

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

DIRECT TESTIMONY OF  
MARK BALMERT  
ON BEHALF OF  
COLUMBIA GAS OF PENNSYLVANIA, INC.

March 19, 2015

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**TABLE OF CONTENTS**

**INTRODUCTION..... 1**

**I. PRINCIPLES OF REVENUE ALLOCATION AND RATE DESIGN..... 3**

**II. REVENUE ALLOCATION ..... 4**

**III. RATE DESIGN ..... 10**

**IV. BILL COMPARISONS..... 23**

1     **Introduction**

2     Q.     Please state your name and business address.

3     A.     Mark Balmert, my business address is 290 West Nationwide Boulevard, Columbus,  
4           Ohio 43215.

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

6     A.     I am Director of Regulatory Strategy & Support for NiSource Corporate Services  
7           Company ("NCSC"). NCSC provides, among other services, accounting and  
8           regulatory-related services for the subsidiaries of NiSource Inc. ("NiSource"). I am  
9           testifying on behalf of Columbia Gas of Pennsylvania, Inc. ("Columbia" or the  
10          "Company"), which is one of the NiSource local distribution companies.

11    Q.     What are your responsibilities?

12    A.     My section within NCSC is responsible for the preparation and support of special  
13          regulatory studies, such as allocated cost of service ("ACOS") studies, lead lag  
14          studies, revenue development, and rate design in support of rate proceedings for  
15          the six NiSource Gas Distribution Companies, which consist of Columbia Gas of  
16          Maryland, Columbia Gas of Kentucky, Bay State Gas Company (d/b/a Columbia  
17          Gas of Massachusetts), Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and  
18          Columbia Gas of Virginia. I am also responsible for the development of regulatory  
19          accounting requirements for Columbia Gas of Ohio with duties including revenue  
20          requirement development, cost of gas filings, infrastructure replacement and other  
21          recovery mechanisms filings. In addition, I am responsible for the information  
22          technology requirements for the NCSC regulatory department.

1 Q. What is your educational and professional background?

2 A. I graduated from The Ohio State University in June of 1979, earning a Bachelor of  
3 Science Degree in Business Administration with a major in accounting. I have been  
4 employed by various entities within the Columbia Energy Group and its successor,  
5 NiSource, in capacities related to rates, regulatory accounting and compliance, and  
6 information technology applications since October 1979. In February of 2012, I was  
7 named Director of Regulatory Strategy & Support for NCSC, which is the position I  
8 currently hold.

9 Q. Have you previously testified before this Commission?

10 A. Yes. I have testified before this Commission as well as the Public Utilities  
11 Commission of Ohio, the Virginia State Corporation Commission, the New  
12 Hampshire Public Utilities Commission, the Kentucky Public Service Commission,  
13 the Public Service Commission of Maryland and the Massachusetts Department of  
14 Public Utilities.

15 Q. What is the purpose of your testimony in this proceeding?

16 A. I will sponsor and describe Exhibit 103, Schedule 8, Columbia's proposed rate  
17 design. I will address the appropriate revenue allocation among the various rate  
18 classes, discuss proposed customer charges, and discuss proposed rate design  
19 changes that include both Columbia's proposed splitting of Small General Sales  
20 Service ("SGSS"), Small Commercial Distribution ("SCD"), Small General  
21 Distribution Service ("SGDS") and Small Distribution Service ("SDS") volumetric  
22 charges and the merging of Large General Sales Service ("LGSS") volumetric

1 charges with the Small Distribution Service (“SDS”)and Large Distribution Service  
2 (“LDS”)rate classes. I will also sponsor and describe Exhibit 111, Schedules 5 and 6,  
3 Columbia’s comparison of current and proposed rates.

4 Q. How is your testimony organized?

5 A. Section I, Principals of Revenue Allocation and Rate Design; Section II, Basis of  
6 splitting SGSS, SCD, SGDS, and SDS volumetric charges; Section III, merging of  
7 LGSS volumetric charges with the SDS and LDS rate classes; Section IV, Revenue  
8 Allocation among the rate classes; Section V, Rate Design; and Section VI, Bill  
9 Comparison.

10 **I. PRINCIPLES OF REVENUE ALLOCATION AND RATE DESIGN**

11 Q. Please describe the rate design principles that the Company considered when  
12 developing the proposed rates.

13 A. The principles that were used to guide the development of the Company’s rate  
14 design include: efficiency, simplicity, continuity, fairness, and earnings stability. An  
15 efficient rate design provides accurate price signals and, thus, an accurate basis for  
16 consumers’ decisions and provides the Company a reasonable opportunity to  
17 recover the cost of providing service. A simple rate structure is one that is  
18 understood by customers. The goal of rate continuity seeks gradual changes to rate  
19 design that will allow customers to adjust their consumption patterns, as needed. A  
20 fair rate design will consider the results of the allocated cost of service study in  
21 determining customer classes’ total revenue responsibility. Finally, earnings

1 stability means that the Company's earnings resulting from its rates should not vary  
2 significantly over the period of a few years.

3

4 **II. REVENUE ALLOCATION**

5 Q. Please state the basis for the Company's proposed revenue allocation among the  
6 rate classes.

7 A. Consistent with the goal of continuity, Columbia seeks to gradually move base rates  
8 closer to the allocated cost of service for each customer class. The cost to serve each  
9 rate class is defined through the allocated cost of service study.

10 Q. How were the results of the cost allocation studies used in designing the proposed  
11 revenue requirements and rates?

12 A. The Allocated Cost of Service Studies ("ACOS Studies") were used as a guide for  
13 assigning additional revenue responsibility to customer groups. The Peak &  
14 Average Study and the Customer Demand Study performed by Company witness  
15 Elliott (Columbia Statement No. 7) provides information about class cost  
16 relationships and helps establish a "zone of reasonableness" from which an  
17 appropriate revenue allocation and rate design can be derived. The Average Study  
18 was used to establish a point of reasonableness of class rates of return at present  
19 and proposed rates. The results of the cost allocation studies support the  
20 Company's proposed rate schedules. Details concerning the application of the cost  
21 study results in the proposed rate design are provided later in this testimony.

22 Q. Has there been any change in the designation of classes for the ACOS Studies?

1 A. Yes. As described by Columbia Witness Elliott, the Company no longer reflects the  
2 LGS rate as a separate customer class. Smaller LGS customers are eligible to be  
3 served under the SDS rate schedule. Logically, the cost to serve these customers  
4 does not vary. Therefore, the SDS and small LGS customers are combined in a  
5 single class. Similarly, the large LGS customers are eligible for service under Rate  
6 LDS. Thus, these customers have been combined in a single class. This combination  
7 also has consequences for rate design, which I discuss later in my testimony.

8 Q. What are the results of the ACOS studies?

9 A. Exhibit MPB-1, attached to my testimony, shows the class-level returns and return  
10 indices for each of the ACOS studies at present rates. Return indices compare  
11 individual class returns to the overall total company return. A return index is  
12 calculated by dividing the class return by the total company return, then  
13 multiplying the result by 100 to produce the index. The total company return index  
14 will always be 100. The closer individual classes return is to the total company  
15 return, the closer its index will be to 100 and to parity. The term "parity" in this  
16 context means that the class return and the total company return are equal.  
17 It should be noted that factors such as class size, customer diversity, and economic  
18 conditions will result in returns and indices that are more volatile for some classes  
19 than for others. For example, because of the large numbers of customers in the  
20 residential and SGSS/SCD/SGDS classes, the returns for these classes under  
21 various ACOS studies are more stable than returns for the SDS and LDS classes.

1 Columbia's largest class is the residential class representing, on an adjusted basis,  
2 approximately 72% of total company revenues and 91% of total company  
3 customers. The return index for the residential class ranges from 74.2 under the  
4 Customer/Demand study to 108.6 under the Peak & Average study. The average  
5 ACOS study produces a residential return index of 89.8, indicating that the class  
6 returns are somewhat below parity at present rates. In developing the proposed  
7 rates for the residential class, Columbia sought to increase the revenue requirement  
8 of the residential class to move toward parity with the overall total company return.  
9 Columbia proposes to increase the unitized return from the current 0.89804 to  
10 .94300, a 5.0% increase toward parity.

11 The SGSS/SCD/SGDS return indices are 110.3 for the Peak & Average study,  
12 165.7 for the Customer/Demand study, and 134.7 for the average ACOS study,  
13 indicating that the class returns are somewhat above parity at present rates. In  
14 developing the proposed rates for the SGSS/SCD/SGDS class, I looked at the  
15 current unitized return. The class's return is 1.34730, which is above parity with  
16 total company; therefore, Columbia is proposing to apportion less of an increase to  
17 the SGSS/SCD/SGDS class so that the unitized returns drop to 1.20130, which is a  
18 gradual approach toward parity.

19 The SDS/LGSS return indices are 79.4 for the Peak & Average study, 225.6  
20 for the Customer/Demand study, and 131.1 for the average ACOS study, indicating  
21 that the class returns are somewhat above parity at present rates. In developing the  
22 proposed rates for the SDS/LGSS class, I looked at the current unitized return. The



1 class's return is 1.31067, which is above parity with total company; therefore,  
2 Columbia is proposing to apportion less of an increase to the SDS/LGSS class, so  
3 that the unitized returns drop to 1.20130, which is a gradual approach toward parity  
4 and in line with the SGSS/SCD/SGDS rate class that is also currently above parity.

5 The LDS/LGSS return indices are 20.8 for the Peak & Average study, 296.7  
6 for the Customer/Demand study, and 84.2 for the average ACOS study, indicating  
7 that the class returns are somewhat below parity at present rates. In developing the  
8 proposed rates for the LDS/LGSS class, I looked at the current unitized return. The  
9 class's return is 0.84227, which is below parity with total company; therefore,  
10 Columbia is proposing to apportion more of an increase to the LDS/LGSS class, so  
11 that the unitized returns raises to 0.84275, which is a gradual approach toward  
12 parity and limits the increase to the LDS/LGSS class base rate revenue recovery to  
13 15.10% as compared to the system average of 14.09%.

14 The return for the Main line Distribution Service ("MLDS")/Negotiated Sales  
15 Service ("NSS") classes indicates that, by directly assigning mains investment, the  
16 return is the same under each of the three ACOS studies showing a return that is  
17 above parity with a return index of 3,621.0 at present rates. I note that the MDS  
18 class is unique, in that all customers are located on, or near interstate pipelines.  
19 The Company has historically, and in this case continues to, directly assign mains  
20 and services to the rate class. Rates for the class, and the customers served under  
21 the rate class have not changed for some period of time. In developing the proposed  
22 rates for the MLDS/NSS class, I looked at the current unitized return. Because the

1 class's return is 3.6210, which is materially above parity with total company;  
2 Columbia is proposing no increase in revenue requirement to the MLDS/NSS class,  
3 so that the unitized returns drop to 2.69620, which is a gradual approach toward  
4 parity.

5 Q. What is the primary goal of Columbia's class revenue allocation?

6 A. The primary goal in Columbia's approach to revenue allocation is to maintain a  
7 movement toward parity among the various rate classes, consistent with  
8 Commission decisions in previous Company rate cases. Movement toward parity is  
9 a way of assuring that the revenue allocation process takes into account the overall  
10 Company return and the relative returns by rate class. Each class's revenue  
11 increase is determined within the context of other rate class returns so that, over  
12 time, interclass returns remain close to one another rather than diverging.  
13 Maintaining a movement toward parity is a way to reduce potential cross-  
14 subsidization between classes.

15 Q. Do the Company's proposed rate increases for the various rate classes reflect the  
16 principle of gradualism?

17 A. Yes, in two ways. First the Company's proposed rate increases for the various rate  
18 classes cause a movement of the unitized returns toward parity (unitized return of  
19 1.00000) for each of the rate classes but with no rate class yet reaching parity.  
20 Secondly, the range of base rate revenue increase percentages (excluding the MLDS  
21 class) is 10.64% to 15.11% where the system average is 14.09% (see Exhibit 103,  
22 Schedule No. 8, Page 1, Lines 17 through 28).

1 Q. Please describe the Company's proposed revenue allocation.

2 A. Columbia's allocation of the proposed base rate revenue increase, which is shown in  
3 Exhibit 103, Schedule No. 8, Page 4, Line 23 reflects the following allocations: 77.68  
4 % of the overall increase is applied to the residential class; 13.32 % of the overall  
5 increase is applied to the SGSS/SCD/SGDS class; 3.83 % of the overall increase is  
6 applied to the SDS/LGS class; 5.17 % of the overall increase is applied to the  
7 LDS/LGS class; and 0.00 % of the overall increase is applied to MLDS/NSS  
8 customers. As a result, the proposed unitized return for the residential class will be  
9 .94300, or 94.3 %, as compared to the overall total company unitized return of  
10 1.00000 or 100 %, an increase of 5.0 %. This percentage increase recognizes that  
11 the current residential return is lower than the overall return. Similarly, the  
12 SGSS/SCD/SGDS class would receive a 10.8 % decrease in unitized return, the  
13 SDS/LGSS class would receive an 8.3 % decrease in unitized return, and the  
14 LDS/LGSS class would receive a 0.6 % increase in unitized return, which brings  
15 those classes closer to parity with the overall return, as measured by the results of  
16 the Average ACOS Study. The MLDS/NSS class would receive a 25.5 % decrease in  
17 unitized return, as a result of assigning no increase to the class. I note that for all  
18 classes the allocated increases and resulting unitized returns fall within the zone of  
19 reasonableness founded by the Peak & Average and Customer Demand Studies.  
20 Exhibit 103, Schedule 8, Page 4, Lines 4 and 5 shows the movement toward parity  
21 produced by Columbia's proposed revenue allocation using the average ACOS

1 Study. The movement toward parity (unitized return of 1.00000) measures each  
2 class's return versus the total company return under current and proposed rates.

3 **III. RATE DESIGN**

4 Q. Other than the Class COS studies, what guidelines or criteria have you considered in  
5 the design of the Company's rates?

6 A. There are a number of criteria that I considered in the design of rates, including the  
7 following:

8 First, the design of Columbia's rates recognizes that rates must be just and  
9 reasonable and must not be unduly discriminatory. Columbia's proposed rate  
10 design also attempts to minimize cross-class subsidies.

11 Second, where rates require adjustment to achieve proper cost recovery,  
12 customer impact considerations have been factored into the rate design process.  
13 For instance, Columbia's proposed rate design moves each of the rate classes  
14 toward parity (unitized return of 1.00000 and a total company required rate of  
15 return of 8.140 %) but recognizes a move to full parity of 1.00000 in this case would  
16 not be consistent with the principle of gradualism.

17 Third, Columbia's proposed rate design provides for recovery of an  
18 increasing proportion of fixed costs through the Customer Charge. This objective  
19 recognizes that the historical recovery of fixed costs through the volumetric rate  
20 portion of the rate schedule inevitably results in the over or under recovery of those  
21 costs because the revenues generated from customers' volumetric use of gas can be  
22 greatly sensitive to customer usage fluctuations that vary due to conservation efforts

1 or other changing consumption characteristics. In essence, customer-related costs  
2 that bear no relationship to customer gas consumption patterns should be  
3 recovered through the fixed portion of the rate design, i.e. the monthly Customer  
4 Charge. Columbia's proposed rate design thus recovers a gradual increase in  
5 revenue through the Customer Charges for each of the rate classes.

6 Q. Why is there a need to increase the percent of base rate recovery through the  
7 customer charge now that Columbia has a Weather Normalization Adjustment  
8 ("WNA") mechanism?

9 A. The WNA normalizes the impact of weather on the recovery of residential usage  
10 based base revenue (outside a 5% band) during the months when the WNA is in  
11 effect. In doing so, the WNA affords the Company a greater opportunity to recover  
12 its authorized revenue requirement from its residential and small general service  
13 customer, while mitigating the impact of weather on the level of revenues collected  
14 from them. Thus, the WNA mechanism is beneficial to both Columbia and its  
15 customers. However, the WNA mechanism is not intended to address usage  
16 fluctuations that are attributable to conservation efforts or other changing  
17 consumption characteristics, intra-class subsidization of fixed cost recovery,  
18 weather effects of consumption outside the five winter months that the WNA is in  
19 effect, the weather effects of consumption within the 5% WNA band, or weather  
20 effects of consumption for rate classes not covered by the WNA. It is for these  
21 reasons that it is important for the customer charges to recover an increased  
22 percent of base rate revenue recovery.

1 Q. How are proposed changes in the Company's customer charges determined?

2 A. Exhibit MPB-2, attached to my testimony, shows the percent of base rate revenue  
3 recovery (excluding flexed revenue) by rate class over Columbia's last five rate  
4 cases. As can be seen by the exhibit, for many of the rate classes, the current  
5 revenue recovery distribution between the customer charges and the usage based  
6 charge is the lowest it has been since before the Company's 2008 rate case. The  
7 Company's proposal for rates in this case is to align the percentage of customer  
8 charge recovery to total base rate recovery just below the average of the five  
9 previous rate cases percentage of customer charge recovery for each of the rate  
10 classes over the five previous rate cases. The exception is the MLDS rate class,  
11 where the Company is proposing to keep the current customer charges because the  
12 Company is proposing no increase in revenue requirement to the MLDS class.

13 Q. Please explain the rationale for increasing Customer Charges to reflect the recovery  
14 of a proportion of fixed non-gas costs.

15 A. It is reasonable and appropriate to collect a proportion of fixed non-gas costs  
16 through the fixed monthly Customer Charge. For example, as stated above, for  
17 Columbia, just over 35.4% of its delivery charge revenue is currently recovered  
18 through the usage based delivery charges to its residential customers. Even with  
19 my proposed increase in the Customer Charge, the residential percentage increases  
20 only slightly to 38.0% of distribution charge revenue and will still be below the  
21 average of the last five rate cases of 38.2% (See Exhibit MPB-2). Fixed cost recovery  
22 through the fixed monthly Customer Charge decreases the likelihood and

1 magnitude of customers' over- or under-payments for distribution service each  
2 month due to usage fluctuations, recognizing that a natural gas utility's customer-  
3 related costs do not vary with gas usage. Even after the proposed changes to  
4 existing Customer Charges for each of the rate classes, all of the Customer Charges  
5 are in the range of the Customer Charges that supports the cost of a minimum  
6 system shown on Exhibit 111, Schedule 1, Pages 14 and 17, Line 37, and all except  
7 the MLDS rate class are below the average of the last five rate cases' percentage of  
8 fixed cost recovery (See Exhibit MPB-2).

9 Q. Please explain the benefits to Columbia and its customers of increasing the  
10 proportion of fixed non-gas costs recovered through the monthly Customer Charge.

11 A. In addition to the decreased likelihood and magnitude of customers' over- or under-  
12 payments for delivery service discussed previously, there are a number of other  
13 significant benefits from increasing the proportion of fixed non-gas costs covered  
14 through the monthly charge. These include increased stability and predictability of  
15 customers' bills, greater simplicity and understandability of customers' bills, a  
16 corresponding reduction in bill complaints, and mitigation of intra-class cross  
17 subsidization. Additionally, the increased reliance on Customer Charges for fixed  
18 cost recovery should reduce the magnitude of annual true-ups for customers  
19 participating in Columbia's budget payment plan.

20 At a minimum, maintaining the relative proportion of fixed non-gas costs recovered  
21 through the monthly Customer Charge at the average for the past five years more  
22 closely matches the Commission-approved level of revenue with costs.

1 Q. Please summarize Columbia's residential rate design proposal.

2 A. Columbia proposes a modest increase the Residential Customer Charge from the  
3 current \$16.75 per month to a \$20.60 per month charge. It should be noted that  
4 \$20.60 is between the \$18.15 and \$35.90 minimum system cost-based Customer  
5 Charges shown in the ACOS study (Exhibit 111, Schedule 1, Page 14, Line 40 and 17,  
6 Line 37). It should also be noted that the Company currently only recovers 35.4% of  
7 its residential distribution costs through the customer charge. Even with a \$3.85  
8 increase in the customer charge, the percentage only increases to 38.0%, which is  
9 still below the last five rate case average of 38.2%. Finally, it should be noted that  
10 Columbia has no decoupling mechanism to ensure a reasonable opportunity to  
11 recover cost of service. Therefore the Company relies on the customer charge for  
12 protection from usage erosion from customers switching to more efficient furnaces  
13 and appliances and Columbia's energy efficiency program.

14 Q. Will CAP customers receive a rate increase as a result of this rate proceeding?

15 A. No. The revenue increment that is assigned to CAP customers will be collected  
16 from other residential customers through Rider USP.

17 Q. Please summarize Columbia's SGSS/SCD/SGDS rate design proposal.

18 A. The proposed SGSS/SCD/SGDS Customer Charge for customers whose usage is  
19 less than 6,440 therms is \$27.75. At \$27.75, the volumetric base rate will be  
20 \$3.5027/Dth for SGSS/SCD service and \$3.2846/Dth for SGDS service.

21 The proposed SGSS/SCD/SGDS Customer Charge for customers whose  
22 usage is between 6,440 therms and 64,400 therms is \$55.50, which is \$7.50 more



1 than the current \$48.00. With the increase in the customer charge, the percentage  
2 of distribution costs by the customer charge will only increase to 22.1% from the  
3 current 20.1%, which is still below the last five rate case average of 22.4%.

4 Q. Does the SGSS, SCD, and SGDS rate class split the volumetric base rate between  
5 what is charged to SGSS and SCD customers from what is charged to SGDS  
6 customers?

7 A. Yes. Per the approved settlement in Docket No. R-2012-2321748, Columbia agreed  
8 to re-allocate \$530,000 of storage working capital costs from SGDS to SGSS/SCD.  
9 Per the approved settlement in Docket No. R-2014-2406274, Columbia agreed to  
10 re-allocate \$710,000 of storage working capital costs from SGDS to SGSS/SCD. As  
11 part of this current proceeding, and explained by Company witness Elliott in  
12 testimony and shown on Exhibit BEE-2, the Company has re-allocated \$597,433 of  
13 storage working capital costs from the SGDS class to SGSS/SCD. This intra-class  
14 re-allocation is shown on Line 19 of Exhibit 103, Schedule 8, Page 6. As a result, the  
15 Company charges a different volumetric base rate to the SGSS and SCD customers  
16 than to the SGDS customers and that principle will not change under proposed  
17 rates.

18 Q. What is the Company's basis for further splitting the current SGSS, SCD and SGDS  
19 rate class volumetric base rate charges into two separate charges?

20 A. The current SGSS, SCD, and SGDS tariff rates are made up of a monthly Customer  
21 Charge and volumetric base rate per therm for those commercial and industrial  
22 customers whose annual usage is less than 6,440 therms annually or between 6,440



1           therms and 64,400 therms annually. The current rate design for these tariffs  
2           charges a \$21.25 Customer Charge for those customers who use less than 6,440  
3           therms on an annual basis and \$48.00 Customer Charge for those customers who  
4           use between 6,440 therms and 64,400 therms on an annual basis. The reason for  
5           the difference in customer charges is simple. As customers require greater capacity,  
6           cost of meters, service lines, regulators, and other customer based costs are greater.  
7           However, the volumetric base rate for both those customers whose annual usage is  
8           less than 6,440 therms annually and those whose annual usage is between 6,440  
9           therms and 64,400 therms annually under current rate design are the same. The  
10          cost of service for the LDS class demonstrates that volumetric base rates per therm  
11          should actually decrease as annual consumption increases. The reason is simple: as  
12          the fixed cost being recovered through the volumetric base rate (the numerator) is  
13          recovered over increased annual consumption (the denominator) the resulting  
14          volumetric rate decreases. Under current SGSS/SCD/SGDS volumetric base rates,  
15          customers using between 6,440 therms and 64,400 therms annually are paying a  
16          disproportionate amount of fixed cost recovery through the volumetric base rates  
17          simply because of rate design. The allocated cost of service studies prove this  
18          hypothesis. As consumption increases among the rate classes, the cost per therm  
19          decreases. Current volumetric base rate design reflects proper cost recovery by  
20          gradually lowering volumetric rates as annual consumption increases, with the  
21          exception of the SGSS/SCD/SGDS and the SDS rate classes.

1 Q. What is the Company's proposal to rectify the current inequity between customers  
2 whose annual usage is less than 6,440 therms annually and those customers whose  
3 annual usage is between 6,440 therms and 64,400 therms annually under the  
4 current rate design?

5 A. The inequity has existed over time and, in the interest of gradualism, over time the  
6 Company has aligned the customer charges for the two customer groups. It is now  
7 reasonable to finish the realignment of cost recovery for the volumetric rates. The  
8 Company is proposing a gradual separation of the volumetric base rate that is  
9 currently being billed to these customer groups to lessen the differential in fixed  
10 cost recovery between the two groups and reflect a truer match of cost causation  
11 with cost recovery. Specifically, the Company is proposing to charge a slightly lower  
12 volumetric base rate to customers whose annual usage is between 6,440 therms and  
13 64,400 therms annually than those customers whose annual usage is less than  
14 6,440 therms annually by shifting 5% volumetric base rate recovery from those  
15 whose annual usage is between 6,440 therms and 64,400 therms annually to those  
16 customers whose annual usage is less than 6,440 therms annually.

17 Q. Please summarize Columbia's SDS/LGSS rate design proposal.

18 A. The proposed SDS/LGSS Customer Charge for customers whose usage is between  
19 64,400 therms and 110,000 therms is \$215.00. The \$215.00 is just \$45.00 more  
20 than the current SDS/LGSS Customer Charge of \$170.00. With the increase in the  
21 customer charge, the percentage of distribution costs by the customer charge will

1           only increases to 16.3% from the current 15.7%, which is still below the last five rate  
2           case average of 16.6%.

3           The proposed SDS/LGSS Customer Charge for customers whose usage is  
4           between 110,000 therms and 540,000 therms is \$685.00. The \$685.00 is just  
5           \$45.00 more than the current SDS/LGS Customer Charge of \$640.00.

6    Q.    Is the Company proposing to charge a slightly lower volumetric rate for the SDS  
7           rate class to customers whose annual usage is between 110,000 therms and  
8           540,000 therms annually than those customers whose annual usage is between  
9           64,400 therms and 110,000 therms annually for the same reasons stated above for  
10          the SGSS/SCD/SGDS rate class?

11   A.    Yes. The current rate design for this tariff charges a \$170.00 monthly Customer  
12          Charge for those customers who use between 64,4000 therms and 110,000 therms  
13          annually and a \$640.00 Customer Charge for those customers who use between  
14          110,000 therms and 540,000 therms on an annual basis. However, they pay the  
15          same volumetric base rate. As with the SGSS/SCD/SGDS rate classes, the Company  
16          is proposing a gradual separation of the volumetric base rate that is currently being  
17          billed to the SDS customer groups by shifting 5% volumetric base rate recovery  
18          from those whose annual usage is between 110,000 therms and 540,000 therms  
19          annually to those customers whose annual usage is between 64,400 therms and  
20          110,000 therms annually to lessen the differential in fixed cost recovery between the  
21          two groups and reflect a truer match of cost causation with cost recovery.

22   Q.    Please describe the current rate design for the LGS rate class.

1 A. Current rate design has the Large General Sales Service (“LGSS”) rate class paying  
2 the same customer charges as the SDS rate class for customers whose annual usage  
3 is between 64,400 therm and 110,000 therms annually and for customers whose  
4 annual usage is between 110,000 therm and 540,000 therms annually. However,  
5 the LGSS and SDS rate classes pay completely different volumetric base rates.

6 Q. Do you agree that the proposed usage-based rates for the LGSS and SDS customers  
7 using between 64,400 therm and 110,000 therms annually and whose annual usage  
8 is between 110,000 therm and 540,000 therms annually should remain different?

9 A. No. The only difference between LGSS and SDS service is the upstream supply and  
10 capacity charges. As for the distribution service, there is no difference in the service  
11 or material difference in the cost to serve this customer group and, therefore, both  
12 rate classes should pay the same distribution charges (for consumption less than  
13 540,000 therms annually). LGSS and SDS customers already pay the same  
14 customer charges and now should pay the same usage-based charge. The Company  
15 combined these two rate classes specifically because they generate a similar cost to  
16 serve because of their annual requirements and, therefore, cost recovery rates for  
17 the two rate tariffs should be the same.

18 Q. Please summarize Columbia’s LDS/LGSS rate design proposal.

19 A. The proposed LDS/LGSS Customer Charge for customers whose usage is between  
20 540,000 therms and 1,074,000 therms is \$1,800.00. The \$1,800.00 is just  
21 \$500.00 more than the current LDS/LGS Customer Charge of \$1,300.

1           The proposed LDS/LGS Customer Charge for customers whose usage is  
2           between 1,074,000 therms and 3,400,000 therms is \$2,800. The \$2,800 is just  
3           \$500 more than the current LDS/LGS Customer Charge.

4           The proposed LDS/LGS Customer Charge for customers whose usage is  
5           between 3,400,000 therms and 7,500,000 therms is \$5,400. The \$5,400 is just  
6           12.5% more than the current LDS/LGS Customer Charge of \$4,800.

7           The proposed LDS/LGS Customer Charge for customers whose usage  
8           greater than 7,500,000 therms is \$8,000. The \$8,000 is just 8.1% more than the  
9           current LDS/LGS Customer Charge of \$7,400.

10           With the proposed increase in the LDS customer charges, the percentage of  
11           distribution costs by the customer charge would only increase to 16.1% from the  
12           current 15.1%, which is still below the last five rate case average of 17.2%.

13   Q.    How is the LDS/LGSS volumetric based rate revenue requirement shown in Exhibit  
14           103, Schedule 8, Page 7, Line 30 spread among the LDS/LGSS annual usage  
15           groups?

16   A.    Volumetric Base Rate Revenue requirement is split among the LDS/LGSS annual  
17           usage groups proportionately based on revenue produced from current volumetric  
18           Base Rates. (See Exhibit 103, Schedule 8, Page 7, Lines 32 through 35).

19   Q.    How does the current rate design address LGSS customers whose annual usage is in  
20           excess of 540,000 therms?

21   A.    Current rate design has the LGSS rate class paying the same monthly Customer  
22           Charges as the LDS rate class for customers whose annual usage is greater than

1 540,000 therms. As with the SDS rate class, the only difference between LGSS and  
2 LDS service is the upstream supply and capacity charges. As for the distribution  
3 service, there is no difference in the service or material difference in the cost to  
4 serve this customer group and, therefore, both rate classes should pay the same  
5 distribution charges (for consumption greater than 540,000 therms annually).  
6 LGSS and LDS customers already pay the same customer charges and now should  
7 pay the same usage-based charge. The Company combined the LGSS customers  
8 whose annual usage is greater than 540,000 therms with the LDS rate class  
9 specifically because they generate a similar cost to serve because of their annual  
10 requirements and, therefore, cost recovery rates for the two rate customer groups  
11 should be the same.

12 Q. Why do you propose eliminating the declining rate blocks from the LGSS rate  
13 structure?

14 A. Under the current LGSS rates, there are four rate blocks for monthly usage: 0 to  
15 11,000 therms, 11,001 to 54,000 therms; 54,001 to 108,000 therms; and over  
16 108,000 therms. The current rate blocks are necessary because of the diversity of  
17 customers' ACOS within the rate class. However, splitting the LGSS rate class  
18 volumetric base rates by their annual consumption groups allows the Company to  
19 align revenue recovery for its sales service with that of its distribution service.  
20 Columbia already does this with its residential service, SGSS/SCD/SGDS service,  
21 and MLDS/NSS service and has already aligned the customer charges among the  
22 LGSS, SDS and LDS classes. This step completes the alignment of the volumetric

1 base rates. The new rate design will be fairer because of the greater homogeneity of  
2 ACOS of the new classes. The new rate design will also be simpler because the  
3 Customer Charge and new single volumetric rate for each of the new classes render  
4 the existing four rate blocks unnecessary.

5 Because the Company has split the LGS rate class between the SDS and LDS  
6 rate classes based upon each class's ACOS, the Company is proposing to eliminate  
7 the existing LGS rate blocks with the remainder of the revenue requirement  
8 increase to the LGS class falling to a single volumetric base rate for each of the  
9 annual consumption customer groups.

10 Q. Please discuss the rate design proposals for the MLDS/NSS class.

11 A. Columbia is proposing no change to the customer charge and a slight decrease to  
12 the volumetric charges to offset revenue recovery of the proposed CAC charge  
13 resulting in a no increase in distribution charge revenue.

14 Q. Please discuss the rate design proposals for the Main line Sales Service ("MLSS")  
15 class.

16 A. MLSS service applies to the same customer groups that MLDS service applies to  
17 with the primary exception that MLSS service is a sales service and MLDS service is  
18 a distribution service. There were no MLSS customers served by the Company  
19 during the historic test year, nor are there any MLSS customers expected to take  
20 service during the forecasted rate year. However, the MLSS tariff is active and it is  
21 the Company's intent that customers who elect to be served under the MLSS tariff



1 pay the same distribution service rates established for the MLDS tariff customers in  
2 this case.

3 Q. Please describe the treatment of flex rate agreements in the development of the  
4 Company's base rates.

5 A. Revenues resulting from flex rate agreements are shown in Exhibit No. 103.  
6 Because the flex agreements are individually negotiated, the associated revenues are  
7 not increased as a result of the Company's rate case filing.

8 Q. Do flex rate agreements benefit Columbia's non-flex customers?

9 A. Yes. Revenue collected from flex rate customers contributes to the recovery of the  
10 Company's fixed costs. Without the revenues from the flex customers, non-flex  
11 customers would be assigned additional fixed cost recovery responsibility and their  
12 rates would increase.

13 **IV. BILL COMPARISONS**

14 Q. How do Columbia's proposed rate design changes affect annual bills for residential  
15 and SGSS/SCD/SGDS customers?

16 A. Examples of typical bills for residential, SGSS, and LGSS customers under current  
17 and proposed rates are shown in Exhibit 111, Schedules 5 and 6. The typical bills  
18 were developed using gas costs in Columbia's PGC filing, effective January 1, 2015.  
19 Based on the proposed revenue requirement, the average residential customer  
20 using approximately 6.9 Dth per month would see an overall monthly bill increase  
21 of 8.64% under Columbia's proposed rate design, which is reflected in Exhibit 111  
22 Schedules 5 and 6. At an average SGSS usage for customers whose annual usage is

1 less than 6,440 therms of approximately 16.6 Dth per month, a typical monthly bill  
2 would increase by 7.07% under proposed rates. At an average LGSS usage for  
3 customers whose annual usage between 6,440 and 64,400 therms of approximately  
4 117.3 Dth per month, a typical monthly bill would increase by 1.78% under  
5 proposed rates. At an average LGSS usage of approximately 676 Dth per month, a  
6 typical monthly bill would decrease by -3.35% under proposed rates.

7 Q. Does this complete your direct testimony?

8 A. Yes, it does.

Columbia Gas of Pennsylvania, Inc.  
Cost of Service Study Results  
For the 12 Months Ending December 31, 2016

	<u>Peak &amp; Average</u> <u>Return</u>	<u>Index</u>	<u>Customer/Demand</u> <u>Return</u>	<u>Index</u>	<u>Average Study</u> <u>Return</u>	<u>Index</u>
Residential Service (RS/RDS)	6.584%	108.6	4.494%	74.2	5.443%	89.8
Small General Service (SGSS/SCD/SGDS)	6.686%	110.3	10.042%	165.7	8.166%	134.7
Small Distribution Service (SDS/LGSS)	4.814%	79.4	13.676%	225.6	7.944%	131.1
Large Distribution Service (LDS/LGSS)	1.261%	20.8	17.984%	296.7	5.105%	84.2
Mainline Distribution Service (MLDS)	219.470%	3,621.0	219.470%	3,621.0	219.470%	3,621.0
Total Company	6.061%	100.0	6.061%	100.0	6.061%	100.0

Columbia Gas of Pennsylvania, Inc.  
Base Rate Fixed Cost Recovery  
For the 12 Months Ending December 31, 2016

	<u>2008</u>	<u>2010</u>	<u>2011 2/</u>	<u>2012</u>	<u>2014</u>	<u>5 Case Average 3/</u>	<u>Proposed 2015</u>	<u>Difference</u>
<b>Residential Service (RS/RDS)</b>								
Customer Charge Revenue	52,191,199	55,804,410	85,183,066	77,259,358	78,381,874		96,908,868	
Base Rate per Dth Revenue	<u>86,046,002</u>	<u>84,572,528</u>	<u>64,221,831</u>	<u>116,137,004</u>	<u>142,844,682</u>		<u>158,359,650</u>	
Total Base Rate Recovery	138,237,201	140,376,938	149,404,897	193,396,362	221,226,556		255,268,518	
Customer Charge Recovery Percent of Total	37.755%	39.753%	57.015%	39.949%	35.431%	38.222%	37.964%	-0.258%
<b>Small General Service (SGSS/SCD/SGDS) 1/</b>								
Customer Charge Revenue	8,251,948	8,656,237	9,598,846	10,305,040	11,089,775		14,103,385	
Base Rate per Dth Revenue	<u>33,800,244</u>	<u>26,943,030</u>	<u>27,287,894</u>	<u>36,944,451</u>	<u>44,105,641</u>		<u>49,704,276</u>	
Total Base Rate Recovery	42,052,192	35,599,267	36,886,740	47,249,491	55,195,416		63,807,661	
Customer Charge Recovery Percent of Total	19.623%	24.316%	26.022%	21.810%	20.092%	22.373%	22.103%	-0.270%
<b>Small Distribution Service (SDS/LGSS) 1/</b>								
Customer Charge Revenue	1,502,080	1,567,843	1,777,454	2,112,274	2,302,200		2,549,625	
Base Rate per Dth Revenue	<u>7,455,074</u>	<u>7,561,578</u>	<u>7,743,183</u>	<u>12,199,753</u>	<u>12,356,098</u>		<u>13,066,951</u>	
Total Base Rate Recovery	8,957,154	9,129,421	9,520,637	14,312,027	14,658,298		15,616,576	
Customer Charge Recovery Percent of Total	16.770%	17.174%	18.669%	14.759%	15.706%	16.616%	16.326%	-0.290%
<b>Large Distribution Service (LDS/LGSS) 1/</b>								
Customer Charge Revenue	1,398,392	1,343,244	1,436,538	1,671,952	1,714,800		2,330,000	
Base Rate per Dth Revenue	<u>6,102,827</u>	<u>6,257,254</u>	<u>6,635,955</u>	<u>8,197,230</u>	<u>9,623,494</u>		<u>12,141,682</u>	
Total Base Rate Recovery	7,501,219	7,600,498	8,072,493	9,869,182	11,338,294		14,471,682	
Customer Charge Recovery Percent of Total	18.642%	17.673%	17.795%	16.941%	15.124%	17.235%	16.100%	-1.135%
<b>Mainline Distribution Service (MLDS) 1/</b>								
Customer Charge Revenue	50,844	93,540	104,352	68,620	65,964		79,752	
Base Rate per Dth Revenue	<u>149,641</u>	<u>151,087</u>	<u>136,159</u>	<u>152,388</u>	<u>149,964</u>		<u>135,443</u>	
Total Base Rate Recovery	200,485	244,627	240,511	221,008	215,928		215,195	
Customer Charge Recovery Percent of Total	25.361%	38.238%	43.388%	31.049%	30.549%	33.717%	37.060%	3.343%

1/ Excludes Flexed Base Rate Revenue

2/ Residential Customer Charge included recovery of the first 2.1 Dth per month.

3/ 2011 is excluded from the average for the Residential class because the recovery of the first 2.1 Dth was included with the Customer Charge.