BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc., for Approval of an Alternative Rate Plan	)))	18-0049-GA-ALT
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc. for Approval of an Increase in Gas Rates	)))	18-0298-GA-AIR
In the Matter of the Application of Vectren Energy Delivery of Ohio, Inc., for Approval of an Alternative Rate Plan	)))	18-0299-GA-ALT

DIRECT TESTIMONY OF BRIAN EARHART ON BEHALF OF INTERSTATE GAS SUPPLY, INC. AND THE RETAIL ENERGY SUPPLY ASSOCIATION

November 7, 2018

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I. Introduction and Background

Q. Please state your name and by whom you are employed.

A. My name is Brian Earhart. I am employed by Interstate Gas Supply, Inc. ("IGS") in the position of Manager, Gas Supply & Risk. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of IGS Energy and the Retail Energy Supply Association ("RESA").

Q. Please describe your educational background and work history.

A. I received a bachelor's degree in business administration with a specialization in transportation and logistics from The Ohio State University in 2002. Immediately upon graduating I began my career in the energy field at IGS Energy where I have worked continuously for 16 years in various roles of increasing responsibility. In 2015 I was promoted to Gas Supply & Risk manager, a title I hold today. I am responsible for managing the scheduling and trading group for part of IGS' service territory which includes all of Ohio, including the Vectren Energy Delivery of Ohio ("Vectren").

Q. Have you submitted testimony in regulatory proceedings before?

A. Yes, MPSC Case No. U-17941-R.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support IGS' and RESA's objections to the Staff Report. Particularly, I testify in opposition to Vectren's proposed fee increases and changes to its tariffs, terms, and conditions applicable to competitive retail natural gas suppliers ("Suppliers"). I also generally support the Testimony of Jim Crist, which was submitted on behalf of RESA.

II. Proposed Charges and Fees

Q. Does Vectren propose any increases to fees or charges applicable to Suppliers?

A. Yes, the application in Case No. 18-0298-GA-AIR (the "Application") proposes several new fees, charges, and penalties in Schedule E-2.1. But the Application schedules, pre-filed testimony, and the Staff Report fail to sufficiently explain the bases for these provisions and provide sufficient justification for the following new fees, charges and penalties:

- Storage Non-Compliance Fee increase from $15 for first two occurrences to $35 (Sheet 21, P. 2; Sheet 23, P.2).
- Unauthorized Gas Usage Charge for gas usage by a customer in excess of the quantity allowed pursuant to the curtailment procedures and any instructions provided by Vectren (Sheet 30, P. 2).
- Peaking Demand Charge based on a Supplier's proportionate share of assigned peaking supply as billed by Vectren during the peak season (Sheet 52, P. 10).

Q. Do you believe these increases should be approved?

A. No, I do not. The redlined tariff, pre-filed testimony, and the Staff Report fail to sufficiently explain the bases for these provisions or provide sufficient justification for these new fees, charges and penalties. Vectren has not demonstrated that they should be authorized and the Staff Report provides nothing further to justify these new fees, charges and penalties.

Q. Are any of the above-referenced provisions particularly troubling?

A. Yes, I believe that it is of critical importance that the Commission reject the Unauthorized Gas Usage Charge. Vectren proposes to apply several Unauthorized Usage Charges when a Customers' usage on a given day exceeds the quantity allowed pursuant to "the Curtailment Procedures and any instructions provided by the Company thereunder . . ."[1] under three different circumstances:

- Treble Penalty: Rate 345 and Rate 360 Customers are subject to a penalty at a rate equal to three times the Columbia Daily Index Price, plus applicable variable costs for any volumes greater than the Customer's Plant Protection Level.
- Pool Operator Penalty: With respect to a Pool Operator (like IGS) under Rate 380 that delivers less gas to Vectren's system than the Pool Customers' collective Plant Protection Level, the Pool Operator s*hall be subject to a penalty of $35.00 per Dth for the under delivered volumes in addition to the applicable OFO Non-Compliance charges.*
- All Other Customers Penalty: All other customers—which would include residential customers—shall be subject to a penalty of $3 per Billing Ccf.

Q. Does Vectren cite any reason or rationale for why the changes to the Unauthorized Gas Usage Charge are necessary?

A. The only "rationale" articulated as to why it chose to implement such changes to the charge is to "reflect the distinctions related to how applicable Unauthorized Usage Charges are determined for different Rate Schedules."[2] This statement is not a reason or rationale that explains why the proposed changes are needed.

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[1] Schedule E-2.1, Sheet 30, page 2.
[2] Schedule E-3, page 28.

Q. Why is the Unauthorized Gas Usage Charge unreasonable?

A. The Application proposes to add language permitting Vectren to impose penalties for "any instructions provided by the Company" in addition to the event of Curtailment Procedures. This change is vague and ambiguous and does not articulate whether the penalty may be assessed for failure to follow an operational flow order ("OFO") in addition to failure to follow Curtailment Procedures. Under its existing tariffs, Vectren currently imposes penalties on competitive natural gas suppliers ("Suppliers") for failure to follow an OFO; therefore, the Unauthorized Gas Usage Charge would be duplicative and putative to penalize a Supplier twice.

Q. What is an Operational Flow Order (OFO)?

A. An OFO is an order issued by Vectren to the Pool Operator for purposes of reducing imbalance tolerance levels during critical situations.

Q. What other concerns do you have regarding the three different penalties under the Unauthorized Gas Usage Charge?

A. I have concerns regarding each of the penalties as discussed below.

- <u>Rate 345 and Rate 360 Penalty</u>: Vectren proposes that Rate 345 and Rate 360 customers be subject to an Unauthorized Gas Usage Charge at a rate equal to three times the Columbia Daily Index Price as reported in the Platts Inside FERC Gas Market Report for the applicable day for Columbia Gas Appalachia under the heading Midpoint, plus applicable variable costs including fuel retention, pipeline and pipeline variable charges for any volumes consumed greater than the customer's plant protection level. Plant protection level is defined in the current tariff at Sheet 70, page 1 as "[t]he minimum quantity of Gas Service for Firm Curtailment Customers required by Customer to prevent endangering the health or safety of personnel, or to prevent extensive damage to Customer's facilities, equipment, or other property." Vectren's proposed tariff does not appear to keep this definition (a problem by itself leading to ambiguity) but more importantly, Vectren has made no showing that the treble penalty has any justification or relation to any cost that Vectren may incur as a result of volumes being consumed greater than a plant protection level. The Commission should not authorize this treble charge.

- Pool Operator Rate 380 Penalty: The pool operator's job is to deliver enough gas to cover what the end user is using on any given day. The pool operator is not made aware of the collective amount of the customers' plant protection levels. If an end user has a plant protection level of 1,000 and Vectren asks it to deliver that amount, but the customer only uses 800 on that day, the supplier should only be required to supply the 800 +/- the allowable imbalance. The supplier cannot be expected to physically make the end user use more gas. The $35 per Dth penalty assessed to a pool operator for any volumes below the plant protection level is completely unreasonable.
- All Other Customers Penalty: As per the Choice and SCO programs, it is Vectren who is in charge of informing the suppliers of how much gas they need to supply on any given day. As long as the suppliers provide the amount required in the daily delivery quantity and have abided by the gate space requirements, I cannot see any reason (and Vectren has provided no reason) why Vectren should be allowed to also charge customers $3 per Billing Ccf[3] for gas used in excess of the "allowed quantity" pursuant to the "Curtailment Procedures and any instructions provided by Company

[3] Vectren proposes to define "billing Ccf" as the product of metered Ccf and the Energy Conversion Factor. Schedule E-2.1, Sheet 59 at page 1.

thereunder[.]" Moreover, I don't believe Vectren even has the daily read meter capability on all of their residential and choice customers.

Altogether, the changes in the Unauthorized Gas Usage Charge have not been justified and should be rejected.

Q. As for the other charges and fees listed above, why is there insufficient justification?

A. Vectren presented either brief, conclusory statements for these charges and fees or no reason at all for proposing these changes and fees. The Staff Report did not identify and address these changes, or Vectren's alleged justifications. As I explain further below, these charges and fees should be rejected:

- **Storage Non-Compliance Fee**: Vectren claims the change in fee is to "further ensure Choice Suppliers comply with Company specified storage requirements" (Schedule E-3, page 22). This statement does not show a need for the fee increase or how the proposed increase will ensure compliance.
- **Nomination Error Charge**: Vectren states that it added language to provide further clarity as to when this charge is applicable (Schedule E-3, page 21, 25 and 41), but this does not actually justify the proposal to make the charge apply to failures to nominate and nominations with incorrect information.
- **Peaking Demand Charge**: Vectren states that this change is to "better communicate the basis for the charge" (Schedule E-3, page 49). This explanation does not fully explain the charge or justify it.

III. <u>Imbalance Trading</u>

Q. Does Vectren propose any changes to Imbalance Trading between GTS pool operators?

A. Yes. The Application proposed to change the Imbalance Trading terms and conditions applicable to Large Transportation Service Pool Operators (Sheet 51, page 6.). Specifically, the redlined tariff contained two changes: (1) deleting language prohibiting a Transporter from trading to establish an imbalance in the opposite direction of the original imbalance and (2) requiring imbalance trades to be completed within two business days rather than three days. *Id*. It is troubling that these significant and potentially costly changes were not discussed in detail by the Application or the Staff Report. In addition, I have concerns with Vectren's current Imbalance Trading protocols. Also, starting in September 2018, Vectren unilaterally modified its Imbalance Trading protocols in a manner that conflicts with not only its current tariff but also its proposed redlined tariff. This issue, along with Vectren's proposed changes, should be addressed by the Commission in this proceeding. In order to place the issue in the appropriate context, it is necessary to first describe the Imbalance Trading protocols that existed prior to September 2018.

Q. What is Imbalance Trading?

A. Imbalance trading is a process through which Pool Operators can trade with each other to ensure gas deliveries remain within a specified tolerance level relative to actual pool usage.

Q. How does Imbalance Trading work?

A. Vectren issues an initial imbalance statement of daily and monthly imbalances (i.e. prior to imbalance trades) to Suppliers within ten (10) business days following the end of the month. Suppliers are allowed to trade with each other to help avoid penalties and to bring themselves within the 15% daily tolerance obligation. Historically this trading period has been a three (3) day window in which suppliers are allowed to make trades. To illustrate this process, if one Pool Operator A is 10% short on a day and another Pool Operator B was 20% short on that same day, Pool Operator A could sell Pool Operator B gas to bring Operator A up to its negative 15% limit.

Q. Does Imbalance Trading affect the physical gas that is brought onto the system?

A. No. The net amount of gas in the system remains the same when imbalanced trading is taking place. Imbalance trading takes place after the month has ended. Vectren balances the system on a daily basis by using TCO storage assets paid for by Choice and SCO Suppliers.

Q. What purpose does Imbalance Trading serve?

A. Imbalance trading allows pool operators to avoid daily and monthly penalties. Since pool operators are not privy to real time metering and forecasts are not always reliable, pool operators sometimes fall outside of the allowable +/- %15 tolerances despite best efforts to remain within tolerances. Meter reads provided by Vectren to the Suppliers can be sporadic. Sometimes the reads are not accounted for on the report and therefore the Supplier has no idea what the customer has used on that particular day.

Q. Has Vectren recently made changes to Imbalance Trading?

A. Yes. In September of this year, Vectren changed the way imbalance trading is treated. First, it lowered the trading period from 3 days to 2 days. More importantly, Vectren prohibited Imbalance Trading as described above. Under the new protocols, if Pool Operator A is 10% short, it can no longer sell gas to anyone even though the tariff allows them a 15% tolerance on any given day. In other words, Vectren is only permitting Imbalance Trading if it brings the Pool Operator's balance closer to zero. Based upon IGS' experience during September of this year, it has become nearly impossible to trade imbalances under the new paradigm. There is simply no rationale for Vectren's Imbalance Trading practice and proposal because the net position of the system is not changing even when Suppliers are engaging in imbalance trading.

Q. Are Vectren's changes reasonable?

A. No. Vectren's unilateral and unauthorized modification is objectionable (and unreasonable) for two reasons. First, the purpose of Imbalance Trading is to reallocate gas delivered during the prior month. It simply does not relate to the physical delivery of gas—it has no impact on the ability to balance the system. Vectren has not attempted to explain why this change is needed in its Application or testimony. Second, the system is balanced daily by the Choice and SCO Suppliers, not Vectren. Vectren has not argued or provided evidence that the practice in place prior to September, 2018 placed the system at any risk. It is arbitrary and unreasonable to establish protocols that will make it harder to trade imbalances and therefore lead to additional penalties on Suppliers. The Staff Report's failure to address Vectren's proposed changes and current practices is unreasonable and objectionable.

IV. System Beneficial Deliveries

Q. Does Vectren propose any changes in regards to how they requiring Pool Operators to make deliveries to the system?

A. Yes. The Application proposes to permit Vectren to require a Pool Operator to "1) vary its daily delivery from the nominated delivery quantities; 2) deliver to a different pipeline and/or city gate; and/or 3) make other changes to gas deliveries to ensure system integrity or mitigate the risk of pipeline penalties being assessed."[4]

[4] Sheet 51, P. 6.

Q. Do you have concerns with the above referenced language?

A. Yes. Suppliers use the guidelines and ratchets provided by Vectren to make their supply plans and procure supply. Suppliers will purchase supply at specific city gates in order to meet the requirements that Vectren puts in place. There is simply no justification for the new language proposed by Vectren and it has not attempted to provide any explanation as to why it should be granted unfettered discretion to require Suppliers to modify the quantity and manner in which they deliver gas to the system—potentially in an uneconomic fashion, even if there is no reliability justification to do so. Moreover, this provision appears to permit Vectren to arbitrarily modify the delivery requirements of one Supplier rather than on a prorata basis across all Pool Operators.

Q. Has Vectren added other language allowing them the flexibility to change delivery requirements?

A. Yes. It has added language to the OFO definition.

Q. How is Vectren proposing to change the OFO language?

A. Vectren is proposing to add the following language, "limiting storage injections or storage withdrawals, or directing more or less deliveries to specific pipelines and/or city gates to protect the integrity of Company's system and/or to mitigate interstate pipeline restrictions and/or changes."[5] This language appears to mirror changes in the "System Beneficial Deliveries" section at Sheet 51, page 6.

Q. Do you find this new language troubling?

A. Yes, it is vague and ambiguous. Like the language in the "System Beneficial Deliveries" section, it allows Vectren to require Suppliers to change their deliveries as Vectren

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[5] Sheet 59, P. 5.

sees fit. Suppliers cannot put together an effective supply plan for cold/warm OFOs if Vectren has the ability to change the delivery points at a moment's notice. Moreover, this modification also would apply the OFO tariff for an improper purpose. While the OFO tariff focuses on system imbalances (usage relative to deliveries), the proposed change is designed to address behind the city gate pressure issues completely unrelated to whether a Supplier's deliveries match usage. Vectren has not demonstrated why this change is necessary or reasonable; therefore, it should not be authorized.

V. Capacity Release Solely to SCO Suppliers

Q. Does Vectren propose any changes to how capacity is released?

A. Yes. Vectren proposes in Schedule E-2.1, at Sheet 52, page 6 and Sheet 56 at page 1 to have the ability to release capacity solely to SCO suppliers. Vectren claims in Schedule E-3, page 46 of 80 that the change gives Vectren flexibility to release smaller contract to only SCO suppliers. That "rationale" however does not justify this tariff change.

Q. Is Vectren's proposal reasonable?

A. No. It selectively benefits SCO suppliers giving them special access to capacity that is not obtainable by other suppliers in the market.

Q. Why is releasing capacity solely to SCO suppliers unreasonable?

A. All capacity is valued differently. By releasing the same "slice of system" to all choice and SCO suppliers, you maintain a level playing field in regards to capacity costs. By releasing some capacity solely to SCO suppliers, Vectren could inadvertently give the SCO suppliers an advantage of being able to use that capacity to source gas from a cheaper supply basin, thus lowering the SCO price.

Q. Has Vectren provided any reason for making this change?

A. Like many other changes to Vectren's supplier tariff, Vectren has not given a valid explanation as to why it is modifying its capacity allocation mechanism. As noted above, Vectren claims in Schedule E-3 at page 46 of 80 that the change gives Vectren flexibility to release smaller contract to only SCO suppliers. That does not rectify the concern I raise above. Further, I cannot think of any valid reason to change to existing slice of system capacity release methodology that has worked for over a decade. If Vectren has a concern with a small and obscure amount of capacity needing assignment, then the tariff should be restricted to that type of situation, including a limit of what "small" means. As proposed, Vectren would have too much flexibility to potentially create an unfair market construct.

VI. <u>Conclusion</u>

Q. Does this conclude your testimony?

A. Yes it does. However, I reserve the right to further supplement my testimony.

CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio e-filing system will electronically serve notice of the filing of this document on the parties referenced in the service list of the docket card who have electronically subscribed to this case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served upon the persons below via electronic mail this 7th day of November 2018.

/s/ Gretchen L. Petrucci
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