COLUMBIA STATEMENT NO. 3

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DIRECT TESTIMONY OF
CHUN-YI LAI
ON BEHALF OF
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

Columbia Stmt. 3
R-2015-2468056
8-4-15
Harrisburg JS

I. Introduction

Q. Please state your name and business address.

A. Chun-Yi Lai, 240 West Nationwide Blvd., Columbus, Ohio 43215.

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

A. I am employed by NiSource Corporate Services Company ("NCSC") as a Lead Regulatory Analyst. My responsibilities include providing support for various informational and rate flings, general rate case preparation and support, and other duties as assigned. NCSC provides, among other services, accounting and regulatory-related services for the NiSource Gas Distribution ("NGD") companies, including Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company").

Q. Please briefly describe your educational and professional background.

A. In June 2006, I graduated from The Ohio State University with a Bachelor of Science Degree in Business Administration with a major in Finance.

My career with NiSource began when I was hired as a Financial Analyst in Accounting with Columbia Pipeline Group, and was later promoted to a Senior Financial Analyst in October, 2008. In May 2011, I accepted a position as Senior Regulatory Analyst in NCSC's Regulatory Strategy and Support Department. I was promoted to my current position as Lead Regulatory Analyst in October, 2014.

Q. Have you previously testified before the Pennsylvania Public Utility Commission ("Commission") or any other regulatory commission?

A. I have not previously testified before the Commission. However, I have submitted direct and rebuttal testimony with the Virginia State Corporation Commission in Case No. PUE-2014-00020.

Q. Please explain the purpose of your testimony in this proceeding.

A. The purpose of my testimony is to support and discuss the development of revenues to be used in the cost of service. I will sponsor Exhibit 3 and 103, with the exception of Schedule 8 (Rate Design) which is sponsored by Company witness Mark P. Balmert.

Q. What test years will you be addressing in this testimony?

A. I will be addressing the twelve-month period ending November 30, 2014 as the Historic Test Year, the twelve-month period ending November 30, 2015 as the Future Test Year, and the twelve-month period ending December 31, 2016 as the Fully Forecasted Rate Year.

II. <u>Operating Revenues – Exhibit 3</u>

Q. Please explain the process that was undertaken to produce the number of bills for the Historic Test Year.

A. The number of bills was summarized by rate schedule in Exhibit 3 Schedule 2 on a customer-by-customer, and month-by-month basis. The bills, as shown in column 1, were accumulated based on the rate schedule the customer was on at November 30, 2014. Adjustments were made in Exhibit 3 Schedule 2 Column 2 to reflect discontinued or added services for larger commercial and industrial customers. Incremental residential and commercial customers that were added or discontinued during the historic test year are shown in column 3 and 4, respectively, for a full year impact. The corresponding backup for customer additions and attrition for the Historic Test Year can be found in Exhibit 3 Schedule 5 Pages 1 – 5. Furthermore, an adjustment is made to add final billed customers because they were coded as inactive and were not counted for the month even though they were billed a customer charge for their final month of service.

Q. Please explain the development of the adjusted volumes in Dekatherm ("Dth") for the Historic Test Year.

A. Physical flow volumes were summarized by rate schedule in Exhibit 3 Schedule 3 on a customer-by-customer, and month-by-month basis. The volumes, as shown in column 1, were accumulated based on the rate schedule the customer was on at November 30, 2014. The Weather Normalization Adjustment in Exhibit 3 Schedule 3 Column 2 represents the change to physical flow volumes due to the use of a 20-year weather definition normalization. Adjustments were made in Exhibit 3 Schedule 3 Column 3 to reflect discontinued or added services for larger commercial and industrial customers. Incremental residential and commercial customers that were added or discontinued during the historic test year are shown in columns 4 and 5, respectively, for a full year impact. The corresponding backup for customer additions and attrition for the Historic Test Year can be found in Exhibit 3 Schedule 5 Pages 1 – 5.

Q. Please explain why physical flow volumes were used instead of invoiced volumes as the basis for calculating operating revenues.

A. Physical flow volumes were used instead of invoiced volumes because they represent volumes that flowed during the test year. Invoiced volumes may include adjustments made for prior billing periods that are outside of the Historic Test year. Therefore, physical flow volumes were used to eliminate out of period adjustments.

Q. How is the 20-year weather normalization definition utilized in Exhibit 3 Schedule 4?

A. Company witness Amy L. Efland (Columbia Statement No. 2) provided the total normalized volumes by month for residential and commercial customers, and they were allocated based on the customers' actual physical flow volumes and by their class. They were then accumulated by rate schedule by rate block, if applicable, as shown in Exhibit 3 Schedule 4 Column 2. The weather adjustment in Column 3 is calculated by subtracting actual physical flow Dth in column 1 from the normalized Dth in Column 2. The revenue impact as shown in column 5 is determined by multiplying the Dth in column 3 by the current base rates.

Q. Please explain the elimination of off-system sales in Exhibit 3 Schedule 6.

A. The elimination of off-system sales is a standard pro-forma adjustment and has been accepted by the Commission in prior rate case proceedings. Revenue from off-system sales was eliminated because it is not a basis for determining the Company's revenue requirement.

Q. Please explain the elimination of unbilled revenue and gas cost from the Historic

Test Year.

A. Unbilled revenue and gas cost are estimated revenues from services rendered to customers, but not yet billed by the Company. It is simply an accounting estimate to establish a calendar level of revenue to be recorded on the books. The purpose of this elimination is to reflect "as billed" revenue and gas cost during the twelve monthly billing cycles of the Historic Test Year.

Q. Please explain Schedules 8 and 9 in Exhibit 3.

A. Schedules 8 and 9 in Exhibit 3 demonstrate the calculation of gas cost, Gas Procurement Charge ("GPC"), Rider Universal Service Plan ("USP") and Merchant Function Charge ("MFC") by multiplying physical flow Dth with the rates that were effective in the Historic Test Year. The result of the calculation is used to split the per books revenue by customer class.

Q. Were current rates used in calculating revenues in Exhibit 3, Schedule 1?

A. Yes, current rates as of January 1, 2015 were used to calculate revenues with the exception of the MFC. This particular rider was calculated by using a three year average charge-off rate by revenue class for Residential Sales Service and Small General Sales Service. Please refer to Exhibit CYL-1, attached to this testimony, for the calculation. Company witness Kelley K. Miller (Columbia Statement No. 4) provides support for the calculation of the charge-off rates for uncollectible accounts.

Q. Please explain the adjustment made to Forfeited Discounts Account 487 in Exhibit

3, Page 9, Column 10.

A. A historic three year average percentage of Forfeited Discounts revenue to billed revenue is applied to the total annualized revenue, resulting in an annualized historic test year level of Forfeited Discounts. The calculation can be found in Exhibit CYL-2, Page 1, which is attached to this testimony.

Q. Please explain Pages 6 – 8 of Exhibit 3.

A. The summary shows a comparison of the adjusted bills and volumes by customer class priced at current and proposed rates.

III. Operating Revenues – Exhibit 103

Q. Please explain the process that was undertaken to produce the number of bills for the Future Test Year and Fully Forecasted Rate Year in Exhibit 103, Schedule 2.

A. Forecasted active customer counts are first determined on a total company basis by customer class by service type (Sales/Choice/Transportation) by month in Columbia's forecast supported by Columbia witness Efland. Large customers that are individually forecasted by the Large Customer Relations ("LCR") group are identified separately from the total forecast. The remaining non-LCR customer counts in the forecast are then spread for each month of the test year by service type by customer class by rate schedule based on the latest twelve months of historical experience ending November 30, 2014. The bills are accumulated based upon which rate schedule the customer was on at November 30, 2014.

Incremental residential and commercial customers that are expected to be added or discontinued during the forecasted test years are shown in columns 3 and 4, respectively, for a full year impact. The corresponding backup for customer additions and attrition for the Future Test Year and Fully Forecasted Rate Year can be found in Exhibit 103, Schedule 4.

Furthermore, an adjustment is made in Column 6 to reflect final billed customers because the forecast is based on projected active customers.

Q. Please explain the development of usage in Dth for the Future Test Year and Fully Forecasted Rate Year in Exhibit 103, Schedule 3.

A. Similar to the methodology used to produce the number of bills, forecasted Dth are first determined on a total company basis by customer class by service type by month in Columbia's forecast supported by Company witness Efland. Forecasted volumes associated with LCR customers is identified separately from the total forecast based upon the individual large customer forecast performed by the LCR group. The remaining non LCR volumes are then spread for each month of the forecasted test year by service type by customer class by rate schedule based on the latest twelve months of historical experience ending November 30, 2014. Volumes are accumulated based upon which rate schedule the customers were on November 30, 2014.

Incremental residential and commercial customers expected to be added or discontinued during the forecasted test years are shown in column 3 and 4, respectively, for a full year impact. The corresponding backup for customer additions and attrition for the Future Test Year and Fully Forecasted Rate Year can be found in Exhibit 103, Schedule 4.

Q. Have any changes been made to how the Rider USP is calculated in Exhibit No. 103, Schedule No. 7?

A. The Rider USP is calculated by taking the revenue increase for Customer Assistance Program ("CAP") class divided by the volumes for Residential Sales Service ("RSS") and Residential Distribution Service ("RDS"). The calculation also includes an adjustment for the $770,000 expenses associated with the CAP program. The purpose of this adjustment is to shift the revenue increase from base rate recovery to recovery through Rider USP. Please see Company witness Nancy J.D. Krajovic's testimony (Columbia Statement No. 12) for details behind the proposed changes.

Q. Please explain the adjustment made to Forfeited Discounts Account 487 in Exhibit 103, Page 10, Column 8 for the Future Test Year and Page 14, Column 8 for the Fully Forecasted Rate Year.

A. As mentioned before in Page 5 of my testimony, the Company is utilizing a three year average to get to an annualized level of Forfeited Discounts. Please see Exhibit CYL-2, Page 2 and 3 for the annualization adjustment.

Q. Please explain Pages 6 – 9 of Exhibit 103.

A. The summary shows a comparison of the adjusted bills and volumes by customer class priced at current and proposed rates for the Future Test Year and Fully Forecasted Rate Year.

Q. Does this complete your direct testimony?

A. Yes, it does.

Columbia Gas of Pennsylvania, Inc.
Calculation of Merchange Function Charge Utilized in Exhibit No. 3 and Exhibit No. 103
Calculated Using Gas Costs as of January 1, 2015

Line	Description	Reference	Rate $
1	PGCC Rate	Exhibit 1-A, Schedule 1, Page 1, Col. 3, Line 5 (1/01/15 Quarterly GCR Filing)	4.5061
2	Off System Sales & Capacity Release Credit	Exhibit 1-A, Schedule 1, Page 1, Col. 3, Line 6 (1/01/15 Quarterly GCR Filing)	(0.1052)
3	Total Commodity Cost of Gas per Dth		**4.4009**
4	Merchant Function Ratio[1] - Resdential Sales Service	Exhibit No. 4, Schedule No. 2, Page 32, Line 7	0.0154
5	Merchant Function Ratio[1] - Small General Sales Service	Exhibit No. 4, Schedule No. 2, Page 32, Line 14	0.0045
6	Merchant Function Charge - Residential Sales Service per Dth	(Line 3 x Line 4)	0.0676
7	Merchant Function Charge - Small General Sales Service per Dth	(Line 3 x Line 5)	0.0196

[1] Per Order in Docket No. R-2012-2321748

Columbia Gas of Pennsylvania, Inc.
Annualization of Forfeited Discounts (Account 487)
For the Twelve Months Ending November 30, 2014

Line No.		12 Mos November 2012	12 Mos November 2013	12 Mos November 2014	Total 3 Year Average	
1	Per Books Acct 487	$ 887,764	$ 1,144,228	$ 1,321,479	$ 3,353,471	
2	Per Books Billed Revenue	$ 366,906,958	$ 446,111,765	$ 542,904,735	$ 1,355,923,458	
3	Forfeited Discounts as a % of Revenue (Line 1 / Line 3)	0.2420%	0.2565%	0.2434%	0.2473%	
4	Historic Test Year Sales Revenue (Ex. 3, Page 10, Line 6)					$ 408,640,731
5	Historic Test Year Revenue -Transportation Revenue (Ex. 3, Page 10, Line 9)					$ 136,322,402
6	Total Sales and Transportation Revenue (Line 5 + Line 6)					$ 544,963,133
7	3 Year Average					0.2473%
8	Annualized Forfeited Discounts (Line 7 * Line 6)					$ 1,347,694
9	Historic Test Year Acct 487 (Ex. 3, Page 9)					$ 1,321,479
10	Annualization Adjustment (Line 8 - Line 9)					$ 26,215

Columbia Gas of Pennsylvania, Inc.
Annualization of Forfeited Discounts (Account 487)
For the Twelve Months Ending November 30, 2015

Line No.		12 Mos November 2012	12 Mos November 2013	12 Mos November 2014	Total 3 Year Average	
1	Per Books Acct 487	$ 887,764	$ 1,144,228	$ 1,321,479	$ 3,353,471	
2	Per Books Billed Revenue	$ 366,906,958	$ 446,111,765	$ 542,904,735	$ 1,355,923,458	
3	Forfeited Discounts as a % of Revenue (Line 1 / Line 3)	0.2420%	0.2565%	0.2434%	0.2473%	
4	Future Test Year Sales Revenue (Ex. 103, Page 11, Line 5)					$ 398,882,497
5	Future Test Year Transportation Revenue (Ex. 103, Page 11, Line 8)					$ 133,671,364
6	Total Sales and Transportation Revenue (Line 4 + Line 5)					$ 532,553,861
7	3 Year Average					0.2473%
8	Annualized Forfeited Discounts (Line 4 * Line 6)					$ 1,317,006
9	Future Test Year Acct 487 (Ex. 103, Page 10)					$ 1,347,694
10	Annualization Adjustment (Line 7 - Line 8)					$ (30,688)

Columbia Gas of Pennsylvania, Inc.
Annualization of Forfeited Discounts (Account 487)
For the Twelve Months Ending December 31, 2016

Line No.		12 Mos November 2012	12 Mos November 2013	12 Mos November 2014	Total 3 Year Average	
1	Per Books Acct 487	$ 887,764	$ 1,144,228	$ 1,321,479	$ 3,353,471	
2	Per Books Billed Revenue	$ 366,906,958	$ 446,111,765	$ 542,904,735	$ 1,355,923,458	
3	Forfeited Discounts as a % of Revenue (Line 1 / Line 3)	0.2420%	0.2565%	0.2434%	0.2473%	
4	Fully Forecasted Rate Year Sales Revenue (Ex. 103, Page 15, Line 5)					$ 398,548,264
5	Fully Forecasted Rate Year Transportation Revenue (Ex. 103, Page 15, Line 8)					$ 134,437,426
6	Total Sales and Transportation Revenue (Line 5 + Line 6)					$ 532,985,690
7	3 Year Average					0.2473%
8	Annualized Forfeited Discounts (Line 7 * Line 6)					$ 1,318,074
9	Fully Forecasted Rate Year Acct 487 (Ex.10 3, Page 14)					$ 1,317,006
10	Annualization Adjustment (Line 8 - Line 9)					$ 1,068