

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of Aqua America, Inc.,	:	
Aqua Pennsylvania, Inc., Aqua Pennsylvania	:	
Wastewater, Inc., Peoples Natural Gas	:	
Company LLC And Peoples Gas Company	:	
LLC for all of the Authority and the	:	Docket No. A-2018-3006061
Necessary Certificates of Public Convenience	:	A-2018-3006062
to Approve a Change in Control of Peoples	:	A-2018-3006063
Natural Gas Company LLC, and Peoples Gas	:	
Company LLC By Way of the Purchase of	:	
All of LDC Funding LLC's Membership	:	
Interests by Aqua America, Inc.	:	

**SURREBUTTAL TESTIMONY  
AND EXHIBITS**

**OF**

**JAMES L. CRIST, P.E.**

**ON BEHALF OF**

**THE NATURAL GAS SUPPLIER PARTIES**

**AND THE RETAIL ENERGY SUPPLY ASSOCIATION**

NGS/RESA Statement No. 1-SR  
May 21, 2019

1 **Q. PLEASE STATE YOUR NAME, AND ON WHOSE BEHALF, YOU ARE**  
2 **TESTIFYING?**

3 A. I am James L. Crist, President of Lumen Group, Inc. I presented direct testimony and  
4 rebuttal testimony and am now presenting surrebuttal testimony on behalf of the Natural  
5 Gas Suppler Parties (“NGS”) and the Retail Energy Supply Association (“RESA”,  
6 collectively “NGS/RESA”).

7  
8 **I. ISSUES**

9 **Q. WHAT ARE THE ISSUES YOU WILL DISCUSS?**

10 A. After a review of other parties’ rebuttal testimony, I have identified issues that impact  
11 natural gas suppliers, or their customers or potential customers.

12 1. Mr. Gregorini made several inaccurate comments about the potential of having  
13 natural gas suppliers manage the gas supply function.

14 2. Mr. Geller, representing CAUSE- PA made recommendations regarding the  
15 funding of programs for CAP and low-income customers which will create a  
16 subsidization of some residential customers.

17 3. Ms. Alexander, representing OCA, made recommendations and presented pricing  
18 data that is misleading.

19 4. Mr. Mierzwa, representing OCA, made a recommendation based on a 10-year old  
20 report, and I will explain why it is important to have continuous change and seek  
21 improvement.

22

23

1 **Q. WHAT ISSUES DID MR. GREGORINI RAISE?**

2 A. Mr. Gregorini took issue with my recommendation that Peoples develop a plan to exit the  
3 merchant function. He also addressed several of the operational recommendations which  
4 Mr. Magnani and I made. I will first address the important topic of customer shopping and  
5 the merchant function exit.

6  
7 **Q. IS MR. GREGORINI ACCURATE IN HIS PORTRAYAL OF THE COMPANY'S**  
8 **PRIOR WILLINGNESS TO DEVELOP INNOVATIVE GAS TRANSPORTATION**  
9 **AND CUSTOMER CHOICE PROGRAMS?**

10 A. Yes. Peoples has been a leader in the Commonwealth among natural gas distribution  
11 utilities in the opening of its distribution system and enabling alternative gas suppliers to  
12 serve a variety of customers. In the 1980s its system requirements for transporting gas  
13 were gradually relaxed in terms of volumetric threshold necessary to qualify as a gas  
14 transportation customer. At that point and since that time, Peoples has seen almost all of  
15 its industrial customers and a large majority of its commercial customers elect to be served  
16 by a competitive natural gas supplier. With regard to the residential market, Peoples  
17 implemented a zero-threshold requirement for natural gas transportation in the early 1990s,  
18 thus allowing residential customers to obtain gas supply from alternative natural gas  
19 suppliers. Peoples' operational procedures regarding this capability have continued to  
20 improve to where we are today. Just because progress has been made, having gone from  
21 no customers receiving service from an alternate supplier, to approximately 20% of the  
22 residential customers along with most of the commercial and industrial customers receiving  
23 supplies from alternative suppliers, does not mean that everyone should stop developing

1 innovations and improvements of the process.

2  
3 **Q. ARE THE ISSUES INVOLVED IN EXPANDING CUSTOMER CHOICE AND**  
4 **EXITING THE MERCHANT FUNCTION COMPLEX?**

5 A. Yes. They are outlined in the Natural Gas Choice and Competition Act (“Act”), effective  
6 in 1999, twenty years ago. I am in agreement with Mr. Gregorini that there are many  
7 detailed and complicated issues that must be addressed. Mr. Gregorini cited the long-term  
8 pipeline storage and transportation capacity contracts and assignment of Peoples’ assets as  
9 examples. He recognizes that I proposed that these complex issues be addressed  
10 comprehensively in meetings with NGSs and other stakeholders but expressed skepticism  
11 that the six-month timetable I proposed would be enough time necessary to address those  
12 issues. My response to that is that it depends how hard everyone works during those six-  
13 months to achieve and develop a solution. That was the reason for my imposing a  
14 timetable, to ensure that this very important issue has the attention and focus of the  
15 participating stakeholders. Recognizing that there are complex issues to be addressed yet  
16 disagreeing with the timetable I proposed is not sufficient basis to completely reject the  
17 concept of holding such meetings in the first place. To proclaim that new concepts will  
18 never be considered flies in the face of the Act that in §2207 anticipated that at some point  
19 the supplier of last resort (“SOLR”) function would be undertaken by a natural gas supplier.

20  
21  
22  
23

1 **Q. MR. GREGORINI STATES HIS BIGGEST CONCERN IS BASED ON PRICING**  
2 **INFORMATION HE PRESENTED. DOES THAT INFORMATION PROVIDE**  
3 **THE ENTIRE PICTURE?**

4 A. No. He cites a study the Company performed in January 2019 (which was provided as data  
5 response Attachment OCA-V-32) that shows how prices paid by shopping customers  
6 compare to the rate charged by Peoples during the same time. He opines that the data  
7 illustrates that shopping has not provided a cost benefit to many customers. His opinion  
8 on this is unfounded and lacks the understanding of the pricing products actually selected  
9 by the customers. Mr. Gregorini does not explain that the data he presents does not include  
10 critical details regarding the nature of the pricing products that the natural gas provider is  
11 providing to the shopping customer.

12  
13 **Q. WHAT ARE PRICING PRODUCTS?**

14 A. Pricing products are the array of supply and price arrangements that a competitive gas  
15 supplier may provide to a customer. While there may be many variations of pricing  
16 products there are two main types: variable price and fixed price. Variable price products  
17 generally will be subject to pricing changes on a monthly basis. They may have a term  
18 contract, and 12-months would be a common term, or they may not have a term contract,  
19 and that would be referred to as “month-to-month” where a customer could switch to  
20 another competitive supplier or to system supply from Peoples with short notice. Fixed  
21 price products will hold a firm price for a specified term, and 12, 24, or 36 months would  
22 be a common term for such products. Once a customer selects a fixed price product there  
23 is no price risk to the customer if the market price of natural gas changes, for the supplier

1 will continue to provide gas to the customer at the contractual agreed upon price.

2 Fixed price products commonly bear a price premium to variable price products offered at  
3 the same time for the same term because a supplier that sells a fixed price product would  
4 commonly hedge that product and there is a cost to do so. Customers that purchase fixed  
5 price products do so because they value the stability and desire to avoid price risk that can  
6 be experienced in the natural gas market.

7  
8 **Q. WHAT CRITICAL DATA DOES MR. GREGORINI'S STUDY LACK?**

9 A. The Supplier Price Amount data includes prices for both variable price and fixed price  
10 products. Mr. Gregorini opines that 75% of the supplier price amounts exceed the  
11 Company's PTC and believes that shopping prices have not provided a cost benefit to many  
12 of the customers. His conclusion is plainly wrong, and he reached that conclusion because  
13 he does not have several critical pieces of information. When I read Mr. Gregorini's  
14 rebuttal testimony on this issue I suspected that he lacked all the facts, so I issued a data  
15 request and am attaching the response to NGS/RESA Set IV-1 as Exhibit JC-7. Here are  
16 the important excerpts from that data response:

17 1.c. Of the prices indicated in the analysis, please indicate which ones are  
18 associated with a variable price offer or a fixed price offer.

19  
20 Response: Peoples is not privy to the contact terms between the NGS and customer  
21 so that information is not available to us.

22  
23 1.e. Of the prices indicated in the analysis, please indicate the duration of the  
24 contract with the supplier.

25  
26 Response: Peoples is not privy to the contact terms between the NGS and customer  
27 so that information is not available to us.

28  
29 What is apparent is that the two most important items, variable priced or fixed price, and

1 the term, that would allow a knowledgeable person such as Mr. Gregorini to render a fact-  
2 based conclusion regarding how the customer perceives the value of the pricing product  
3 relative to Peoples' PTC, were totally unknown to Mr. Gregorini. His conclusion has no  
4 substance and cannot be relied upon.

5 In fact, armed with one piece of critical data, I can reach the proper interpretation of the  
6 data study done by Mr. Gregorini. I am aware through my experience in the natural gas  
7 industry and working with natural gas suppliers and from discussions with members or  
8 NGS/RESA that sell both variable price and fixed- price products that most (approximately  
9 85% to 95%) of the price products sold to residential customers are fixed price products  
10 and such products are often, other conditions being the same, more expensive than variable  
11 price products.

12  
13 **Q. WHY ARE LONGER TERM FIXED PRICE SUPPLY PRODUCTS COMMONLY**  
14 **MORE EXPENSIVE THAN VARIABLE PRICED PRICING PRODUCTS?**

15 A. It is commonplace to see fixed price products more expensive than variable price products  
16 due to the risk management and risk mitigation benefits they provide that are important to  
17 customers. Risk management products that provide value to customers are priced higher  
18 in other industries also. The best example of this which many people can relate to would  
19 be in the purchase of home mortgage products. Whether it is natural gas supply or home  
20 mortgages the concept of fixing a price results in removing price volatility risk for a future  
21 period of 12 months or 30 years. That aspect of risk management and the risk assumption  
22 by the product provider creates a premium value to the customer, and customers are willing  
23 to pay for that value. I reviewed Home Mortgage rates in effect during the preparation of

1 this surrebuttal testimony and found the difference in residential mortgages to illustrate this  
2 point quite clearly. A 30-year fixed rate mortgage which is a very common and popular  
3 product is currently offered at an interest rate of 4%. (Source PNC Bank website). A  
4 variable rate mortgage, which will allow the interest rate charged to change on an annual  
5 basis following an initial five-year period (known as a "5/1 ARM"), had an interest rate  
6 3.5%. Therefore, the premium that a consumer will pay for a fixed rate is an additional  
7 0.5% interest or an additional 14% (0.5% divided by 3.5%) for the peace of mind that  
8 accompanies price certainty. Similar consumer behavior is seen in the natural gas supply  
9 market among residential customers and is illustrated in the data that Mr. Gregorini  
10 provided. Now that we have the knowledge that 85% to 95% of the pricing products sold  
11 to residential customers are fixed price products and that customers prefer and will pay  
12 more for a fixed priced natural gas product, and Mr. Gregorini's study showed that only  
13 75% of the customers are paying a price higher than that Company's PTC, I properly  
14 conclude that competitive suppliers are providing a substantially positive value to the  
15 customers, which is the opposite of what Mr. Gregorini had opined.

16  
17 **Q. IS THE COMPANY'S PRICE TO COMPARE A TRUE MONTHLY VARIABLE**  
18 **PRICE?**

19 **A.** No. Mr. Gregorini does not explain that in addition to the price to compare which a  
20 customer can find on their gas bill (for the previous month) or on the OCA's Gas Shopping  
21 Guide (for the current month) that purchasing gas from the Company comes with a  
22 potential future risk exposure for the customer. The Company on an annual basis through  
23 the 1307(f) process files its gas cost reconciliation rate case. At that point the Company



1 has an opportunity to recover additional cost that it spent on gas provided to the customer  
2 and consumed over the prior 12-month period. For example, if the Company forecast made  
3 when the customer price is set results in a lower price than the true price based on later-  
4 known actual cost, the Company recovers an additional amount during the annual gas cost  
5 reconciliation case to compensate for their under-forecast. Thus, comparison of the  
6 Company PTC to a supplier price is flawed as the Company price under reflects the total  
7 reconciled cost charged to Company customers. - Natural gas suppliers have no such  
8 recourse with customers that are purchasing their products. Suppliers do not have the  
9 ability twelve months into a supply arrangement with the customer to also add on any  
10 amount of gas cost that the supplier incurred but was not billed to the customer. Only the  
11 regulated gas distribution utility has such protection. For this reason, it is not a level  
12 playing field for competitive gas suppliers and it is a misnomer to call the priced charged  
13 by the Company the "price to compare".

14  
15 **Q. TURNING TO OPERATIONAL CONCERNS, HOW DID MR. GREGORINI**  
16 **ADDRESS THE SEVERAL ITEMS THAT YOU AND MR. MAGNANI RAISED?**

17 A. Mr. Gregorini was in agreement with many of the operational issues, but provided some  
18 push-back on a few of them. Mr. Gregorini also referenced commitments the Company  
19 will agree to and referenced exhibit DJS-1R which was sponsored by Mr. Schuller. I will  
20 review each of these items individually.

21 The items I presented in my direct testimony:

- 22 1. Provide Choice suppliers heat load and baseload factors for their Choice pool to  
23 enable suppliers to manage their procurement function with greater accuracy. Mr.

1 Gregorini agreed to provide heating and base load information on an as-requested  
2 basis. I am in agreement with Mr. Gregorini that this satisfies my request.

3 2. Provide temperature used to predict Choice demand for an upcoming day. The  
4 Company will agree to identify which weather station is associated with the NGS's  
5 customer. This is addressed in Mr. Schuller's Exhibit as paragraph 66. This  
6 satisfies my request.

7 3. Increase the number of rate codes available to a single pool from the current 20 rate  
8 code limit. The Company agrees that in addition to the 20 rate codes provided for  
9 each pool, they will provide additional rate codes as described in Mr. Schuller's  
10 exhibit as paragraph 67. This satisfies my request.

11 4. Increase the POR cut-off from 300 mcf annually to provide the same fair and  
12 equitable treatment to medium sized customers as the smaller sized customers  
13 currently enjoy. Mr. Gregorini does not agree with this request and he references  
14 the order provided over a decade ago which I already addressed in my direct  
15 testimony. That order was not binding and allowed for improvement and the  
16 Commission already has approved the POR program of UGI which has a limit of  
17 1000 Mcf annually. I repeat my recommendation that the Company should increase  
18 its limit from 300 Mcf to 1,000 Mcf annually, for rate SGS customers.

19  
20 **Q. WHAT WERE MR. GREGORINI'S RESPONSES TO THE OPERATIONAL**  
21 **ISSUES RAISED BY MR. MAGNANI?**

22 **A.** In my rebuttal testimony I provided my support for and agreement with Mr. Magnani for  
23 those operational issues he raised. Mr. Gregory stated he has agreed with most or all of

1 them and also directs us to review exhibit DJS-1R sponsored by Mr. Schuller.

2 1. Peoples should provide an overall report to each marketer at the close of each month  
3 that identifies the total number of individual customer burns that make up the  
4 aggregate burn pool. Mr. Gregorini explained that the Company provides such data  
5 in the daily billing files.

6 2. Peoples should issue preliminary targets for the daily delivery requirements and  
7 capacity requests earlier than the current process so that suppliers have more  
8 adequate time to provide the required data. This is agreed to in Mr. Schuller's  
9 exhibit paragraph 72.

10 3. Peoples should identify billing cycles on Local Production Pool invoices which  
11 would help eliminate confusion. This is agreed to in Mr. Schuller's exhibit  
12 paragraph 73.

13 4. Peoples should identify the customers' billing cycles on its invoices and reduce  
14 confusion with rebills. This was agreed to in Mr. Schuller's exhibit paragraph 73,  
15 however such information should be provided without charge to the natural gas  
16 supplier.

17 5. Peoples' daily billing files for high pressure accounts should reflect the posting date  
18 to reflect the month being billed. Mr. Gregory stated that the Company is in  
19 agreement with this and as of April 1 of this year has modified the billing system  
20 to provide such information.

21 In summary, most of the operational changes proposed by both me and Mr. Magnani have  
22 been satisfactorily addressed by Mr. Gregorini with the exception I have noted. The  
23 Company has demonstrated an attitude to improve processes used by natural gas suppliers

1 to satisfy the needs of its customers.

2

3 **Q. WHAT ARE YOUR CONCERNS WITH MR. GELLER'S TESTIMONY?**

4 A. Mr. Geller opposes my recommendation that the Company hold stakeholder meetings to  
5 discuss and develop a plan to exit the merchant function. Even though Mr. Geller's  
6 organization, CAUSE-PA, would clearly be an interested party and entitled to participate  
7 in such meetings, Mr. Geller indicates no such interest to do so.

8

9 **Q. DO CAP CUSTOMERS PARTICIPATE IN PEOPLES CHOICE PROGRAM?**

10 A. No. The Customer Assistance Program ("CAP") customers receive service under Rate RS,  
11 and do not participate in Peoples' Choice program.

12

13 **Q. DOES MR. GELLER CITE THE SAME DATA PROVIDED BY MR. GREGORINI  
14 REGARDING THE PRICES PAID BY CHOICE CUSTOMERS?**

15 A. Yes. He also includes data from some electric utilities (PPL, the First Energy companies)  
16 that permit CAP customers to participate in Choice programs and obtain supply from  
17 competitive electric suppliers. Mr. Geller cites the same data that Mr. Gregorini provided  
18 which I have already addressed. I have already explained that the fatal flaw in attempting  
19 to draw a conclusion from that study is the complete lack of data regarding the type of  
20 pricing product (variable or fixed) and the term of the contract. Without such information  
21 it is not possible to draw a fact-based conclusion about the benefit a customer may receive.  
22 The only conclusion that may be drawn with just the data in Mr. Gregorini's study is if  
23 someone were a "glass half full" type person they would instantly recognize that 25% of

1 the customers obtaining gas supply from the group of competitive suppliers have actually  
2 realized cheaper prices than provided by the Company's price to compare. Instead of not  
3 wanting to participate in discussions that have the potential to improve the Choice program,  
4 or advocating better customer education concerning shopping, Mr. Geller rejects my  
5 recommendation. His shortsighted position prevents improvement in programs and keeps  
6 low-income customers from seeking and obtaining benefits they could receive from such  
7 programs. In the case of the 25% of the customers who realized month over month cost  
8 savings, Mr. Geller would not want additional low income or CAP customers to attempt  
9 the same. Instead of lowering the actual costs to those customers he continues to advocate  
10 for funding to pay for higher bills, and to have such funding be provided by other  
11 customers, and by the Company. His position should be rejected. Instead we should follow  
12 the proverbial wisdom expressed in "Give a person a fish, and you feed them for a day.  
13 Teach a person to fish, and you feed them for a lifetime." It is time to teach customers to  
14 become wiser purchasers of energy.

15  
16 **Q. WHAT ARE MR. GELLER'S CONCERNS WITH INDEXED-PRICED**  
17 **PRODUCTS?**

18 A. In his rebuttal testimony, CAUSE-PA Statement 1R, 6:19-7:2, he claims, "Moving to a  
19 default service product which is indexed to the competitive market on a monthly basis  
20 would be uniquely detrimental for low income households who are already struggling to  
21 pay their bill." I am certain that Mr. Geller is aware that all gas utilities, including Peoples,  
22 are required to offer a budget billing program to customers and that such a program will  
23 remove any volatility that might arise as real market prices move up and down and impact

1 a customer's monthly bill. Peoples would not be permitted to discontinue its budget billing  
2 plan. Mr. Geller's concern about indexed based pricing is without substance.

3  
4 **Q. HOW DO COMPETITIVE SUPPLIERS HELP CUSTOMERS WITH VOLATILE**  
5 **ENERGY BILLS?**

6 A. Gas supplied through a market index will exhibit market price volatility. In addition to the  
7 budget bill program which will levelize the monthly bills received by the customer  
8 throughout the year, suppliers offer risk mitigation products currently in the form of a fixed  
9 price product. Fixed price products actually lock in gas prices for a fixed term such as one  
10 year, so that customers are insulated from market volatility during that period. The  
11 combination of the Company's budget bill and a competitive supplier's fixed price product  
12 address the concerns expressed by Mr. Geller and meet his desire to provide for low income  
13 customers.

14  
15 **Q. WHAT ARE YOUR CONCERNS WITH MS. ALEXANDER'S TESTIMONY?**

16 A. Ms. Alexander brings up several issues that I will refute. She first claims that this forum  
17 is not the proper forum to discuss issues dealing with retail competition. That could not be  
18 further from the truth, as this case at this time is exactly the proper forum to raise this  
19 critical issue. Peoples is in the process of being acquired by a company that has absolutely  
20 no experience with the competitive marketplace. Despite assurances that Aqua will not  
21 dampen the ongoing programs of Peoples, testimony by Mr. Gregorini pushed back on my  
22 recommendation to pursue steps toward an eventual exit of the merchant function and this  
23 is of great concern. The standard that must be met by this acquisition is not simply to keep

1 everything the same but to actually provide substantial benefit. I have already explained  
2 that the competitive market seems to be stalled and is in need of attention at this time to  
3 continue its development to enable benefits to be realized by additional customers.  
4

5 **Q. WHAT ARE MS. ALEXANDER'S OBSERVATIONS CONCERNING**  
6 **COMPETITIVE OFFERS BY NGSs?**

7 A. In her rebuttal testimony (OCA Statement 3-R) on pages three and four she presents data  
8 concerning the prices offered by competitive marketers and compares those prices to the  
9 utility's price to compare. She obtained her data from the Pennsylvania Natural Gas  
10 Shopping Guide which is available at the OCA website. Because her data was obtained in  
11 January 2019, I decided to review the current data to glean what can be observed in just a  
12 few months' time. My observations will illustrate the point that the presence of competitive  
13 marketers is very important for they offer products that can address market volatility. Ms.  
14 Alexander's data showed that all fixed rate price offers by NGSs were higher than the  
15 Peoples Natural Gas PTC. She also presented data showing the three fixed rate offers by  
16 natural gas suppliers on the Peoples-Equitable Division were also higher than the PTC.  
17 This does not surprise me as I have already explained why fixed price products that provide  
18 risk management benefits often contain a price premium commensurate with their value  
19 compared to the volatile variable priced products. Jump ahead to present day and the data  
20 that I see on the OCA website which I am including as Exhibit JC-8, show that one supplier,  
21 Dominion Energy Solutions, is offering fixed price product through May 1, 2021 for  
22 \$3.23/Mcf, and that is less than the PTC of \$3.3249/Mcf. The point to take from all this is  
23 the gas prices are volatile and they vary from month to month. What Ms. Alexander

1 thought was true in January is no longer true today.

2  
3 **Q. WHY IS THE PRICE TO COMPARE NOT AN ACCURATE REFLECTION OF**  
4 **WHOLESALE MARKET PRICES?**

5 A. The PTC is determined by Peoples actual procurement costs over the previous twelve-  
6 month period, and Peoples' forecast of its anticipated purchase costs, as determined by  
7 pricing and volumetric consumption forecasts, over the future twelve-month period. An  
8 additional component contained in the PTC is a reconciliation amount that is determined  
9 by comparing the actual revenue collected for gas commodity sales to its customers to the  
10 forecast revenue expected from customers. If there is a shortfall or a surplus that amount  
11 is then recovered in the PTC, along with interest. The incorporation of a reconciliation  
12 mechanism and the forecast both obfuscate the clarity necessary to understand the true  
13 market price. When a gas supplier provides a market price for a future month, that price is  
14 based on the actual market information available at the time the supplier made the price  
15 offer. Once a customer selects that offer for a fixed rate product, the price does not change.  
16 The natural gas supplier has no ability to roll in any extra recovery gas costs that failed to  
17 be collected in a previous period, unlike the assurance that Peoples has. Peoples is always  
18 made whole whereas natural gas marketers never get to be made whole after the fact. This  
19 blatant difference is a disadvantage to the natural gas marketers and that is why to realize  
20 true market competitiveness the regulated gas utility must remove itself from the merchant  
21 function.



1 **Q. DOES YOUR RECOMMENDATION BENEFIT PEOPLES' CUSTOMERS?**

2 A. Yes. By further developing the competitive market through removing the regulated  
3 distribution utility's reconcilable commodity product that competes against natural gas  
4 suppliers' market-based offers will be a step toward a fairer consumer marketplace with  
5 clearer pricing. Although Ms. Alexander claims that existing Commission policy supports  
6 the utilities' price to compare mechanism, she ignores the Natural Gas Competition and  
7 Choice Act whose purpose is to develop competition.

8

9 **Q. WHAT IS MS. ALEXANDER'S CONCERN REGARDING DOMINION ENERGY**  
10 **OHIO'S PRICING?**

11 A. Ms. Alexander presents a chart on page eight of her rebuttal testimony that shows the  
12 monthly prices charged by Dominion Energy Ohio under the SCO gas rate. She is  
13 concerned about the volatility of the natural gas price and opines that such volatile pricing  
14 directly contradicts the need for stable prices and bills for essential natural gas service to  
15 residential consumers. I have addressed this concern previously in this surrebuttal  
16 testimony, for Mr. Geller had a similar concern. Ms. Alexander should be comforted  
17 greatly to know that natural gas suppliers share her concern and that 85% to 95% of  
18 products sold by natural gas suppliers are fixed price products that indeed address the exact  
19 concern Ms. Alexander has raised. Fixed priced products, coupled with Peoples budget  
20 billing option will result in the stability that Ms. Alexander is seeking.

21

22

23

1 **Q. WHY IS MS. ALEXANDER'S CONCERN ABOUT LEAST COST FUEL**  
2 **PROCUREMENT UNFOUNDED?**

3 A. Least cost procurement policies were developed and put into place during a time when  
4 natural gas supply for residential consumers was entirely procured by the regulated  
5 distribution utility. A fundamental economic principle is that because monopolies have no  
6 competition there must be regulatory oversight to ensure fair pricing to customers by that  
7 monopoly. In fact, were Peoples to successfully exit the merchant function it would still  
8 be fully regulated as they are today concerning the distribution utility function and services.  
9 Currently when Peoples functions as a gas supplier the least cost procurement directive  
10 must be in place and Peoples procurement activities must be reviewed to ensure that it is  
11 complying. When Peoples is no longer providing that service in the marketplace and it is  
12 instead provided by competitive suppliers the simple fact that each supplier is  
13 competitively bidding for the supplier of last resort function will ensure that a market price  
14 is in place. The results of competitive bids now and in the future are the least cost.

15

16 **Q. WHAT ARE YOUR CONCERNS WITH MR. MIERZWA'S TESTIMONY?**

17 A. Mr. Mierzwa presents Ohio utility data in an attempt to create a convincing analogy that  
18 the current state of competition at Duke Energy Ohio is somehow evidence that Peoples  
19 should simply continue what they are currently doing. Mr. Mierzwa is comparing apples  
20 to oranges and there are significant differences not only between Pennsylvania and Ohio  
21 but also between each of the four natural gas distribution utilities in Ohio that Mr. Mierzwa  
22 examined. Simply put, the underlying supply and storage resources available to utilities  
23 are specific to each utility. What assets the utility has are in part due to its geographic

1 location and proximity to interstate pipelines, storage fields, and availability of local  
2 production. One cannot compare the price at one utility in Ohio with three other utilities  
3 in Ohio and predict what costs might be charged in western Pennsylvania by Peoples. Gas  
4 supply procurement personnel are quite familiar with the fundamental differences in  
5 pricing in the natural gas market. These differences are based on where a utility is located  
6 and more specifically what interstate pipeline location the utility interconnects at are  
7 known as the geographic basis differential or “basis”. The locational price difference  
8 between Cincinnati, Ohio, where Duke Energy Ohio is located and Pittsburgh Pennsylvania  
9 where Peoples is located clearly exist.

10  
11 **Q. HOW DOES THE DATA PRESENTED BY MR. MIERZWA ON DUKE**  
12 **ENERGY’S HEDGING ACTIVITIES ILLUSTRATE THE BENEFITS OF FIXED**  
13 **PRICE PRODUCTS?**

14 **A.** In OCA Statement 4-R, page 3, Mr. Mierzwa presents data in Table 1R that shows three  
15 years of historic pricing of the four major gas utilities in Ohio. In his narrative he claims  
16 that even though Dominion Energy Ohio shows significantly lower gas prices than the  
17 other three utilities that is due to Dominion’s direct access to Marcellus Shale supply and  
18 on-system storage, and ignores the fact that Dominion Energy Ohio has the most robust  
19 Standard Service Offer (“SSO”) program that uses gas provided by competitive suppliers  
20 to meet their system needs. He then acknowledges that Duke Energy, the one utility in  
21 Ohio that has not moved to the SSO process but is still procuring its supply using the  
22 traditional Gas Cost Recovery (“GCR”) mechanism, does have higher gas prices than the  
23 other three utilities that have abandoned the old procurement method and are now obtaining

1 supply through competitive marketers. He explains that even though Duke's price  
2 (\$4.4640/mcf) is higher than the average of the three other utilities (\$3.7800/mcf), that the  
3 \$0.6840/mcf premium Duke customers pay contains costs attributed to hedging activities  
4 that Duke undertook to reduce volatility. Mr. Mierzwa claims the hedging costs are  
5 \$0.41/Mcf.

6 We can conclude many things from Mr. Mierzwa's data that support improving the current  
7 purchase gas cost mechanism and moving to having competitive suppliers provide the gas  
8 commodity through a competitive process. First, Duke Energy, and the Public Utility  
9 Commission of Ohio that approved Duke's procurement, have recognized that customers  
10 desire stability in natural gas prices; that stability has value; and the premium for hedging  
11 can be fairly assessed to and paid for by customers. Of course, natural gas suppliers know  
12 this because most of the pricing products they sell are fixed price supply contacts. Second,  
13 if we deduct \$0.41/Mcf from Duke Energy's price of \$4.46/Mcf, in essence removing the  
14 cost of hedging services, the resulting price of \$4.05/Mcf is still higher than the three-  
15 company average of \$3.7800/Mcf, proving that having natural gas suppliers provide gas is  
16 better than having the utility procure gas.

17  
18 **Q. WHY IS THE 2009 REPORT DUKE ENERGY FILED WITH THE PUCO NOT A**  
19 **CREDIBLE BASIS FOR PEOPLES IN 2019?**

20 **A.** The obvious reason is that it is ten years out of date, and it was for an entirely different gas  
21 utility in a different state. The service territory is not just over the Ohio state line but on  
22 the opposite side of Ohio with different interstate pipeline delivery points and different  
23 storage assets. There is sufficient justification to convene a stakeholder working group and

1 sufficient interest among natural gas suppliers who possess the expertise and financial  
2 assets to serve as a SOLR.

3  
4 **Q. HOW COULD A MARKET EXIT BE INITIATED?**

5 A. If the Commission desires to make a step in the direction of full competition it could order  
6 Peoples to exit the default provider role for commercial and industrial customers. A larger  
7 percentage of those customers are currently receiving natural gas from competitive  
8 suppliers. The concerns of Mr. Geller, Ms. Alexander, and Mr. Mierzwa of a full exit  
9 including residential customers would be addressed.

10  
11 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS?**

12 A. In addition to the recommendations I made in my direct and rebuttal testimony I now  
13 recommend:

- 14 1. The price comparison data presented by Mr. Gregorini, in light of the knowledge  
15 that 85% to 95% of Choice customers select a fixed price product, demonstrates  
16 customers desire fixed price products from natural gas suppliers. This conclusion  
17 supports continued movement toward Peoples exiting the merchant function. The  
18 stakeholder meetings I recommended should be held.
- 19 2. Concerns about price and bill volatility raised by Mr. Geller and Ms. Alexander  
20 have been addressed by my explanation of fixed price products, and the  
21 continuation of Peoples budget billing program. Their objections should be  
22 dismissed.
- 23 3. The conclusion to be drawn from the pricing data on Ohio gas utilities presented by

1 Mr. Mierzwa is that there is a cost to provide price stability through hedging and  
2 that when hedging costs are removed as a price component, SSO prices are lower  
3 than the traditional gas cost recovery price. Pennsylvania should move to having  
4 supply provided by natural gas suppliers instead of Peoples.

5 4. Should the Commission desire to make progress toward true competition of a  
6 market exit in stages, I would recommend that the Company exit the default  
7 supplier role for the commercial and industrial customers.

8

9 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

10 **A. Yes.**

11

**EXHIBIT JC-7**

**DOMINION ENERGY SOLUTIONS, INC., SHIPLEY CHOICE, LLC,  
AND THE RETAIL ENERGY SUPPLY ASSOCIATION'S  
INTERROGATORIES AND REQUESTS FOR PRODUCTION  
OF DOCUMENTS, SET IV, DIRECTED TO PEOPLES NATURAL GAS  
COMPANY LLC, AND PEOPLES GAS COMPANY LLC**

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1. Regarding Attachment OCA-V-32:
  - a. How frequently does Peoples perform the analysis referenced in the response?
  - b. What regulatory requirement mandates Peoples to perform the analysis? If a regulatory mandate does not exist, provide the reason that Peoples has undertaken the time and expense to perform the analysis.
  - c. Of the prices used in the analysis, please indicate which ones are associated with a variable price offer or a fixed price offer.
  - d. Of the prices indicated in the analysis, please indicate other components of the price offer that also may have provided value to the customer.
  - e. Of the prices indicated in the analysis, please indicate the duration of the contract with the supplier.
  - f. Regarding "from time to time" provide specific dates for the previous five-year period that such an analysis has been performed.
  - g. Was the Analysis performed for all three operating entities? If not, please explain which were included and why others are not? For operating entities not included in OCA-V-32, does the Company perform the same or similar analysis for those companies? Explain.
  - h. Explain the calculation that is displayed in the Column headed "weighted Rate to compute averages."
  - i. Please explain what the headings "Pool Code" and "Priority" mean.
  - j. Please explain how the "supplier Price Amount" was calculated.

**RESPONSE:**

- a). and f). Peoples does not have a set frequency for running this report. The report was prepared in April 2017, April 2018, July 2018, November 2018, and February 2019.
- b). There is no regulatory mandate that requires Peoples to perform this analysis. The time and expense associated with the report is minimal. People has chosen to perform this simple billing system query to determine the number and range of different commodity rates NGSs are charging.



c). and e). Peoples is not privy to the contract terms between the NGS and customer so that information is not available to us.

d). Per Peoples Natural Gas Supplier Tariff: “Only receivables associated with basic gas supply will be eligible for purchase by the Company. Basic gas supply does not include a non-gas supply product, carbon-neutral products not tied to the actual provision of natural gas to customers or security deposits assessed by a natural gas supplier. For residential accounts, basic gas supply shall also not include early contract cancellation fees or late fees.” Based on this limitation, Peoples believes that only commodity components are included in these rates.

g). Peoples performs this analysis for the Peoples Division and the Equitable Division. Peoples has not yet performed this analysis for Peoples Gas (formerly PTWP) principally because there are only 279 customers for which Peoples Gas bills the commodity.

h). The ‘Weighted Rate to compute averages’ is the product of the NGS commodity price times the number of customers billed on that rate. The weighted rate calculation results are then added and divided by the total number of customers to determine an average rate that customers choosing an NGS are paying for their commodity.

i). ‘Pool Code’ is a number associated to a particular rate charged by an NGS; these numbers have been assigned by Peoples to eliminate the need for redaction. ‘Priority’ refers to the two types of customers being served. Priority One (P1) customers are Residential or Commercial Human needs (Hospitals, Apartments, nursing homes, locations where someone dwells). Non-Priority One (NP1) are other general Commercial and Industrial customers.

j). ‘Supplier Price Amount’ is the actual commodity price that the NGS provided to Peoples for billing. It is not a calculated number.

Answer provided by: Morgan K. O’Brien, President and Chief Executive Officer  
PNG Companies LLC

Date: April 12, 2019

## VERIFICATION

I, Morgan K. O'Brien, hereby state that the facts set forth above are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

April 12, 2019

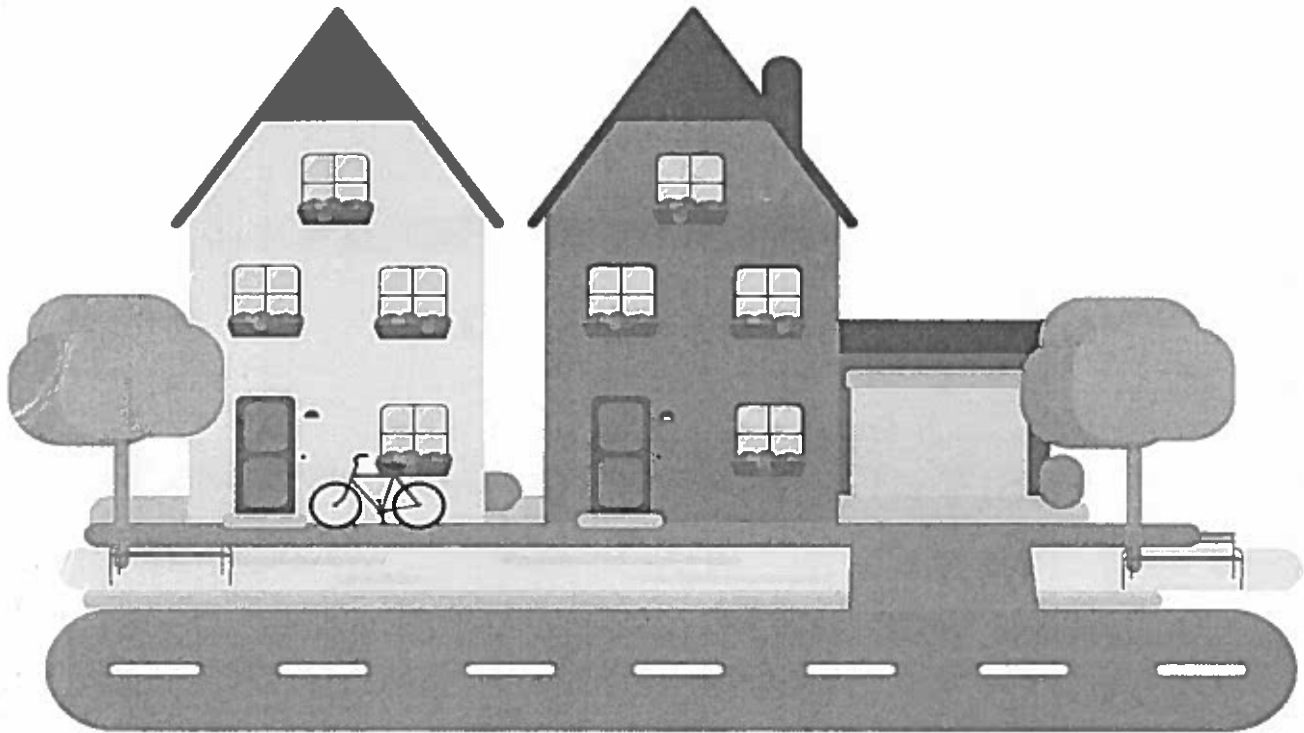
Morgan K. O'Brien

# **EXHIBIT JC-8**



# **PA Office of Consumer Advocate Gas Shopping Guide**

**555 Walnut Street, 5th Floor  
Harrisburg, Pennsylvania 17101-1923**



**Contact Us For More Information!**

**1-800-684-6560**

**[consumer@paoca.org](mailto:consumer@paoca.org)**



**[www.oca.state.pa.us](http://www.oca.state.pa.us)**



**pa\_oca**



**pennoca**

<b>Price to Compare through June 30, 2019</b>	<b>\$3.3249 per Mcf</b>	Monthly supply portion of your bill if you use
		<b>10 Mcf</b>
		<b>\$ 33.25</b>

- The Price to Compare is the price per Mcf that you would pay Peoples for the gas supply portion of your bill, if you do not choose a gas supplier.
- The Price to Compare is subject to change on January 1, April 1, July 1 and October 1.
- All other charges will be paid to Peoples regardless of whether or not a competitive gas supplier is chosen.

**Licensed Natural Gas Supplier Prices:**

Natural Gas Supplier prices are for **NEW** customers of the Natural Gas Supplier. Existing customers of a Natural Gas Supplier should contact their supplier to obtain the rate they are being charged.

Fixed/ Variable	Type of Price	Price per Mcf	Supply Portion of Your Bill Using 10 Mcf	Cancellation Fee
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**Agway Energy Services**

1-888-98-AGWAY

www.agwayenergy.com

Updated May 7, 2019

<b>V</b>	Monthly Variable: Price for First Month*	<b>\$ 3.29 per Mcf</b>	<b>\$ 32.90</b>	No
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\*Promotional rate for the 1st billing cycle. Offer includes the EnergyGuard™ program which provides repairs on your furnace or boiler

**Ambit Energy**

1-877-282-6248

www.ambitenergy.com

Updated September 19, 2017

<b>V</b>	Monthly Variable Price: Guaranteed Savings Plan	<b>\$ 2.60 per Mcf</b>	<b>\$ 26.00</b>	No
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This plan guarantees an annual savings of 3% compared to Peoples' price for the same period. Please contact Ambit Energy for more information.

## Licensed Natural Gas Supplier Prices:

Natural Gas Supplier prices are for **NEW** customers of the Natural Gas Supplier. Existing customers of a Natural Gas Supplier should contact their supplier to obtain the rate they are being charged.

Fixed/ Variable	Type of Price	Price per Mcf	Supply Portion of Your Bill Using 10 Mcf	Cancellation Fee
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### American Power & Gas of PA

1-800-205-7491

www.americanpowerandgas.com

Updated May 3, 2019

<b>V</b>	Monthly Variable: Price for First Month	\$4.49 per Mcf	\$ 44.90	No
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After 12 consecutive months of being an American Power & Gas customer, the company will automatically send a 25% rebate on the customer's average month's gas supply charges. For more details, contact American Power & Gas.

<b>V</b>	Monthly Variable: Price for First Month (100% Green Gas)	\$5.49 per Mcf	\$ 54.90	No
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After 12 consecutive months of being an American Power & Gas customer, the company will automatically send a 25% rebate on the customer's average month's gas supply charges. For more details, contact American Power & Gas.

### Dominion Energy Solutions

1-800-779-0538

www.dominionenergysolutions.com

Updated May 14, 2019

<b>F</b>	Fixed Price through May 31, 2021	\$ 3.23 per Mcf	\$ 32.30	No
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<b>F</b>	Fixed Price through May 31, 2022	\$ 3.23 per Mcf	\$ 32.30	No
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**Licensed Natural Gas Supplier Prices:**

Natural Gas Supplier prices are for **NEW** customers of the Natural Gas Supplier. Existing customers of a Natural Gas Supplier should contact their supplier to obtain the rate they are being charged.

Fixed/ Variable	Type of Price	Price per Mcf	Supply Portion of Your Bill Using 10 Mcf	Cancellation Fee
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**IGS Energy**

1-877-444-7427 (new enrollments)  
 1-800-280-4474 (customer service)  
 www.igsenergy.com  
 Updated March 6, 2019

<b>F</b>	Fixed Price: 12 Month Term	\$ 5.29 per Mcf	\$ 52.90	Yes: \$99
<b>F</b>	Fixed Price: 36 Month Term	\$ 5.19 per Mcf	\$ 51.90	Yes: \$99

**Indra Energy**

1-888-50-INDRA  
 www.indraenergy.com  
 Updated April 12, 2019

<b>V</b>	Introductory Price: Monthly Variable Price	\$ 3.00 per Mcf	\$ 30.00	No
Introductory price for the first month, then variable thereafter. 100% Carbon Offset.				
<b>F</b>	Fixed Price: 13 Month Term*	\$ 6.614 per Mcf	\$ 66.14	No

\*Two-phase fixed product offer; Includes first month at \$2.80 per Mcf, followed by 12 months at the fixed price listed. 100% Carbon Offset.

**NRG Home**

1-855-674-7697  
 www.nrghomepower.com  
 Updated April 9, 2019

<b>V</b>	Monthly Variable: Introductory Price for 3 Months*	\$3.69 per Mcf	\$ 36.90	No
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\*NRG Cash Back Plan includes a \$15 sign up bonus after 6 months of service and 5% cash back annually.