

**BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

IN THE MATTER OF THE RATE UNBUNDLING)	BPU Docket Nos.
FILINGS BY GAS PUBLIC UTILITIES)	GX99030121
PURSUANT TO SECTION 10, SUBSECTION A)	GO99030122
OF THE ELECTRIC DISCOUNT AND)	GO99030123
ENERGY COMPETITION ACT OF 1999)	GO99030124
)	GO99030125
ELIZABETHTOWN GAS COMPANY)	
NEW JERSEY NATURAL GAS COMPANY)	
PUBLIC SERVICE ELECTRIC & GAS COMPANY)	
SOUTH JERSEY GAS COMPANY)	

DIRECT TESTIMONY OF

RALPH MILLER

ON

**UNBUNDLING OF GAS SUPPLY SERVICE AND
COST ALLOCATION**

Filed on Behalf of

THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

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Testimony of Ralph E. Miller
on Behalf of the Division of the Ratepayer Advocate
Relating to Generic Issues

1 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.

2 A. My name is Ralph E. Miller. I am an independent consulting economist. My office is at
3 5502 Western Avenue, Chevy Chase, Maryland 20815.

4 Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS.

5 A. I am an economist specializing in the fields of utility regulation, industrial organization,
6 and public policy towards business. I have more than twenty-five years of experience in
7 public utility and related energy work, both as a consultant and in government. I am the
8 author of several published reports and papers on public utility economics and energy
9 matters, and I have testified in more than 200 public utility and other proceedings in at
10 least 30 jurisdictions. I also have several additional years of experience in government
11 and as a university teacher in antitrust, energy demand forecasting and supply analysis,
12 and other areas of economics and energy.

13 Over the years, I have addressed almost all the aspects of gas and electric utility
14 regulation, including rate of return, accounting and revenue requirements, rate design and
15 cost of service, electric fuel and purchased gas cost recovery, industry structure and the
16 role of competition, incentive ratemaking and other types of innovative rate designs, gas

1 and electric supply planning and power plant licensing, productivity and efficiency, and
2 the determination of marginal, incremental, and avoidable costs.

3 A more detailed statement of my qualifications appears as Attachment A to this
4 testimony.

5 Q. WHAT IS THE PURPOSE OF THIS GENERIC TESTIMONY?

6 A. I am presenting several principles which I recommend should be followed by all four of
7 the New Jersey gas utilities in their unbundling of services pursuant to section 10.a of the
8 Electric Discount and Energy Competition Act (“Act”). The broad question of
9 unbundling encompasses three major topics:

10 ! which services should be unbundled;

11 ! how the unbundled services should be presented to customers; and

12 ! how costs should be allocated among unbundled services.

13 The general principles which I shall present address the first two of these three topics.

14 Q. WHAT GENERAL CONCLUSIONS HAVE YOU REACHED AS A RESULT OF
15 YOUR ANALYSIS OF THE UNBUNDLING ISSUE?

16 A. I recommend that all four New Jersey gas utilities be required to unbundle their services in
17 accord with the following principles:

18 1. Gas supply should be unbundled from distribution for each utility’s major rate
19 schedules and classes of service.

20 2. The utilities should at a minimum offer suppliers the option of providing a monthly
21 requirements service for residential and small general service customers. A monthly

1 requirements service is one in which the supplier delivers a different quantity of gas
2 each month, with larger quantities in the winter months and smaller quantities in the
3 summer, to match the customers' normal weather loads in each month.

4 3. The utilities should develop additional options for customer and supplier choice. One
5 of them should permit suppliers providing service to all customer classes to deliver
6 gas supplies which meet or closely approximate the amounts needed by their
7 customers each day. Giving suppliers this option will open additional aspects of gas
8 supply service to competition, which should lead to greater efficiency in the provision
9 of gas supply service and ultimately result in lower costs to consumers.

10 4. The prices for gas supply and gas distribution should be separately and clearly set
11 forth in the utility's tariffs and in customer bills. Further, the utility's tariffs should be
12 placed on the utility's website for easy reference.

13 5. For all except the largest customers having the capability of arranging their own
14 balancing, balancing services should be offered as wholesale services to suppliers, and
15 should not be separately reflected on customer bills. For those customers desiring to
16 do their own balancing, primarily large customers, the utilities should provide
17 balancing options as a retail service.

18 6. The utilities should be required to make filings not later than March 1, 2000 in which
19 they propose to offer these additional services. Those filings should also include
20 current cost of service studies and other cost studies to determine the proper
21 allocation of costs among the various service options. The utilities should also be

1 required to consult with Board Staff, the Ratepayer Advocate, and other interested
2 parties in the preparation of these filings.

3 **The Separation of Gas Supply from Gas Distribution**

4 Q. WHAT IS UNBUNDLING?

5 A. Unbundling is the separate pricing of various different products and services offered by a
6 single vendor, so that customers can pick and choose which of those products and
7 services to purchase from that vendor, and pay only for the ones they do select.

8 Q. WHAT DIFFERENT PRODUCTS AND SERVICES ARE CURRENTLY OFFERED
9 BY THE NEW JERSEY GAS UTILITIES?

10 A. All four of the New Jersey gas utilities offer two principal services: gas supply and gas
11 distribution. Gas supply can be further subdivided, or unbundled, into several
12 components, including gas commodity service, upstream transportation, storage, peak
13 shaving, and balancing.

14 Q. CAN YOU BRIEFLY DESCRIBE THE STRUCTURE AND OPERATION OF A GAS
15 UTILITY IN A WAY THAT WILL HELP TO UNDERSTAND THE DIFFERENCE
16 BETWEEN GAS DISTRIBUTION AND GAS SUPPLY?

17 A. Yes. Each of the four New Jersey gas utilities owns and operates a network of pipes
18 within a specific geographical area within this State. The network of pipes is the utility's

1 *gas distribution system*, and the geographic area in which it is located is the utility's
2 service territory.

3 Each utility's gas distribution system is connected to one or more interstate pipelines.
4 These pipeline connections are called *city gates*, and it is through them that the utilities
5 receive almost all of the gas which they distribute to consumers.

6 Each of the four utilities also owns and operates either an LNG (liquefied natural gas)
7 or a propane-air plant, or both. The LNG and propane-air plants are capable of storing
8 relatively small quantities of gas. The relatively small quantities of gas stored in these
9 plants are injected into the gas distribution system on extremely cold winter days, and
10 perhaps at other times when the utility's customers are using extraordinarily large
11 quantities of gas. This use for these on-system LNG and propane-air facilities is called
12 *peak shaving*. This peak shaving activity is the source of the small quantities of gas that
13 enter the distribution system by a means other than delivery from an interstate pipeline
14 through a city gate.

15 Q. WHAT IS GAS DISTRIBUTION?

16 A. Gas distribution is the transportation of gas from the city gate or other entry point into a
17 utility's distribution system, and its delivery to a customer's location, sometimes referred
18 to as the "burner tip."

19 Q. WHAT IS GAS SUPPLY?

1 A. Gas supply is the provision of gas at a utility's city gates, or at other points of entry into a
2 utility's gas distribution system, in the quantities demanded by the utility's customers and
3 at the times the customers want to use that gas.

4 Q. WHY DOES GAS SUPPLY HAVE TO BE PROVIDED IN THE QUANTITIES
5 DEMANDED BY THE UTILITY'S CUSTOMERS AND AT THE TIMES THE
6 CUSTOMERS WANT TO USE THAT GAS?

7 A. Except for the small quantities that can be stored in LNG and propane-air facilities, the
8 four New Jersey utilities have no way to store gas on their distribution systems. Gas must
9 therefore be provided to the utilities when the customers want to use it, and this
10 requirement makes time an important dimension of gas supply.

11 Q. SECTION 10.a OF THE ACT REQUIRES "EACH GAS PUBLIC UTILITY TO UNBUNDLE ITS
12 RATE SCHEDULES SUCH THAT DISCRETE SERVICES PROVIDED, WHICH WERE PREVIOUSLY
13 INCLUDED IN THE BUNDLED UTILITY RATE, ARE SEPARATELY IDENTIFIED AND CHARGED IN
14 ITS TARIFFS." ARE THERE ANY GENERAL PRINCIPLES WHICH SHOULD
15 GOVERN THE IDENTIFICATION OF DISCRETE SERVICES TO BE
16 UNBUNDLED?

17 A. Yes. A principal purpose of unbundling under the Act is to facilitate the development of
18 competition in the energy marketplace. My unbundling recommendations are therefore
19 fashioned with an eye towards the promotion of competition.

1 Q. WHAT SERVICES SHOULD BE SEPARATELY IDENTIFIED AND UNBUNDLED
2 IN THE TARIFFS OF THE FOUR NEW JERSEY UTILITIES?

3 A. At a minimum, gas supply should be unbundled from distribution in each utility's major
4 rate schedules and classes of service. Gas supply should be further unbundled into its
5 major components.

6 Q. WHY SHOULD GAS SUPPLY BE UNBUNDLED FROM DISTRIBUTION?

7 A. Gas distribution remains a monopoly service and as such is most economically provided
8 by each gas public utility in its service area, subject to regulation by the Board. Gas
9 supply, in contrast, is a service that can be provided competitively, at least for several of
10 the most important components of gas supply. The only way for gas supply competition
11 to occur is if gas supply is fully unbundled from the monopoly gas distribution service.

12 Q. ARE THERE ANY REQUIREMENTS ABOUT THE WAY GAS SUPPLY SHOULD
13 BE UNBUNDLED FROM GAS DISTRIBUTION IN EACH UTILITY'S TARIFF?

14 A. Yes, there are. The tariff should state separate prices for gas supply and for gas
15 distribution.

16 The tariff should also give each customer the choice, in an administratively simple
17 fashion, to choose to buy his gas supply from an alternative supplier. The tariff should
18 permit each customer to make this choice without requiring any change in his distribution
19 service.

1 Q. HOW CAN A UTILITY'S TARIFF BE ORGANIZED TO ACHIEVE THESE
2 OBJECTIVES?

3 A. There are at least two different formats in which this unbundling can be accomplished.
4 One is by the use of separate rate schedules for distribution service and for gas supply.
5 This is the arrangement used by Public Service. All customers purchase distribution
6 service under a distribution service rate schedule, such as the FT-GS (firm transportation
7 – general service) rate schedule for general service customers. Some customers also
8 purchase gas supply service from Public Service, and they do so under a separate series of
9 CS (commodity service) rate schedules.

10 An alternative approach is to use a single rate schedule for each class of service, with
11 separate sections therein for distribution service and for gas supply service. All customers
12 using the rate schedule will pay the price for distribution service, and some customers —
13 those who decide to purchase gas supply from the utility — will also pay the gas supply
14 price. None of the four New Jersey gas utilities now uses this approach, but it has been
15 used elsewhere. This is the approach that I am recommending for the unbundling of
16 South Jersey's residential and general service rate schedules, and I explain the details of it
17 in my testimony relating specifically to South Jersey.

18 Q. ARE THERE PITFALLS TO AVOID IN STRUCTURING A TARIFF TO ACHIEVE
19 THIS UNBUNDLING OBJECTIVE?

20 A. Yes. Unbundling means more than offering each customer a choice between sales and
21 transportation. If the gas sales service is presented in the tariff as a bundled sales service

1 including both distribution and gas supply, it does not achieve this unbundling objective
2 even if the customer is offered a choice of a separate, distribution-only service. South
3 Jersey Gas, for example, does offer all of its customers a choice between gas sales and gas
4 transportation, but the gas sales service is still presented in the tariff as a bundled service.
5 A customer must therefore switch his gas distribution service from one rate schedule to
6 another to stop purchasing South Jersey's gas sales service, and some relatively
7 complicated calculations are needed to determine the price South Jersey is charging for its
8 gas supply service. It is important that the unbundled tariffs be clear and understandable
9 to the consumer, for otherwise their very complexity may operate as a barrier to
10 competition.

11 Q. DO YOU RECOMMEND THAT THE FOUR NEW JERSEY GAS UTILITIES BE
12 REQUIRED TO MODIFY THEIR GAS TARIFFS IF NECESSARY TO ACHIEVE
13 UNBUNDLING, AS YOU HAVE DEFINED IT, EVEN IF THEY ARE ALREADY
14 PROPOSING TO ALLOW ALL CUSTOMERS THE OPPORTUNITY TO
15 PURCHASE THEIR GAS SUPPLIES FROM ALTERNATIVE SUPPLIERS?

16 A. Yes, I do. I understand the Act's requirement for unbundling, which appears in section
17 10.a, to be separate from and not limited by the requirement later in the same section that
18 all customers be offered the opportunity to purchase gas supplies from alternative
19 suppliers not later than December 31, 1999. Also, and without regard to the specific
20 requirements of this section of the Act, it will facilitate the process of customer education
21 and help to develop competitive markets for gas supplies if each of the four gas utilities is

1 required to present separate and clearly stated prices for its gas distribution and gas
2 supply services, as I have recommended. Further, the tariffs should be placed in the
3 utility's website for easy reference.

4 Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE PRESENTATION
5 OF UNBUNDLED RATES IN THE UTILITIES' BILLS?

6 A: The same observations I have made with regard to tariffs also apply to the bills customers
7 receive. Separate prices for gas supply and gas distribution should be stated clearly on
8 customers' bills. Most customers, especially smaller customers, do not have easy access
9 to the utilities' tariffs, which is why I have recommended that the tariffs be set forth on
10 the companies' websites.

11 **The Unbundling of Gas Supply into Its Components**

12 Q. DO THE FOUR NEW JERSEY GAS UTILITIES PERMIT A FULL UNBUNDLING
13 OF GAS SUPPLY, AS YOU HAVE DESCRIBED IT, AND ALLOW THEIR RETAIL
14 CUSTOMERS AND ALTERNATIVE GAS SUPPLIERS TO BRING GAS TO THEIR
15 CITY GATES IN THE QUANTITIES THE CUSTOMERS ARE USING AND AT THE
16 TIMES THE CUSTOMERS ARE USING THAT GAS?

17 A. They do for some customers but not for others. For large customers, who are required to
18 have daily metering and whose loads typically exceed 100 Dt per day, the utilities do offer
19 a fully unbundled gas distribution service, and they have done so for many years. Each
20 customer is required to maintain a daily balance between his load and the gas supply

1 delivered to the city gate for his account. The customer is expected to achieve this
2 balance either by adjusting his own load or by arranging for his supplier to adjust
3 deliveries to match the customer's expected load on a daily basis.

4 For smaller customers, including all residential and small general service customers,
5 none of the four utilities has any such arrangement for fully unbundled gas supply service
6 at the present time. However, New Jersey Natural Gas has proposed an arrangement
7 whereby alternative suppliers would perform for residential and other small customers the
8 complete gas supply responsibility of bringing gas to the city gate in quantities which
9 approximate those demanded by the customers and at the times they want to use it. That
10 proposal is not in the present unbundling proceeding, but New Jersey Natural witness
11 Moss mentions it in his testimony.

12 Q. WHAT ROLE HAVE THE OTHER THREE UTILITIES PROPOSED FOR
13 ALTERNATIVE SUPPLIERS?

14 A. The other three utilities are all proposing that alternative suppliers bring gas to the city
15 gate in the quantities demanded by customers, but on a fixed time schedule that has no
16 direct relationship to the times when customers use that gas. For example, Elizabethtown
17 is proposing that alternative suppliers serving residential customers should bring the same
18 quantity of gas to the city gate on each day of the year. In the summer, when customers
19 are using less than this average daily quantity, Elizabethtown would place the extra gas in
20 storage. In the winter, when customers are using more than the average daily quantity,
21 Elizabethtown would take gas out of storage to serve the additional loads. Elizabethtown

1 would thus continue to bear the responsibility for bringing gas to the city gate at the time
2 it is needed there, while allowing alternative suppliers to provide the correct quantities on
3 an annual basis.

4 Public Service and South Jersey are proposing that alternative suppliers should
5 deliver a different quantity of gas each month, with larger quantities in the winter months
6 when customers use more gas, and smaller quantities in the summer. Elizabethtown also
7 uses this approach, but only for commercial and industrial customers. However, for all
8 three companies, alternative suppliers are still required to deliver the same quantity of gas
9 on each day of any month. Thus, even with these month-to-month differences, the
10 alternative suppliers would not be bringing gas to the city gates at the time it is used by
11 customers, because customer usage varies widely from one day to the next, as weather
12 changes, and it is necessary for city gate gas supplies to match these day-to-day variations
13 in usage. I recommend that, at a minimum, the utilities be required to offer suppliers the
14 option of providing a monthly requirements service for their residential and small general
15 service customers.

16 Q. DOES THE CHOICE OF AN ALTERNATIVE GAS SUPPLIER TO BRING GAS TO
17 THE CITY GATE ON A FIXED TIME SCHEDULE INTRODUCE COMPETITION
18 INTO THE GAS SUPPLY MARKET?

19 A. Yes, to some extent, but only in the commodity component of gas supply, not storage or
20 balancing. However, even if competition from alternative gas suppliers is limited to this
21 one aspect of gas supply, it allows each customer to decide for himself when and how his

1 supplies should be purchased. The commodity purchase cost of gas and the cost of
2 transporting it to the city gate, even on a fixed time schedule that ignores daily variations
3 in customer use, is approximately two-thirds of the total cost of a comprehensive and
4 correctly timed city gate gas supply. Because there are well organized gas futures
5 markets, customers and their gas suppliers have a choice of when to make the purchase
6 commitments for their commodity gas supplies, and the timing of these gas purchase
7 commitments can be different from the times when that gas is actually flowing. Also,
8 because the commodity price of gas is highly volatile, the timing of these commodity gas
9 purchase commitments is very important, and it has a large impact on the total cost of
10 gas.

11 Q. DOES THIS TYPE OF ARRANGEMENT PROVIDE THE COMPLETE
12 UNBUNDLING OF THE DISCRETE GAS SUPPLY SERVICES REQUIRED BY
13 THE ACT?

14 A. No, it does not. Under these arrangements, the gas utilities themselves continue to
15 provide the storage and balancing services used to make gas supplies arrive at the city
16 gate at the times customers are using that gas. These essential storage and balancing
17 services remain bundled with the utility's monopoly gas distribution service. Customers
18 do not have the choice of purchasing them from alternative gas suppliers, and alternative
19 suppliers are not permitted to provide them.

1 Q. WHAT ARE SOME OF THE PROBLEMS WITH THE ARRANGEMENTS IN
2 WHICH ALTERNATIVE SUPPLIERS ARE REQUIRED TO DELIVER GAS TO THE
3 CITY GATES ON A FIXED TIME SCHEDULE THAT DOES NOT CORRESPOND
4 TO THE TIMES WHEN CUSTOMERS USE GAS ?

5 A. There are two fundamental problems. The first is simply that this type of arrangement
6 suppresses the possibility of competition in the use of storage and other facilities to
7 manage city gate gas supplies so that they arrive at the city gates at the times when
8 customers want to use them.

9 The second problem is that a delivery schedule in which city gate purchases are fixed
10 in advance, even for only one month at a time, is inconsistent with the way gas utilities
11 can and must operate their gas supply systems. Fixed purchase schedules for all of the
12 gas supplies used by the utility's retail customers do not work because loads are very
13 sensitive to the weather and neither the utility nor anyone else knows — even for only one
14 full month in advance — precisely how much gas is needed at the city gate. Fixed
15 purchase schedules work at present because they are applied only to third party suppliers,
16 who supply only a small fraction of the total temperature-dependent load of residential
17 and general service customers. The utilities themselves are still the bundled gas suppliers
18 for a majority of these customers, and the supplies they purchase for their own gas sales
19 customers are not subject to the same rules (contract quantities fixed annually or monthly)
20 that the utilities apply to alternative suppliers.

21 As more and more customers chose alternative suppliers, the utilities will have to
22 develop new arrangements, which incorporate a greater flexibility in deliveries by the

1 alternative suppliers, so that total city gate deliveries can match the load variations that
2 appear in response to warmer than normal or colder than normal weather. The
3 arrangement that I recommend is some sort of daily requirements service for residential
4 and general service customers, in which the suppliers' delivery obligations to the city gate
5 are established daily rather than on a levelized monthly basis. The utilities should be
6 required to offer this option in time for the winter season of 2000-2001. The utilities
7 should be directed to make filings by March 1, 2000 in which they propose to offer such a
8 service.

9 Q. WILL THIS SCHEDULE GIVE THE UTILITIES SUFFICIENT TIME TO DEVELOP
10 AND IMPLEMENT THE DAILY REQUIREMENTS SERVICE YOU ARE
11 RECOMMENDING?

12 A. I believe it will. The utilities already have procedures for projecting firm loads on a daily
13 basis for a few days ahead, based on weather forecasts. The most difficult part of creating
14 a daily balancing service for each customer class is establishing the necessary
15 communications protocols for the requisite daily exchange of information by the utility
16 and the various alternative suppliers. The Natural Gas Implementation Working Group
17 recently established by the Board is an excellent venue for addressing this issue in a
18 collaborative fashion, and it should contribute to meeting this schedule.

1 Q. IS YOUR RECOMMENDED DAILY REQUIREMENTS SERVICE THE SAME AS
2 THE DAILY BALANCING SERVICES THE UTILITIES NOW OFFER TO THEIR
3 LARGE CUSTOMERS?

4 A. No, it is not. For large customers, the responsibility for maintaining the necessary daily
5 balance of load and supply rests ultimately with the customer. The customer typically can
6 work with his gas supplier on a daily basis, and the customer also has the option of
7 helping to achieve the required daily balance by adjusting his own load. This option is
8 available because large customers have their loads metered on a daily basis, and the
9 balancing that is required is a match between the customer's actual metered load and the
10 supply actually delivered to the city gate for the customer's account.

11 A daily requirements service is fundamentally different from a daily balancing service
12 because it is designed for residential and small commercial customers whose loads are not
13 metered on a daily basis. It is therefore impossible for the customer to play a role in
14 achieving the needed daily balance between load and supply — even if some customers
15 were willing to manage their own loads (and very few could with existing technology),
16 there would be no way to measure their performance absent daily metering. A daily
17 requirements service is, instead, a way in which third party suppliers are allowed to
18 assume the responsibility for managing daily gas supplies to follow their customers'
19 expected loads.

20 Q. SHOULD DAILY REQUIREMENTS SERVICES BE THE ONLY OPTION OFFERED
21 BY THE UTILITIES?

1 A. No. The objective should be *choice*. Customers will have the greatest opportunity to
2 benefit from competition if utilities offer the broadest possible choice of delivery options
3 to suppliers. Depending upon the storage and pipeline transportation resources available
4 to alternative suppliers, whether through assignment from the utility or by purchase on the
5 interstate pipeline system, some may be able to offer more attractive terms to consumers
6 by providing daily delivery themselves, whereas others may prefer to purchase some
7 balancing services from the utility.

8 Q. WILL A PROLIFERATION OF DELIVERY OPTIONS CAUSE CONFUSION FOR
9 CONSUMERS?

10 A. It could if these options were presented directly to consumers. However, that would not
11 be the best way to structure service to smaller consumers. For residential and general
12 service customers, balancing should be offered as a wholesale service to suppliers. The
13 overwhelming number of smaller consumers have no interest or ability in arranging
14 directly for their own balancing services. They will be shopping for these services as part
15 of a package from suppliers who will be offering them a complete and comprehensive gas
16 supply service. Balancing therefore should be offered as an option to suppliers, who will
17 then incorporate it into the complete gas supply service they offer to consumers.

18 Q. DO YOU HAVE SPECIFIC RECOMMENDATIONS AS TO HOW THE UTILITIES'
19 UNBUNDLED RATES FOR BALANCING SERVICES SHOULD BE REFLECTED
20 IN THEIR TARIFFS?

1 A. Yes. Customers without daily metering should be offered only one choice in the utility's
2 tariff — whether to purchase their entire gas supply service from the utility or from an
3 alternative supplier. The TPSs serving these customers are the ones to whom the utility
4 should offer choices about what balancing services to purchase from the utility and what
5 balancing services to provide for themselves, perhaps by purchasing them from balancing
6 “wholesalers” other than the utility.

7 The only other alternative type of distribution service should be daily balancing
8 service, currently being provided to large customers, which requires daily metering. Daily
9 balancing service should be mandatory for large customers, perhaps those with loads
10 exceeding 100 Mcf per day. It should be optional for smaller customers, and I see no
11 harm in offering the option even to very small customers provided they are required to
12 pay for the extra costs of the daily metering needed for daily balancing. (The rates for
13 large customers typically include these metering and administrative costs already.)

14 Large customers may also be able to benefit by having the option of purchasing
15 balancing services from the utility, to help them do their daily balancing. Some utilities,
16 such as Elizabethtown, now offer optional services such as storage services to assist in
17 this regard. Others, such as South Jersey, have offered them in the past but no longer do
18 so because they have found essentially no interest in them. Utilities should offer
19 unbundled balancing services, designed specifically to meet the various customer classes'
20 needs. Such services should be especially valuable to TPSs, and enable them to provide
21 greater choices to consumers.

1 **Cost Allocation**

2 Q. WHAT ARE THE COST ALLOCATION ISSUES IN THESE PROCEEDINGS?

3 A. The principal cost allocation issue is how to determine which of the utilities' total costs
4 are applicable only to customers purchasing gas sales service, which are applicable only to
5 transportation customers, and which are applicable to both. A secondary cost allocation
6 issue is to identify the utilities' costs of providing gas supply service, as distinguished from
7 those for gas distribution service. This distinction is important even though some gas
8 supply costs are properly recovered from distribution customers, mostly in the charges for
9 balancing services that remain bundled at least temporarily with gas distribution service,
10 because it is the foundation for a basic gas service rate and a fully unbundled set of
11 distribution and gas supply rates.

12 A separate set of cost allocation issues concerns the determination of the utilities'
13 costs for various metering, billing, and customer accounts activities.

14 Q. ARE ANY OF THESE ISSUES AMENABLE TO GENERIC TREATMENT?

15 A. As a general principle, gas service costs should include the net costs of current city gate
16 gas supplies and all or part of the net costs of any on-system peak shaving facilities such
17 as LNG or propane-air plants. Each of the four gas utilities should present its
18 determination of the magnitude of these costs. Public Service and South Jersey have
19 already done so, but Elizabethtown and New Jersey Natural Gas have not. The
20 determination of the total amount of base rate costs for on-system peak shaving facilities
21 is relatively simple and can be done from the responses to the Board's information

1 requests. However, the utilities themselves are in the best position to determine whether
2 all or only part of these costs relates to gas service.

3 It is also appropriate to state generically that each of the utilities should make an
4 effort to identify the administrative and general (A&G) costs it incurs to provide gas
5 supply service. Public Service and South Jersey have done so, but again Elizabethtown
6 and New Jersey Natural Gas have not. Each of the four utilities should be required to
7 complete a more extensive special study of this issue by March 1, 2000.

8 Another issue that apparently can be resolved generically is the allocation of costs to
9 metering, billing, and customer account services. In its June 25, 1999 Order on
10 Clarification, the Board directed the utilities to provide information on such cost
11 allocations in this proceeding, but none of the utilities have done so. The requisite
12 information should not be unduly difficult to assemble, as it is only a tiny fraction of the
13 work in a class cost of service study, which we have recommended the utilities complete
14 by March 1, 2000. This information, as it is specifically required by the Board, should be
15 presented by the utilities no later than as part of their rebuttal testimony.

16 Q. DOES THIS CONCLUDE THE GENERIC PART OF YOUR PREPARED
17 TESTIMONY?

18 A. Yes, it does.