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	)	
OF THE ELECTRIC DISCOUNT AND	)	
ENERGY COMPETITION ACT OF 1999	)	
	)	
ELIZABETHTOWN GAS COMPANY	)	**GO99030122**

DIRECT TESTIMONY OF

RICHARD GALLIGAN

CONCERNING

ELIZABETHTOWN GAS COMPANY

Filed on Behalf of

THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE

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ELIZABETHTOWN GAS COMPANY	))))	BPU DOCKET NO. GO99030122

DIRECT TESTIMONY

OF

RICHARD A. GALLIGAN

I. <u>Introduction</u>

Q. PLEASE STATE YOUR NAMES AND BUSINESS ADDRESS.

A. My names is Richard A. Galligan. I am a principal and Vice President with Exeter Associates, Inc. My business address is 12510 Prosperity Drive, Silver Spring, Maryland 20904. Exeter specializes in providing public utility-related consulting services.

Q. MR. GALLIGAN, PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I have two degrees from the University of Wisconsin, including a Master's degree in economics and, in addition, I completed two years of graduate study at the University of Minnesota, where I fulfilled all of the course work requirements for the Ph.D. degree.

Q. MR. GALLIGAN, PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I have taught economics at the University of Minnesota, the University of Wisconsin, Mankato State University, and Webster College. In these positions, I taught a wide range of courses covering all aspects of economics.

In January 1975, I joined the staff of the Minnesota Public Service Commission at the commencement of that Commission's responsibility over gas and electric utility operations in the State of Minnesota. From 1976 to 1984, I was an economic consultant specializing in public utility rate regulation of gas, electric and telephone utilities.

From 1984 until 1987, I was Director of Utilities Division at the Iowa State Commerce Commission and Executive Director of the Texas Public Utility Commission. At Iowa, my responsibilities included the management and administration of all Utilities Division activities regarding the regulation of gas, electric and telephone utilities operating in the State of Iowa under Iowa State Commerce Commission jurisdiction. At the Texas Public Utility Commission, I was responsible for the management and day-to-day administration of that Commission's regulatory activities regarding all aspects of its jurisdictional responsibilities. I also served briefly as General Manager of Rates & Regulatory Affairs at Gas Company of New Mexico before assuming my present position at Exeter Associates, Inc. in October 1987.

Q. MR. GALLIGAN, HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have previously presented testimony on more than 60 occasions before the Federal Energy Regulatory Commission ("FERC"), the public utility commissions of Alabama, California, Connecticut, Delaware, the District of Columbia, Florida, Georgia, Idaho, Illinois, Kansas, Louisiana, Maryland, Michigan, Minnesota, Missouri, Montana, Nevada, New Hampshire, North Carolina, Pennsylvania, Rhode Island, Virginia, South Carolina, South Dakota, Tennessee, Texas, Utah and Virginia, as well as before this Board. A detailed statement of my qualifications appears as Appendix A to the joint testimony of Mr. Jerome Mierzwa and myself on generic restructuring issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Exeter Associates, Inc. was retained by the Division of Ratepayer Advocate ("Ratepayer Advocate") to assist in evaluating the restructuring filings made by New Jersey gas public utilities pursuant to Section 10, subsection a, of the Electric Discount and Energy Competition Act of 1999 (the "Act"). The "Order Establishing Procedures," issued by the Board of Public Utilities ("Board") on March 17, 1999, required intervenor testimony in the restructuring proceedings to be presented in two sections. The first section is to address generic policy and methodological issues. The second is to address specific numerical issues, such as proposed rates applicable to individual gas public utilities. This testimony specifically addresses the Elizabethtown Natural Gas Company's ("Elizabethtown" or "Company") filing.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. Based on my review of Elizabethtown's proposed restructuring program, I recommend that:

- an average monthly delivery service option should be available to third party suppliers ("TPS") at the commencement of operations in the restructured natural gas acquisition market, and a daily delivery service option should be implemented by October 1, 2000;

- the proposed mandatory capacity assignment program should be rejected;

- the proposed fixed price Basic Gas Supply Service ("BGSS") offering should be rejected;

- there should be no minimum aggregated load threshold requirement that TPSs must achieve in order to participate in the program;

- limited enrollment periods should be rejected in favor of continuous customer enrollment with TPSs;

- proposed switching fees assessed to residential and commercial customers should be rejected as contrary to the Act;

- customers exercising their customer choice options and returning to BGSS should not be required to pay 120 percent of the BGSS rate. The company should be permitted, however, to charge market rates to returning large commercial and industrial customers if they demonstrate that they do not have sufficient gas supply to accomodate these customers;

- the individual service components bundled in the BGSS offering should be unbundled and separately priced in Elizabethtown's tariff and on customer bills;

- Elizabethtown should be required to provide unbundled rates for metering, billing and customer account services in this proceeding, as ordered by the Board;

- Elizabethtown should be required to offer supplier/company billing options for gas supply and distribution service components of service;

- The Societal Benefits Charge ("SBC") for Elizabethtown should conform to the Ratepayer Advocate's generic recommendations as follows:

  - Elizabethtown should be required to quantify its costs for existing social programs, including uncollectibles attributable to low-income consumers, and include them in the SBC. Elizabethtown should also be directed to specify and quantify the costs of specific consumer education activities they are proposing to include in the SBC.

  - The SBC should not incorporate costs associated with implementing the provisions of the Act, transition costs, lost revenues, or claimed stranded costs or uncollectible amounts, other than those related to low-income customers, as none of these are authorized by the Act.

  - Consistent with current Board policy, there should be no interest on under-recovered balances.

  - All components of the SBC should apply uniformly to all customers, as required by the Act. The exemptions and special rates that exist under the utilities' currently effective demand side management ("DSM") and manufactured gas plant ("MGP") remediation clauses are superseded by the Act.

  - The SBC recovery mechanism should have annual reconciliations and rate revisions as part of the Elizabethtown's procurement reviews. In such proceedings, the Elizabethtown should be required to justify any costs which are to be recovered through the SBC and they should have to obtain prior Board approval for the implementation of deferred accounting for any of the SBC components.

- Elizabethtown should structure its Universal Service Fund ("USF") according to the Ratepayer Advocate's generic recommendations.

II. Summary of Elizabethtown's Filing

Q. HAS ELIZABETHTOWN FULLY COMPLIED WITH THE ELECTRIC DISCOUNT AND ENERGY COMPETITION ACT OF 1999?

A. No. Elizabethtown's April 30, 1999 filing made pursuant to the Electric Discount and Energy Competition Act of 1999 is not fully consistent with the terms of the Act in important respects, and is inconsistent with the State's efforts to open New Jersey's gas market to full competition. With its refusal to fully comply with the Act and the Board Orders, it is clear that Elizabethtown refuses to fully accept the new era of competition and New Jersey's entrance into a new restructured competitive natural gas environment. In passing the Act, the intent of the Legislature was to bring the benefits of competition to all classes of energy consumers. Elizabethtown's failure to comply only delays residential consumers' ability to obtain the benefits of competition through lower natural gas prices and more customer choices. Although industrial and commercial natural gas consumers have enjoyed the benefits of competition for five years, only a small proportion of residential customers have had such opportunities thus far through pilot programs. No residential customers of Elizabethtown have been afforded that opportunity to date. Therefore the Ratepayer Advocate believes that it is imperative that this gas unbundling proceeding insure that residential consumers' interests are advanced and protected and that unnecessary barriers are not erected to impede development of a competitive gas market.

The ultimate goal of restructuring is less costly, reliable choice for all classes of customers in programs that are neither complicated to understand nor to implement. In the final analysis, the true measure of a competitive market is the number of customers that have real choice, that customers exercise choice and the number of suppliers ready to enter the competition and serve those New Jersey customers. With New Jersey's neighbors entering the competitive marketplace, it is important that New Jersey businesses and residents, too, are afforded meaningful access to the competitive procurement of natural gas.

Contrary to the Act and the sentiments expressed by both the Board and other commissions throughout the country in connection with gas unbundling, Elizabethtown has not exhibited an interest in opening its market to competition. Elizabethtown's petition, testimony and discovery responses have not complied with the Act or Board Orders and have generally failed to embrace the legislative intent of the Act. Moreover, the Company fails to explain its rigid, and, at times, anti-competitive positions that will hinder development of a competitive market. The following are some of the deficiencies of Elizabethtown's filing:

1. Elizabethtown has failed to provide sufficient information to permit a complete analysis of all cost elements in its bundled rates to identify within transportation rates all supply and potentially supply related costs as required pursuant to the Board's June 25, 1999 Order of Clarification. ("Clarification Order").

2. Elizabethtown's filing and subsequent discovery responses do not provide unbundled rates for metering, billing and customer account services as required by the Clarification Order.

3. The Company failed to define the costs of the existing social programs to be included in its SBC.

4. Elizabethtown's proposal to charge residential customers a $15 switching fee must be rejected pursuant to Section 36a.(5) of the Act which prohibits gas and electric utilities and suppliers from charging switching fees. (See DeMoine Testimony page 6.) Commercial customers should also be free to switch without incurring such a fee. Also, the Company's proposal to charge a rate equal to 120% of BGSS rate to consumers must also be rejected as anti-competitive, discriminatory and a barrier to competition.

5. The Company has failed to present anything meaningful as to why it cannot offer transportation programs wherein suppliers (1) deliver the same quantity of gas each day of the month, but different quantities during different months; and (2) subsequently develop a program wherein suppliers deliver quantities on a daily basis to match customer consumption. They have only offered the option to

deliver the same quantity of gas each day of the year. (See DeMoine Testimony page 15.)

6. The Company has “no position” as to whether it should maintain back-up capacity or gas supplies to protect against the failure of a third-party supplier to deliver.

7. The Company has failed to provide cost based rates for balancing services for commercial & industrial customers even though it claimed that current rates were not cost based.

8. The Company has made no proposal for Universal Service Fund funding sources or uses to protect low income consumers and has no proposals to assist residential consumers, especially low income consumers, in benefiting from competition through new programs such as aggregation.

These and other deficiencies in Elizabethtown’s filing, if left uncorrected, will mean fewer competitors entering into New Jersey’s gas market, fewer choices for consumers, and less participation in the newly restructured competitive acquisition market. We do not suggest that the Board must guarantee the success of any gas supplier doing business in the State. However, the structure necessary for an efficient competitive process for the benefit of all classes of New Jersey consumers needs to be created and Elizabethtown must be participate in that process.

III. Elizabethtown Gas Company
Company-Specific Issues

Unbundled Service Options

Q. PLEASE DESCRIBE ELIZABETHTOWN'S PROPOSAL WITH RESPECT TO THE UNBUNDLED SERVICE OPTIONS WHICH WILL BE OFFERED TO THIRD-PARTY SUPPLIERS SERVING RESIDENTIAL CUSTOMERS.

A. Elizabethtown is proposing to implement a residential transportation program through the establishment of a new service classification -- Residential Transportation Service ("RTS"). In order to serve customers in the program, a TPS must secure a customer group having aggregate annual weather normalized demand of at least 36,000 Dth.

Customers will be permitted to sign up for RTS service twice a year during enrollment periods that end September 15 for service commencing November 1, and February 15 for service commencing April 1. Customers will be enrolled by TPSs who will be responsible for obtaining a wet signature and producing such wet signature upon request by the Company. Customers will be required to remain with a TPS for one full year. There is no charge for a customer to designate their initial TPS. However, customers will be charged $15 for each subsequent change in TPS.

The RTS class will utilize a Levelized Daily Delivery Quantity ("LDDQ") methodology in which TPSs will deliver the same quantity of gas 365 days a year. In order to effectuate the constant delivery of the LDDQ, customers will be required to accept an assignment of the interstate pipeline capacity Elizabethtown reserves on Transcontinental Gas Pipeline Corporation and Texas Eastern Transmission Corporation. The Company will provide balancing service for each daily difference between a TPS's LDDQ and the actual consumption of the TPS's customers. Under this proposal, TPSs will have no choice but to utilize Elizabethtown's capacity portfolio for all seasonal and daily balancing requirements.

Q. WHAT IS THE RATEPAYER ADVOCATE'S GENERIC POLICY RECOMMENDATIONS ON UNBUNDLED OFFERINGS?

A. As discussed in the testimony of Ratepayer Advocate witness Ralph Miller, generic policy recommendation of the Ratepayer Advocate is that New Jersey utilities should offer at least two types of transportation services for residential customers such that: (1) TPSs deliver the same levelized quantity of gas each day of the month; (2) TPSs deliver quantities equal to their customers' estimated daily usage. Elizabethtown has not proposed to offer either service to residential customers. The monthly supply delivery option should be offered at the start of the residential choice program. The utilities should be required to make a filing in March of 2000 which includes a cost of service study in order to offer the daily supply option so that the daily option will be available by October 1, 2000.

Q. WHY SHOULD THE MONTHLY AND DAILY SUPPLIER DELIVERY OPTIONS BE INCLUDED IN ELIZABETHTOWN'S TRANSPORTATION PROGRAMS?

A. As discussed by Ratepayer Advocate witness Ralph Miller, under Elizabethtown's annual supplier delivery requirement, the Company provides all seasonal and daily balancing operations itself. By offering monthly, and eventually daily, supplier delivery options, Elizabethtown can enable TPSs to compete for the provision of those important balancing services. Competition in these attributes of service should not be foreclosed by the Company's failure to offer these supplier delivery options in addition to its proposed annual supplier delivery option.

Q. ARE THE TWO SERVICE OPTIONS WHICH THE RATEPAYER ADVOCATE IS RECOMMENDING THAT ELIZABETHTOWN BE REQUIRED TO OFFER TO RESIDENTIAL CUSTOMERS AVAILABLE TO THE COMPANY'S COMMERCIAL AND INDUSTRIAL CUSTOMERS?

A. Yes. The TPSs who serve the Company's commercial customers under Rate Schedule SGTS (Small General Transportation Service) and SBTS (Semi-Bundled Transportation Service) are required to deliver uniform daily quantities of gas that change from month to month based on projected consumption under normal weather. The TPSs serving the Company's industrial and interruptible transportation customers under Rate Schedules FTS (Firm Transportation Service) and ITS (Interruptible Transportation Service), and large commercial customers served under Rate Schedule GTS (General Transportation Service), are required to deliver the actual quantity of gas consumed each day, within a permitted tolerance of 5 percent.

<u>Capacity Assignment and Stranded Costs</u>

Q. WHAT IS ELIZABETHTOWN'S PROPOSAL WITH RESPECT TO THE ASSIGNMENT OF INTERSTATE PIPELINE CAPACITY?

A. Elizabethtown is proposing that TPSs must accept an assignment of an allocated amount of the Company's interstate pipeline transportation capacity ("mandatory assignment"). Consistent with Elizabethtown's proposal for TPSs to deliver the same quantity of gas each day of the year, Elizabethtown is proposing to assign an amount of transportation capacity to TPSs to enable them to deliver these constant daily quantities. Under Elizabethtown's program, TPSs are not to be afforded the opportunity to secure their own interstate pipeline capacity arrangements to deliver their customers' daily or average monthly gas supply requirements. The Company proposes to continue to contract for and assign capacity sufficient to meet the daily requirements of all distribution customers.

Q. IS ELIZABETHTOWN'S CAPACITY ASSIGNMENT PROPOSAL CONSISTENT WITH THE PROCEDURES THE RATEPAYER ADVOCATE IS RECOMMENDING THAT THE BOARD ADOPT ON A POLICY BASIS?

A. No. The generic policy recommendation of the Ratepayer Advocate with respect to capacity assignment is that the mandatory assignment of capacity to TPSs should be prohibited. Other New Jersey gas utilities in this proceeding, e.g., New Jersey Natural Gas Company and Public Service Electric & Gas Company ("Public Service"), are not proposing a general reliance on a mandatory capacity assignment program as a part of bringing customer choice to smaller customers.

Elizabethtown has not demonstrated that it needs mandatory capacity assignment either to maintain reliable service or to recover stranded costs. As is explained in Mr. Mierzwa's and my generic testimony, many other tools are available to Elizabethtown to maintain reliability. As explained in the Ratepayer Advocate's generic testimony, Elizabethtown should be permitted to adopt "comparable capacity" provisions, if needed, to assure reliability. No utility in New Jersey, including Elizabethtown, has claimed, much less demonstrated, that it has any stranded costs at this time. Stranded costs are not generally anticipated, and a general, blanket, capacity assignment program is both premature and speculative. I agree with the Ratepayer Advocate's generic policy statement that a mandatory capacity assignment program should be viewed as a last resort.

In accordance with Mr. Mierzwa's and my generic testimony, Elizabethtown should make capacity available to TPSs on a voluntary basis. Capacity offered to TPSs should be priced at Elizabethtown's weighted average cost of capacity. It is also my recommendation that, as a gas utility's capacity contracts expire, TPSs should be given the opportunity to contract for this capacity with the pipeline, to become effective upon the expiration of the contract before the gas utility terminates the arrangement. It is uncertain whether Elizabethtown would terminate an expiring contract. However, if the Company elects to terminate an existing capacity arrangement, consistent with the Ratepayer Advocate's policy recommendation, the Company should notify its TPSs and distribution customers of such expiration through an electronic bulletin board announcement so that the TPSs can arrange for the purchase of some or all of the soon-to-be released capacity and so that TPSs customers can evaluate this change of circumstance. The notification to the TPSs and customers should be no later than simultaneously with that of the Company's notification to the pipeline that Elizabethtown will not renew its contract.

Q. SHOULD ELIZABETHTOWN CONTINUE TO HOLD PIPELINE CAPACITY AND ASSIGN IT AS A WAY OF RETAINING BACKUP CAPACITY FOR RELIABILITY PURPOSES?

A. No. As explained in the Ratepayer Advocate's generic testimony in this proceeding, gas utilities should not retain capacity for purposes of backup. Requiring customers to pay for back-up capacity drives prices up and is generally anti-competitive. Other, more cost effective tools are available to make gas supplies available on the utility's distribution system. One of those tools available to Elizabethtown is the outright suspension of a TPS who fails to perform. Of course, that discretionary tariffed prerogative should be exercised under Board oversight and expedited consideration of any suspension dispute would be reasonable.

Basic Gas Supply Service

Q. PLEASE SUMMARIZE ELIZABETHTOWN'S PROPOSAL FOR BASIC GAS SUPPLY SERVICE?

A. As stated earlier, Elizabethtown currently provides unbundled transportation service to all of its commercial and industrial transportation service customers. In the current filing, Elizabethtown proposes to unbundle transportation service to residential customers by establishing a rate class designated as the "RTS." According to its filing, the RTS will be available to all customers eligible for service under Elizabethtown's current residential customer class tariff. A residential customer wishing to be served under the RTS rate, must contract with an eligible TPS serving an aggregate weather normalized RTS load of at least 36,000 Dth annually.

The Company proposes to permit residential customers to sign up for RTS during two enrollment periods during the year, and they must sign up for a one year term. Any customer returning to RTS prior to the expiration of the term would be charged a gas cost charge equal to 120 percent of the monthly purchased gas adjustment charge for BGSS to RTS customers for the remainder of their annual term. In addition, Elizabethtown proposes to apply switching fee to all customers, including a $15 fee to residential customers which is contrary to the Act.

Q. WHAT ARE THE RATEPAYER ADVOCATE'S RECOMMENDATIONS REGARDING THE COST OF BASIC GAS SUPPLY SERVICE?

Section 10.r of the Act states in part:

> Gas supply procured for basic gas supply service by a gas public utility shall be purchased at prices consistent with market conditions. The charges assessed to customers for basic gas supply service shall be regulated by the board and shall be based on the cost to the utility of providing such service, including the cost of gas commodity and capacity purchased at prices consistent with market conditions by the gas public utility in the competitive wholesale marketplace. . . .

There is a possible problem here because some of the gas commodity and capacity purchases made by Elizabethtown may havebeen purchased at prices higher than those consistent with market conditions. If so, it may be be difficult to set a basic gas supply price that reflects Elizabethtown's actual costs of providing basic gas supply service and also meets the other requirements stated in Section 10.r. Should Elizabethtown's gas costs include above-market supplies, the company should be required to submit with its rebuttal testimony its plan for complying with Section 10.r of the Act.

Q. HOW DOES ELIZABETHTOWN CURRENTLY RECOVER ITS GAS COSTS FROM FIRM SALES CUSTOMERS?

A. The Company currently recovers gas costs from firm sales customers by including a portion of these costs, $0.31 per therm, in its base tariff rates. Any variations from the level of gas costs reflected in base rates are recovered through the Levelized Gas Adjustment Clause ("LGAC"). The LGAC stipulation approved in BPU Docket Nos. GR97070552 and GR97070553 requires the Company to eliminate its LGAC no later than December 31, 2000.

Q. WHAT IS ELIZABETHTOWN'S PROPOSAL WITH RESPECT TO ITS CURRENT RECOVERY PROCEDURES AND THE CHARGE FOR BGSS?

A. The Company has proposed changes to its current gas cost recovery procedures which are intended to comply with both the Act and with the stipulation in Docket No. GR97070552. First, the Company is proposing to remove all gas costs from firm sales customers' base tariff rates and to recover such costs through the charge for BGSS. Second, the Company proposes to eliminate the LGAC and replace it with the Basic Gas Supply Charge. Third, bundled sales customers will be offered two pricing options for the commodity cost component of their charge for BGSS: (1) a Monthly Purchased Gas Adjustment Charge; and (2) a fixed annual price option.

Q. PLEASE ELABORATE UPON THE COMPANY'S PROPOSED MONTHLY PURCHASED GAS ADJUSTMENT CHARGE AND FIXED PRICE OPTIONS.

A. Under both pricing options, sales customers will be assessed a uniform volumetric rate for the demand component of the BGSS rate. The demand component will be designed to recover the projected fixed costs of purchasing transportation, storage and peaking capacity, offset by anticipated supplier refunds and shared margins from certain off-system or on-system sales and capacity release credits.

With respect to the commodity cost component of the BGSS rate, the Fixed Price Option is a cost-based pricing option under which customers may elect to lock into a commodity rate component for an annual period. This option would be available twice per year. The fixed price will be based on the Company's projected annual commodity gas costs, as well as the costs of any financial instruments used to ensure the availability of the fixed price. The Company proposes that any over or under recovery of costs experienced would be reflected in the rates applicable under the Monthly Purchased Gas Adjustment.

Under the Monthly Purchased Gas Adjustment Charge, rates would change monthly and be based on the Company's projected cost of gas for the month. Any under or over recovery of the costs under this option would be reconciled on a two-month lag basis.

Q. SHOULD ELIZABETHTOWN BE PERMITTED TO OFFER A FIXED-PRICE SERVICE OPTION FOR BGSS?

A. No. Gas utilities should not be permitted to offer a fixed-price option for BGSS. Fixed price offerings are a pricing tool upon which TPSs rely to compete with incumbent gas utilities. Although it is desirable to foster choice in the provision of competitive gas supply service, gas utilities maintain a distinct advantage over TPSs in offering such services under the current regulatory structure. For example, TPSs must recover their operating costs and profits through their rates for gas supply service, while gas utilities recover such costs through rates for distribution service. This advantage may hinder entrance into the market and, therefore, be a barrier to competition.

Q. SHOULD THE 36,000 DTH THIRD-PARTY SUPPLIER ELIGIBILITY THRESHOLD PROPOSED BY ELIZABETHTOWN BE APPROVED?

A. No. There should be no minimum volume threshold. If there are uneconomic levels of participation, that will be revealed in the marketplace. The threshold volume at which it becomes uneconomic to service residential customers should be determined by the market.

Q. SHOULD CUSTOMERS BE CONFINED TO SPECIFIC ENROLLMENT PERIODS?

A. No. Elizabethtown should develop continuous enrollment procedures as soon as possible. Specific enrollment periods can restrict TPS marketing efforts, are anti-competitive and are barriers to the achievement of widespread competition consistent with the Act. Elizabethtown does not restrict the ability of customers to sign up for bundled sales service to specific periods nor is there such limitations in the Company's existing commercial and industrial programs.

Q. IS ELIZABETHTOWN'S PROPOSAL TO ASSESS A FEE TO CUSTOMERS WHO SWITCH SUPPLIERS REASONABLE?

A. No. Counsel informs me that switching fees for residential customers, such as that proposed by Elizabethtown, are prohibited under the Act. [Section 36(a)(5)]. In accordance with Mr. Lelash's generic recommendation, commercial customers should also be free to switch suppliers without incurring a switching fee.

Q. WHAT IS ELIZABETHTOWN'S PROPOSAL CONCERNING CUSTOMERS RETURNING TO SALES SERVICE PRIOR TO THE CONCLUSION OF THE ONE-YEAR TERM OF RTS SERVICE?

A. Elizabethtown is proposing to assess such customers a rate equal to 120 percent of the charge for BGSS.

Q. SHOULD CUSTOMERS RETURNING TO SALES SERVICE BE ASSESSED A HIGHER RATE FOR BGSS THAN IS ASSESSED REMAINING SALES CUSTOMERS?

A. Residential and small commercial consumer returning to BGSS should not be penalized by a higher rate. Such an assessment will deter consumers from exercising choice. Customers receiving the same service should pay the same rate. The Ratepayer Advocate is aware that BGSS may not have sufficient supply to accommodate returning large industrial and commercial consumers. Therefore, I believe that if the Company can show that it does not have sufficient gas supply to accommodate the returning large industrial and commercial consumer, it should be permitted to charge market price to such returning consumers.

Unbundled Tariffs

Q. HAS ELIZABETHTOWN UNBUNDLED ITS RATE SCHEDULES CONSISTENT WITH THE REQUIREMENTS OF THE ACT?

A. No. The Act requires each gas public utility to unbundle its rate schedules such that the discrete services which were previously provided as a bundled service are separately identified in its tariff. Elizabethtown has separately stated charges for distribution service under the majority of its sales rate schedules and has a separately stated tariff provision for Basic Gas Supply Service which is applicable under the Company's firm sales rate schedules. However, as subsequently discussed, the Company has not properly designed rates for unbundled distribution services. In addition, the Company has bundled the charges for balancing service within the rates for Basic Gas Supply Service. Finally, Elizabethtown has not unbundled the rates applicable under its Industrial Process Service ("IPF") firm rate schedule.

Q. WHY IS UNBUNDLING SERVICE ELEMENTS IMPORTANT?

A. Some of Elizabethtown's services are now subject to competition and some services remain monopoly functions. By separately providing and pricing discrete service elements, consumers can purchase and pay for each service element in the amounts they require from either the monopoly provider or, for those service elements subject to competition, from any of a number of suppliers. Unbundled price information, even within a bundled service, provides useful information to consumers which helps them make informed decisions.

Q. SHOULD ELIZABETHTOWN SEPARATELY STATE THE BALANCING COMPONENT OF BGSS AND UNBUNDLE RATES FOR TPF SERVICE?

A. Yes. To be in compliance with the Act, Elizabethtown should separately state the balancing component of BGSS. Also, separately stating the price of each unbundled service element will allow customers to determine whether they wish to pursue the separate purchase of the service elements they presently purchase on a bundled basis. Therefore, it is important to separately state and price unbundled service elements even for customers purchasing the bundled service offering.

Q. SHOULD OTHER ASPECTS OF ELIZABETHTOWN'S RATES BE UNBUNDLED?

A. Yes. The Board has determined that each gas utility should provide unbundled rates for metering, billing, and customer account services. Elizabethtown has not provided these within its filing. The Company should address the issue of unbundled rates for metering, billing, and other customer account services within its rebuttal testimony in order to be in compliance with the Board's "Order of Clarification" issued on June 25, 1999.

Moreover, these tariffs need to be review in the context of the new competitive environment. Existing customers taking service under these tariffs should be grandfathered. Elizabethtown should be required to file with its rebuttal testimony a cost-based proposal to address these tariffs going forward, for new customers. In addition, as a result of the recent electric restructuring proceeding, it is expected that numerous gas-fired cogeneration facilities should be built, resulting in increased gas use. Gas utilities should establish unbundled rates for these facilities.

In making such a filing in the rebuttal testimony, the Company should include its workpapers and supporting documentation for the derivation of its proposed rates and provide an explanation of how the rates were developed.

Cost Allocation and Rate Design

Q. WHAT ARE ELIZABETHTOWN'S MAJOR COST AND RATE FUNCTIONS?

A. Elizabethtown's two major cost and rate functions, as identified in the Ratepayer Advocate's generic testimony, are gas supply and gas distribution. Within the gas supply function, costs and rates for gas commodity service and balancing service can be separately identified.

Q. WHAT IS THE SCOPE OF THIS PROCEEDING WITH RESPECT TO THE DESIGN OF UNBUNDLED TRANSPORTATION AND SALES RATES?

A. In its June 25, 1999 "Order of Clarification" in the instant proceeding, the Board states:

> "... it was and is the Board's intent to utilize this proceeding to fully examine unbundled rates for transportation service, gas sales service and all services, such as balancing services and customer account services, that have the potential to be competitively provided. Third party suppliers have for some time asserted that the establishment of properly unbundled transportation and sales rates require more than simply removing the cost of the commodity from current rates. It is our intention that this proceeding be the venue for the suppliers to pursue that assertion and to determine the appropriate unbundled transportation rates and sales rates. In order to do so, the parties must be permitted to

> engage in a complete analysis of all cost elements in bundled rates to identify within transportation rates all supply and potentially supply-related costs, including, without limitation, gas commodity costs, upstream transportation costs, upstream storage costs, peaking service costs, and an appropriate allocation of all supply-related overhead, administrative and general costs.
>
> The appropriateness of such an undertaking is underscored by the acknowledgment set forth in various gas public utility filings that certain gas supply costs may well be reflected in current transportation rates. In fact, for some time the Board has been committed to a complete review of transportation rates and sales rates as described above, and the Board intends for this proceeding to be the vehicle to accomplish this task.

Q. WHAT IS ELIZABETHTOWN'S PROPOSAL WITH RESPECT TO COST ALLOCATION AND RATE DESIGN FOR ITS UNBUNDLED TRANSPORTATION SERVICE OFFERINGS?

A. Elizabethtown's unbundled transportation rates are based on full margin rates. That is, Elizabethtown has removed the cost of commodity from current sales rates to determine the charges applicable for distribution service. A balancing component of commodity costs has also been identified.

Q. HAS ELIZABETHTOWN PRESENTED AN ANALYSIS OF ALL COST ELEMENTS IN BUNDLED SALES RATES TO IDENTIFY ALL SUPPLY AND POTENTIALLY SUPPLY-RELATED COSTS CURRENTLY INCLUDED IN DISTRIBUTION RATES?

A. Despite being requested to by the Ratepayer Advocate and ordered to do so by the Board, Elizabethtown has presented no such analysis. This lack of information is a serious impediment to determining appropriate rates for unbundled transportation service. The Company should be required to provide this information.

Q. DID YOU EXAMINE THE COSTS OF DISTRIBUTION SERVICE TO IDENTIFY THOSE COSTS WHICH MAY BE INCLUDED IN

ELIZABETHTOWN'S FULL MARGIN RATES APPLICABLE ONLY TO SALES CUSTOMERS?

A. Yes, I did examine the limited information available. Again, the Company has failed to provide the details necessary for adequate review and analysis and should be mandated to do so by the Board.

Q. PLEASE DESCRIBE HOW YOU PROCEEDED TO EXAMINE ELIZABETHTOWN'S RATES FOR UNBUNDLED DISTRIBUTION SERVICE GIVEN THE LACK OF NECESSARY INFORMATION.

A. Public Service was the only gas utility to present any substantive evidence as to which base rate costs rates are more properly assigned to the gas supply function. Therefore, I based my examination largely on the analysis performed by Public Service.

The primary base rate costs identified by Public Service as more properly assigned to the gas supply function were the carrying costs on gas in storage inventory and other gas supply-related expenses. To determine the costs associated with storage inventory, I reviewed Elizabethtown's most recent cost of service study. As shown on Schedule RAG-1, this analysis indicates that approximately .003 cents per therm of gas supply-related costs are reflected in Elizabethtown's unbundled rates for transportation service.

With respect to other gas supply-related costs, I relied upon the same per unit costs developed through Public Service's analysis. As shown on Schedule RAG-1, that analysis indicates approximated .002 cents per therm of gas supply-related costs would be reflected in Elizabethtown's unbundled rate for transportation service. In total, my analysis indicates that approximately .005 cents per therm of gas supply-related costs may be reflected in Elizabethtown's unbundled rates for transportation service.

Q. ARE THERE OTHER FACTORS WHICH SHOULD BE CONSIDERED IN YOUR ANALYSIS?

A. Yes. The administrative and customer accounting and related costs of serving a transportation customer exceed that of serving a sales customer. These additional costs should be considered in any adjustment to unbundled transportation rates. Charges of .008 to .010 per therm have been approved in other jurisdictions in recognition of these additional costs.

Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS?

A. Elizabethtown has not provided sufficient information in this proceeding to perform an extensive analysis of the gas supply-related costs which may be embedded in the Company's full margin rates. However, my initial review of these costs indicates that they are comparable to the costs incurred by gas utilities to administer small customer distribution programs. However, the Ratepayer Advocate's recommends that the Company provide the information needed for such analysis in its rebuttal testimony.

Q. HAVE YOU REVIEWED THE BALANCING CHARGES PROPOSED BY ELIZABETHTOWN FOR RESIDENTIAL TRANSPORTATION SERVICE?

A. Yes. We have no objection to the proposed balancing charges for Elizabethtown's limited service option at this time.

<u>Billing Options and Credits</u>

Q. WHAT BILLING OPTIONS WILL BE AVAILABLE TO THIRD-PARTY SUPPLIERS?

A. The Company's current commercial and industrial transportation customers are billed only for the services they purchase from the Company. The Company does not bill for gas supplies provided by TPSs. Elizabethtown is proposing to offer to bill residential customers for gas supplies provided by TPSs through negotiated charges, terms and conditions. The Company is proposing no credit for transportation customers that receive bills from both the Company and the customers' TPSs.

Q. ARE ELIZABETHTOWN'S BILLING OPTIONS AND CREDITS CONSISTENT WITH THE RATEPAYER ADVOCATE'S GENERIC POLICY RECOMMENDATIONS?

A. No. Elizabethtown should offer TPSs two billing options: (1) a single bill rendered by the Company; and (2) a separate TPS and Elizabethtown bill for gas distribution services. Tariffed rates should be established for the billing services provided by Elizabethtown. The Company should be required to implement these two billing options as soon as practicable. Barbara Alexander discusses this further in her testimony.

<u>Societal Benefits Charge ("SBC")/Universal Service Fund ("USF")</u>

Q. WHAT IS ELIZABETHTOWN'S PROPOSAL WITH RESPECT TO THE SBC?

A. The Company is proposing to recover through the SBC: (1) the costs associated with the investigation, remediation and containment of its former manufactured gas plant sites, which costs are currently recovered through the Remediation Adjustment Clause ("RAC"); (2) the costs associated with Demand Side Management ("DSM") activities, which are currently recovered through the DSM Adjustment Clause; (3) the incremental costs associated with the implementation of full unbundling from and after January 1, 2000, including any consumer education costs incurred by the Company at the Board's direction. These costs would be recovered from all customers served under the basic terms of the Company's tariffed service classifications.

Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE RECOVERY OF COSTS ASSOCIATED WITH MANUFACTURED GAS PLANT SITES?

A. Yes. The Company is requesting to add carrying costs into the computation of the Company's manufactured gas plant related portion of the SBC. In addition, Elizabethtown proposes to remove MGP-related costs currently recovered through base rates and recover such costs through the SBC.

Q. DOES THIS PROPOSAL COMPLY WITH EXISTING POLICY REGARDING THE REMEDIATION ADJUSTMENT CLAUSE?

A. No. Elizabethtown's request to include carrying costs in the MGP cost recovery mechanism is directly contrary to the Board Order Adopting Stipulation in Docket No. GR95090440, issued August 1, 1996, in which the Company agreed to share remediation costs with its customers until Elizabethtown filed its next base rate case, at which time the issue of sharing would be addressed. *IMO Petition of Elizabethtown Gas Company, a Division of NUI, To Amend its Gas Tariff To Include a Manufactured Gas Plant Remediation Clause, Docket No. GR95090440, issued 8/1/96.*

The Ratepayer Advocate supports Elizabethtown's request to remove MGP remediation costs from base rates into the MGP remediation component of the SBC. The Company currently collects $130,000 annually in base rates for gas plant remediation. The instant unbundling proceeding is designed to separate costs into their various components, with appropriate allocation of costs. MGP costs should be recovered through volumetric charges to all customers, as is contemplated by the Act in creating the SBC. Currently, firm ratepayers are paying $130,000 annually more than is their fair share. Moving that sum into the SBC would more equitably allocate these remediation costs.

Q. WHAT ASPECTS OF ELIZABETHTOWN'S SBC PROPOSALS ARE NOT IN COMPLIANCE WITH THE PROVISIONS OF THE ACT AND ARE INCONSISTENT WITH THE GENERIC POLICY RECOMMENDATIONS OF THE RATEPAYER ADVOCATE?

A. Elizabethtown's proposal to add carrying charges on the MGP- related costs should be rejected for the reasons stated above. The proposal to add carrying charges to the DSM balance should be rejected for the reasons stated by Ratepayer Advocate witness LeLash. Elizabethtown's proposals to recover the incremental costs of implementing the Act and transition costs through the societal benefits component of the SBC should also be denied, as discussed by Mr. LeLash.

The Act also requires that "the societal benefits charge shall be set to recover the same level of social program costs as is being collected in the bundled rates ..." Elizabethtown did not comply with this provision and, therefore, should be required to quantify in the rebuttal phase of these proceedings its current annual social program costs and derive a per unit charge to be added to the other components of the SBC. Elizabethtown should also be required to specify and quantify the types of consumer education costs it is proposing to recover through the SBC. Elizabethtown also should be required to specify and quantify the consumer education costs sought to be recovered in the SBC.

Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE RECOVERY OF DSM COSTS?

A. Yes. The Company is currently recovering $1,450,000 of DSM costs through base rates. The Company is proposing to remove these costs from base rates, and to recover these costs completely through the SBC. The Company is also proposing to apply interest to any over or under recovery DSM balance.

Q. WHAT COSTS DOES ELIZABETHTOWN INTEND TO RECOVER THROUGH THE NEW SOCIETAL BENEFITS PROGRAM CHARGE?

A. The Company proposes to recover costs associated with customer education, incremental employee training costs, costs to modify the management information systems, regulatory compliance costs, and any transition costs, including stranded costs.

Q. HOW DOES THE COMPANY PROPOSE TO ESTABLISH THE SBC?

A. The Company proposes to make a filing to establish the SBC no later than August 1 of each year, to be effective no later than October 1. The proposed SBC will be based on actual costs for each of the cost components incurred through June 30.

Q. BASED ON THE PROVISIONS OF THE ACT AND THE REVIEW OF THE ELIZABETHTOWN'S FILINGS, WHAT ARE YOUR RECOMMENDATIONS CONCERNING THE SBC?

A. As stated in Mr. Lelash's generic testimony, it is recommended that the Board adopt the following generic provisions for implementation of the SBC:

1. Elizabethtown should be required to quantify its costs for existing social programs, including uncollectibles attributable to low-income consumers, and include them in the SBC. Elizabethtown should also be directed to specify and quantify the costs of specific consumer education activities they are proposing to include in the SBC.

2. The SBC should not incorporate costs associated with implementing the provisions of the Act, transition costs, lost revenues, or claimed stranded costs or uncollectible amounts, other than those related to low-income customers, as none of these are authorized by the Act.

3. Consistent with current Board policy, there should be no interest on under-recovered balances.

4. All components of the SBC should apply uniformly to all customers, as required by the Act. The exemptions and special rates that exist under the utilities' currently effective demand side management ("DSM") and manufactured gas plant ("MGP") remediation clauses are superseded by the Act.

5. The SBC recovery mechanism should have annual reconciliations and rate revisions as part of the Elizabethtown's procurement reviews. In such proceedings, the Elizabethtown should be required to justify any costs which are to be recovered through the SBC and they should have to obtain prior Board approval for the implementation of deferred accounting for any of the SBC components.

Q. WHAT IS ELIZABETHTOWN'S PROPOSAL WITH RESPECT TO THE UNIVERSAL SERVICE FUND?

A. It is Elizabethtown's position that the funding and the content of the USF should be addressed by the Board in the current proceedings. The Company has not made a specific proposal with respect to the USF. In accordance with the generic policy recommendation of the Ratepayer Advocate witness Richard Lelash, Elizabethtown should be required to submit a proposal concerning the Universal Service Fund.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.