennsylvania Electric Company, 54 Pa. PUC 528 (1980).

In Columbia's filing, the Company did not propose to modify the current allocation of Unified Sharing Mechanism (USM) credits to customers between rate elements. The NGS Parties, however, proposed a modification to Columbia's USM. Therefore, the NGS parties have the burden of proof with regard to their USM proposal in this proceeding. As discussed further below, the NGS parties have failed to satisfy their burden of proof with regard to their proposal and the OCA submits that their proposal should, therefore, be rejected.

III. SUMMARY OF ARGUMENT

The NGS Parties contend that all of the USM Credits associated with off-system sales should be allocated to both Choice and Purchased Gas Cost (PGC) customers through the Purchased Gas Demand Charge (PGDC) only. The NGS Parties base this recommendation on their argument that since assets used to meet demand are involved in all off-system sales, the revenues should be returned through the PGDC. The NGS Parties' position is fundamentally flawed and ignores the fact that beyond capacity release transactions, all other transactions generating USM revenue involve the sale of natural gas supply which is paid for only by PGC customers.[1] No other party supports this allocation, recognizing the fundamental unreasonableness that would result from this approach.

The OCA agrees, however, that Choice customers should be allocated an appropriate share of off-system sales revenues to reflect the cost of capacity for which they continue to pay. The OCA submits that the existing 60%/40% (PGCC/PGDC) split achieves this goal and should be maintained. The 60/40 split has been in place since 2008 and there is no

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[1] The Company provided a breakdown of all of its secondary market transactions associated with the USM in its filing. See, CPA Exh. 16 at 3. According to the Company, "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." CPA Exh. 16 at 4. All other transactions use natural gas supply. In this Main Brief, the OCA uses the general term "off-system sales" for all transactions other than Capacity Release.

compelling reason on the record to modify the split. In the 2014 PGC proceeding, the NGS parties raised concerns with the split of USM revenues. The Commission declined to modify the split in that proceeding, but directed Columbia to provide additional information and respond to specific questions regarding the issue. The Company provided a response to the Commission's questions in its pre-filing information, Exhibit 16, submitted on March 1, 2015. This information confirms that the 60/40 split adequately reflects the contributions made to both capacity release and off-system sales that are made by PGC and Choice customers.

The Company did not propose in this proceeding to modify the existing 60/40 allocation of USM credits. CPA St. 2-R at 6. The Company did, however, present an alternative method for calculating the PGCC/PGDC split in the event the Commission determined that the methodology should adjust based on the shopping percentage.

The OCA submits that the NGS parties have failed to meet their burden of proof. The OCA further submits that the record evidence supports maintaining the existing 60/40 split. Therefore the NGS Parties position should be rejected.

IV. ARGUMENT

A. Proposed Modifications to the USM.

1. Introduction.

There is no issue in this proceeding regarding the current allocation of 75% of all revenues derived from capacity release and off-system sales to be credited to customers, with 25% remaining with Columbia as an incentive to maximize the use of its assets. For the 75% retained by customers, the OCA supports the current method of returning these credits to customers with an allocation of 60% to the PGCC (for the commodity cost of natural gas), with 40% allocated to the PGDC (for the demand costs). *See*, OCA St. 1 at 15.

Columbia explained its current treatment of USM revenues as follows:

> 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.

CPA Exh. 16 at 2.

As required under the tariff, 60% of revenue generated from off system sales and capacity release is allocated to the PGCC. The PGCC is paid for by PGC, *i.e.* sales, customers. Columbia allocates the remaining 40% of revenue generated from off system sales and capacity release to the PGDC. Both Choice, *i.e.* shopping, and sales customers pay PGDC rates to Columbia.

The Company did not propose in this proceeding to modify the 60/40 split. CPA St. 2R at 6. The OCA submits that the existing, fixed, 60/40 (PGCC/PGDC) split should be maintained. The 60/40 split has been in place since 2008 and there is no compelling reason on this record to modify the allocation.

2. Alternative PGCC/PGDC Allocation Proposals.

In Columbia's 2014 PGC proceeding, the NGS Parties raised concerns with the split of USM revenues. The Commission declined to modify the split in that proceeding, but directed Columbia to provide additional information and respond to specific questions regarding the issue. Pa. PUC v. Columbia Gas of Pa., Docket No. R-2014-2408268 (Order entered Sept. 18, 2014 at 33). The Company provided a study of the issues ordered by the Commission, including the study in its pre-filing information, Exhibit 16, submitted on February 27, 2015.

The Company's 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." CPA Exh. 16 at 1. The Company's study demonstrates the integrated nature of natural gas and capacity resources in off-system sales. After conducting the study, the Company proposed to continue using the existing 60/40 split in its definitive filing of May 1, 2015. See, CPA St. 2-R at 6.

The Company presented an alternative method for calculating the PGCC/PGDC split in the event the Commission determined that the methodology should adjust based on the shopping percentage. If an adjustable method was ordered, the Company proposed to adjust the PGDC portion of the split based on the average capacity release revenues, plus the percentage of shopping multiplied against other revenues. The Company explained this procedure as follows:

> [T]he 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.

CPA Exhibit 16 at 4.

Both I&E and OSBA generally supported the Company's alternative as it allowed for the PGDC credit to be adjusted based on the level of shopping experienced. I&E St. 1 at 15-17; OSBA St. 1 at 7. I&E proposed a modest modification to the average capacity release

revenues. I&E St. 1 at 16. The Company had proposed averaging four years of capacity release credits, while I&E supported a three year average.

OSBA proposed to "fix" a portion of the PGDC credit at a specific percentage rather than fixing a portion of the PGDC based on average capacity release credits. The OSBA also proposed to reflect changes in the percentage of shopping that had occurred since the current 60/40 split was established. OSBA St. 1 at 7-8. Specifically, the OSBA proposed to recognize the increase in percentage of shopping customers – from approximately 15% in 2008 to the current rate of almost 30% – by setting the fixed share of the credit assigned to the PGDC such that the mechanism produces an overall PGDC share of 40 percent based upon shopping rates in place in 2008. At current shopping levels, OSBA's changes to the mechanism produce a PGDC share of approximately 50 percent. OSBA St. 1 at 8-9.

The NGS Parties have proposed to abandon the existing PGDC/PGCC split entirely. NGS Parties' St. 1 at 15. Instead, the NGS Parties would eliminate the PGCC from consideration, and apply a fixed 100% allocation of all off-system sales and capacity release revenues to the demand costs through the PGDC. NGS Parties' St. 1 at 15. The NGS Parties argue that Columbia's opportunities to generate revenue through off system sales are "substantially" driven by capacity assets and that shopping customers should receive an allocation of credits equal to that received by the customers who pay for the gas sold in the majority of these transactions. NGS St. 1-S at 3. As explained below, the NGS Parties' argument is fundamentally flawed. The NGS Parties' proposal would result in PGC customers failing to be appropriately credited for the sale of natural gas that was paid for by PGC customers.

3. Off-System Sales Credits Are Generated By Sales Of PGC Funded Gas That Must Be Credited To The PGCC.

The OCA submits that the USM revenues at issue here are driven largely by the ability of Columbia to provide a commodity when needed, to wholesale counterparties in the secondary market. The natural gas used to support these transactions is financed by PGC customers, and those customers are entitled to USM revenues that result from their contribution. OCA witness Whitten explained the types of transactions that make up the USM revenues, and their use of supply and capacity:

> Q. Please briefly describe what types of marketing transactions give rise to USM revenue.
>
> A. As described in Exhibit No. 16 to the Filing and quantified in Table 1 therein, the Company markets five types of transactions to generate margin. These are Off system sales, options, exchanges, asset management agreements (AMAs) and capacity release. The Company explains that while each of these transaction types involve the use or assignment of the Company's pipeline capacity contract assets, the first four transactions all bundle the capacity with gas supply commodity resources, so the realized value for these transaction types is based on demand for gas supply commodity. By contrast, capacity release transactions are based on the value of pipeline capacity by itself. The party to who the capacity is released, the replacement shipper, will determine what supply resources will be paired with it.

OCA St. 1 at 10.

The Company further explained that, of these transaction types, only Capacity Release does not contain PGC funded gas:

> 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.

CPA Exhibit 16 at 3. The Company explained that over the last four years, Capacity Release revenues have averages $1.5 million, or 19.1% of the total USM revenues. CPA Exh. 16 at 4.

OCA witness Whitten agreed that the portion of credits generated from Capacity Release should be allocated to the PGDC:

> The Company evaluates each year whether it has sufficient capacity in total to meet PGC customer design peak day requirements plus its SOLR obligation plus a reserve margin. The Company then goes through a process to determine how much of its capacity, if any, can be released without recall and assigns this capacity to the Capacity Release product to generate USM margins. It seems appropriate for the revenue generated from this assignment to be allocated to the PGDC. As reported in the Company's USM study, revenue from Capacity Release transactions has averaged $1.50 million per year or 19.1% of the total revenue from all USM products over the last four years.

OCA St. 1-R at 12. Based on this review, OCA witness Whitten recommended that the Company consider allowing the amount of net revenues allocated to the PGDC to be based on the four-year average share of USM margins generated from Capacity Release, which is not inconsistent with a 20% allocation factor, as argued by the OCA in last year's proceeding. OCA St. 1-R at 13.

The OCA submits that the integrated nature of off-system sales as requiring both gas supply and capacity cannot be ignored. The OCA further submits, however, that it is the gas supply, funded by PGC customers, that drives the majority of off-system sales transactions. OCA witness Whitten testified that the gas component drives the ability to conduct these transactions:

> Having marketed both pipeline capacity by itself as well as pursued AMAs and off-system sales myself, when employed by a local gas utility, I am aware that some pipeline capacity has negligible value on its own because the markets it can serve are already well-supplied. So if the capacity can be bundled with supply, then the ability to complete the transaction and obtain the value in the form of net revenue is attributable to gas supply or primarily to gas supply. More important, the Company appears to concur with my assessment. In rebuttal, Columbia witness Catron confirms that USM products other than Capacity Release involve off-system sales of both supply and capacity and that "most of

> these transactions could not be undertaken without a gas supply component."

OCA St. 1-S at 3-4.

Indeed, Columbia witness Catron testified persuasively that the assets used by the Company to complete off-system sales require the gas supply component. Mr. Catron explained:

> As I noted previously, an off system sale, like most other USM transactions, generally could not be consummated without pipeline capacity. However, it also could not be undertaken without access to gas supplies. Such supplies can be either purchases that were initially made to serve PGC customers, but later became available for off system sales (for example, due to unanticipated warm weather) or may be purchased incrementally. While Mr. White speculates that Columbia could engage in off system sales transactions regardless of whether it had supply obligations for retail customers, **the fact remains that Columbia is purchasing supplies to ensure that gas is available to meet needs of its core customers (PGC and CHOICE) at all times, up to design day conditions and the availability of those supplies, and capacity, is needed to make off-system sales**.

CPA St. 1-R at 4.

Furthermore, the Company explained that it is impossible to define with complete accuracy how a counterparty values gas received through an off-system sale. The Company stated:

> 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.

CPA Exhibit 16 at 3. The OCA submits that, while the "relative weighting" of capacity resources and commodity may be at issue here, the substantial evidence in this case supports a finding that PGC funded gas supply is essential to achieve Columbia's USM results.

Under the NGS Parties' proposal, however, ***none*** of the value derived from off-system sales would be credited to the commodity charge. Under the NGS proposal, 100% of USM credits allocated to customers would be applied to the PGDC, *i.e.*, the demand charge. While PGC customers will receive the PGDC credit, the amount of credit received is insufficient to fairly compensate for the natural gas supply costs which PGC customers paid in full. Under this proposal, PGC and Choice customers receive the identical PGDC credit despite the fact that Choice customers did not contribute to the natural gas supply costs that were used in these transactions.

In support of this position, NGS witness White originally testified that, "the revenue generated from USM transactions is **solely** attributable to the use of Peaking Assets." NGS St. 1 at 7 (Emphasis added). In Surrebuttal testimony, NGS witness White hedged in his assessment, and argued that Columbia's pipeline and storage assets would allow it to "enter into transactions to generate **substantially** the same amount of revenue, regardless of whether it had retail gas supply obligations." NGS St. 1-SR at 3. Thus, even the NGS witness, in his Surrebuttal testimony, acknowledges that at least a portion of the USM credit is achieved through Columbia's PGC function.

As Columbia witness Catron explained, the NGS Parties' position that gas does not play a substantial role in the transaction is misplaced:

> Mr. White asserts that the USM transactions could not be executed without the use of capacity assets. While this is substantially correct, it is also the case that most transactions could not be undertaken without a gas supply component. Columbia is always looking to identify USM transactions that produce the greatest value in margin. Absent a gas supply component, USM transactions other than capacity release that maximize margin revenue could not be completed, to the detriment of all firm customers. That gas supply component is available as a result of Columbia's management of PGC supplies.

CPA St. 1-R at 4. Mr. Catron's testimony shows that the gas supply component paid for by PGC customers allows Columbia to produce "the greatest value in margin" possible.

Given the weight of the evidence in this proceeding, the allocation of 100% of USM credits to the PGDC cannot be supported. The NGS Parties' proposal would credit PGC customers (who supplied the gas necessary to complete the transactions) in the same amount that it would credit Choice customers. In other words, the NGSs would recognize ***no*** value from the commodity contributed by sales customers, despite its own witness's acknowledgement that sales customers are contributing at least some of the value. Further, the evidence provided by witnesses Whitten and Catron establishes that the value of sales customers' contributions is ***greater than*** Choice customers. As such, if 100% of the USM credit goes to the PGDC, PGC customer funds will be transferred to Choice customers. The OCA submits that such a proposal would be fundamentally unreasonable.

4. Conclusion.

The OCA submits that it would be unreasonable to disproportionately allocate USM credits derived from the Company's commodity-related off-system sales to customers that are not purchasing gas from Columbia. The OCA submits that the current 60%/40% (PGCC/PGDC) allocation recognizes the contribution of both natural gas supply – paid for by PGC customers – and capacity assets – paid for by both Choice and PGC customers – when returning the credits from off-system sales transactions to customers. The current 60/40 allocation addresses the complicated issue in a reasonable manner.

B. The NGS Parties Proposal For A Study Regarding Cost Recovery Of Pipeline Assets To Serve The PGC.

The OCA did not address this issue in testimony and offers no position at this time.

V. CONCLUSION

For the reasons set forth above, the OCA respectfully requests that the Commission reject the recommendation of the NGS Parties to allocate 100% of the customers' share of USM credits to the Purchased Gas Demand Charge. The record evidence in this case establishes that the majority of revenues generated through the USM require natural gas paid for by PGC customers. The OCA submits that these revenues are appropriately credited to PGC customers through the current 60%/40% split. The NGS Parties' 100% allocation of the credit to the demand charge would result in PGC customer funds being allocated to non-PGC customers and should not be approved.

Respectfully Submitted,

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org
Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. #314639
E-Mail: HWebster@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

June 16, 2015
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APPENDIX A

Proposed Findings of Fact:

1. The current USM Methodology has been in place since 2002. Currently 75% of net proceeds under the USM are returned to customers through the PGDC and PGCC with CPA retaining the remaining 25%. CPA Exh. 16 at 2.

2. 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. CPA Exh. 16 at 2.

3. The Company did not propose in this proceeding to modify the 60/40 split. CPA St. 2R at 6.

4. The ability to complete off-system sales transactions and obtain the value in the form of net revenue is attributable to natural gas supply or primarily to natural gas supply. OCA St. 1-S at 3-4.

5. The availability of PGC gas, purchased to ensure that gas is available to meet the needs of Columbia's core customers (PGC and CHOICE) at all times up to design day conditions, is needed to make off-system sales. CPA St. 1-R at 4.

Proposed Conclusion of Law:

1. The allocation of 100% of the Unified Sharing Mechanism to the Purchased Gas Demand Charge increases gas costs for PGC customers through the allocation of PGC funds to non-PGC customers and is not reasonable.

Proposed Ordering Paragraph:

1. Columbia will continue to allocate the customer portion of USM revenues at the existing ratio of 60% to the Purchased Gas Commodity Charge, and 40% to the Purchased Gas Demand Charge.

CERTIFICATE OF SERVICE

Pennsylvania Public Utility Commission	:	Docket Nos. R-2015-2469665
	:	C-2015-2474515
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.	:	
1307(f) Proceeding	:	

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 16th day of June 2015.

SERVICE BY INTER-OFFICE MAIL

Scott B. Granger, Esquire
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, P.O. Box 3265
Harrisburg, PA 17105-3265

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Michael W. Hassell, Esq.
Lindsay A. Berkstresser
Post & Schell, P.C.
17 North Second Street, 12th Fl.
Harrisburg, PA 17101

Daniel G. Asmus, Esq.
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Andrew S. Tubbs, Esq.
NisSource Corporate Service Company
800 North Third Street, Suite 402
Harrisburg, PA 17102

Theodore J. Gallagher, Esq.
Nancy Krajovic
121 Champion Way, Suite 100
Canonsburg, PA 15317

Todd S. Stewart, Esq
Hawke McKeon & Sniscak LLP
P.O. Box 1778
100 n. Tenth Street
Harrisburg, PA 17105-1779

Charis Mincavage, Esq.
Elizabeth P. Trinkle, Esq.
McNees Wallace & Nurick LLC
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166

Erin L. Gannon
Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org
Hobart J. Webster
Assistant Consumer Advocate
PA Attorney I.D. # 314639
E-Mail: HWebster@paoca.org
Counsel for
Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
*202720