BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.,	:	
	:	Docket Nos.: R-2015-2468056
v.	:	C-2015-2473682
	:	
Columbia Gas of Pennsylvania, Inc.	:	

DIRECT TESTIMONY
OF MATTHEW WHITE
ON BEHALF OF THE NATURAL GAS SUPPLIER PARTIES

June 19, 2015
NGS Parties Statement No. 3

I. INTRODUCTION

Q. Please state your name and business address for the record.

A. My name is Matthew White. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

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

A. Interstate Gas Supply, Inc. ("IGS Energy") as General Counsel, Legislative and Regulatory Affairs.

Q. For whom are you appearing in this proceeding?

A. IGS Energy, Shipley Choice LLC d/b/á Shipley Energy and Dominion Retail, Inc. d/b/a Dominion Energy Solutions. I will refer to these parties collectively throughout my statement as the NGS Parties.

Q. Briefly describe your educational experience and relevant qualifications.

A. In 2002, I graduated from Ohio University after which I spent one year working in the West Virginia Governor's office. In 2007 I earned a JD/MBA degree from the College of William & Mary. In 2007, I began working at the law firm of Chester, Wilcox & Saxbe as an energy and utilities lawyer. At Chester Wilcox, I participated in numerous regulatory proceedings relating to utility matters including natural gas and electric rate cases and electric power siting cases. I also have worked on power and gas sales transactions. At the beginning of 2011 I was hired into IGS Energy's rotation program where I spent the next 16 months working in various departments throughout the company learning IGS' entire business, including the gas supply, marketing and risk departments. In 2012, I began full-time as an attorney in IGS' regulatory affairs department. In 2014, I was promoted to Manager, Legal and Regulatory Affairs at IGS. In 2015, I was promoted to General Counsel, Legislative and Regulatory Affairs. In my current position I manage the regulatory and legislative activities for IGS Energy. Part of my responsibilities are to oversee the electric and natural gas litigation for IGS Energy throughout the country, including electric and natural gas rate cases and other proceedings that relate to energy.

Q. Have you participated previously in regulatory cases?

A. Yes. I have submitted written testimony in the following cases: Public Utilities Commission of Ohio Case Nos. 12-1685-GA-AIR, 13-2385-EL-SSO, 12-426-EL-SSO, and 14-841-EL-SSO; 14-1297-EL-SSO Michigan Public Service Commission Case Nos. U-17131 and No. U- 17332; Kentucky Public Service Commission Case No. 2013-00167; Illinois Commerce Commission Case No. 14-0312; Pennsylvania Public Utility Commission Docket No. R-2015-2468056.

Q. What is the purpose of your testimony?

A. My testimony responds to several anticompetitive proposals contained in Columbia Gas of Pennsylvania's ("Columbia or CPA") base rate increase request. In its testimony Columbia proposes an unprecedented Choice administrative charge ("CAC"). I testify that the CAC is an attempt by Columbia to collect from CHOICE customers the cost of services that Columbia provides to purchase gas customer ("PGC" or "default rate") through distribution rates. All customers pay distribution rates, including CHOICE customers, thus it is not appropriate to seek to recovery of costs only from CHOICE customers through a separate rider when PGC customers receive those same services through distribution rates for free. Further, PGC customers are still receiving significant subsidies from distribution rates which Columbia ignores. For these reasons Columbia's proposed CAC it is unreasonable, and should be rejected. While Columbia proposes to increase the costs that CHOICE customer pay, Columbia proposes a significant reduction to its current gas procurement charge ("GPC"). As I explain in my testimony, Columbia did not include in its calculation a number of costs that should be included in the GPC and thus Columbia has significantly underestimated the GPC charge. As a consequence, Columbia has proposed to charge non-comparable and discriminatory rates to PGC and CHOICE customers. In my testimony I recommend that the Commission adjust the GPC upward to account for costs inappropriately excluded from the GPC.

II. BENEFITS OF COMPETITION

Q. Do all customers benefit from competitive natural gas markets?

A. Yes. There are many benefits that all customers receive as a result of competitive retail natural gas markets described below:

- Competitive markets offer choices to customers beyond the standard, quarterly variable PGC product. Those choices include products bundled with other products and services such smart thermostats and energy efficiency, green products, hedged products, fixed price options and flat billed products, to name a few;
- Having a diverse range of suppliers in the market delivering gas to the Columbia city-gate helps create liquidity in the market which puts price pressure on

wholesale natural gas prices, ultimately leading to lower retail natural gas prices for both PGC and CHOICE customers;

- Having a diverse range of suppliers in the market enhances reliability to Columbia customers. Many natural gas suppliers have a diverse range of capacity assets (that Columbia otherwise would not have access to) that enable NGSs to deliver gas to the Columbia system during constrained periods;
- Having multiple entities doing business creates jobs in Pennsylvania; and
- Competition drives innovation and efficiencies that leak out into the market, not-only to other NGSs in the market, but making the utility more efficient as well.

The reasons state above (and more) are why competition is the favored means to deliver goods and services to customers in our society and why competition should be encouraged. The Pennsylvania legislature also wisely recognized the benefits of competitive natural gas markets and that is why the legislature enacted legislation that enables the development of competitive retail natural gas markets.

Q. In a competitive market, is it important that all products are treated equally?

A. Competitive parity is important in any competitive market for products and services. Without competitive parity, innovation that is created by competitive forces is severely restricted. If one product is granted favorable legal or regulatory treatment, or otherwise has an anti-competitive advantage in the market, all else being equal, customers will be more likely to purchase or enroll in that product. Thus, the favored product will have less pressure to innovate and become more efficient, and other products that are not advantaged will be pushed out of the market.

Q. Does the current regulatory construct in the Pennsylvania natural gas markets favor competition and otherwise create competitive parity for all products and services in the market?

A. No. While, the current regulatory construct in the Pennsylvania natural gas markets allows for competition, it does not encourage competition. Rather, the current construct encourages customers to remain on the default service product provided by legacy natural gas monopolies. The default service product receives a number of anti-competitive advantages in the market place that simply do not exist in other markets for products and services. The greatest advantage granted to the PGC product is that all customers are automatically assigned to that product by default. Assignment of customers by default to the Columbia provided PGC ensures that the default rate maintains a significant portion of the market share, even when there are a multitude of other products available in the market. Second, the PGC product avoids substantial regulatory and compliance requirements that all other NGS products in the market must abide by. Those requirements include contacts requirements, verification requirements, notice requirements and a number of other consumer protection rules. Compliance with these rules and requirements comes at a substantial cost to NGSs – and the PGC product avoids all these costs. Finally, there are a number of actual costs, recovered through distribution rates that are utilized to support the default rate product -but CHOICE products do not receive that same support.

Q. Does your testimony seek to address all of the anti-competitive aspects of the current default service construct in Columbia's natural gas markets?

A. No. In my testimony in this proceeding I am not making recommendations with respect to all the anti-competitive aspects of the current default service construct. I am merely pointing these out to illustrate that it would be unreasonable to further the favoritism towards the default rate by placing more costs on NGSs and CHOICE customers, while increasing the subsidies provided to the default rate.

Q. Does Columbia seek to further the favored regulatory treatment granted to the default rate product?

A. Yes. Columbia's base rate increase request proposes to push more costs onto CHOICE customers through Rider CAC. Further Columbia proposes to reduce the GPC, which was designed to reduce the subsidies flowing from distribution rates to PGC customers. Therefore approval of the Columbia base rate application would be a step backward for competitive markets. For all of these reasons I do not recommend approval of Columbia's requests.

III. THE CAC RIDER

Q. Are there costs that are required to provide customers with a retail natural gas product other than the cost of gas?

A. Yes. There are substantial costs that are required to provide a retail natural gas product other than the cost of gas. To illustrate this point, it is helpful to examine the costs that NGSs must incur to provide retail natural gas to customers *in addition to the cost of* *gas.*[1] In order for an NGS to provide retail natural gas service it takes employees to schedule the delivery of gas; it takes employees for hedging and risk management; it takes call center infrastructure and employees to maintain appropriate customer service; it takes outside and inside legal personnel to comply with the regulatory rules and requirements; it takes IT employees; it takes office space for all of those employees; it takes administrative and HR staff to support those employees; it takes office supplies; it takes IT infrastructure; it takes accounting and auditing services; it takes printing and postage to communicate with customers. This is a non-exhaustive list of costs incurred by NGSs to make a retail product available in the market; the point is that it takes a significant amount of additional (non-gas) expense for an NGS provide a retail natural gas product in the market.

Q. Is the default rate product immune from incurring these expenses?

A. No. The default rate product does not exist on an island. In order to make the default rate product available to customers, the default rate product must incur the same expenses listed above. The only difference is that the default rate product is able to recover many of these expenses through distribution rates and NGS products do not recover these expenses through distribution rates.

Q. Isn't the GPC Charge designed to assign overhead expense to Sales customers?

A. The GPC charge is designed to assign *some* of the overhead expenses to PGC customers, but it certainly does not cover all the non-gas costs required to serve PGC

[1] For purposes of this discussion I will not include the costs a NGS must incur to acquire a customer, but rather will only discuss costs an NGS incurs to serve a customer once the customer begins service with the NGS.

customers. The GPC charge is designed to recover direct costs associated with supplying natural gas to PGC customers, but it is not designed to recover other expenses required to provide default service. For example the GPC assigns costs of employee time required to arrange for the transportation of gas for PGC customers, but it does not include call center employee time required to discuss default service with customers. Further, the GPC includes IT costs required to deliver the PGC gas in its GPC calculation, but it does not include allocation of IT costs to support employee payroll or even customer service and billing. Accordingly, there are significantly more costs required to support the default rate than what is being allocated to the GPC. All of those additional costs continue to be recovered through distribution rates.

Q. Has Columbia included in its GPC calculation all of the costs that distribution rates incur that are directly related to supplying gas for the default rate?

A. No. Irrespective of the other indirect costs discussed above, Columbia has not even assigned most of the costs recovered through distribution rates to the GPC rider that directly related to procuring PGC gas for customers. I will discuss Columbia's misallocation of GPC costs later on in my testimony.

Q. Given that the default rate still gets significant support from distribution rates, is it appropriate to assign the costs Columbia lists in its CAC to CHOICE customers only?

A. No. It is not appropriate to recover CAC costs solely from CHOICE customers. Columbia is effectively trying to carve out costs in distribution rates that support

CHOICE functions while ignoring the multitude of resources that go into supporting the default rate. Just as an example, in response to discovery request NGS Parties-1-013 (attached as NGS Exhibit No. 1) Columbia explains that it is attempting to recover through the CAC, IT expense associated with the DIS billing system utilized for CHOICE customers. Yet, 100% of the costs needed to bill and collect for PGC customers are recovered through distribution rates. That is just a single example of Columbia trying to single out CHOICE customers while still recovering all costs required to make a product available in the market for the default rate through distribution rates (including product branding, billing and product set-up.)

Q. Is it reasonable to assign labor costs attributed to CHOICE activities just to CHOICE customers?

A. No. It is not reasonable to assign labor costs attributed to CHOICE activities just to CHOICE customers. These labor costs are simply the costs Columbia incurs to make CHOICE products available in the market; however Columbia makes the default rate product available in the market using distribution rate resources. Those services include the services required to calculate and publish the default rate, bill the default rate, collect for the default rate, answer questions for the default rate through their call center and other customer service channels.

Q. Is Columbia's attempt to allocate costs to the CAC rider the same thing as assigning costs to Sales customers through rider GPC?

A. No. There is a major distinction between the cost allocated to the GPC and the costs allocation Columbia is proposing in the CAC. The GPC is designed to allocate costs of services for PGC customers that are being recovered through distribution rates *that NGSs are already providing to CHOICE customers.* For instance NGSs already have their own supply teams that nominate and schedule gas for CHOICE customers and thus CHOICE customers would be double charged if default supply costs were not appropriately allocated to the GPC. NGSs also have IT costs they incur to supply gas to CHOICE customers, so the IT needed to support the default rate represents a double charge if that cost is not appropriately allocated to PGC customers. However, the so-called "Choice" costs Columbia is attempting to charge through the CAC are simply costs required to make CHOICE products available to customers, just like the default rate product is made available to customers by Columbia.

Q. Is the Application of a CAC consistent with the Commission's existing regulations?

A. No. On page 7 of her testimony, Columbia Witness Krajovic states that the CAC charges proposed by Columbia is consistent with existing regulations. Mr. Krajovic cites Docket No. L-2008-2069114 to support her contention. However, Ms. Krajovic is incorrect in her analysis. In-fact Columbia made similar arguments in Docket No. L-2008-2069114 suggesting that Columbia incurs additional costs (similar to those it now seeks to recover in the CAC) to provide service to CHOICE customers. The Commission summarily rejected this position noting that "Columbia argues that NGDCs incur costs that are solely related to NGSs' service, but fails to demonstrate adequately that these costs are unique to NGS service (emphasis added)[2]"

Q. Does the Commission recognize the distinction between the costs Columbia is attempting to allocate to rider CAC and the costs appropriately assigned to rider GPC?

A. Yes. In case L-2008-2069114 the Commission recognized this distinction, and that is why the Commission promulgated regulations at 52 Pa. Code § 62.223 directing natural gas utilities to unbundle gas procurement charges from base rates and include them in the default rate. No such regulation exists that directs Columbia to impose additional costs on CHOICE customers. And as noted above, the Commission had the opportunity to approve such regulations at Docket No. L-2008-2069114 but rejected Columbia's request to do so.

Q. In your opinion are there significantly more costs incurred in distribution rates to support the default rate than are incurred through distribution rates to support CHOICE products available in the market?

A. Yes. As I already testified, NGSs are incurring significant non-gas costs to provide retail natural gas service to CHOICE customers. Those costs also exist for the default rate product, but they are being recovered through distribution rates. If anything, the CAC should be a credit to CHOICE customers given that the default rate receives

[2] Docket No. L-2008-2069114, Final Rulemaking Order at 19.

significantly more support from distribution rates (not even counting costs directly related to gas supply function) than do CHOICE products.

Q. Do you have any other issues with Columbia's allocation of CAC costs?

A. Yes. The CAC costs allocation is largely a matter of Columbia allowing employees to "estimate" the time they spend on certain activities. Irrespective of whether it is appropriate to allocate "CHOICE" costs to the CAC (which it is not) the costs Columbia chooses to allocate to the CAC are largely at Columbia's discretion. While NGS parties can, and have, served discovery on Columbia to get more detail on costs, absent directly observing Columbia's operations, there is little we can do to ensure that Columbia is assigning the appropriate costs to CHOICE functions. Therefore, not only is it the wrong policy decision to impose a CAC, it would be unreasonable to determine the CAC based on Columbia's estimated costs.

Q. Can you summarize your recommendations with respect to Columbia's proposed Rider CAC?

A. Yes. I recommend that the Commission reject Columbia's proposed Rider CAC for the reasons cited in my testimony. Rider CAC is anti-competitive and will harm, not just CHOICE customers, but all customers.

Q. Do you have any other recommendations?

A. Yes. As I note in my testimony, default service is still being significantly subsidized by default rates. The default rate incurs a number of cost NGSs must incur to support their retail products--but many of the default rate costs are simply absorbed into distribution rates rather than charged to default rate customers. I recommend that the Commission require Columbia to explore the costs that are *not directly related* to gas supply function but are still required to make the default rate product available in the market. Those costs include customer care costs, office space, office supplies, and other overhead expense, to name a few. These costs are not currently being allocated to the default rate, yet these are all costs that NGSs incur and are included in NGS pricing. The default rate should reflect these costs as well. For these reasons, in the next rate case proceeding, Columbia should be required to charge these costs directly to the default rate, instead of collecting them through distribution rates.

IV. <u>THE GPC RIDER</u>

A. Can you explain the GPC in further detail?

Q. Yes. With the promulgation of 52 Pa. Code § 62.223, the Commission ordered Pennsylvania natural gas distribution companies ("NGDCs") to identify and to unbundle all gas procurement charges from distribution rates and collect those costs from the default rate. Further, 52 Pa. Code § 62.223 clearly states that:

> *(1) Natural gas procurement costs* ***must*** *include the following elements:*
>
> *(i) Natural gas supply service, acquisition and management cost, including natural gas supply bidding, contacting, hedging, credit, risk management costs and working capital." (emphasis added).*

Q. Is there currently a GPC charge applied to Sales customers?

A. Yes. Currently the GPC for Columbia Sales customers is $.0695 per DTH.

Q. What is Columbia's proposed GPC?

A. Columbia proposes to reduce the GPC to $.0166 per DTH according to the testimony provided in this proceeding which would result in an approximate 400% reduction in the existing GPC charge.

Q. Do you think Columbia's GPC calculation is reasonable?

A. No. There are several deficiencies that I have identified in Columbia's GPC calculation. The most glaring deficiency is that Columbia has not allocated to the GPC costs for the working capital incurred due to gas in storage or working capital associated with the receipt of gas revenues and the incurrence of costs for applicable gas supply. Columbia is required to do this under Commission regulation but inexplicably has chosen not to do so. Second, Columbia allocated to the GPC less than the actual IT costs it incurs to procure the default rate product.

Q. What is Working Capital for Gas in Storage?

Gas in storage creates a substantial portion of Columbia's working capital costs included in base rates. Working Capital for Gas in Storage is the return on the capital cost of the storage gas inventory and comprises the most significant portion of the GPC.

Q. Is Columbia required to allocate costs of working gas in storage to the GPC?

A. Yes. 52 Pa. Code § 62.223 provides that a company *must* allocate the cost of working capital to its GPC. Working gas in storage is a cost of working capital.

Q. Does Columbia's testimony address why it does not include working capital costs in its GPC?

A. No. Columbia does not explain why there is no expense for working capital allocated to the GPC.

Q. What is your estimation of the working capital costs that should be included in the GPC?

A. In Paloney Exhibit No. 108, pg. 3 of 11, line 11 Columbia attributes $77,720,729 in base rates to working capital for gas in storage for the 2014 year. In his testimony witness Moul requests a proposed rate of return of 8.14%. That return applied to the gas storage inventory creates a revenue requirement of $6,326,467 that Columbia recovers from base rates. That means that distribution rate payers must pay an additional $6,326,467 annually to keep gas in storage for PGC customers. Keep in mind that NGS are responsible for the carrying costs they pay to deliver gas up front during injection season, and not receive payment on that gas until it is used. For these reasons I recommend the above costs be included in the GPC.

Q. Can you please describe the information and technology ("IT") systems Columbia included in its GPC calculations.

A. In Exhibit NJDK-2 Columbia notes that it has assigned approximately $ 53,614.31 in IT costs to the GPC IT system maintenance for the Gas Source system. This year Columbia failed to include the GP1 systems that had been attributable to the GPC in previous base rate cases. Columbia gives no explanation why this system is no longer being attributable to the GPC. Further, NJDK-2 indicates that the Total Gas Procurement Costs of IT systems is $ 53,614.31. However, Columbia only assigns 72% of those costs to the GPC with no explanation why the full cost of these systems are not allocated to the GPC. Further after reading the description of the gas source system in the response to NGS Parties 1-007 discovery request (attached hereto as NGS Exhibit No. 2), it would appear the vast majority of the operations for the Gas Source system benefits the PGC and not CHOICE customers.

Q. Has Columbia provided the information needed in order to determine the costs amounts that should be attributed to the GPC?

A. No. The information provided in Columbia's testimony is lacking for several reasons. First, Ms. Krajovic's does not indicate in her testimony whether the Gas Source costs assigned to the GPC represent the total cost of the Gas Source or if additional costs associated with the Gas Source are recovered through distribution rates. Therefore there is no way of knowing if Columbia has appropriately allocated IT costs to the GPC simply by reviewing Columbia's testimony.

Q. Is there any other information Columbia provided to you in discovery that leads you to believe Columbia is not allocating sufficient IT costs to the GPC?

A. Yes. It appears from Columbia's response to OCA discovery request 4.047 (Attachment A, pg. 4 of 7) (attached hereto as NGS Exhibit No. 3) that is expects to incur about $11 million in IT costs that it seeks to recover in base rates. In NGS Parties discovery request Set 1, No. 10, (attached hereto as NGS Exhibit No. 4), Columbia was asked to "identify all computer systems, software and or computer programs used by Columbia to purchase natural gas, nominate deliveries, manage its supply portfolio, and track sales to customers." Columbia identified a Distributive Information System (DIS) which it states it uses to track sales among other functions. Columbia identifies DIS system costs as $896,545. Of these costs, Columbia assigns $187,706 to the CAC charges, but Columbia assigns all of the other costs for the DIS system to base rates. Columbia gives no explanation as to why it believes that CHOICE customers should pay for a portion of the DIS directly, but the GPC should be assigned zero DIS costs.

Q. Based on the limited information that Columbia has provided, do you believe that Columbia's assignment of IT costs is reasonable?

A. No. As I note Columbia spends over $11 million on IT costs. Yet Columbia has allocated just $53,614.31of those IT costs to the GPC approximating only 0.4% of its total IT costs. As noted above, the NGSs have had difficulty getting additional information on Columbia's other IT costs; however, what I can ascertain is that:

- Columbia has not fully charged the GPC for the costs of its Gas Source System;
- There are no costs Columbia charges for its DIS system to the GPC although Columbia admits it uses this system to track gas sales, and also Columbia is attempting to charge a significant portion of these costs to CHOICE customers; and
- Columbia did not include any costs for its GP1 system, although these costs were included in its previous GPC calculations.

Given, these facts, and the fact that it is Columbia's burden to prove its rates are reasonable, is very unlikely that only 0.5% of Columbia's total IT costs can be attributed to the gas supply function. Other utilities have allocated substantially more to the GPC. For instance Peoples allocated IT capital costs, along with IT support and IT system DD&A costs for a total of $524,445. Attached as NGS Exhibit No. 5 is Peoples' allocation from its last rate case. Peoples utilizes the same Gastar systems CPA uses and it does not use GP1. Also, Peoples sales volumes are approximately the same as CPA's. Therefore it is difficult to see how CPA's IT costs could be 1/10 of Peoples. Given that it is Columbia's burden to prove that its rates are reasonable, and Columbia provides very little information with respect to IT costs, without further detail, I do not believe it is appropriate for the Commission to rely the dollar amount Columbia assigns the IT. As such, the Commission should assign a minimum of 5% of Columbia's total IT costs to the GPC. That amounts to $550,000.

Q. What are the total costs that should be allocated to the GPC?

A. Using my updated IT cost recommendation of $550,000 adding in the Working Capital Cost of $6,326,467, I calculate that the appropriate GPC for CPA is $.221 per DTH. My calculations are presented in NGS Exhibit No. 6.

Q. Does this conclude your direct testimony?

A. Yes it does.

NGS EXHIBIT NO. "1"

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-013:

Please provide a detailed explanation of the process employed by Columbia to determine what particular costs and/or expenses where eligible for recovery as part of the CHOICE Administration Charge.

Response:

The costs included for recovery through the CHOICE Administrative Charge (CAC) are labor (including benefits and overheads) and IT expenses.

Labor

To calculate labor expenses to include, Columbia determined which departments within NiSource Corporate Services provide resources to manage and administer Columbia's provision of transportation services to General Distribution Service (GDS) and CHOICE customers and their suppliers. Individuals within those departments were asked to identify what percentage of their time they charged to the Company was related to either CHOICE or GDS service.

Each individual's labor and benefits charged to Columbia Gas of Pennsylvania by month for TME 11/31/14 were summed and a benefits and overhead factor was calculated. The total labor expenses were then annualized to reflect 2015 and 2016 labor cost increases to forecast labor costs for the FFRY ended 12/31/16. The benefits and overhead factor was applied to the annualized labor expenses to generate forecasted benefits and overhead. The percentages identified by individuals noted above were applied to the forecasted labor and benefits and overheads to be charged to the Company, which were then summed to arrive at the forecasted 2016 labor (including benefits and overheads) allocable to the CAC.

IT Expenses

As explained in my testimony, the Company seeks to recover a portion of the costs that it incurs to enhance and maintain the systems that support the CHOICE program and GDS where those costs are incurred solely for the benefit of the CHOICE and GDS customers and or their NGSs. The Company identified the entire cost of the Aviator system (programming changes and ongoing operating and maintenance costs) and the costs of certain programming changes to the GTS and DIS billing systems to meet those criteria.

Columbia personnel who are identified in the response to NGS 1-014 reviewed descriptions of all programming changes made to the GTS and DIS systems that impacted the processing of GDS or CHOICE transactions. Any changes that included impact on non-GDS or CHOICE transactions (sales service transactions) were excluded in total. Any changes that were implemented for Company business purposes (for example, bill redesign, zip code reassignment, etc.) were excluded in total. Any changes to reflect the implementation of new base rates or rate design changes were excluded in total. Only those changes that occurred for the benefit of GDS or CHOICE customers or their NGSs were included.

The identification of the IT costs included in the Rider CAC calculation is contained in the response to NGS 1-002.

NGS EXHIBIT NO. "2"

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-007:

With regard to the expense items listed under the heading "Information Technology Systems Maintenance", and in particular the item identified as "Gas Source" on line 11 of Exhibit NJDK-2, please provide a detail description of "Gas Source" and the how "Gas Source" is involved in gas procurement for Columbia Gas.

Response:

GasSource is a gas management system utilized by Northern Indiana Public Service Company, Columbia Gas of Massachusetts, Columbia Gas of Kentucky, Inc., Columbia Gas of Maryland, Inc., Columbia Gas of Ohio, Inc., Columbia Gas of Pennsylvania, Inc., and Columbia Gas of Virginia, Inc. The application focuses on natural gas distribution company gas supply processes including, a) maintenance and administration of pipeline transportation and storage contracts, as well as natural gas supply contracts, including the maintenance of the respective pipeline rates, index rates, and negotiated rates; b) trading activity for both system supply and off system sales including the electronic generation of the respective transaction confirmations; c) scheduling activities for both system supply and off system sales on the various pipelines; d) capacity release activities including those required under the Choice Program; e) maintaining a real-time view of the available capacity on each of the respective pipeline contracts; f) providing a means of reconciling the pipeline invoices, gas supply invoices, and generating off system sales invoices; and g) report generation and electronic feed of information to the accounting system.

Many of these activities, such as the administration and maintenance of pipeline contracts and the respective rates, capacity release and invoice reconciliation provide support to natural gas distribution company activity as well as NGS activity. In addition, the items related to off system sales help reduce costs to the customers through the sharing mechanism.

NGS EXHIBIT NO. "3"

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

OCA – Set 4

Question No. OCA 4-047:

Reference Exhibit 104, Schedule 13, pages 1-2:

a. Please provide supporting documentation for each of the budget adjustments to NCSC Shared Services.
b. With regard to the reduction in the use of outside consultants in IT presented on page 1, please identify the projects associated with the reduction in consultants.
c. Please explain the cause of the reduction in legal fees as stated on page 1.
d. With reference to the increase in IT consulting fees on page 2, please identify the project driving the requirement for additional outside consultants.
e. Please identify the specific materials and supplies related to the increase in IT costs.

Response:

a. Page 1
   - The difference in Incentive Compensation between the HTY and FTY is driven by the "above target" payout in 2014. Columbia always budgets for incentive compensation at target for future years. The HTY expense has no bearing on the budget for the FTY. HR establishes the budget figures for Incentive Compensation by calculating the target dollar figure by employee classification and feeds that information to the Financial Planning team for inclusion in the budget. As noted, the $603,000 reduction relates to the "above target" payout in the HTY being compared to an expected target payout in the FTY. Refer to OCA 4-047 Attachment A page 1 for the gross incentive compensation source information received from HR for the budget. Corporate Budgeting breaks this out by department based on historical trends and known changes in headcount as seen on

page 2 of OCA 4-047 Attachment A. This file contains the incentive compensation for NiSource as a whole. Columbia Pennsylvania is allocated approximately 11% of the incentive compensation from NCSC shared services which follows historical trends and known changes. This is in line with the labor allocation of 12% that comes to Columbia Pennsylvania from NCSC shared services.

- The reduction in Outside Services is primarily related to a reduction in IT costs as noted (See Attachment A page 3). The reason for the reduction in these costs is the completion of the NiFit project as well as a change in the structure of the IBM billing agreement that resulted in a reduction in costs when comparing the HTY to the FTY. There was also a small reduction in legal fees (approximately $50,000) allocated from NCSC Shared Services. This relates to an overall expected reduction in external legal costs for the corporation in the FTY compared to the HTY. This reduces the resulting allocation of those expenses that Columbia Pennsylvania receives.
- The increase in labor is primarily driven by increases in Finance and Accounting as a result of the end of the NiFit project instead of an increase in headcount. During the NiFit project, a portion of the time for the Finance and Accounting employees working on the project was capitalized due to the nature of the work they were doing. As the project completes these employees will no longer be charging time to work that can be capitalized and their time will be repurposed toward standard work that results in an increase in O&M (See Attachment A Page 4). In addition to the impact of the completion of the NiFit project, merit increases represent about $186,000 of the labor change (see Attachment A page 5). The actual expected headcount increase in these departments is a smaller driver of the change for Columbia Pennsylvania. The remaining $160,000 increase in labor from the HTY to the FTY is primarily driven by vacancies in the HTY that have been filled and are reflected in the FTY.
- All Other Adjustments are driven primarily by higher depreciation of IT assets as assets go into service.
- The increase in labor from the FTY to the FFRY is primarily explained by merit increases (see Attachment A page 5), lower capitalization due to the conclusion of the Nifit project (see Attachment A page 4), and filling of vacancies from 2014 in Finance and Accounting (see Attachment A page 6).
- The increase in Outside Services from the FTY to the FFRY is again driven by the change in the timing and structure of the IBM contract. The reduction in expenses from the HTY to the FTY was much higher than the increase from the FTY to the FFRY which still results in a lower overall cost of the contract in the FFRY than what was present in the HTY (See Attachment A page 3).

- The Incentive compensation increase from the FTY to the FFRY is driven by the increase in the labor expense. Both years are planned at target, therefore, as labor O&M increases incentive compensation will increase as well. As with the explanation above for the change on page 1 for the HTY to the FTY, refer to OCA 4-047 Attachment A for a breakdown of the source incentive compensation gross cost provided by HR and Corporate Budgeting.
- Materials and Supplies increase in IT reflects higher associated costs related to new projects (See Attachment A page 7)..
- Depreciation increases as future IT project assets are expected to be placed into service. This includes Information-Enterprise Business Intelligence, technology upgrades, and security improvements.

b. See answer to part a.
c. The reduction in outside legal fees is driven by the hiring of some additional in-house legal counsel which is expected to reduce the cost of outside legal services.
d. See answer to part a.
e. There are no specific Materials and Supplies identified. This is a budgeted amount that is driven by the expected corresponding increase in IT costs to improve and grow the IT platform to support the growing business needs.

Long Range Financial Plan: 2015-2020 Corporate Incentive Plan Projections by Company

	Data					
Company	Sum of 2015	Sum of 2016	Sum of 2017	Sum of 2018	Sum of 2019	Sum of 2020
'012 [illegible]	25,430,338.12	26,193,248.27	26,979,045.71	27,788,417.09	28,622,069.60	29,480,731.69
'044	6,153.80	6,338.41	6,528.56	6,724.42	6,926.15	7,133.94
'057	23,813.42	24,527.82	25,263.66	26,021.57	26,802.21	27,606.28
'059	23,210,075.73	23,877,556.00	24,623,497.29	25,423,356.36	26,249,351.60	27,036,832.15
'080	3,099,905.96	3,178,392.76	3,267,747.74	3,365,780.17	3,466,753.58	3,570,756.18
'082	3,441,792.91	3,542,426.83	3,648,699.63	3,758,160.62	3,870,905.44	3,987,032.60
'096	1,212,477.61	1,248,851.94	1,286,317.50	1,324,907.02	1,364,654.23	1,405,593.86
'202	21,084.88	21,717.43	22,368.95	23,040.02	23,731.22	24,443.16
'32	687,883.58	708,467.58	729,721.61	751,613.26	774,161.66	797,386.51
'34	4,541,604.90	4,674,000.21	4,814,220.21	4,958,646.82	5,107,406.22	5,260,628.41
'35	244,343.65	250,886.11	258,412.70	266,165.08	274,150.03	282,374.53
'37	2,716,286.63	2,785,210.21	2,868,766.51	2,954,829.51	3,043,474.39	3,134,778.63
'38	1,427,988.93	1,467,442.93	1,511,466.21	1,556,810.20	1,603,514.51	1,651,619.94
'51	7,595,958.29	7,821,915.52	8,056,572.98	8,298,270.17	8,547,218.28	8,803,634.83
Grand Total	73,659,708.42	75,800,982.01	78,098,629.27	80,502,742.31	82,981,119.13	85,470,552.70

Based upon 10/31/14 eligible earnings plus projected earnings for 11/1-12/31/14, including projected overtime
Includes 1/1/15 headcount projections provided by financial planning on 10/29/14
Pay increase assumptions: Exempts = 3% each year
Nonexempts 2.5% in 2015, 3% each year after
Unions: follow terms of bargaining unit agreements; 3% for each year not included in agreements
Target incentive level for all years [illegible]

Ot Pay Type	Sum of 2015	Sum of 2016	Sum of 2017	Sum of 2018	Sum of 2019	Sum of 2020
200	6,312.55	9,471.83	6,861.16	6,855.12	7,071.07	7,233.20
500	131,307.28	135,346.90	139,303.66	145,463.81	147,767.50	152,221.13
600	527,103.40	547,819.56	559,306.31	575,902.30	593,261.77	611,050.62
700	248,543.37	257,029.47	264,740.35	272,682.56	280,863.84	289,289.83
810	2,311,933.87	2,472,493.58	2,495,166.43	2,570,021.42	2,647,122.06	2,726,535.72
820	34,562.63	35,420.36	36,488.76	37,785.42	38,873.15	40,099.80
830	21,324.09	21,980.72	22,518.55	23,193.84	23,887.89	24,604.46
850	21,498.45	22,345.40	23,307.78	23,491.54	24,196.60	24,921.59
910	81,470.06	84,892.46	87,439.44	90,062.63	92,764.50	95,547.44
1000	430,334.53	464,336.97	478,766.14	511,729.13	529,141.00	545,815.23
1200	151,344.88	154,114.81	160,905.35	165,732.29	170,700.14	175,821.15
1300	1,249,793.15	1,287,394.25	1,325,818.05	1,365,504.36	1,406,551.91	1,448,748.47
1320	138,548.30	140,747.75	144,970.18	149,319.29	153,798.87	158,412.83
1330	252,937.73	260,525.44	268,341.43	276,391.84	284,683.62	293,224.13
1340	391,312.92	401,062.40	413,134.48	421,808.12	440,437.39	453,650.51
1400	89,197.36	91,088.00	94,618.39	97,457.48	100,361.18	103,382.41
1410	104,423.85	107,563.55	110,785.73	114,110.42	117,616.85	121,062.33
1510	158,490.06	163,163.32	168,143.04	173,185.27	178,380.83	183,732.26
1520	32,857.47	33,946.20	34,964.56	36,018.52	37,093.32	38,206.74
1530	55,292.76	56,833.15	58,527.98	58,223.31	59,979.12	61,769.32
1580	78,438.51	81,214.99	83,653.44	86,160.89	88,745.82	91,408.19
1600	549,462.54	586,925.81	604,123.36	622,245.82	640,913.37	660,139.74
1810	86,966.77	99,266.59	102,758.51	105,842.37	109,017.64	112,288.57
1930	120,721.44	123,830.34	127,545.05	131,371.40	135,312.54	139,372.91
1980	438,395.21	452,547.07	465,093.42	479,046.28	493,417.67	508,220.30
2120	65,990.83	68,599.92	70,868.91	73,202.06	75,398.07	77,660.02
2130	460,821.91	474,874.63	488,830.57	503,680.55	517,760.97	533,293.89
2300	67,578.35	69,080.53	71,488.76	73,699.28	75,864.18	78,139.06
2310	129,335.09	133,421.85	137,418.60	141,548.38	145,792.78	150,168.56
2500	708,237.38	724,334.50	746,064.53	768,446.47	791,499.83	815,244.38
2520	203,516.48	205,545.97	211,867.09	218,017.04	224,557.53	231,294.29
2530	57,822.40	59,337.80	61,341.80	63,184.31	65,079.84	67,032.08
2540	236,088.17	245,235.87	252,603.05	260,270.94	267,975.87	276,015.24
2550	35,445.87	36,539.43	37,635.31	38,753.56	39,914.58	41,114.08
2560	29,052.42	29,531.33	30,404.29	31,319.10	32,258.67	33,226.43
2570	147,913.76	152,350.15	156,920.65	161,628.77	166,477.13	171,471.43
2700	380,379.25	391,790.58	403,544.30	415,650.63	428,120.15	440,963.75
2710	272,310.21	280,481.06	289,106.12	297,779.41	306,713.00	315,914.18
2810	367,263.83	378,283.85	389,634.43	401,323.46	413,363.16	425,764.06
3030	40,561.81	67,178.40	64,249.81	66,177.30	68,163.62	70,707.30
3400	387,188.08	380,798.57	410,262.53	413,065.41	435,773.57	448,851.31
3630	122,434.36	170,107.39	129,890.61	133,787.33	137,800.95	141,934.97
4720	38,306.36	39,782.56	20,876.01	20,903.30	25,826.81	22,285.43
4790	9,479.82	9,764.01	10,056.01	10,758.03	10,669.93	10,989.47
4740	150,981.50	155,521.81	160,186.97	164,992.58	169,942.85	175,040.63
4800	82,711.63	84,162.98	88,897.81	88,786.48	91,947.13	94,776.15
5250	32,080.45	32,042.07	32,973.25	33,962.45	34,981.32	36,030.76
5270	61,519.05	63,104.56	65,263.51	67,123.44	69,140.16	71,317.89
5280	149,604.31	154,105.05	158,836.01	163,574.92	168,482.17	173,536.64
5290	216,885.37	223,381.84	230,093.49	236,996.50	244,106.40	251,429.59
5300	139,867.76	144,157.37	148,512.06	152,960.38	157,557.43	162,284.15
5310	166,405.96	171,303.81	176,513.02	181,811.60	187,266.64	192,905.34
5320	197,953.74	203,853.15	209,966.09	216,263.60	222,751.66	229,436.27
5330	709,652.35	730,943.93	752,870.16	775,456.29	798,720.57	822,682.57
5340	142,028.31	146,091.36	150,476.36	154,990.44	159,640.18	164,419.36
5350	13,008.41	13,430.19	13,832.80	14,237.50	14,666.72	15,104.66
5360	57,065.92	59,088.90	60,858.53	62,685.29	64,565.85	66,502.83
5370	151,654.01	156,207.75	160,893.66	165,720.80	170,692.43	175,812.20
5390	175,440.43	180,672.75	186,092.33	190,675.72	197,425.93	203,848.77
5410	172,540.56	176,095.80	181,995.69	187,455.74	193,079.42	198,873.30
5450	35,362.21	36,428.21	37,522.06	38,648.71	39,806.51	41,000.79
5510	124,518.72	128,346.04	132,093.49	136,056.13	140,132.91	144,342.06
5560	147,325.13	153,344.08	156,297.23	160,985.15	165,818.73	170,790.30
5570	97,855.93	100,781.62	103,825.36	106,929.63	110,137.71	113,441.84
5580	143,957.20	147,809.30	152,130.17	151,694.00	161,394.90	166,236.78
5590	80,134.07	82,538.09	85,016.24	87,564.60	90,191.80	92,887.35
5600	22,374.72	22,859.97	23,573.17	24,230.02	24,857.85	25,704.38
5620	53,851.26	53,388.28	54,988.01	56,639.60	58,338.79	60,088.95
5680	37,054.22	38,134.54	39,188.29	40,446.33	41,653.73	42,903.53
5690	193,680.20	199,490.84	205,482.05	211,646.82	217,997.77	224,537.71
5700	102,503.41	105,365.49	108,426.46	111,570.00	114,917.32	118,364.80
5740	124,445.35	128,174.39	132,018.40	135,980.23	140,050.62	144,262.40
5750	365,892.34	376,862.00	387,961.79	399,002.67	411,569.72	423,937.42
5800	344,816.32	355,189.76	365,853.75	376,831.61	388,136.35	399,780.44
5900	355,090.58	365,860.74	380,904.05	392,333.15	404,102.09	416,224.13
5910	214,430.57	220,862.07	227,484.97	234,313.84	241,343.04	248,583.34
6100	155,800.93	160,577.95	165,395.70	170,357.15	175,467.87	180,731.90
6200	756,519.31	779,214.90	802,591.41	826,669.15	851,469.23	877,013.31
6400	429,256.00	443,306.24	456,503.35	470,200.24	484,306.33	498,832.32
6450	300,200.20	291,718.07	300,510.01	309,526.19	318,813.92	328,376.27
6620	418,853.75	431,418.14	444,360.19	457,692.73	471,422.47	485,565.14
6700	98,472.63	101,427.02	104,470.05	107,604.77	110,832.91	114,157.90
6800	62,378.43	63,869.33	65,915.51	67,890.50	69,877.22	72,025.04
7020	532,900.30	548,887.30	565,353.73	582,314.33	599,783.76	617,777.27
7030	278,401.52	288,756.32	292,371.06	301,098.20	310,090.87	319,372.48
7050	204,741.25	210,884.50	217,211.06	223,727.07	230,440.10	237,353.36
7060	140,957.44	145,217.07	148,573.58	154,080.79	158,692.81	163,443.09
7070	509,008.78	510,278.04	527,827.42	537,662.24	547,792.10	558,228.87
8010	288,513.09	297,171.07	306,086.63	315,268.51	324,727.10	334,460.00
8030	95,930.58	98,849.70	101,815.19	104,868.65	108,015.73	111,256.21
8040	188,730.32	194,392.63	200,224.31	206,230.99	212,417.84	218,790.40
8200	334,286.82	344,314.01	354,844.36	365,283.80	376,142.30	387,528.47
8300	99,302.00	102,286.79	105,854.82	108,318.52	111,770.09	115,124.12
8510	448,500.80	458,817.72	470,394.30	484,722.38	498,258.54	514,231.15
8520	97,005.58	99,958.16	102,998.30	106,068.04	109,270.08	112,540.81
8530	250,525.98	258,042.76	265,783.41	273,755.50	281,968.19	290,428.37
8540	298,913.96	308,392.76	317,543.54	327,063.28	336,879.82	346,986.23
8620	77,167.16	79,472.87	81,856.81	84,311.71	86,841.06	89,446.29
8630	45,115.58	46,685.65	48,088.51	49,539.42	52,025.00	52,556.77
8640	51,358.44	52,952.02	54,095.63	55,645.49	58,344.85	60,093.38
8645	37,964.20	39,303.16	40,276.36	41,484.55	42,729.00	44,010.95
8650	63,331.00	65,430.70	67,403.95	69,424.01	71,506.73	73,652.93
8660	77,430.84	79,616.58	82,333.25	84,095.31	87,535.55	89,256.55
8670	54,538.89	56,134.85	57,860.50	59,595.90	61,383.78	63,225.29
8671	45,098.84	46,402.16	47,794.31	49,228.06	50,704.90	52,226.04
8680	61,571.43	63,212.17	65,108.94	67,062.21	69,074.08	71,146.30
8740	101,300.46	104,339.48	107,469.66	110,693.75	114,014.56	117,435.00
8800	253,608.76	261,217.03	269,053.56	277,125.18	285,438.92	294,002.09
8900	49,215.48	50,691.95	52,212.71	53,779.09	55,392.46	57,054.24
8910	38,874.07	39,473.79	40,658.00	41,877.74	43,134.08	44,428.10
9020	214,141.00	220,565.25	227,182.21	233,998.91	241,018.86	248,248.83
9030	75,046.71	77,298.13	79,617.07	82,005.59	84,465.75	86,999.73
9110	179,168.07	178,617.93	186,770.47	195,323.59	304,234.79	313,361.84
9160	188,331.37	193,859.57	199,675.46	205,665.72	211,835.69	218,190.76
9170	170,817.10	175,862.22	181,241.16	186,678.41	192,278.76	198,047.12
9200	165,345.28	170,346.12	175,457.23	180,720.93	186,142.58	191,726.84
9210	26,556.50	27,353.19	28,173.89	29,019.11	29,889.68	30,786.37
9230	493,796.88	508,885.49	523,328.05	539,027.89	555,198.73	571,854.89
9240	410,918.80	423,287.88	435,986.50	449,066.00	462,538.06	476,414.22
9250	55,363.52	59,997.83	61,884.46	63,334.09	65,441.06	67,404.29
	25,430,334.32	26,193,349.27	26,979,045.71	27,788,417.00	28,622,066.60	29,480,732.41

Territory Adjustment	(359,715.08)	Removed duplicate individuals that were included in the vacancies file provided by budgeting to EK, that were hired prior to the pulling active IIC.
New Hire Adjustments	454,817.58	Added individuals budgeted to be hired that were not included in additions provided by
Retirement adjustment	(58,163.52)	There is just one person in this dept and he is retiring at 12/31/14 not to be back filled therefore his dollars were zero'd out for the rest of the budget
Total	25,689,400.51	

Total per plan 25,689,400.51
0.00

Columbia Gas of Pennsylvania

Comparison of HTY IT Costs versus FTY IT Costs

CO# 00037

ROLLS TO	SEGMENT	RT_ROLLUP	Values Sum of HTY	Sum of FTY	Sum of 2016 Total
Administrative Services	Information Technology	3002 Legal Services	4,338	-	-
		3030/40 Outsourcing - Fixed Costs	634,795	594,550	-
		3031/41 Outsourcing - Variable Costs	201,906	202,901	-
		3033 Sales Tax	10,115	8,127	-
		3035 Work Management System Costs	169	-	-
		3036 Service Level Agreements	-	-	-
		3037 Miscellaneous Reimbursements	-	2,077	-
		3038 Request for Service (RFS)	61,539	103,522	-
		3038/48 Request for Svc(RFS)	142,029	(125,975)	(34,595)
		306x WMS (Net)	(11,538)	(11,621)	(12,451)
		30x4/x5 Capitalized Portion - IBM Bill	(59,361)	(66,523)	-
		30xx Outside Services	10,151,526	9,759,530	10,871,902
	Information Technology Total		11,135,517	10,466,588	10,824,856
Administrative Services Total			11,135,517	10,466,588	10,824,856
Grand Total			11,135,517	10,466,588	10,824,856
			Variance	(668,929)	358,268

CON 00037

ROLLS TO	SEGMENT	RT_ROLLUP	Values Sum of HTY	Sum of 2015 Total	Sum of 2016 Total
Finance	Office of the CFO	9001-9001 Capital transfers - Indirects	(301,104)	(74,084)	-
	Office of the CFO Total		(301,104)	(74,084)	-
Finance Total			(301,104)	(74,084)	-
Grand Total			(301,104)	(74,084)	-
		Change in Capitalization from [illegible]		227,020	74,084

Labor Dollars for NCSC Shared Services

Administrative Services Total	$ 1,679,546	$ 1,781,688	$ 1,851,021
Corporate Affairs Total	127,719	127,923	136,352
Executive Total	290,367	298,022	309,361
Finance Total	2,104,577	2,538,117	2,839,634
Human Resources Total	998,885	1,048,707	1,095,025
Legal Total	997,014	1,036,721	1,078,188
NCSC Shared Services	**$ 6,198,109**	**$ 6,831,179**	**$ 7,309,580**
Calculated Merit		**$ 185,943**	**$ 204,935**

2015 0&12 Headcount by Department

Dept Combined ACCOUNTS	HTY Actual	FTY Budget	FFRY Budget	Apr 2015 Actual
0008000 Consolidated Financial Reporting Total	24	35	35	29
0013300 Business Unit CFO - EDE Total	3	3	3	3
0055600 Corporate Financial & Strategic Planning Total	8	11	11	9
0055700 Corporate Budgeting - Capital & O&M Total	8	8	8	9
0055800 Corporate Development and Reporting Total	5	6	6	8
0055900 FP&A Admin Services Total	5	6	6	5
0059000 EDE Accounting Total	34	42	42	38
0059100 EDE Financial Planning Total	17	22	22	22
0061000 Corporate Services Accounting Total	13	17	17	17
0067000 Accounts Payable Total	13	16	16	15

CO# 00037

ROLLS TO	SEGMENT	RT_ROLLUP	Sum of FTY	Sum of 2016 Total
Administrative Services	Information Technology	2xxx Materials & Supplies	486,935	641,651
	Information Technology Total		486,935	641,651
Administrative Services Total			486,935	641,651
Grand Total			486,935	641,651

Variance 154,715

NGS EXHIBIT NO. “4”

COLUMBIA GAS OF PENNSYLVANIA INC.

R-2015-2468056

Data Requests

NGS Parties – Set 1

Question No. NGS Parties 1-010:

Identify all computer systems, software and or computer programs used by Columbia to purchase natural gas, nominate deliveries, manage its supply portfolio, and track sales to customers. For each item identified, provide the total cost; the percentage of that cost recovered in base rates, and the percentage recovered through any other mechanisms, whatever they may be.

Response:

GasSource (described in the response to NGS 1-007) is the system Columbia utilizes to purchase natural gas, nominate deliveries, and manage its supply portfolio.

The costs to operate GasSource for the fully forecasted rate year total $53,614.31. 72% of that total is proposed to be recovered through the GPC as 72% of Columbia's customers take sales service from Columbia. The remaining 28% is reflected in base rates.

The Company's Distributive Information System (DIS) tracks sales to customers, among many other functions. DIS is the primary Customer Service and Customer Information system. It is actually a collection of many subsystems that support the use of a broad range of customer and operations information. The system consists of a large database and supports the collection, storage and retrieval of mission-critical Customer Service data for approximately two million customers. The DIS system integrates the information exchange for numerous operational activities that are part of daily customer services. The information and system logic supports the following types of customer services and interactions: customer meter reading and billing, on-line customer inquiries, payment options, accounting and adjustment processing, service order scheduling and execution, credit and collections, meter and service line information, usage history, premise and marketing information and other such customer information requirements. Total costs of DIS reflected in the historic test year consist of $896,545 in Annual Application Maintenance and Support expenses and depreciation of $13,537.75. Of the total Annual Application Maintenance and Support expenses, $186,706.80, or 20.8% is being proposed to be recovered through Rider CAC and the remaining 79.2% would be reflected in base rates.

NGS EXHIBIT NO. “5”

Peoples Natural Gas Company LLC
Merchant Function Charge - 1/1/12 GCR Rates

	Residential - Rate RS		
	Gas Cost	Write-off	MFC
Gas Cost Components	Rate $/Mcf	Factor	$/Mcf
Capacity Charge	$0.4695	3.55%	$0.0167
Gas Cost Adjustment Charge	$0.5970	3.55%	$0.0212
Commodity Charge	$4.0930	3.55%	$0.1453
Total PTC - Commodity	$4.6900		$0.1665

	Small General Service - Rate SGS		
	Gas Cost	Write-off	MFC
Gas Cost Components	Rate $/Mcf	Factor	$/Mcf
Capacity Charge - Comercial	$0.4424	0.77%	$0.0034
Capacity Charge - Industrial	$0.4695	0.77%	$0.0036
Gas Cost Adjustment Charge	$0.5970	0.77%	$0.0046
Commodity Charge	$4.0930	0.77%	$0.0315
Total PTC - Commodity	$4.6900		$0.0361

	Medium General Service (MGS); Large General Service - (LGS)		
	Gas Cost	Write-off	MFC
Gas Cost Component	Rate $/Mcf	Factor	$/Mcf
Capacity Charge	$0.4695	0.77%	$0.0036
Gas Cost Adjustment Charge	$0.5970	0.77%	$0.0046
Commodity Charge	$4.0930	0.77%	$0.0315
Total	$4.6900		$0.0361

NGS EXHIBIT NO. “6”

NGS Exhibit No. 6

GPC Allociation

				Sales Quantity in DTH	33,423,984
Line					
1	Total Labor & Benefits	$	476,605.10		
2	Outside Legal	$	40,197.00		
3	IT Costs	$	550,000		
4	Working Capital		6,326,467		
5	Total GPC Costs	$	7,393,269.10		
6	**GPC Cost /DTH**	**$**	**0.221**		

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.,	:	Docket Nos.: R-2015-2468056
v.	:	C-2015-2473682
Columbia Gas of Pennsylvania, Inc.	:	

SURREBUTTAL TESTIMONY
OF MATTHEW WHITE
ON BEHALF OF THE NATURAL GAS SUPPLIER PARTIES

July 28, 2015
NGS Parties Statement No. 3-SR

I. INTRODUCTION

Q. Please state your name and business address for the record.

A. My name is Matthew White. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q. Are you the same Matthew White that provided Direct Testimony in this matter?

A. Yes I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my Surrebuttal Testimony is to respond the testimony of CPA witness Krajovic's rebuttal testimony presented on CPA's calculation of its gas procurement charge ("GPC") and CPA's proposed Choice administrative charge ("CAC").

Q. Can you please summary your Surrebuttal Testimony?

A. Yes.

- In her rebuttal testimony Ms. Krajovic justifies ignoring the Commission's requirement to include the cost of working capital into Columbia's GPC, because in her opinion, Choice customers benefit from Columbia's gas in storage as much as PGC customers. However, with her justification, Ms. Krajovic is exploiting the non-relevant timing of the CPA reconciliation to confuse the issue of when NGSs begin injecting gas into storage. Under Columbia's average day program, NGS suppliers deliver gas into storage during injection season, and pay carrying charges on that gas, until NGSs are paid for that gas largely during heating season. Thus, requiring Choice customers to again pay for CPA's rate of return on the PGC gas injected into storage would amount to a double recovery from CHOICE customers. In-fact, Columbia's average day delivery program requires NGS' to inject natural gas into storage even earlier in the season than other Pennsylvania utilities, thus there is a greater justification in include the cost of gas in storage for CPA's GPC. Finally, to the extent Columbia uses natural gas in storage to balance the system, Columbia relies on the gas delivered by NGSs to perform that function as well, and thus Ms. Krajovic's claim that Choice customer's rely on Columbus' gas to balance the system is not credible.

- With respect to IT costs, Ms. Krajovic claims that I incorrectly allocated these costs to the GPC charge in my direct testimony. In this testimony I substantiate my claims that Columbia did not appropriately allocate the IT costs, which should be allocated to the GPC.
- With respect to the CAC, Ms. Krajovic claims that Columbia's proposed CAC rider is reasonable because Columbia is merely attempting to unbundle costs and allocate those costs to CHOICE customers. What Ms. Krajovic fails to acknowledge is that even with the GPC charge, Columbia has not fully unbundled the costs required to make the sales product available to customers-thus it would be inappropriate to allocate costs to CHOICE customers, given the significant support sales service still gets from distribution rates.

II. <u>COLUMBIA'S GPC</u>

Q. Is Columbia required to include the cost of working capital in its GPC charge?

A. Yes. 52 Pa. Code § 62.223 states that:

1. Natural gas procurement costs must include the following elements:

*(i) Natural gas supply service, acquisition and management cost, including natural gas supply bidding, contacting, hedging, credit, risk management costs and **working capital**." (emphasis added).*

Q. Does Witness Krajovic explain Columbia's rationale for not including working capital for gas in storage in its GPC calculation?

A. Yes. In her rebuttal testimony Ms. Krajovic testifies that Columbia did not include the working capital for gas in storage because NGSs delivery requirements are baseload meaning that NGSs deliver approximately 1/365 of the customer's annual consumption each day. Thus, there are some days which the NGSs daily delivery requirements are greater than their customers consumption (e.g. during the summer months) and there are some days when NGS delivery requirements are less than their customer's consumption (e.g. winter months). Ms. Krajovic testifies that NGSs will over-deliver in August, September and October and will under-deliver in the months from November through April, followed by another period of over-delivery from May through July. Ms. Krajovic then concludes that because NGSs rely on the gas in storage during approximately half of the year, it is appropriate for Choice customers to pay for the working capital costs for gas in storage through distribution rates.

Q. Is Ms. Krajovic's analysis correct?

A. No it is not. Ms. Krajovic ignores that NGSs are injecting gas into storage during the roughly half of the year in excess of what their customers are consuming. And this injection occurs **before** NGSs get paid for the gas CHOICE customers consume.

Generally starting sometime in May (depending on the weather) NGSs begin injecting more gas into storage on a daily basis than their customers are consuming and this over injection continues through sometime in October (depending on the weather). Thus, under NGSs baseload CHOICE program NGS are filling up gas in storage during what is called injection season and CHOICE customers are typically drawing on that gas in storage during heating season.

Q. Does Exhibit NJDK-1R confirm this conclusion?

A. Yes it does. NJDK-1R demonstrates that during the injection season months NGS deliveries are substantially greater than the receipts paid out by Columbia. In April and in November the payments to NGSs and the cost of NGS gas are roughly similar. In December through March the payments to NGSs become substantially higher than the gas delivered.

Q. Is Ms. Krajovic's claim that NGSs are relying on Columbia's gas in storage for six months out of the year credible?

A. No it is not. NGSs are not relying on Columbia's gas in storage for six months out of the year to meet the delivery needs of CHOICE customers -- Columbia is utilizing the gas that NGSs injected into storage during injection season to meet the needs of CHOICE customers during heating season.

Q. Is there a lag in the time that NGSs deliver gas to CPA and the time NGSs receive payment for the gas they deliver to CPA?

A. Yes. NGSs do not get paid until their customers consume the gas they deliver to CPA. As already explained, NGSs are delivering a large portion of the gas during the summer months to inject into storage, but their customers do not consume a majority of that gas until the winter months. Thus, there is lag time between when NGSs must buy the gas for customers and when NGSs get paid for the gas consumed by customers.

Q. What is the significance of the July 31 reconciliation date that Ms. Krajovic's discusses in her testimony?

A. Columbia conducts reconciliation on July 31 of each year. At that time if an NGS has over or under delivered from the previous 12 months the NGS either pays Columbia or receives a credit from Columbia for the cost of gas that was over or under delivered. The reconciliation date, however, does not have the significance that Ms. Krajovic claims when she says, "over deliveries made August through October are quickly offset by under deliveries November through March." Ms. Krajovic would lead you to believe that because the program reconciliation takes place on July 31 that there is not enough time for the supplier to put sufficient gas into storage to meet the needs of their customers through the winter. However, as I already noted, NGSs actually begin injecting gas for their customers around May to meet the Choice customer's needs for the next winter. The July 31 date is a date established where Columbia calculates true-up amounts, if a true-up is warranted. However, the July 31 date is simply an accounting deadline established by Columbia to reconcile gas suppliers. Thus, Ms. Krajovic merely seems to be exploiting the non-relevant timing of the reconciliation to confuse the issue of when NGSs begin injecting gas into storage.

Q. What do you mean by true-up?

A. A true-up is simply when Columbia calculates whether NGSs over or under delivered from the previous year. Sometimes the true-up results in NGSs receiving a refund, and sometimes a NGS must pay Columbia, but it has nothing to do with the amount of gas the NGS has injected into storage to meet the customers' needs for the upcoming gas year. As I already noted, NGSs deliver gas to CPA and they do not get paid until that gas is actually consumed by the customer.

Q. Is the physical gas in storage affected during the true-up that occurs on July 31?

A. No. CPA's true-up of its accounting on July 31 has absolutely nothing to do with the physical gas NGSs have injected in storage before that time. All of the gas NGSs injected to serve Choice customers remains in CPA's storage even after the true-up occurs.

Q. Does Columbia adjust deliveries to ensure that over or under deliveries for the previous year are minimalized?

A. Yes. In the months leading up to the true up Columbia will change the NGS delivery schedule based on whether it appears NGSs have over or under delivered from the previous year in order to minimize the true-up that occurs in the July billing cycle.

Q. Is it IGS' experience that the reconciliations are minimal?

A. Yes. Because Columbia adjusts the delivery schedules it is IGSs experience that the reconciliations are very minimal as a percentage of the overall gas delivered by an NGS. Further, the reconciliation can go both ways, so to the extent there is a chance NGSs under delivered, they are just as likely to have over delivered.

Q. Ms. Krajovic claims that the gas in storage is required to balance the system and make reconciliations, thus it is reasonable that all customers pay for the rate of return Columbia earns on this gas through distribution rates. Is this claim credible?

A. No. While it is correct that you need gas in storage to balance the system and make reconciliations, it is incorrect to conclude that all the gas Columbia keeps in storage is solely used to balance the system and make reconciliations. Ultimately, gas is injected into storage so it can be delivered to customers. To the extent balancing is required, it is an ancillary function requiring only minimal amounts of gas to achieve the ultimate goal -- to deliver the gas in storage to customers. To illustrate the point, CPA accounted for nearly $78 million dollars in storage during November of 2014. Obviously, Columbia is not using all of that gas for balancing purposes. CPA has delivery obligations for PGC customers. Thus, it simply is not credible to claim that CPA uses all of its gas in storage for balancing.

Q. Is NGS gas used by Columbia to balance the system and make reconciliations?

A. Yes. Gas is fungible, so as NGSs inject gas into storage, Columbia also draws on that gas to balance the system and make reconciliations. Therefore, under Ms. Krajovic's logic, even if 100% of the gas in storage can be attributed to the balancing function, a percentage of that gas would be the gas NGSs have delivered to CPA. As I noted, NGSs pay carrying costs for the gas they deliver into storage, so it would not be appropriate to make CHOICE customers to again pay for the rate of return Columbia earns on the gas in storage that is delivered to sales customers.

Q. Does the fact that Columbia has a baseload delivery program make any difference as to whether it is appropriate to require Columbia to allocate working capital costs to the Columbia's GPC?

A. No. Ms. Krajovic indicates that the baseload delivery schedule Columbia uses for NGSs somehow exempts Columbia from meeting the requirements set forth 52 Pa. Code § 62.223. There is no factual basis for this claim. While it is true that the other Pennsylvania gas utilities utilize a heat sensitive curve to determine the deliveries schedule of NGSs, the rationale for assigning working capital costs to the GPC still holds for the baseload delivery model. Under both models, NGSs are injecting gas into storage during injection season that customers primarily consume during heating season. The only difference is that for the utilities that utilize heat sensitive schedules NGSs are actually assigned storage, and a pro-rata share of 100% of the utilities pipeline capacity; therefore, although NGS delivery requirements are higher in the winter (under the heat sensitive model), NGSs can leverage the storage and extra pipeline capacity to meet these requirements. Under the baseload model, Columbia retains 100% of the storage assets, and a significant portion of pipeline capacity so NGSs are not be able to leverage these assets to meet higher winter demand requirements. But in both instances, NGSs must inject into storage in the spring/summer months for customer withdraw in the fall/winter months. The baseload model actually gives NGSs less flexibility to modify deliveries, so NGS cash flow lag is probably even greater under the baseload model and thus the rational to include cost of working capital in the GPC is even stronger under the baseload model.

2. GPC and Allocation of Infrastructure Technology Costs

Q. Do agree with Witness Krajovic's testimony with respect to your recommendation on infrastructure and technology (IT) costs that should be allocated to the GPC?

A. No I do not. Ms. Krajovic claims that I base my recommendation for IT costs allocation to the GPC on other natural gas utility IT costs. Ms. Krajovic mischaracterizes my direct testimony.

Q. What was your conclusion in your direct testimony with respect to Columbia's IT costs allocation?

A. In my direct testimony I concluded that Columbia provided very little evidence in its application detailing the IT costs utilized to provide gas supply services for sales customers (just three lines in Exhibit NJDK-2). Further, I note in my testimony that Columbia only allocates approximately $38,000 of IT costs to the GPC, which is a deminimis amount. To put that number in perspective, that amount equals only 0.2% of Columbia's total IT costs and less than 1/10 of what Peoples allocates to the GPC. Further, Columbia attempts to allocate nearly 5 times more IT costs to Choice customers. In fact Columbia has reduced its IT cost estimate to 1/3 of what it estimated in last year's rate case filing (which was already too low). Given all of these factors, it is not credible to claim that Columbia only spends $38,000 to provide and make PGC service available to customers. Based on my analysis, I estimate that it is more appropriate to charge GPC customers $714,172.83 which amounts to only approximately 5% of Columbia's total IT budget. I base this conclusion on A) the fact that other utilities assigned much higher IT costs to the GPC and B) my knowledge that an NGS must spend significant IT dollars to serve our gas customers. I then concluded that given it is Columbia's burden to prove its rates are reasonable, the Commission should not accept Columbia's IT allocation given the scant evidence provided by Columbia.

III. PROPOSED CAC

Q. In her rebuttal testimony, does Witness Krajovic explain her rationale for proposing rider CAC?

A. Yes. Witness Krajovic claims that a CAC rider is necessary because Columbia is trying to unbundle all of its costs, thus CAC is merely assigning the costs required to make available the CHOICE program to CHOICE customers.

Q. Is there anything in the Commission rules that directs Columbia to assign specific costs to Choice customers only?

A. No. Unlike 52 Pa. Code § 62.223 which requires Columbia to assign costs to a gas procurement charge, there is no Commission rule that I am aware of that authorizes Columbia to assign costs just to CHOICE customers.

Q. Has the Commission already rejected Ms. Krajovic's argument that NGSs should be responsible for paying the costs that Columbia has deemed only benefit CAC customers?

A. Yes. At Docket No. 2008-2069114 the Commission modified section 62.223 to clarify the costs that are appropriate to assign to the GPC. In that proceeding Columbia argued "[t]he Commission's proposal in this regard continues to ignore the fact that (natural gas distribution companies), in administering Choice programs, incur costs that are solely attributable to serving NGSs."[1] In rejecting Columbia's argument the Commission stated "none of these costs (are) included in the list of specific and limited costs which the Commission has proposed to unbundle from distribution service."[2] Further, the Commission stated "NGSs may also have fixed costs for participating in a market, yet such costs are not socialized."[3] Columbia, now is merely trying to do with the CAC what the Commission rejected when determining the costs for the GPC.

Q. Do you agree with Ms. Krajovic's rational for proposing the CAC?

A. No I do not. In her rebuttal testimony Ms. Krajovic is effectively taking the position that because Columbia already has distribution assets then Columbia does not need to assign any costs to the sales customers, even though Columbia is leveraging those assets to support Columbia's ability to provide sales service – but at the same time Columbia should assign every cost that Columbia deems is required to support CHOICE program to CHOICE customers. This position is contradictory and discriminatory against CHOICE customers, and it should not be utilized as a rationale to adopt an anti-competitive CAC.

Q. Can you point to the fallacy in Ms. Krajovic's argument?

A. Yes. Ms. Krajovic is starting at the faulty premise that because gas sales service has always existed and Columbia has always recovered all costs associated with gas sales service through bundled distribution rates, then non-gas costs required to support the sales service do not need to be assigned to sales service. For instance, Ms. Krajovic explains "[t]o provide standard distribution service to *all* customers Columbia needs: 1)

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[1] Comments of Columbia Gas of Pennsylvania (Sept. 9, 2010) at 4. Case No. Docket No. L-2008-2069114.
[2] Revised Final Rulemaking Order (June 23, 2011) at 23. Case No. Docket No. L-2008-2069114.
[3] Id. at 22.

call center infrastructure and employees; 2) internal and external legal counsel; 3) Information Technology ("IT") employees; 4) office space; 5) administrative and HR staff; 6) office supplies; 7) IT infrastructure; 8) accounting and auditing services; and 9) printing and postage to communicate with customers." What Ms. Krajovic fails to recognize is that while all of these costs are required to support distribution service, they are also equally important to provide sales service. And NGSs have all of these costs when providing CHOICE commodity service to customers; however NGSs must reflect these costs in the prices they charge CHOICE customers, but these costs are not reflected in the sales rate.

Q. How does Ms. Krajovic take the opposite approach with CHOICE costs?

A. Ms. Krajovic then starts from another faulty premise that because CHOICE is a new program (at least newer than sales service) than any incremental cost Columbia incurs to offer the CHOICE program should be recovered directly though the CAC rider. For instance Ms. Krajovic notes that Columbia invested in special software to implement a purchase of receivables program for the CHOICE program, and she then concludes those costs should be recovered through the CAC. What Ms. Krajovic fails to recognize is that Columbia already expends distribution rate dollars in software and other resources utilized to collect the receivables of sales customers. Just because those resources are also utilized to collect the receivables on distribution customers, does not mean sales customers do not incur these costs. Rather, it means sales customers are allocated zero percent of the costs of the resources they are utilizing.

Q. Are there other times where Ms. Krajovic misses the point about inappropriate cost allocation?

A. Yes, there are many times in Ms. Krajovic testimony where she starts from the faulty premise that every cost that is also required for distribution service should never be assigned to sale customers, even if the distribution assets are required to support sales service. Just as an example, Ms. Krajovic claims that zero costs of Columbia's call center should be attributed to sales service because "Columbia's experience with customer contacts through its call center indicate that the purchased gas cost is not the reason for the majority of customer inquiries." Again Ms. Krajovic misses the point. Regardless of whether the majority of call center relate to distribution service or sales service, the fact remains that in order to offer natural gas sales service, Columbia must have a call center. Thus Columbia's natural gas sales product utilizes the distribution assets of Columbia to make the commodity product available to customers. As already noted, NGSs require a call center to support their CHOICE commodity service but they cannot recover their costs through distribution rates. Therefore, sales customers should be assigned *some* of the costs of the call center because this cost is required to support sales service.

Q. How does the failure to assign many of the non-gas costs to the GPC relate to your recommendation that the CAC should be rejected?

A. As I stated in my direct testimony, my point is that with the CAC Columbia is attempting to assign to CHOICE customers the costs Columbia deems are required to support the CHOICE program. However, outside the direct gas supply costs that are being assigned to the sales customers through the GPC, Columbia does not assign any other non-gas costs required to support sales service. However, the non-gas costs required to support the sales product are substantial, and even if they are a being utilized to support distribution service, it does not change the fact they are also being utilized to support sales service. So until Columbia fully unbundles all of its costs utilized to support sales service, Columbia should not selectively assign costs it deems are necessary to support the CHOICE program only to CHOICE customers. Moreover, if Columbia truly did unbundle all of its costs, as I note in my direct testimony, the CAC would be a credit to CHOICE customers, not a charge because sales customers receive significantly more support through distribution rates than CHOICE customers.

Q. Would you recommend a proceeding to fully unbundle *all* of the costs required to support sales service?

A. Yes. As I already noted there is nothing in the Commission rules that directs Columbia to unbundle CHOICE costs and allocate those costs to CHOICE customers. Columbia merely took it upon itself to selectively begin assigning CHOICE costs to a CAC Rider. However, if Columbia wishes to unbundle all costs, as it claims it does, I would welcome the Commission to conduct an investigation and require Columbia to assign an appropriate share of all the costs (including direct and indirect costs) required to make sale service available to customers that Columbia currently recovers through distribution rates.

Q. Does this conclude your surrebuttal testimony?

A. Yes it does, thank you.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.,	:	
	:	Docket Nos.: R-2015-2468056
v.	:	C-2015-2473682
	:	
Columbia Gas of Pennsylvania, Inc.	:	

VERIFICATION OF MATTHEW WHITE

I, Matthew White, hereby verify the following facts:

1) My name is Matthew White, and my business address is 61 Emerald Parkway, Dublin, OH 43016. I am employed as the General Counsel, Legislative and Regulatory Affairs of Interstate Gas Supply, Inc., d/b/a IGS Energy;

2) I have been duly authorized by Interstate Gas Supply, Inc., d/b/a IGS Energy, Shipley Choice LLC, d/b/a Shipley Energy, and Dominion Retail, Inc. d/b/a Dominion Energy Solution ("DES"), to testify on their behalf as a witness in the above-captioned matter;

3) NGS Parties Statement No. 3 – the Direct Testimony of Matthew White, which is my direct testimony in the above-captioned matter on behalf of the NGS Parties, was prepared by me or under my supervision;

4) NGS Parties Statement No. 3-SR – the Surrebuttal Testimony of Matthew White, which is my surrebuttal testimony in the above-captioned matter on behalf of the NGS Parties, was prepared by me or under my supervision;

5) NGS Parties Statements. Nos. 3 and 3-SR are true and correct to the best of my knowledge, information and belief, and if a hearing were held today and I were asked the same questions, my answers would be the same as contained in each of my Statements. I understand that my statements are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Matt White

Matthew White
General Counsel, Legislative and
Regulatory Affairs
Interstate Gas Supply, Inc. ("IGS Energy")

DATE: 7/29/15