COLUMBIA STATEMENT NO. 14

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	)	
vs.	)	Docket No. R-2015-2468056
Columbia Gas of Pennsylvania, Inc.	)	

DIRECT TESTIMONY OF
ROBERT C. WARUSZEWSKI
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

Introduction

Q. Please state your name and business address.

A. Robert C. Waruszewski, 121 Champion Way, Suite 100, Canonsburg, Pennsylvania.

Q. By whom are you employed and in what capacity?

A. I am employed by Columbia Gas of Pennsylvania, Inc., ("Columbia" or "the Company") as Senior Regulatory Analyst.

Q. What are your responsibilities as Senior Regulatory Analyst?

A. I assist in the coordination and supervision of regulatory activity before the Pennsylvania Public Utility Commission ("Commission"), including rates and tariffs.

Q. What is your educational and professional background?

A. I graduated in 2011 from St. Vincent College, Latrobe, Pennsylvania where I majored in both mathematics and economics. After graduation, I worked as a junior accounting clerk for the Bank of New York Mellon, assisting in the preparation of audits as well as gathering local tax data for the company's employees before joining Columbia in November of 2011 in the Regulatory department. In November of 2013, I was promoted to my current role of Senior Regulatory Analyst.

Q. Have you testified before this or any other Commission?

A. No I have not testified before this Commission. However, I have testified before the Public Service Commission of Maryland on several occasions.

Q. Please describe the scope of your testimony in this proceeding.

A. I am presenting and describing several new proposals designed to expand the availability of natural gas service in Columbia's service territory.

Q. Please describe the Company's current line extension policy.

A. When a potential customer requests Columbia to extend its facilities, the Company uses an economic analysis to determine the cost of serving that customer, as described in section 8.2 of its tariff. This analysis compares the net present value ("NPV") of the projected future revenue, for that customer, to the cost to add the customer. If the result is positive, that is, the projected customer revenues are greater than or equal to the projected cost, then the Company will make the line extension without cost to the customer. However if the result is negative, that is, projected costs are greater than projected revenues, Columbia requires the customer to pay a deposit for service. The deposit amount is the amount required to make the analysis whole. This same approach is used if Columbia is approached by multiple potential customers to be served off a single extension of facilities.

Q. Please explain the Company's New Area Service Rider.

For residential customers that do not have the ability to pay the deposit up-front, the Company currently offers a pilot New Area Service Rider ("NAS"). NAS allows the customer to pay the full or partial amount of the deposit over a period of 20 years on their monthly bills.

Q. Since NAS is intended to provide an option to enable more potential customers to elect natural gas service, why is the Company offering additional growth options at this time?

A. One of the largest barriers for customers to convert to natural gas is the up-front deposit. While Rider NAS reduces this barrier by spreading the cost of the deposit over a period of time, it does not reduce the overall cost a customer must bear to have the Company extend its facilities to serve them nor does it assist the customer in the upfront costs of installing piping at their home for their natural gas appliances. Given the abundant supply of low-cost gas from Marcellus Shale in Pennsylvania, now is an excellent time to make it easier for applicants to convert to natural gas and enjoy the cost savings of this efficient natural resource.

Q. What does the Company propose to reduce customers' upfront cost to convert to natural gas?

To help more Pennsylvanians enjoy the benefits of natural gas, Columbia has developed three incentives that, alone and in combination with NAS, will further encourage more customers to elect natural gas service: (1) footage allowance of 150 feet of main line per applicant without the need for a NPV analysis in normal situations, (2) an allowance of 150 feet of service line in normal situations for customers served in those portions of Columbia's service territory where the Company owns the service line and (3) reimbursement of up to $1,000 for the

installation of house piping on projects when projected revenues exceed projected costs by a certain threshold.

Q. Has Columbia received encouragement to do more to expand the availability of natural gas service?

A. Yes, on page 19 of her direct testimony in the 2012 Columbia Gas of Pennsylvania Rate Case, Docket R-2012-2321748, I&E's Witness Lisa Boyd, while commenting on the Company's original Pilot Rider NAS proposal, suggested "that an incentive offer would be appropriate, either a specified free extension distance or a starting cash credit towards the cost of the extension project." On page 11 of his Rebuttal Testimony, Columbia's Witness, Erich Evans, stated that "Columbia is not opposed to the idea of an incentive offer, as long as the Company can recover the cost of the incentives." Furthermore, in the 2014 Pilot Rider NAS Proceeding – R-2014-2407345, OCA's Witness Glen Watkins suggested on page 10 of his Direct Testimony that "Mechanisms with a modest sharing of the cost of expansions between new and existing customers should be explored." Also, in a statement issued at the time of the Commission's approval of Columbia's Pilot Rider NAS, Commissioner Witmer observed:

> It is well known that I have been a staunch proponent of innovative programs to encourage the extension of natural gas into underserved and unserved areas of the Commonwealth. Pennsylvania sits on top of one of the largest natural gas reserves in the world. The ability to economically extract Marcellus Shale gas has made Pennsylvania the second largest producer of natural gas in the country. As a result, Pennsylvania consumers, residential and very importantly,

> industrial customers, should have every reasonable opportunity to take advantage of this efficient and clean burning natural resource. I am voting to support Columbia's proposal because it represents an effort to expand natural gas service, however, I am underwhelmed and am of the opinion that it falls short of these goals.
>
> Specifically, upon review of Columbia's proposal and the Order before us today, I find the total funding amounts and the payback parameters of Columbia's pilot Rider NAS to be underwhelming. To that end, as pilot Rider NAS is put into place, I strongly encourage the Company to review these aspects of the program and, when opportunities arise, propose mid-course corrections in order to create a more expansive, dynamic and effective program that can truly encourage the extension of natural gas throughout Columbia's service territory.

Q: In the Pilot Rider NAS proceeding, Columbia opposed proposals to revise the calculation of customers' contributions under the NPV model. Why is Columbia now offering incentives to reduce the customer contribution toward the cost of new construction?

A: There are several reasons. A primary reason is to be responsive to the comments of Commissioner Witmer that Columbia propose more expansive changes to encourage extensions in Columbia's service territory. Further, an allowance approach will reduce the frequency of NPV calculations, thereby being more "consumer friendly" to applicants.

Proposed Main Extension Tariff Change

Q. Does the Company currently offer any footage allowance for customers to connect to Columbia's system?

A. No, the Company does not currently offer customers any mains footage allowance to connect to its natural gas system.

Q. Has the Company ever offered incentives to connect to its system?

A. Yes, as recently as 2001, Columbia offered to extend its system by 65 feet without payment of a customer contribution for any residential customer who would be using natural gas as their heating source.

Q. Why did the Company stop offering this incentive?

A. Columbia's access to capital at that time was severely limited.

Q. Is the Company aware of any NGDCs who offer a footage allowance to residential customers?

A. Yes, Valley Energy offers a combination of up to 200 feet of service and or main extension per customer. In addition, the Company's affiliates in Ohio and Kentucky and other NGDCs such as Delmarva Power (DE), Duke Energy (OH) and Dominion East (OH) are some of the many companies who offer main line extensions without charge to applicants. The Company recently requested the American Gas Association ("AGA") to conduct a survey of natural gas utilities to inquire how many natural gas utilities offer a footage allowance to residential applicants. Of the 23 companies that responded, approximately 60% of companies offer a mains footage allowance to serve new customers.

Q. Please describe the Company's main extension tariff change proposal.

A. Columbia is proposing a tariff change for residential extensions. For each customer that requests a main line extension, Columbia would install the first 150 feet of main line without charge to the customer in normal situations. At the Company's discretion, projects with abnormal underground conditions, such as crossing a stream or state highway, or visible ledge or rock that will affect excavation or excessive permitting fees would not be eligible for the 150 foot allotment. As more applicants join in a single project to extend gas facilities the greater the length of main the Company will install without charge to the applicant. For example, on a single project with 10 customers electing to receive natural gas, the Company will install up to 1500 feet of main line without requiring a customer contribution. For extension projects greater than 150 feet per customer, the Company will run an economic model solely on the line extension segment in excess of the 150 foot allotment per customer to determine if the customer will be required to pay a deposit. For example, if one customer requested a 200 foot line extension, the Company would run the economic analysis on the cost to extend facilities 50 feet to the customer. This deposit may be paid up front or through Rider NAS.

Q. Why did the Company determine 150 feet was the appropriate offer?

A. Please see Exhibit RCW-1. The Company calculated the miles of road and housing units in its service territory and found that there was an average of 136 feet of road per every housing unit. By offering a 150 foot allowance to each applicant, the

Company is providing an allowance equivalent to the average distance of extending its main from one house to the next.

Q. What will be the ratemaking treatment of the allowance?

A. The cost of all facilities installed will be included in rate base in future proceedings, and revenues will be reflected for the new customers added. If further customers are connected to facilities constructed within the allowance, no credit would be provided to the original customers added as part of the extension. If a customer contribution is required, and new customers are later added to the extension, the Company's existing rules regarding provision of a credit under its main extension rules on Rider NAS will continue to apply.

Proposed Service Line Tariff Change

Q. Please explain the ownership of service lines throughout the Company's service territory.

A. As specified in Columbia's tariff, in some areas of the Company's territory the Company owns the service line, primarily in the eastern side of the state, while in other areas, primarily in the western part of the state, the customer owns the service line. I am advised that this distinction is mandated by Section 1510 of the Public Utility Code.

Q. Does the Company currently offer any service line allowance to applicants who wish to connect to the system?

A. No, the Company does not currently offer any service line allowance for customer connections. Pursuant to section 8.1 of Columbia's tariff, the Company installs the service line from its main to the point of delivery. In areas where the Company owns the service line Columbia "will install the service line from its main to a convenient point, approximately fifty (50) feet inside the customer's property line." However, the cost of this service line extension is currently included in the facility extension calculation.

Q. Has the Company ever offered a service line allowance for applicants?

A. To my knowledge, the Company has never offered a service line allowance for applicants.

Q. Is the Company aware of any Pennsylvania NGDCs who offer a service line allowance to residential customers?

A. Besides Valley Energy, which offers a combination of a service line and/or main allowance, Leatherstocking Gas Company and Pike County Light and Power Company respectively offer 100 feet and 50 feet of a service line allowance for buildings that are "designed and used for year-round occupancy." In addition, Columbia Gas of Ohio does not require any contribution toward the cost of a service line to serve new customers. Columbia Gas of Kentucky offers a 100 foot service line allowance for new customers, Columbia Gas of Maryland offers a 50 foot service line allowance per customer and Columbia Gas of Virginia has proposed to offer a 150 foot service line allowance in its current rate case.

Q. Why is the Company proposing this Service Line Change?

A. As I stated earlier in my testimony, Columbia seeks to be responsive to the comments of Commissioner Witmer that Columbia propose further changes to its extension rules to enable more potential applicants to benefit from the availability of low cost natural gas supplies. Besides the cost of extending the Company's main line, the cost of installing a service line is another big deterrent to keep potential applicants from requesting natural gas service. A service line allowance, in addition to the Main Line allowance per applicant, and Pilot Rider NAS, would significantly reduce the cost to potential applicants to elect natural gas.

Q. Who is eligible for this Program?

A. Residential customers in areas where Columbia owns the service line are eligible for this program.

Q. Please describe the Company's Service Line Change Proposal.

A. In areas where the Company owns the service line, new applicants will receive 150 feet of service line allowance in normal situations. In cases of abnormal underground conditions, such as crossing a stream or state highway, or visible ledge or rock that will affect excavation or excessive permitting fees the customer would be required to pay a contribution for the cost for the service line. In cases where the service line extension would be greater than 150 feet, the customer may be required to pay a deposit. The Company will run the economic analysis only on the main and service line portions that exceed the 150 feet threshold to determine if a deposit is

required. This deposit may be paid up front or through Rider NAS. For ratemaking purposes, the entire cost of the service line extension, net of any contribution, will be included in rate base.

Q. Why did the Company determine 150 feet was the appropriate offer?

A. Based upon the Company's experience, if there is a Company main on the street, 150 feet of service line is normally sufficient to connect most customers to the Company's main.

Proposed House Line Reimbursement

Q. Please explain the Company's house pipe proposal.

A. As stated earlier, the Company runs an economic analysis for customers who request a main line extension. For projects where the economic analysis result is positive by at least $1,000 per customer, the Company proposes to reimburse customers for a portion of the cost of the installation of house piping, up to $1,000. For example, if the economic analysis of a project of 10 residential customers yields a positive result of $10,000, the Company would reimburse each of the customers up to $1,000 for the installation of house piping. Customers would pay for the work to be done in their homes and then would provide the Company documentation that the work had been done in order to obtain reimbursement from the Company.

Q. Will the cost of the 150 feet of main and service line be included in the economic analysis to determine if the customer is eligible for a house piping reimbursement?

A. Yes, even though the Company will extend its main 150 feet and install 150 feet of service line, in areas where the Company owns the service line, at its own expense, these costs will be placed in the economic model when determining if the customer is eligible for a house piping reimbursement, so that existing customers do not subsidize new customers for house piping.

Q. Which customers would be eligible for this program?

A. Only residential customers converting to natural gas would be eligible for this program. New homes would not be eligible for this program.

Q. Why should the Company offer reimbursement for the installation of house piping in a customer's home?

A. The cost of installing the house piping and new appliances can cost a customer thousands of dollars. Even with the main line and service line allowances, this additional cost may be a significant enough deterrent to dissuade people from converting to natural gas. For projects that would generate a net positive present value greater than $1,000 per customer, the Company can offer assistance to help cover the customer's house piping costs to ensure the line extension does take place.

Q. Won't existing customers be subsidizing new customers on the house piping proposal?

A. No, as stated, Columbia will never reimburse a customer enough to cause the project to return a negative result. Since the reimbursement can only go as high as the positive result of the project, existing customers will not be subsidizing the costs

of new customers' piping. Let us consider two scenarios in which customers would like to convert to natural gas, but without the assistance of the Company for house piping installation, the projects would not go through.

Scenario	Economic Analysis Result	House Line Installation Costs	Net Result
1	$10,000	$10,000	$0
2	$10,000	$5,000	$5,000

For example, consider scenario 1, a project with a positive result of $10,000. If the Company paid the full amount of $10,000 to assist customers in installation of house piping, the net result for the project would be $0. The economic model guides the Company to make the investment of main extension for any project with a result greater than or equal to $0. So in this case, the project is still economically justified by the Company even with the Company's contributions to house line installations. To put it another way, the rates the customer will pay will fully cover the investment to add this customer. Therefore, the effect to existing customers is the same as if a project with an economic analysis result of $0 was built for customers without any money given in contribution to house piping. The upside for existing customers is in Scenario 2. In this project with an initial result of $10,000 the Company reimburses the $5,000 cost to install house piping. The net result is a $5,000 benefit to existing

customers from the new customers being added onto the system, since the projected revenues reduce the overall cost of maintaining the system.

Q. How will the Company record for ratemaking purposes, the cost of reimbursing for house piping?

A. The Company will record the cost of reimbursing house piping as an O&M expense.

Q. Will the three new proposals replace the use of the Company's Pilot Rider NAS?

A. No, these proposals will be used in conjunction with NAS and will increase the scope and effectiveness of NAS.

Q. Please summarize your tariff change proposals.

A. The Company proposes to extend its main 150 feet without charge to an applicant for each applicant that applies for a line extension. Secondly, in the areas where the Company owns the service line, Columbia proposes to install 150 feet of service line for new applicants without charge to the applicant. Finally, for projects that have a positive economic analysis greater than $1,000 per customer, the Company proposes to reimburse customers up to $1,000 for the installation of house piping. In this way, the Company is addressing three major barriers applicants face when they wish to select natural gas as their heating source, the cost of main line extensions, the cost of service line installations and the cost of house line installations. By reducing these upfront costs, the Company will make it easier for applicants to select natural gas service.

Q. Does this conclude your direct testimony?

County'	Adams	Allegheny	Armstrong	Beaver	Bedford	Butler	Centre	Chester	Clarion	Clearfield	Elk	Fayette	Franklin	Fulton	Greene	Indiana	Jefferson	Lawrence	Mckean	Mercer	Somerset	Venango	Washington	Westmoreland	York	Total CPA Counties
Number of housing units	41041	587831	32278	78091	23894	78930	64283	194929	19801	38415	17469	62500	63762	7071	16349	38296	22323	40647	20995	51421	37809	27197	93354	167673	179599	2005358
Road miles																										
Penndot	543 55	1178 07	655 27	601 58	794 78	653 6	585 77	1017 52	469 04	795.26	294 23	758 7	613 54	342 32	573.86	797 18	555 42	385 01	381 69	740 77	880 95	528 75	1090 7	1186.66	1134 54	17560 76
Other	31 06	1	14 1	23 6	33 8	38 68	27 85	17 8	12 86	27 64	111 34	13 32	12.33	3,4	4 97	31 66	4 16	1 6	158 35	31 65	24 47	9 75	1 78	24 12	13 49	669 73
Turnpike																										
Toll bridge																										
Local	831 33	4623 24	1150 28	1039 12	917 66	1808 22	894 81	2558 28	845 59	1141 82	374 72	1303 06	1048 57	321.95	931.11	1270 98	841 03	794 47	481 13	1263 09	1267 04	826 54	1753.75	2400.52	2648 89	33737 22
Total Road Miles	1405 99	5802 31	1826 66	1666 3	1746 24	2300 5	1508 43	3593 55	1327 49	1959 72	780 29	2075 08	1674 44	667 67	1509 89	2099 82	1400 61	1181 08	1021 18	2035 51	2172 46	1365 04	2846 23	3611 3	3796 92	51467.71
# housing units per mile	29 1901	101 3099	17.7385	46 8549	13 6831	34 3099	42 6158	54 0272	13 8712	19 6023	22 3878	30.1193	38 0796	10 5906	10 8279	18 2378	15 9382	34 4151	20 5595	25 2620	17 4038	19 9240	32.7992	46 4301	47 3012	38 9634
Road per home	181	52	298	115	386	154	124	98	381	269	236	175	139	499	488	290	331	159	257	209	303	265	161	114	112	136