

**Senate Consumer Protection and Professional Licensure Committee  
Senate Environmental Resources and Energy Committee  
Joint Hearing – Energy Policy for Pennsylvania  
Written Remarks of Columbia Gas of Pennsylvania  
June 12, 2007**

Chairman Tomlinson, Chairwoman White, Democratic Chairwoman Boscola, and Democratic Chairman Musto: Thank you for allowing Columbia Gas of Pennsylvania to provide written remarks for the committees' hearing on an energy policy for Pennsylvania. Columbia Gas looks forward to working with the committees on this extremely important issue.

Columbia is one of the oldest and largest natural gas utilities in Pennsylvania, serving 410,000 customers in 27 counties. The company is a subsidiary of NiSource Inc., whose operating companies deliver energy to 3.7 million customers from the Gulf Coast through the Midwest to New England. Together NiSource and Columbia employ nearly 900 Pennsylvanians throughout the service territory and are dedicated to increasing our workforce with family sustaining jobs in the coming years.

Columbia's top priority is to deliver safe and reliable natural gas service to our customers. We also make a tremendous effort to give back to the communities we serve by focusing our efforts on three primary areas – community development and safety, health and human services, and humanities education. As will be discussed in further detail in these remarks, we provide energy assistance to those in need through various universal service programs.

These remarks will focus on four areas that Columbia believes will have continued significance in the 2007-2008 legislative session. We realize the committees' role in these matters and look forward to working with each committee to develop sound energy policy in the following areas:

- 1) Dedication to low-income customers through various universal service programs and advocacy for a sustainable state funding source for energy assistance;
- 2) Minimizing the spread of collection costs to all responsible ratepayers through the continued enforcement of Chapter 14;
- 3) Extensive infrastructure improvement efforts; and,
- 4) Developing ways to continue support of energy conservation and efficiency while dealing with continued decline in customer usage.

## Universal Service

In addition to our own universal service programs that will be elaborated below, Columbia serves as a link to energy assistance dollars through the Low-Income Home Energy Assistance Program (LIHEAP). As you know, LIHEAP is a federal program administered by the state. The program has three basic components: cash, crisis, and weatherization. LIHEAP is income-based and was available during this past heating season to households at or below 150 percent of the federal poverty level (FPL). Cash grants are provided to assist those in need with their utility bills. In 2007, for a family of four, the income threshold is \$30,000. The crisis component provides a grant to customers facing utility service disruption due to lack of payment or the existence of an unsafe condition in the home. The weatherization component infuses dollars into the Department of Community and Economic Development for programs that provide home weatherization assistance to eligible customers.

Unfortunately, because of an increased need and a federal allocation that has not kept pace with inflation, the federal LIHEAP program is only actually helping one-third of those eligible for the program. Our parent company NiSource works with the federal government to maintain and improve funding for this program and others that support energy assistance and affordable energy sources. Consequently, Columbia continues to be a strong advocate for a sustainable state funding source to supplement federal LIHEAP dollars. Pennsylvania is the only cold weather state that does not provide state dollars for LIHEAP. In 2006 the state transferred one mil of the Gross Receipts Tax to an emergency energy assistance fund that provided \$19 million to those in need. Unfortunately, that provision only provided for a one year fix. Ultimately, the goal of the General Assembly should be to dedicate a funding stream that can be consistently relied upon on a yearly basis to provide heating assistance to our most vulnerable residents. Along with the tangible effect of helping those in need, any additional state dollars can be leveraged the following year to help secure additional federal money, which we have witnessed in other states.

Columbia Gas would like to thank Chairman Tomlinson for his leadership on energy assistance demonstrated by his introduction of Senate Bill 76. The legislation would provide a state match to utility hardship funds and distribute the monies during

heating seasons that are 10 percent colder than the statewide average monthly degree days for a heating season for the previous ten years. This would generate approximately \$700,000 in state matching funds based on Columbia's contribution to hardship funds.

Another potential avenue to explore is a bill introduced by Democratic Chairman Musto that proposes to levy a pass through charge on electric bills, termed a system benefits charge (SBC), which would be dedicated to an energy development fund to be used by the Pennsylvania Energy Development Authority and the Benjamin Franklin Technology Development Authority to finance bond obligations for alternative energy projects.

At the outset it is important to note that Columbia certainly understands that the SBC, as currently structured, levies the charge strictly on electric customers. Consequently Columbia is not taking a position on the enactment of an SBC. Rather, if the policy determination is made to proceed with an SBC as currently drafted or otherwise, Columbia Gas would encourage the prime sponsor and his colleagues to examine the possibility of broadening the scope of the created fund beyond financing alternative energy projects and look to other states that have employed similar charges and dedicate a portion of the funding to statewide energy assistance. For example, in New York between June 2001 and June 2006, \$141 million was allocated to low-income programs. In New Hampshire, a statute authorizes the funding of low-income electric assistance programs through its SBC. Regardless of the policy direction taken on an SBC, Columbia encourages the committees to keep the discussion of the need for statewide energy assistance at the forefront. Even with the advent of alternative sources of energy, commodity prices remain high in comparison to a few years ago and the back-up energy source for those employing alternative sources is electricity, and that electricity derives from gas-fired generation.

In addition to a dedicated funding mechanism, Columbia believes there is also a need for the Legislature to take an affirmative role in the administration of LIHEAP. Yearly changes in program opening dates and income eligibility have caused confusion and dictate the need for consistent statutory provisions upon which policy makers, regulators, and most importantly, customers, can depend. Senator Robbins has taken a

leadership role on this issue with his introduction of Senate Bill 352. This is a reintroduction of Senate Bill 1270 from last session, which was examined during a hearing before the Public Health and Welfare Committee. The bill specifically provides for income eligibility at 150 percent of the FPL or less, allocates the percentage of federal dollars that would be dedicated to the cash, crisis, and weatherization components, requires the Department of Public Welfare to leverage all programs and resources to maximize federal LIHEAP funding, and provides for legislative oversight of the state LIHEAP plan, including submission of the state plan to the Consumer Protection and Professional Licensure and Public Health and Welfare Committees for review and comment. Columbia strongly supports this bill as written and respectfully asks for your support when the bill is considered by the full Senate.

In addition to adequate funding and efficient administration, a significant key to helping customers through LIHEAP is awareness. For the last 16 years Columbia has led an effort with Pittsburgh Steelers Hall of Fame inductee Franco Harris to encourage income-eligible residents to apply for LIHEAP. This past heating season the company held a pep-rally event at Heinz Field with more than 200 social service agencies to excite, prepare, and mobilize them for the upcoming heating season. The American Gas Association referred to the concept as “one-of-a-kind” and “the best in the nation.”

In addition to acting as both a link to the federal funds and as an advocate for state funding, Columbia takes a leading role to provide universal service programs to our customers in need. Columbia partners with the Dollar Energy Fund to provide grants to customers for use in offsetting arrears or restoring terminated utility service. Our customers support this fuel fund by their personal donations and Columbia matches every dollar that is contributed. Columbia has also set new standards for raising awareness and funds for Dollar Energy Fund. The company has leveraged sponsorships of the Trans-Siberian Orchestra’s holiday concert in 2005 and 2006 and the premiere of the *Edward Scissorhands* ballet earlier this year. By negotiating a dollar from every ticket sold into the agreements, Columbia generated \$90,000 in funds while raising awareness through paid and unpaid media. In addition, Columbia helped spearhead a statewide campaign that the Pennsylvania Public Utility Commission (PUC) participated in, to raise awareness and funds for Dollar Energy Fund. The unique

program incorporated Punxsutawney Phil into an extensive and creative advertising campaign that swept the Commonwealth.

Columbia also offers a customer assistance program (CAP) which provides for affordable payment plans for customers with low incomes and long-term bill payment problems. The program is available for those at or below 150 percent of the FPL and the monthly billed amount is based on a percentage of the customer's income or a percentage of the customer's bill. Presently the payment for a CAP customer, based on income eligibility, ranges from a minimum of \$30, to an average of \$45. Since 2005, Columbia has added 4,000 customers to its CAP, bringing the total enrollment to roughly 24,000 customers. The cost of Columbia's CAP program in 2006, accounting for arrearage forgiveness and CAP credits (shortfall), was \$25.6 million. Columbia also employs universal service representatives for our Customer Assistance Referral and Evaluation Service (CARES) to provide basic budget counseling, customized payment plans, referrals to energy grant programs and community resources, and LIHEAP outreach. The cost of the CARES program in 2006 was \$247,000.

Columbia also realizes how critical energy conservation is to assisting households in controlling energy costs. That is why Columbia administers two types of weatherization programs. The first is the Low-Income Usage Reduction Program (LIURP); the second is Columbia's Emergency Repair Fund (ERF). The LIURP pays for the insulation, weather stripping, and other weather proofing materials for customer homes. The ERF offers financial assistance for the repair or replacement of furnaces, water heaters, and service and house lines in the event of an emergency situation. For example, if a Columbia service technician determines a heating unit is unsafe and, consequently, the gas must be disconnected, a household meeting the income guidelines can take advantage of this program to repair or replace the entire heating unit. The cost of weatherization programs in 2006 was over \$1.6 million.

In addition to the specific programs above, there are also several state mandated and Columbia endeavored customer programs. All told, over \$28 million was spent to help those most in need in Columbia's service territory. A portion of this spending is non-recoverable in rates as it derives from shareholder funds. A much larger portion, however, is recoverable through rates paid by customers.

## Responsible Ratepayers

While Columbia continues to support its low-income customers through the programs outlined above, we also take very seriously our responsibility to those customers who make every effort to pay their bills monthly, in a timely manner. Inherent in utility charges are the costs that support universal service programs. Columbia is very cognizant of the fact that as you continue to place an increased burden on those able to pay to make up for those who either cannot or attempt not to pay, you are shifting more households into the unable to pay category.

Columbia encourages customers who can afford their utility bills to pay them so that conscientious paying customers are not required to supplement the shortfall created by those taking advantage of the system. While supporting universal service programs to protect the legitimately needy, low-income customers, Columbia utilizes the tools Chapter 14 has provided to ensure bills are paid timely. The estimated annual impact of Chapter 14 on Columbia, as measured by maintenance of write-offs and accounts receivable levels, is in the range of \$3.5 to \$4 million. The effectiveness of Chapter 14 is underscored by the fact that, in contrast with its sister utilities across the NiSource family of distribution companies, Columbia Gas of Pennsylvania did not experience an increase in its write-offs during 2006. This point is enhanced by the fact that gas prices were higher in 2006 than they were in previous years. While we can point to several sections of the law under which we have been able to reduce bad debt, two worth mentioning are the elimination of the 48-hour notice during the months of April through November and the reduction in duration of payment arrangements offered by Columbia.

The elimination of the 48-hour notice during warmer months had a direct correlation to the reduction in operation and maintenance costs. In order to comply with the 48-hour notice prior to the enactment of the law, Columbia was required to roll a truck and an employee in order to post a notice of termination. Through this process Columbia experienced that 95 percent of the time there was no contact made at the 48-hour notice and the shut-off was delayed an additional two days. This led to increased operation and maintenance costs that were eventually passed along to our ratepayers.

Reasonable payment plans were also another key aspect of Chapter 14. Prior to enactment, the average PUC payment agreement exceeded 120 months. Because of Chapter 14, the length of PUC payment plans have been modified to reduce the pay-off period to a more reasonable 60-month maximum. Columbia has also experienced a significant decrease in the number of months it takes for customers to pay off arrearages through company payment plans. In 2004 the average length of a Columbia payment arrangement exceeded 50 months. By contrast, the average length of a plan in 2006 was 32 months.

Critics of Chapter 14 have honed in on the increase in the number of shut-offs since enactment of the law in late 2004. To focus only on shut-off numbers, however, misses a major part of the story – the part that reveals that Chapter 14 is achieving its objective of encouraging payment by customers with the means to do so. While Columbia did shut-off more residential customers during 2005 than it had in prior years its reconnection ratio, (that is the number of those shut-off who eventually paid to be reconnected) saw a dramatic increase. This ratio went from 35 percent prior to Chapter 14 to an all-time high of 58 percent after enactment. In the last year alone the number of Columbia customer reconnections as a result of payment increased 281 percent. These examples demonstrate improved payment behavior, which was the major goal of Chapter 14.

Through Chapter 14 the Legislature entrusted distribution utilities with more discretion to handle delinquent bill payers. With this discretion came the expectation that the utilities would work with customers in difficult times to ensure natural gas service continues. Columbia has fulfilled this expectation by encouraging our customers to contact the company if they are having trouble paying their bills. For example, Chapter 14 allows – but does not require – a utility to enter into a second payment arrangement upon default of a first. As a part of Columbia's policy, the company automatically extends one new payment plan to a customer who defaults on a first, although not required to do so. It is in Columbia's, and any natural gas company's, interest to work with a customer in order to keep natural gas flowing to the residence.

Finally, it is extremely important to note that the implementation of the Chapter is still ongoing. Upon enactment, Columbia and other utilities undertook a series of costly

programming changes in order to bring computer systems into compliance with the new law. Also, to this day, Columbia continues to work collaboratively with the PUC on its proposed rulemaking in order to bring the regulations into compliance with the statute.

### Infrastructure

There has been extensive media coverage throughout the last year regarding the aging infrastructure that is Pennsylvania's roads and bridges and the need for the Legislature to address the issue. Consequently, transportation funding and investment in the state's transportation future will be key debates during and beyond this year's budget negotiations. The need to include water and wastewater systems in the infrastructure discussion has also been raised by the Pennsylvania Economy League and in newspaper editorials across the state. What is not as readily realized, unfortunately, is that the natural gas system is also aging. As with the other infrastructure, many components of the natural gas distribution system are coming to the end of their useful operating life. The pipes have been in the ground and in service for decades and, like roads and bridges, the pipes have a period in which they serve their purpose and then must be replaced in order to maintain safe and reliable service.

A performance audit of the PUC conducted pursuant to House Resolution 695 (2005-2006 session) by the Legislative Budget and Finance Committee keyed in on the infrastructure issue, specifically in regard to wastewater systems. From this audit and its own findings, the PUC is also keenly aware of the priority that must be placed on infrastructure improvement, not only for wastewater, but throughout the utility industry. During Appropriations Committee hearings earlier this year, PUC Chairman Wendell Holland and Vice Chairman Cawley commented on how critical it is that utility infrastructure continues to be reliable and that the integrity of the system is maintained. During a House Consumer Affairs Committee hearing several weeks ago Chairman Holland and Vice Chairman Cawley again discussed the need to address the issue of utility infrastructure. In addition, Commissioner Terrance Fitzpatrick has also recognized the need to address the state's multifaceted infrastructure problem. In a white paper on the issue, Commissioner Fitzpatrick emphasizes the urgency of this issue and calls for, evidenced by the title of the white paper, a comprehensive approach to improving utility and transportation infrastructure. At its most fundamental level,

natural gas infrastructure must be part of the overall conversation. As Commissioner Fitzpatrick notes, the general public does not give much thought to infrastructure until a breakdown in the system generates a response.

Columbia is committed to addressing the infrastructure needs of our distribution system. Columbia has 2,700 miles of distribution mains in our service territory that were installed prior to 1960. These distribution mains are reaching the end of their useful operating life and need to be taken from the ground and replaced with new line to ensure continued reliable service and the integrity of the system. Columbia is committed to updating our system to ensure that our customers continue to receive safe and reliable natural gas service for generations to come. Not only will this investment benefit customers, but it will increase the vitality of Pennsylvania's economy with the creation of jobs and dollars spent in the state.

It is important to note that the types of improvements necessary to enhance our infrastructure are non-revenue producing. This means that the bottom line is unaffected by these changes. These are simply updates that have to be made to ensure the integrity of the system that allows us to provide safe and reliable service. These capital-intensive changes are necessary regardless of how much gas is flowing through the line and producing revenue.

Columbia encourages the committees and the full Senate to explore new policies and legislation enacted in other jurisdictions that will enable all utilities to make the necessary investment in their infrastructure. Columbia stands ready to work with you on this endeavor.

#### Usage Decline and Energy Conservation

At the outset of Columbia's remarks on this topic it is important to acknowledge that the PUC is nearing the end of an investigation of conservation, energy efficiency, and ratemaking mechanisms. Based on testimony provided to the committees last week, policy recommendations by PUC staff will be made this month. Columbia has been involved in this collaborative and looks forward to the outcome.

The natural gas industry has been dealing with an accelerating decline in usage since 2000. According to the American Gas Association, while there had been a historic annual decline of about one percent prior to 2000, the annual rate of decline

from 2000 to 2006 doubled. From 2004 to 2006, the rate of decline was nearing five percent. Columbia has not been immune to this erosion in usage. In 2005 Columbia recognized a decrease in its average monthly residential consumption from 10 Mcf (thousand cubic feet) to 8.6 Mcf.

The reduction in usage is attributable to two related factors. The first is the increase in the cost of the commodity itself. With the exception of 2006, natural gas prices have been on the rise since 2002. In 2002 the average price of natural gas was \$3.47 per thousand cubic feet. By 2005 this average jumped to \$9.00. These market fluctuations do not inure to the benefit of distribution companies who simply pass their gas costs onto customers on a dollar for dollar basis. The second factor, directly related to the first, is conservation, whether it is as simple as customers lowering their thermostats or taking more substantial steps such as weatherizing their homes or using more efficient furnaces. As noted herein, weatherization is an important component of Columbia's universal service programs. Based on recent results of this program, these conservation efforts have led to an average of 25 percent decrease in usage among weatherized homes.

Columbia has long supported conservation and energy efficiency. At the same time, like any business, Columbia must have an opportunity to earn a reasonable return on its investment. Our business is driven by fixed costs; that is, those costs that do not change based on the amount of gas we sell. Traditionally, recovery of these costs has been enhanced by encouraging customers to use more gas. A small reduction in customer usage can, and often does, lead to a decreased ability to earn a reasonable return on our investment while increased consumption has the opposite effect. Thus, as lawmakers and regulators develop and implement policies that encourage conservation, and laudably so, traditional, consumption-based cost recovery must make way for new cost recovery mechanisms that promote conservation, while providing utilities an avenue to earn a fair rate of return.

Columbia will continue to work closely with the PUC on its collaborative process and looks forward to the policy recommendations. We encourage the committee to stay informed about this issue and evaluate the PUC's findings.

Again, Columbia Gas of Pennsylvania thanks the committees for the opportunity to provide written remarks on Pennsylvania energy policy.