BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for Approval of a General Exemption of Certain Natural Gas Commodity Sales Services or Ancillary Services	**)))))**	**Case No. 21-0903-GA-EXM**
In the Matter of the Application of Duke Energy Ohio, Inc. for Tariff Approval	**))**	**Case No. 21-0904-GA-ATA**
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods	**)))**	**Case No. 21-0905-GA-EXM**

DIRECT TESTIMONY OF JOE BIRD ON BEHALF OF INTERSTATE GAS SUPPLY, INC.

September 7, 2022

I. INTRODUCTION

Q. Please state your full name, title and business address.

A. My name is Joe Bird. I am employed by Interstate Gas Supply, Inc. as a Gas Supply Manager. My business address is 6100 Emerald Parkway, Dublin, Ohio 43016.

Q. Please provide your background and qualifications.

A. I received a Bachelor of Science in Business Administration with a specialization in Logistics from The Ohio State University in 2007. Upon graduation, I started with IGS as a Gas Supply Analyst. I became a lead natural gas scheduler for several LDC's and interstate pipelines in Ohio and surrounding states. I have extensive knowledge and experience of gas movement in the Appalachian region. In 2018 I was promoted to Gas Supply Manager, responsible for a team that purchases physical natural gas supplies, schedules the gas to market, and position management for IGS gas customers in Ohio.

Q. On whose behalf are you testifying today?

A. I am testifying on behalf of Interstate Gas Supply, Inc.

Q. What is the purpose of your testimony?

A. I am responding to issues raised in Duke's application to transition from a GCR to an SSO as well as additional changes that the Commission should make to Duke's balancing tariffs. Specifically, I am addressing the following issues in the application: (1) balancing services provided to Competitive Retail Natural Gas "CRNG" suppliers; and (2) the timing of payments to SSO suppliers. Generally speaking, the purpose of my testimony is to promote development of the competitive market and to ensure a level playing field.

II. DUKE'S BALANCING SERVICE TARIFFS

Q. Can you explain how Duke assigns upstream capacity and storage assets to CRNG Suppliers?

A. Yes. Per the tariff rate Full Requirements Aggregation Service (FRAS), a pro rata portion of Duke's upstream capacity assets are assigned to CRNG suppliers based upon market share. This is accomplished on the upstream pipeline operators' electronic bulletin board using the FERC capacity release process. Duke does not release its storage assets to CRNG suppliers on upstream pipelines. Rather, it assigns the costs of such assets through the Enhanced Firm Balancing Service (EFBS) tariff. While Duke retains physical control and ownership of the storage assets (i.e., the underground storage facilities), it provides a storage bank to CRNG Suppliers that closely resembles the storage service provided to Duke on the upstream pipeline.

Q. How are storage assets used to balance the system?

A. Duke provides CRNG suppliers a Target Supply Quantity ("TSQ") for each day. Suppliers nominate gas to specified Duke city gates each day equal to the TSQ. If a supplier delivers less than the TSQ, Duke pulls gas that the supplier has purchased and owns from storage and reduces a supplier's EFBS storage bank. If a supplier delivers more than the TSQ, Duke adds the supplier's gas to the supplier's EFBS storage bank. City gate imbalances between aggregate nominations and actual aggregate demand are reconciled with Duke's storage assets, or similar no-notice service and operational balancing agreements.

Q. Does Duke offer CRNG suppliers any other balancing services?

A. Yes, suppliers whose pools are over a maximum daily quantity ("MDQ") of 6,000 dekatherms per day are required to take service under EFBS. The Commission made this determination in case 15-50-GA-UNC. However, suppliers with an MDQ under 6,000 may take either EFBS or Firm Balancing Service ("FBS"). Under FBS, a supplier must simply deliver gas based upon the TSQ, without an obligation to cycle Duke's storage assets or otherwise comply with the requirements under the EFBS tariff. Suppliers pay Duke for service under the EFBS and FBS schedules.

Q. Do you have any recommended changes to EFBS service and FBS service?

A. Yes, as I will discuss later in my testimony, I recommend that Duke assess upstream storage asset costs and similarly, EFBS-Demand and Commodity charges to CRNG customers rather than the current process. In order to understand my recommendation, I will first discuss Duke's existing and proposed balancing process for SSO suppliers and potential complications that may arise under the current process.

Q. How does Duke currently allocate storage costs to GCR customers?

A. Under the GCR, it is technically a pass through of upstream costs net of payments from suppliers that take service under FBS and EFBS. If Duke undercollects its storage costs, Duke increases the GCR rate to account for the undercollection. Conversely, if Duke overcollects its storage costs, it decreases the GCR rate to address the overcollection.

Q. How does Duke propose to pay for storage assets used to serve SSO load?

A. Duke does not propose to assign these costs to SSO suppliers. Instead, Duke proposes to recover the cost of SSO-related storage through the SSOCR, which is an avoidable rider. The price to compare that Duke proposes to include on customer bills will be the sum of the SSOCR plus the NYMEX price and the RPA as determined by the auction. Effectively, Duke proposes to recover the cost of its storage assets used for the SSO directly from SSO customers rather than SSO suppliers. Just like the current process regarding the GCR, Duke proposes a direct pass through of its storage-related costs to SSO customers.

Q. Do you recommend any changes to Duke's proposal?

A. Yes, whether the Commission orders Duke to undertake a full exit as recommended by IGS witness White, retain the GCR, or if the Commission moves to an SSO, I recommend that the Commission make an important change to promote a level playing field between default service and CRNG suppliers. Under the GCR and under Duke's proposal, Duke would pass the cost of storage directly onto customers. It doesn't make sense to recover default service storage costs through a customer charge while making CRNG suppliers pay Duke for their storage costs. Therefore, Duke should charge upstream storage reservation and commodity charges directly to CRNG customers.

Q. Can you explain why storage demand costs and FBS balancing costs should be assigned to a customer charge?

A. Yes, there are several reasons. First, competitive parity necessitates allocating all storage-related demand costs to a customer charge. Since Duke is currently proposing to allocate the storage costs for default service customers directly to those customers, it makes sense to treat CRNG supplier-related storage and balancing costs in the same fashion. Failure to do so would eliminate certain risks and obligations from default service (whether a GCR or SSO) while leaving the same set of risks and obligations on CRNG suppliers. Also, such a change would alleviate an issue regarding EFBS service that arose in Duke's most recent audit report in Case No. 21-218-GA-GCR. In that case, the Auditor recommended that EFBS charges should be reconciled to actual upstream costs. Such a reconciliation, however, is currently very difficult in many instances. For example, there can be timing differences between the EFBS rate and effective date of upstream costs components of that rate. Given the differing supplier product mix, contract mix, hedging strategies, and regulatory rules, attempting to reconcile such cost and revenue differences on a retroactive basis is akin to attempting to unscramble an egg. By moving the recovery of storage-related demand costs to a customer charge or rider for both the SSO and CRNG suppliers, it will be much easier to reconcile revenues to costs in the future.

III. SSO SUPPLIER PAYMENT TIMING

Q. Do you have any concerns with the manner in which Duke proposes to pay auction winners?

A. Yes, while I do not support the transition to an SSO for the reason stated in the testimony of Matt White, there are additional problems with the proposed transition that would destabilize the competitive market. Duke proposes to pay SSO suppliers for gas that is nominated to the city gate. Nominations do not match customer usage or customer billing of natural gas. Any nominations less than use will increase storage volumes. Thus, Duke proposes to pay SSO suppliers for gas that is nominated in the summer but some of which will not be used until the winter when removed from storage. Conversely, CRNG suppliers are only paid when their customers are metered for natural gas. Besides this clear disparate treatment, there are several potential market distortions that Duke's proposed process could create.

Q. Can you identify how Duke's proposal to pay SSO suppliers based upon deliveries may distort SSO prices?

A. There will undoubtedly be a disconnect between the price that Duke pays an SSO supplier and the effective SSO rate when the customer actually burns the associated gas. For example, assume that an SSO supplier receives an adjusted TSQ for 5,000 units in October when the RPA price is $8.00 per unit but customers only use 2,000 units. The SSO supplier is paid $40,000 in October when customers only paid $16,000. Now, assume that the RPA price for gas in November is $7.00 per unit. The adjusted TSQ is 2,000 units and customers burn 5,000 units. In this instance, the SSO supplier is paid $14,000 and customers will pay

$35,000. Notice that the amount that customers owe and what SSO suppliers are paid does not match, even though the amount of natural gas delivered meets demand perfectly. Here, customers have paid $51,000 but suppliers are actually owed $54,000. The difference would be reconciled through the SSOCR that could result in SSO prices not reflective of the current marketplace.

Q. Is it fair to pay SSO suppliers based upon nominations rather than customer usage of natural gas?

A. No. There is a cash working capital cost associated with injecting natural gas into storage. Suppliers in the CRNG program must inject gas in the summer knowing that they will not be paid by customers for that gas at a later time in the winter. CRNG suppliers must incur the cash working capital cost and weather risk associated with the need for that gas at a later date. Duke, however, proposes to eliminate such risk from SSO suppliers, paying them based upon nominations rather than customer burn. Such a paradigm does not create a level playing field. Moreover, it deviates from the processes in place for the SCO in Columbia, Dominion, and Centerpoint.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Joe Bird on Behalf of Interstate Gas Supply, Inc.* was filed electronically through the Docketing Information System of the Public Utilities Commission of Ohio on September 7, 2022. The Commission's e-filing system will electronically serve notice of the filing of this document upon the following parties listed below.

/s/ Michael Nugent
Michael Nugent

SERVICE LIST

Robert.eubanks@ohioAGO.gov
Thomas.shepherd@ohioAGO.gov
Rocco.dascenzo@duke-energy.com
Jeanne.kingery@duke-energy.com
Larisa.vaysman@duke-energy.com
Elyse.akbari@duke-energy.com
talexander@beneschlaw.com
mkeaney@beneschlaw.com
ssiew@beneschlaw.com
dparram@bricker.com
mjsettineri@vorys.com
glpetrucci@vorys.com
angela.obrien@occ.ohio.gov
William.michael@occ.ohio.gov
Connor.semple@occ.ohio.gov