



Bridgewater Place • Post Office Box 352
Grand Rapids, Michigan 49501-0352

Telephone 616 / 336-6000 • Fax 616 / 336-7000 • www.varnumlaw.com

Timothy J. Lundgren

Direct: 616 / 336-6750
tjlundren@varnumlaw.com

August 5, 2014

Ms. Mary Jo Kunkle
Michigan Public Service Commission
4300 W. Saginaw Highway
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-17332

Dear Ms. Kunkle:

Attached for paperless electronic filing are the Testimonies of Timothy Ray and Steven Garretson on behalf of Retail Energy Supply Association Also attached is a Proof of Service indicating service on the parties.

Thank you for your assistance in this matter.

Sincerely yours,

VARNUM

Timothy J. Lundgren

TJL/mrr

c. ALJ (Discovery: Proof of Service only)
Parties

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the Application of)
DTE Gas Company for approval of a)
Gas Cost recovery Plan, 5-year Forecast and)
Monthly GCR Factor for the 12 months ending)
March 31, 2014, and for approval to implement)
a Reservation Charge applicable to)
Gas Customer Choice Suppliers)

Case No. U-17332

Direct Testimony

Of

Timothy L. Ray

On Behalf of

The Retail Energy Supply Association

1 **Q1. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 **A1.** My name is Timothy L. Ray. My business address is 4 Houston Center, 1331 Lamar Street,
3 Houston, Texas 77010.

4

5 **Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A2.** I am employed by Exelon Generation Company LLC as Manager of Gas Supply for the retail
7 mass marketing business of Constellation Energy Gas Choice, Inc. Constellation is a wholly
8 owned indirect subsidiary of Exelon Corporation (“Exelon”). Exelon subsidiaries provide
9 competitive wholesale and retail electricity and gas supply, energy management and consulting
10 services nationwide.

11

12 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?**

13 **A3.** I am testifying on behalf of the Retail Energy Supply Association (“RESA”).

14

15 **Q4. WHAT IS RESA?**

16 **A4.** RESA is a non-profit trade association of independent corporations that are involved in
17 the competitive supply of electricity and natural gas¹. RESA and its members are

¹ RESA’s members include: AEP Energy, Inc.; Champion Energy Services, LLC; Consolidated Edison Solutions, Inc.; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; GDF SUEZ Energy Resources NA, Inc.; Homefield Energy; IDT Energy, Inc.; Integrys Energy Services, Inc.; Interstate Gas Supply, Inc. dba IGS Energy; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG Energy, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd. and

1 actively involved in the development of retail and wholesale competition in electricity
2 and natural gas markets throughout the United States.

3
4 ***Q5. WHAT IS YOUR EDUCATIONAL BACKGROUND?***

5 ***A5.*** I have a Bachelor of Science in Accounting from West Virginia University in Morgantown, West
6 Virginia.

7
8 ***Q6. HAVE YOU COMPLETED ANY COURSE OF STUDY OR ATTENDED ANY
9 PROFESSIONAL SEMINARS?***

10 ***A6.*** Yes, I passed the Certified Public Accounting Exam in West Virginia in 1989, but I am not
11 currently licensed as a CPA. In addition I have attended many conferences and seminars
12 throughout my years working in the energy industry.

13
14 ***Q7. CAN YOU DESCRIBE YOUR EMPLOYMENT HISTORY?***

15 ***A7.*** Yes, I have been working for 30 years in the energy industry with experience in both deregulated
16 and regulated gas markets. My gas supply experience includes the management of all facets of
17 the supply chain across the wholesale, C&I and mass market segments. My career began in
18 accounting at Columbia Gas Transmission Corporation in 1985. From 1990 until 1995 I held
19 accounting positions at both Access Energy and Enron Energy Services (“EES”) in Ohio. In
20 1995 I was promoted to Director of US Gas Supply Management- Western Region for EES. In

TriEagle Energy, L.P. The comments expressed in this filing represent only those of RESA as an organization and not necessarily the views of each particular RESA member.

1 1998 I moved to Houston, Texas as EES's Director of US Gas Supply Management. I remained
2 in that position until 2000 when I took on a new role to build out the gas supply management of
3 New Power Holding, also in Houston, as a Vice President of energy management until 2002. I
4 then accepted a new role with Direct Energy LP where I was a Vice President from 2002-2010 in
5 the following groups; US Retail Gas Energy Management, North American Retail Gas Energy
6 Management and Northeast and Gulf Coast Trading. In 2010, I accepted the position of US Gas
7 Supply Director for MXEnergy Inc. MXEnergy became Constellation in 2012 where I continue
8 to oversee gas supply for our mass market segment throughout the United States.

9
10 ***Q8. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION WITH***
11 ***CONSTELLATION?***

12 ***A8.*** I am responsible for managing a natural gas supply team of five fuel traders that oversee the
13 delivery and balancing of gas supply to our mass market customer based across the US.
14 Constellation Gas Choice Inc. serves customers behind 33 utilities in 13 states and manages
15 transportation and storage capacity on 30 interstate/intrastate pipeline systems.

16
17 ***Q9. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY AGENCY?***

18 ***A9.*** Yes, I have testified before the National Energy Board in Ontario Canada in 2008 in a proceeding
19 involving Enbridge Gas related to transportation capacity allocation while working with Direct
20 Energy LP.

21

1 **Q10. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR**
2 **TESTIMONY?**

3 **A10.** From the current case I have reviewed the Second Amended Application filed by DTE Gas
4 Company (“DTE”), the testimony of James A. Brunell, Robert G. Lawshe and Interstate Gas
5 Supply witnesses Matthew White and Daniel Dishno. In addition I have reviewed the discovery
6 served by RESA upon DTE Gas. I also reviewed parts of the other filed testimony.

7
8 **Q11. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

9 **A11.** The primary purpose of my testimony is the raise a concern with DTE Gas’ current derivation of
10 unauthorized gas use penalties. The events of this past winter have exposed DTE Gas’
11 methodology as unreasonable and excessive. In addition, I briefly address DTE Gas’ proposed
12 Supplier of Last Resort (“SOLR”) Reservation Charge and my support of the IGS/RESA
13 Capacity Plan outlined in Mr. White’s and Mr. Dishno’s testimony. RESA Witness Stephen B.
14 Garretson addresses the Capacity Plan in greater deal on behalf of RESA.

15
16 **Q12. WHAT IS YOUR RECOMMENDATION FOR THIS PROCEEDING?**

17 **A12.** First, I fully agree with the recommendations in the testimony of Mr. Garretson that the MPSC
18 should deny the Reservation Charge proposed by DTE Gas and approve the proposed IGS/RESA
19 Capacity Plan. In regards to DTE Gas’ unauthorized gas use penalty, I recommend that (1) the
20 DTE Gas tariff is clarified to define highest price reported as the *Gas Daily* daily price survey
21 Midpoint; (2) for the 2013-2014 GCR period, whenever the *Gas Daily* daily price survey
22 Absolute upper range highest price is more than 5% higher than the Midpoint highest price, DTE

1 Gas issue refunds to customers of the difference; and (3) in the future DTE Gas implement
2 pooling in the assessment of unauthorized gas use penalties.

3
4 **Unauthorized Gas Use Penalties**

5 ***Q13. WHAT IS THE CURRENT DTE GAS TARIFF LANGUAGE ON UNAUTHORIZED GAS***
6 ***USE PENALTIES FOR TRANSPORTATION SERVICE?***

7 ***A13.*** On DTE Gas Original Sheet No. E-17.00 , in section E14 it states: “If Customer uses Company’s
8 system supply, then Customer shall pay Company for Unauthorized Gas Usage at the highest
9 price reported for reported for [sic] MichCon, Michigan, Consumers Energy and Chicago LDCs
10 during the applicable Month as reported by Gas Daily or, in the event that Gas Daily discontinues
11 its reporting of such prices, any comparable reporting service, plus \$1.00 per 100 cubic feet, plus
12 Customer’s contracted Transportation Charge, for all gas taken by Customer in excess of the
13 cumulative volume delivered to Company (less Gas-in-Kind) on behalf of the Customer.”

14
15 ***Q14. WHAT ARE THE MICHCON, MICHIGAN, CONSUMERS ENERGY AND CHICAGO LDC***
16 ***PRICE REPORTING BY GAS DAILY?***

17 ***A14.*** Platts is a source of commodity price discovery for many industries, including natural gas. Platts
18 publishes *Gas Daily* which provides natural gas price averages at supply locations throughout the
19 country, including a daily price survey for MichCon city-gates, Consumers city-gates and
20 Chicago city-gates. The MichCon city-gates survey is for deliveries into all city-gates of
21 Michigan Consolidated Gas (d/b/a DTE Gas), which serves the Detroit and Grand Rapids areas
22 and much of north and northeast Michigan. The Consumers Energy city-gas survey is for
23 deliveries into all city-gates of Consumers Energy, which serves most of central Michigan and the

1 areas around Saginaw Bay. The Chicago city-gates survey is for deliveries into the Nicor Gas,
2 Peoples Gas Light & Coke, North Shore Gas and Northern Indiana Public Service city-gates in
3 the Chicago metropolitan area. For the price data reported, *Gas Daily* identifies the transaction
4 date and its corresponding flow date of natural gas.

5
6 ***Q15. WHAT DATA DOES GAS DAILY PROVIDE IN ITS DAILY PRICE SURVEY?***

7 ***A15.*** For each flow date, *Gas Daily* reports on three price components; the Midpoint, Absolute range
8 and Common range, as well as the underlying total Volume and number of Deals supporting the
9 price components. The daily Midpoint, sometimes called the GDA or *Gas Daily* average, is the
10 volume-weighted average of all the transactions that are reported to Platts which are used to
11 calculate the index at any given supply location. The Absolute range includes the absolute low
12 and high price for each given supply location. The Common range is built around the volume-
13 weighted Midpoint and is 50% of the Absolute range. Typically in the industry when the daily or
14 index price is mentioned it refers to the single Midpoint price for a given supply location.

15
16 ***Q16. HOW DOES THIS RELATE TO DTE GAS' UNAUTHORIZED GAS USE PENALTY?***

17 ***A16.*** The DTE Gas tariff specifies three separate supply locations for which *Gas Daily* conducts a
18 daily price survey. Thus, there are either 84 or 87 (February), 90 (April, June, September and
19 November) or 93 (January, March, May, July, August, October and December) Midpoint index
20 values for the applicable month. So instead of simply taking the high price for the geographically
21 proximate location on the date on which the unauthorized use occurred, DTE Gas is able to shop
22 for the highest price from across all the days in that month as well as across three separate
23 geographic locations, including one outside the State of Michigan. Being able to select from

1 amongst the highest 90 or so prices that are available allows DTE Gas to utilize a price that
2 capitalizes on both intra-month volatility as well as geographic volatility

3
4 ***Q17. PLEASE EXPLAIN WHAT YOU MEAN BY INTRA-MONTH AND GEOGRAPHIC***
5 ***VOLATILITY?***

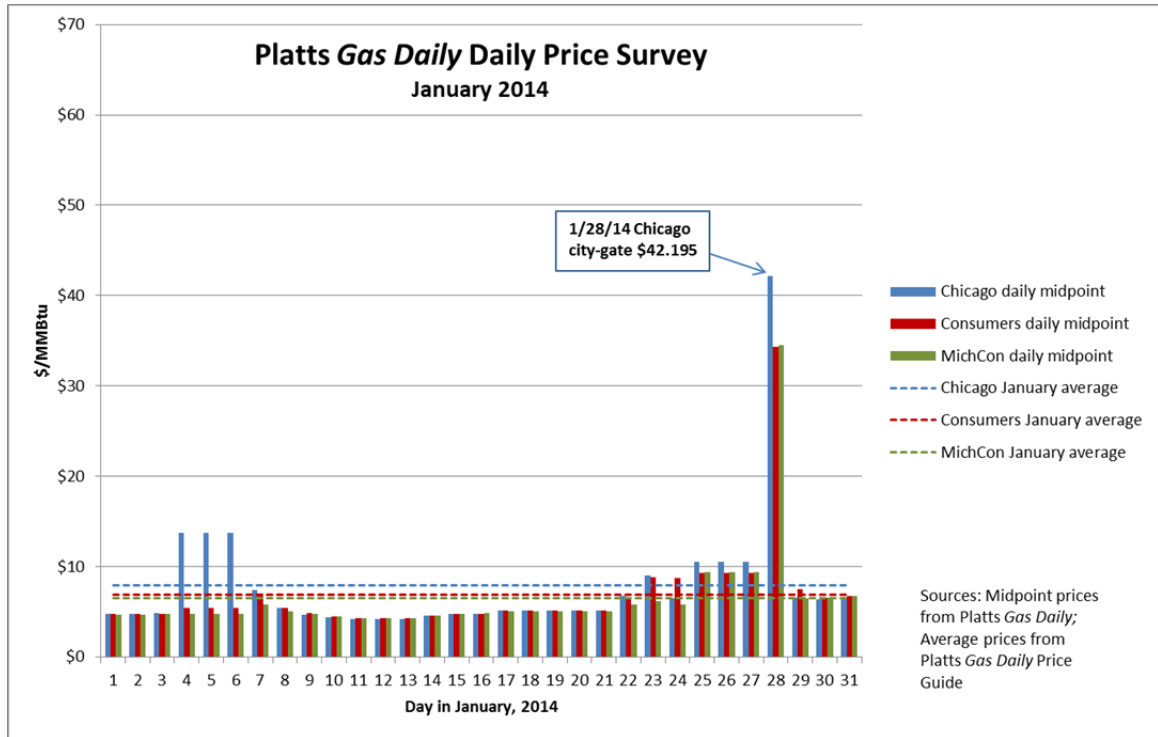
6 ***A17.*** The following three graphs compare the daily Midpoint price for each of these three reporting
7 locations during each of the first three months of this year. January 2014 provides good examples
8 of intra-month and geographic volatility. The price advantage of intra-month volatility is shown
9 by considering the impact of the current methodology on a customer whose unauthorized use
10 occurred during the period of January 4-6. While the price during this period had spiked to nearly
11 \$14, DTE Gas' methodology allows it to replace the cost of gas from this period with the even
12 higher, and significantly so, price spike that occurred later in the month when prices topped \$40.
13 So even if the customer only had unauthorized gas use early in the month, and later in the month
14 consumed no unauthorized gas at all, the customer's penalty charges are assessed based on the
15 higher January 28 market spike.

16 Geographic diversity, with the three separate index locations of Chicago, Consumers and
17 MichCon, allows DTE Gas to find the highest price across this footprint. Thus, even if a
18 customer in eastern Michigan has unauthorized gas, if an index price is higher as far away as
19 Chicago; the higher price is what DTE Gas uses to calculate the penalty. For example, in
20 January, the Michigan indexes topped out around \$34, yet DTE Gas' methodology allows it to
21 include the even higher Chicago index price of \$42 in determining the penalty.

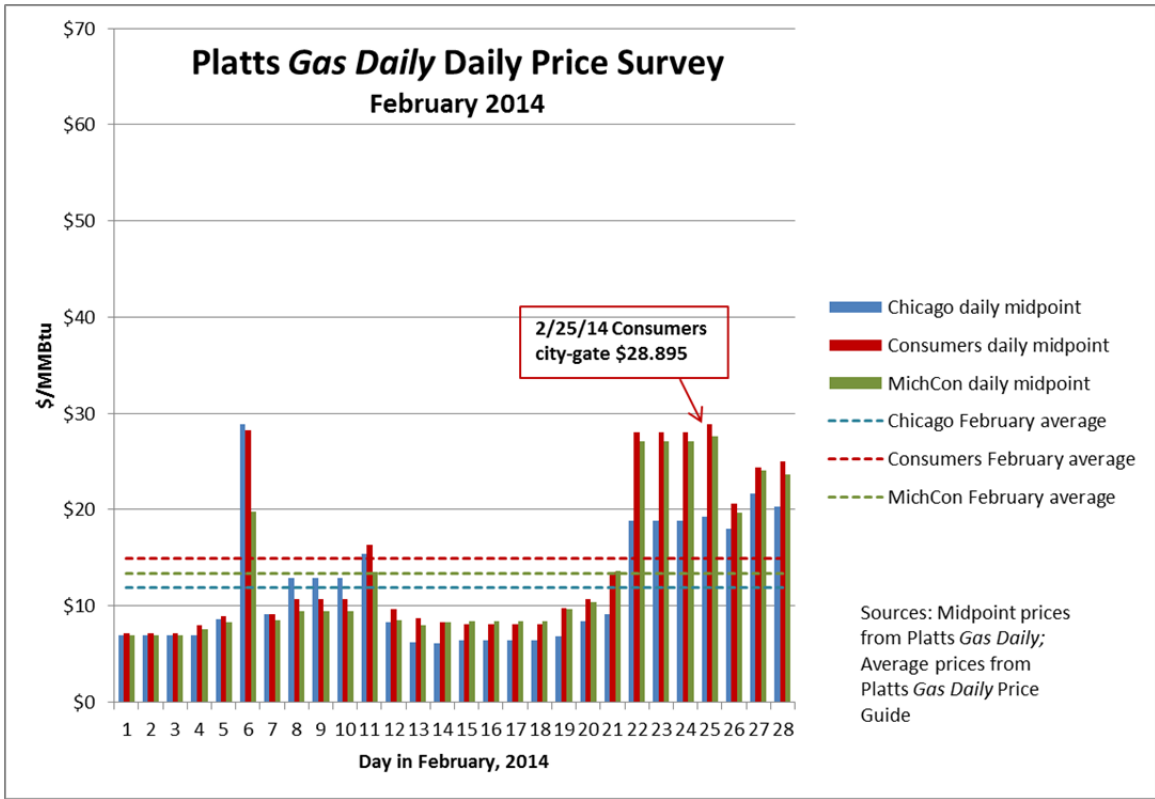
22 Thus, the DTE Gas methodology is far-reaching in that it allows the utility to screen three
23 separate locations across all days of the month, in other words search anywhere from 84 to 93

1 separate price points, in order to determine which of those points yields the highest price and then
2 base its penalty calculation on that highest price point.

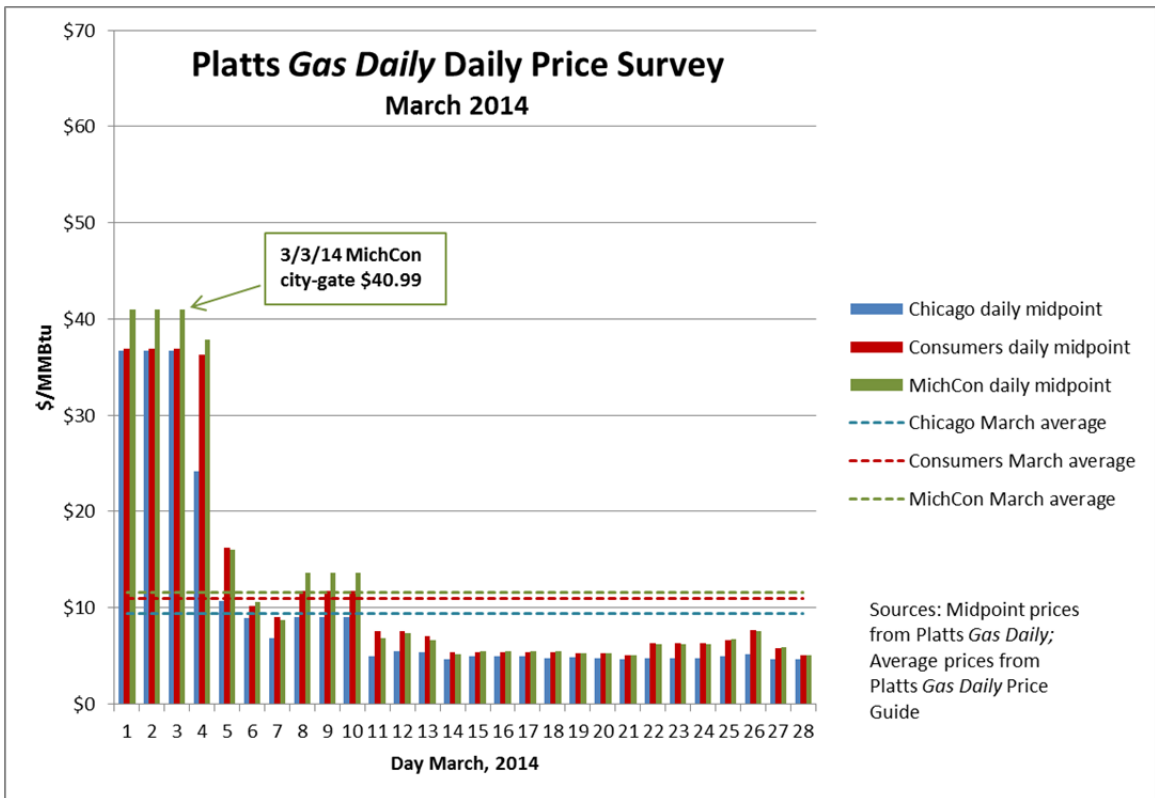
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1



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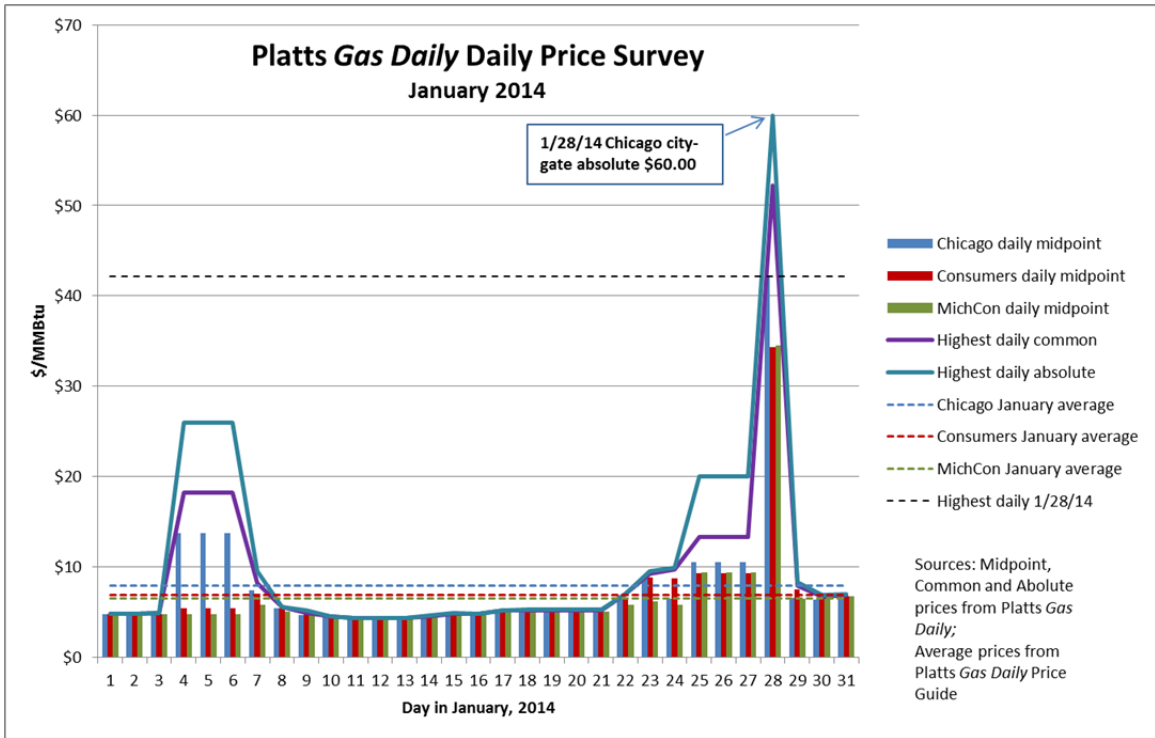
1 The table below summarizes the highest price for each of these months:

	January	February	March
High price	\$42.195	\$28.895	\$40.99
Date	1/28/14	2/25/14	3/3/14
Gas Daily Index	Chicago city-gates	Consumers Energy city-gates	MichCon city-gates

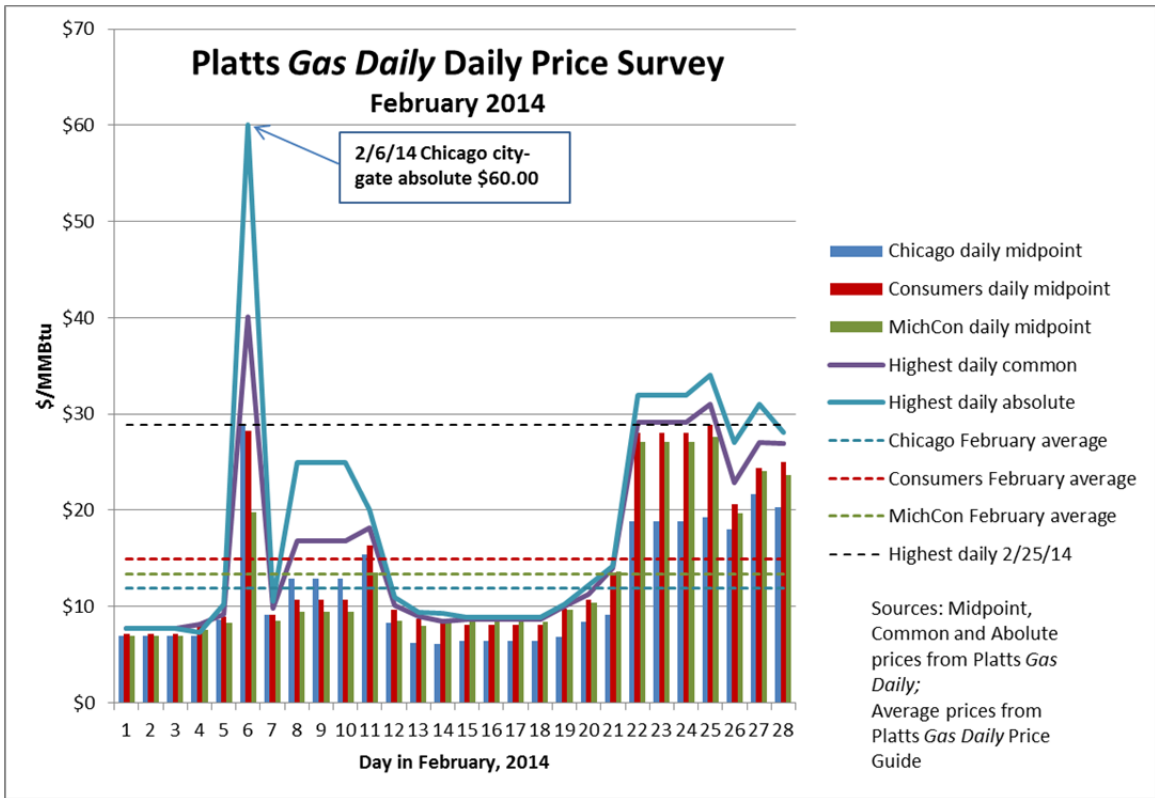
2

3 **Q18. IS THE HIGHEST DAILY INDEX PRICE ACROSS THE THREE INDEX LOCATIONS**
4 **HOW DTE GAS DETERMINES THE HIGHEST PRICE REPORTED FOR EACH OF**
5 **THESE THREE LOCATIONS?**

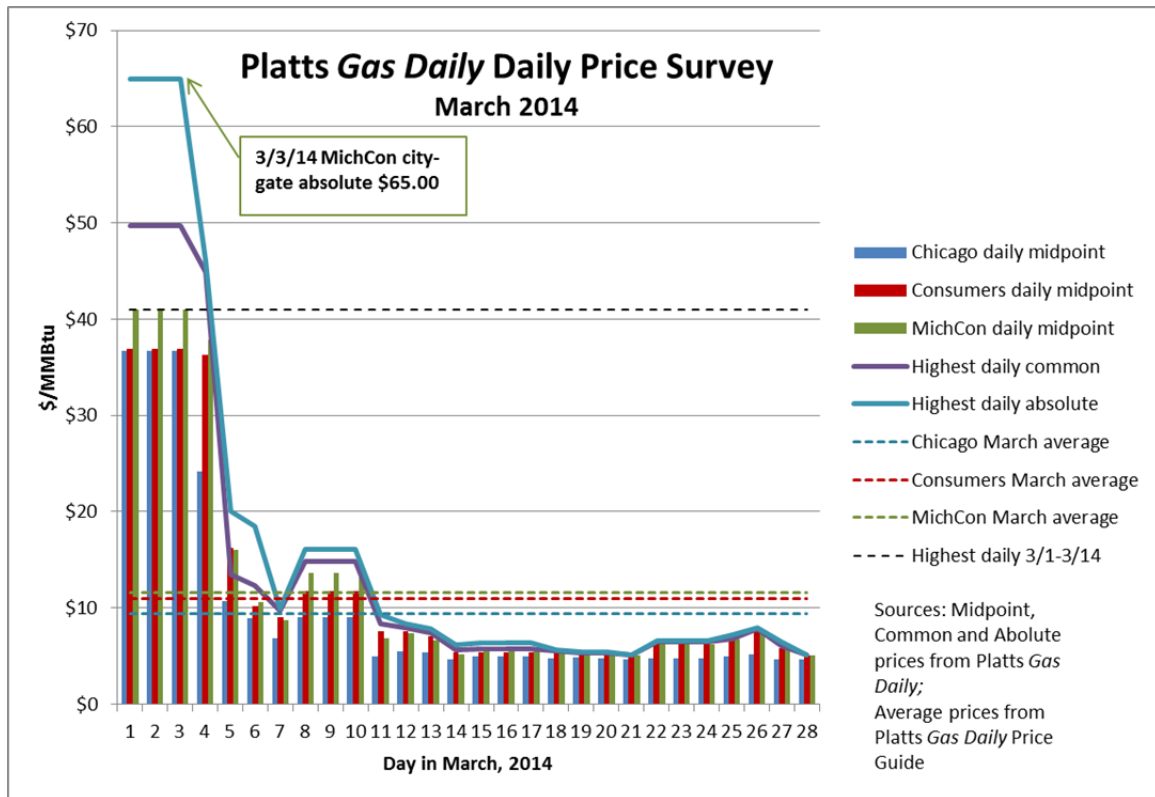
6 **A18.** No, instead DTE Gas looks to the Absolute range of the *Gas Daily* daily price survey to find the
7 highest reported trade across the three geographic locations across all the days of the month. The
8 following graphs illustrate the highest daily Common and Absolute price for each of the three
9 locations during each of the first three months of the year.



1



2



1

2 **Q19. HOW DOES THE ABSOLUTE HIGH PRICE COMPARE TO THE HIGHEST DAILY CITY-**
 3 **GATES INDEX PRICE FOR THESE THREE LOCATIONS?**

4 **A19.** The following table compares these results:

	Highest daily index price	Highest Absolute price	Difference	Average monthly prices (Chicago/Consumers/MichCon)
January	\$42.195	\$60.00	\$17.805	\$7.927/\$6.857/\$6.51
February	\$28.895	\$60.00	\$31.105	\$11.946/\$14.946/\$13.403
March	\$40.99	\$65.00	\$24.01	\$9.35/\$10.993/\$11.575

5

6 As the data shows, the incremental cost of using the highest Absolute price was \$17.805/dth in
 7 January, \$31.105/dth in February and \$24.01/dth in March. In each case this incremental
 8 premium alone was more than double the average cost of gas for the month. In fact as the table
 9 shows, due to the impact of the polar vortex on pricing, even the highest daily Midpoint price as
 10 reported in *Gas Daily* for the three locations was two to five times higher than the average

1 monthly price for gas during the month. Thus, the Midpoint during this period already includes a
2 substantial premium, whereas taking the highest Absolute price simply exacerbates this and is
3 unreasonable.

4
5 ***Q20. DO OTHER UTILITY TARIFFS THAT REFERENCE GAS DAILY PRICE REPORTING***
6 ***UTILIZE THE DAILY MIDPOINT OR THE ABSOLUTE RANGE?***

7 ***A20.*** While I am familiar with several utilities that use the daily midpoint as the index for pricing
8 purposes, I am not aware of utilities outside of Michigan that use the *Gas Daily* Absolute high as
9 their pricing index.

10
11 ***Q21. DO ALL MICHIGAN UTILITIES UTILIZE THE ABSOLUTE RANGE FOR***
12 ***CALCULATING UNAUTHORIZED USE OF GAS PENALTIES?***

13 ***A21.*** No. Having seen invoices from other Michigan gas utilities in addition to DTE Gas, I know that
14 they do not all use the Absolute range as DTE Gas does.

15
16 ***Q22. DURING THIS TIME PERIOD, DID DTE GAS INCUR ANY PIPELINE PENALTIES?***

17 ***A22.*** No. According to its response in RESA/DG-15a-3, DTE Gas did not incur any pipeline penalties
18 during the period November 2013 through March 2014. Nor did DTE Gas have to make any
19 incremental gas purchases during the period to meet the requirements for non-sales customer.
20 Even though the most extreme high price reported by *Gas Daily* during each of the first three
21 months of this year was \$60 or more, DTE Gas did not make any gas purchases at a price of

1 \$60.00/Mcf or more. Yet, DTE Gas based its charge for unauthorized gas use at a cost of gas of
2 \$60-\$65.

3
4 ***Q23. DID DTE GAS ASSESS ANY UNAUTHORIZED GAS USAGE CHARGES OR***
5 ***UNAUTHORIZED COMMODITY RATE CHARGES TO TRANSPORTATION AND GAS***
6 ***CHOICE CUSTOMERS?***

7 ***A23.*** Yes, as shown in Witness Brunell's Exhibit A-32 to the Second Amended Application, on page 2,
8 Line 14, Unauthorized Sales Penalty dollars for the period of April 2013 through March 2014
9 were \$787,815. Sixty-five percent of this amount was generated in January-March of 2014, with
10 almost half of the dollars for the entire year attributed to March alone.

11
12 ***Q24. WASN'T THIS LEVEL OF UNAUTHORIZED GAS USE CHARGES AN INEVITABLE***
13 ***OUTCOME OF THE POLAR VORTEX?***

14 ***A24.*** The events of this past winter were certainly unprecedented. The current proceeding is evidence
15 enough as DTE Gas amended its GCR application due to "significant, unanticipated increases in
16 the market price for natural gas as a result of extended periods of colder-than-normal weather
17 occurring in Michigan and elsewhere in the United States and associated significant increases in
18 demand for natural gas and natural gas send-out." Second Amended Application, page 2.
19 Throughout the county, Commissions were inundated with customer inquiries about bill increases
20 and in several jurisdictions investigations were initiated to address polar vortex impacts on
21 customers. Undoubtedly, as the earlier graphs show, supply and demand during the extreme cold
22 resulted in price spikes. However, it is not appropriate that a utility benefit from the impacts of
23 unprecedented market volatility via an extreme impact on natural gas pricing formula. While it

1 may be permissible for DTE Gas under its current tariff language to assess an unauthorized gas
2 use penalty of the highest daily index price across the three specified locations, as provided by the
3 *Gas Daily* daily price survey Midpoint, it is simply taking extreme advantage of the situation and
4 this class of customers by assessing a penalty using the highest and most extreme market price of
5 the Absolute price range. The events of the past winter do not justify price gouging so that sales
6 customers reap a windfall of dollars from transportation customers due to penalty charges that
7 were \$17-\$31 higher than the highest *Gas Daily* Midpoint for the same period. In fact, it is
8 precisely times like this, when customers are facing higher market cost for gas due to extreme
9 weather, that relief ought to be granted and policies such as this reviewed.

10
11 ***Q25. BUT HASN'T DTE GAS CALCULATED ITS CHARGE FOR UNAUTHORIZED GAS USE***
12 ***BY USING THE ABSOLUTE HIGH FOR SOME TIME?***

13 ***A25.*** I believe so. However, as the earlier graphs illustrate, on many days the three price components
14 in *Gas Daily* are fairly similar. It is only during the days of severe price spikes that gaps as large
15 as \$30/Mcf between the Midpoint, Common and Absolute values occurred as they did this past
16 year in late January, early February and early March.

17
18 ***Q26. WHAT IS A MORE EQUITABLE APPROACH FOR UNAUTHORIZED GAS USE***
19 ***PENALTIES?***

20 ***A26.*** Ideally the penalty charge should be based on the *Gas Daily* Daily Price Survey Midpoint for the
21 flow date on which the unauthorized gas use occurred. This creates a more direct relationship
22 between the market price and the penalty associated with actual gas use on that day. So, as
23 way of illustration during January 2014, if unauthorized use occurred on January 6, the penalty

1 should be based on the \$13.74 Chicago city-gate midpoint on January 6th, as that is the highest
2 price at any of the three index locations. Any unauthorized use then occurring on January 28th,
3 the penalty should be calculated off \$42.195 which was the highest daily price survey midpoint
4 on that date for any of the three locations. This approach clearly ties the consumption of the
5 gas to the index price at the time the unauthorized use occurred as each day of unauthorized
6 use is penalized based upon the index price for that date of gas flow. However, I recognize this
7 methodology is a greater departure from DTE Gas' current practice, so instead I am
8 recommending a more moderate modification at this point in time.

9
10 ***Q27. WHAT DO YOU RECOMMEND?***

11 ***A27.*** First, the Commission should require DTE Gas to clarify its tariff regarding the *highest price*
12 reported for MichCon, Michigan, Consumers Energy and Chicago LDCs, to specify the "highest
13 Midpoint from the Daily Price Survey for MichCon, Michigan, Consumers Energy and Chicago
14 city-gates." This includes references to these index locations such as those located in sections
15 E4.5 and E14. The DTE Gas tariff language on Original Sheet No. F-3.00, section F1.10 already
16 specifies the midpoint of the daily price survey of *Gas Daily*.

17 Second, for the months involved in the current GCR proceeding in which the *Gas Daily* daily
18 price survey Absolute upper range highest price is more than 5% higher than the Midpoint
19 highest price, DTE Gas should be required to refund to customers the difference between these
20 two prices for the volume of unauthorized gas use penalized. Finally, in the future DTE Gas
21 should implement pooling for the purpose of applying unauthorized gas use penalties.

22

1 ***Q28. WHAT DO YOU MEAN BY IMPLEMENT POOLING FOR UNAUTHORIZED GAS USE***
2 ***PENALTIES?***

3 ***A28.*** For transportation customers that are all customers of the same supplier, or marketer, for the
4 entire month, DTE Gas should only assess unauthorized gas use penalties when the net position
5 of the supplier's customers results in unauthorized gas use in aggregate. For example, assume a
6 single supplier has 50 customers, and for 49 of these customers the marketer delivered more gas
7 to the utility system than each of these customers consumed individually on an OFO day.
8 Assume also for purposes of illustration the net position of these 49 customers resulted in 20 Mcf
9 of gas being delivered greater than the group's combined consumption. However, the one
10 remaining customer consumed 10 Mcf of gas greater than the amount of gas delivered. In total,
11 the 50 customers' net position was 10 Mcf of over delivered gas, and thus none of the customers
12 of this marketer should receive an unauthorized gas use penalty, since in aggregate the marketer
13 delivered more gas to the utility system than what was consumed on the OFO day by the
14 marketer's customers. The utility was not harmed and no additional costs would have been
15 incurred by it as adequate supply was delivered to serve all of the marketer's customers. I
16 recommend that DTE Gas be required to pool the customers of a single marketer during an OFO
17 before it assesses any unauthorized gas use penalties. If instead the net position of the pool is
18 negative, i.e. the customers in total consumed more gas than delivered, DTE Gas should still
19 apply pooling to the imbalances of the marketer's customers before it assesses unauthorized gas
20 use penalties. This can be done by summing their individual positions to determine the net
21 position, then allocate the net under delivery, i.e. volume of total unauthorized gas use, among the
22 customers in the group that had an under delivery on a pro rata basis. This is a common industry
23 practice and would reduce the adverse impact of penalties on transportation customers, but only
24 to the extent that adequate gas supply was delivered to the utility system by a marketer.

25

1 **Capacity Release as a superior alternative to DTE Gas' Reservation Charge**

2 ***Q29. DO YOU BELIEVE A SUPPLIER OF LAST RESORT RESERVATION CHARGE SHOULD***
3 ***BE ASSESSED TO GCC CUSTOMERS OR SUPPLIERS?***

4 **A29.** No. As Mr. Garretson explains in his testimony, a reservation charge should not be approved
5 because the capacity purchases for GCC customers are duplicative and unnecessary.
6 Nonetheless, as the Commission determined in Docket No. U-17131, if a reservation charge is
7 deemed appropriate, it should be allocated to GCC customers and not suppliers. However, a
8 preferable alternative for Michigan consumers is approval of a capacity release program as
9 outlined in the testimony of IGS Witnesses White and Dishno and supported in the testimony of
10 RESA Witness Garretson. The Capacity Plan mitigates the inefficiencies and unnecessary costs
11 of the current approach. The release of capacity ensures that both the costs and value related to
12 capacity allocated on an equitable basis to GCC marketers. Under such a program, customers
13 only have to pay once for capacity, thereby eliminating redundancy inherent in the current
14 system.

15

16 ***Q30. DO YOU SUPPORT THE IGS/RESA CAPACITY PLAN IGS PROPOSES IN ITS***
17 ***TESTIMONY?***

18 **A30.** Yes, very much so. Constellation through RESA has worked closely with IGS and other
19 suppliers in developing this plan. Constellation successfully serves customers in numerous
20 jurisdictions across different states where a capacity release program is in place and finds it a
21 beneficial approach for all parties involved. It enables a utility to meet its obligations while
22 allowing customers the opportunity to fully utilize the assets for which they are paying and offers
23 suppliers a useful and efficient way to obtain needed capacity. The fact that capacity release is
24 commonplace elsewhere attests to its overall value and benefits.

1

2 **Q31. PLEASE DISCUSS YOUR OVERALL CONCLUSIONS.**

3 **A31.** First, the Commission should adopt the IGS/RESA Capacity Plan as it is a superior approach to
4 DTE Gas' reservation charge which is duplicative and inefficient. Second, the Commission
5 should require DTE Gas to define in its tariff that the highest price reported is the *Gas Daily* daily
6 price survey Midpoint and that for the 2013-2014 GCR period, whenever the *Gas Daily* daily
7 price survey Absolute upper range highest price charged was more than 5% higher than the
8 Midpoint highest price, DTE Gas should issue refunds to customers for the difference. Finally,
9 the Commission should require DTE Gas to pool all customers of a single marketer for the month
10 before it determines the unauthorized gas use penalties for the customers of the marketer on OFO
11 days.

12

13 **Q32. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

14 **A32.** Yes, it does. However I reserve the right to incorporate new information that may subsequently
15 become available through outstanding discovery or otherwise.

STATE OF MICHIGAN
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On Behalf of

The Retail Energy Supply Association

1 **Q1. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 **A1.** My name is Stephen B. Garretson. My business address is 80 Courtneypark Dr. W, Unit 3,
3 Mississauga, Ontario, Canada, L5W 0B3.

4

5 **Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 **A2.** I am employed by Just Energy as Manger of Business Development.

7

8 **Q3. ON WHOSE BEHALF ARE YOU TESTIFYING?**

9 **A3.** I am testifying on behalf of the Retail Energy Supply Association (“RESA”).

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11 **Q4. WHAT IS RESA?**

12 **A4.** RESA is a non-profit trade association of independent corporations that are involved in
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1 actively involved in the development of retail and wholesale competition in electricity
2 and natural gas markets throughout the United States.

3
4 ***Q5. WHAT IS YOUR EDUCATIONAL BACKGROUND?***

5 ***A5.*** I have a Bachelor of Science in Computer Engineering from Queen's University, Kingston,
6 Ontario, Canada.

7
8 ***Q6. HAVE YOU COMPLETED ANY COURSE OF STUDY OR ATTENDED ANY
9 PROFESSIONAL SEMINARS?***

10 ***A6.*** Yes, I have completed Level I of the CFA program. In addition I have attended many
11 conferences and seminars throughout my years working in the energy industry.

12
13 ***Q7. CAN YOU DESCRIBE YOUR EMPLOYMENT HISTORY?***

14 ***A7.*** Yes, I have over 10 years working in the energy industry with experience in business systems
15 analysis, retail energy trading, risk management, natural gas purchasing and scheduling and
16 business development. I started my career with Imperial Oil (a subsidiary of Exxon) as a Quality
17 Assurance Analyst in 2002. I subsequently moved to Just Energy in 2003 where I started as an IT
18 System Business Analyst for two years. I subsequently spent over 5 years in various roles
19 pertaining to commodity risk and portfolio management. This included managing the company's
20 US natural gas portfolio and all pipeline and storage assets released by utilities through capacity
21 release programs. Since 2011, I have held the title of Manager, Midwest Business Development.

1 **Q8. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION WITH JUST**
2 **ENERGY?**

3 **A8.** I am responsible for the company’s expansion into new utility service areas and program
4 development within those areas for Just Energy’s Midwest region (Michigan, Ohio, Illinois and
5 Indiana). I have overseen the expansion into four electric utilities and three gas utilities
6 (including SEMCO and Michigan Gas Utilities in Michigan). My responsibilities are for all
7 products and services Just Energy provides in those states.

8
9 **Q9. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY AGENCY?**

10 **A9.** No.

11
12 **Q10. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION OF YOUR**
13 **TESTIMONY?**

14 **A10.** From the current case I have reviewed the Second Amended Application filed by DTE Gas
15 Company (“DTE”), the testimonies of James A. Brunell, Robert G. Lawshe and Interstate Gas
16 Supply witnesses Matthew White and Daniel Dishno. In addition I have reviewed all discovery
17 served by RESA upon DTE.

18
19 **Q11. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

20 **A11.** My testimony addresses DTE’s proposed Supplier of Last Resort (“SOLR”) Reservation Charge
21 and provides support of the IGS/RESA Capacity Plan outlined in Mr. White’s and Mr. Dishno’s
22 testimony.

1

2 ***Q12. WHAT IS YOUR RECOMMENDATION FOR THIS PROCEEDING?***

3 ***A12.*** First, the MPSC should deny the Reservation Charge proposed by DTE. Second, the MPSC
4 should approve the proposed IGS/RESA Capacity Plan.

5

6 **SOLR RESERVATION CHARGE**

7 ***Q13. WHAT IS DTE PROPOSING IN THIS CASE?***

8 ***A13.*** DTE is proposing a new charge to GCC Suppliers called the Reservation Charge. This charge
9 allocates a portion of pipeline capacity charges to GCC customers.

10

11 ***Q14. WHAT IS DTE'S RATIONALE FOR THIS NEW CHARGE?***

12 ***A14.*** DTE Witnesses Brunell and Lawshe state that DTE feels it must purchase firm pipeline capacity
13 for 100% of its customer load whether the customers are being served through the Gas Cost
14 Recovery ("GCR") or by a GCC Supplier. DTE contends its pipeline capacity purchases on
15 behalf of the GCC customers are to provide a "back-up" in the case of a supplier default.

16

17 ***Q15. DO YOU BELIEVE THIS CHARGE SHOULD BE APPROVED BY THE COMMISSION?***

18 ***A15.*** No, it should not be approved. GCC Suppliers purchase natural gas commodity and
19 transportation, as is required per the DTE natural gas tariffs.² As a result of DTE's capacity
20 purchases GCC Customers are being double charged for capacity. The Reservation Charge

² Section F 1.7 of the DTE Natural Gas Tariffs

1 should not be approved because the capacity purchases for GCC Customers are duplicative and
2 unnecessary. In the alternative the Commission should approve the IGS/RESA Capacity plan
3 outlined in IGS Witness White's and Mr. Dishno's testimony.

4
5 ***Q16. IF DTE DISCONTINUES PURCHASING FIRM CAPACITY FOR GCC CUSTOMERS***
6 ***WILL IT STILL BE ABLE TO PROVIDE SOLR SERVICE TO THOSE CUSTOMERS?***

7 ***A16.*** Yes, there are a variety of ways to manage a supply portfolio without purchasing double capacity
8 for customers. First, there are credit requirements placed upon all GCC Suppliers³ which are in
9 the case of a supplier default. Additionally DTE could request all GCC Suppliers to release firm
10 capacity to them in the instance of that Supplier defaulting. Another option which is permitted in
11 Ohio, Indiana, New York and some other states is that the utilities release capacity to Suppliers
12 and then DTE would have the ability to recall it in the instance of default. This option is outlined
13 in Mr. White's and Mr. Dishno's testimony. There are a number of reasonable alternatives that
14 both solve the SOLR issue and avoid the current costly and inefficient situation; the customer
15 should not be forced to pay twice for pipeline capacity just because they choose another Supplier.

16
17 ***Q17. WHO IS DTE PROPOSING TO BILL FOR THE RESERVATION CHARGE?***

18 ***A17.*** DTE is proposing to bill GCC customers for this charge.⁴

19
20 ***Q18. IS THIS METHODOLOGY DIFFERENT THAN PAST PROPOSALS?***

³ Section F1.4 of the DTE Gas Tariffs

⁴ J. A. Brunell Revised Supplemental testimony at page JAB-13 lines 10-12.

1 **A18.** Yes, in the original Application filed on December 20, 2013 Mr. Brunell proposed GCC
2 Suppliers be billed for the Reservation Charge.⁵

3

4 **Q19. DOES THIS CHANGE AFFECT YOUR OPINION OF THE RESERVATION CHARGE?**

5 **A19.** No, as I stated above the Reservation Charge penalizes GCC customers by charging them for
6 something they already have made contractual arrangements for on their own and duplicates these
7 arrangements by saddling them with something they have no ability to utilize or control.

8

9 **Q20. IF THE COMMISSION WERE TO APPROVE THE PROPOSED RESERVATION CHARGE**
10 **SHOULD GCC CUSTOMERS BE ABLE TO CONTROL THE CAPACITY ASSETS?**

11 **A20.** DTE should release any assets purchased by DTE for GCC Customers to the Suppliers; this
12 would include, but not be limited to any pipeline storage or transportation. The reason for this is
13 if the customer is paying the Reservation Charge then the customer should have access to the
14 capacity which is being purchased through this charge. Essentially the entity paying the charge
15 should have access to it and the Supplier representing the customer should be able to manage it
16 on behalf of the customer. This change would reduce inefficiency in the GCC market and
17 remove excess costs that currently accrue to Michigan consumers.

18

19 **IGS/RESA Capacity Plan**

20 **Q21. DID RESA WORK WITH IGS WITNESSES IN DEVELOPING THE CAPACITY PLAN**
21 **OUTLINED IN TESTIMONY FILED ON FEBRUARY 12, 2014?**

⁵ J. A. Brunell testimony filed 12/20/13 at page JAB-12 line 19.

1 **A21.** Yes, it was originally introduced as part of the U-17131 GCR case but since a final order in that
2 case was not entered before the Application in this case was filed, further details were
3 incorporated and a refined plan was introduced in this case. Through stakeholder meetings in the
4 U-17131 case there was interest in developing a plan in which DTE would continue to purchase
5 capacity for all GCR and GCC customers but release that capacity to suppliers representing the
6 GCC customers.

7

8 **Q22. DO YOU SUPPORT THE IGS/RESA CAPACITY PLAN IGS PROPOSES IN ITS**
9 **TESTIMONY?**

10 **A22.** Yes. As stated above, RESA worked closely with IGS in developing this plan. It is very similar
11 to what is successfully used in most choice markets in which Just Energy operates. It is
12 beneficial to all parties involved. It allows DTE to fulfill its SOLR obligation yet gives
13 customers the ability to fully utilize the assets for which they are paying. The release of capacity
14 allows suppliers an easy way to obtain capacity and also gives them the flexibility to purchase
15 other capacity if desired. Finally, the customer only has to pay once for capacity and it is passed
16 through in their normal base rates.

17

18 **Q23. WHAT ARE OTHER BENEFITS TO THE IGS/RESA CAPACITY PLAN?**

19 **A23.** There are three large benefits to the IGS/RESA Capacity Plan:

20 **I.** As discussed previously, the IGS/RESA Capacity Plan avoids GCC customers being
21 double charged. First, directly by DTE through the reservation charge; and second,
22 inherently through the Choice supplier supply gas rate. As explained above,
23 suppliers deliver natural gas to DTE's distribution system. If DTE releases its

1 capacity to suppliers, then there is no need for suppliers to purchase duplicate
2 capacity, thus eliminating a cost to the customer.

- 3 2. It provides DTE a mechanism to act as a SOLR. Given that the capacity released to
4 the suppliers is recallable and that there is security posted by the supplier to the
5 pipelines, there is no risk to DTE. If the supplier does not meet its delivery
6 requirements, DTE would be able to recall the capacity and serve the customers
7 directly. The proposed capacity assignment plan would not transfer DTE's obligation
8 to act as SOLR, contrary to the assertions of DTE's witness, Mr. Lawshe.
- 9 3. Finally, the proposal of a capacity release program makes the entire gas system more
10 efficient. Currently, DTE owns a significant portion of the pipeline capacity into
11 their system. Under a capacity release program, DTE would release capacity to the
12 suppliers, giving DTE the ability to recall the capacity under a default situation. The
13 proposal will reduce demand for duplicate capacity and should reduce supplier
14 overall costs due to lower overall wholesale demand for capacity.

15 Under the IGS/RESA Capacity Plan there would be no double purchase of capacity for
16 GCC customers, hence freeing up capacity for other entities. Most of the successful gas
17 Choice programs across the country require utilities to release capacity to suppliers. It
18 allows the suppliers and utilities to work together in maximizing benefits to customers.

19 ***Q24. WHAT OTHER STATES HAVE CAPACITY RELEASE PROGRAMS?***

20 ***A24.*** Most states/regional areas in which Just Energy serves natural gas have utilities that release a
21 slice of their system capacity to retail suppliers. This includes, New York (Con Edison of New
22 York, KeySpan Energy Delivery, National Grid, Orange & Rockland, National Fuel Gas, New
23 York State Electric and Gas Corporation, Central Hudson Gas & Electric, Rochester Gas &
24 Electric), New England (National Grid), Ohio (Dominion East Ohio, Columbia Gas, Vectren

1 Energy Delivery of Ohio), Indiana (NIPSCO) and Pennsylvania (Columbia of Pennsylvania,
2 PECO).

3 ***Q25. HAVE THERE BEEN ANY COMPLAINTS OR ISSUE?***

4 ***A25.*** I am not aware of any.

5 ***Q26. SHOULD THE IGS/RESA CAPACITY PLAN BE LIMITED TO THE DTE GCC***
6 ***PROGRAM?***

7 ***A26.*** No, this is something that should be implemented in all utilities participating in the State's GCC
8 program. It would be especially beneficial in Michigan Gas Utilities and SEMCO where GCC
9 customers are being charged reservation charges for additional capacity.

10

11 ***Q27. PLEASE DISCUSS YOUR OVERALL CONCLUSIONS.***

12 ***A27.*** First, DTE's proposed Reservation Charge is unnecessary because suppliers currently purchase
13 firm capacity to fulfill GCC customer needs as required by DTE's tariffs. Second, if the
14 Commission agrees to the Reservation Charge, GCC Suppliers should have access to the pipeline
15 capacity and control it on behalf of its GCC customers. Finally, the Commission should adopt the
16 IGS/RESA Capacity Plan outlined in IGS witnesses White's and Dishno's testimony.

17

18 ***Q28. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?***

19 ***A28.*** Yes, it does. However I reserve the right to incorporate new information that may subsequently
20 become available through outstanding discovery or otherwise.

21 8609306_2.docx

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)	
DTE GAS COMPANY for approval)	
of a Gas Cost Recovery Plan, 5-year Forecast)	
and Monthly GCR Factor for the twelve)	Case U-17332
months ending March 31, 2015, and for)	
approval to implement a Reservation Charge)	
applicable to Gas Customer Choice Suppliers.)	
_____)	

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF INGHAM)

Monica Robinson, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 5th day of August, 2014, she served a copy of the Testimonies of Timothy Ray and Steven Garretson on behalf of Retail Energy Supply Association upon those individuals listed on the attached Service List by email at their last known addresses.

Monica Robinson

SERVICE LIST U-17332

ALJ

Sharon L. Feldman

feldmans@michigan.gov

(Discovery: Proof of Service Only)

Michigan Consolidated Gas Co.

David Maquera

Richard Middleton

maquerad@dteenergy.com

middletonr@dteenergy.com

mpscfilings@dteenergy.com

Office of the Attorney General

Michael E. Moody

John Janiszewski

moodym2@michigan.gov

JaniszewskiJ2@michigan.gov

Residential Ratepayer Consortium

David L. Schaltz

dshaltz@sbcglobal.net

MPSC Staff

Bryan Brandenburg

Lauren D. Donofrio

brandenburgb@michigan.gov

donofriol@michigan.gov

Interstate Gas Supply, Inc.

Brandon Hubbard

bhubbard@dickinsonwright.com