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January 31, 2011

Brenda K. Pennington
Interim People's Counsel

Ms. Dorothy Wideman
Commission Secretary
Public Service Commission of the
District of Columbia
1333 H Street, NW, 2nd Floor, West Tower
Washington, D.C. 20005

Re: Formal Case No. 874, WGL's 2010 Gas Procurement Report

Dear Ms. Wideman:

Enclosed please find for filing an original and fifteen (15) copies of the "Comments of the Office of the People's Counsel Regarding the 2010 Gas Procurement report of Washington Gas Light Company—Public Version" in the above-referenced proceeding.

Please contact me if you have questions regarding this matter.

Sincerely yours,

Barbara L. Burton
Assistant People's Counsel

Enclosures

cc: All parties of record

**BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA**

In the Matter of the Gas Acquisition)	
Strategies of the District of Columbia)	Formal Case No. 874
Natural Gas, a Division of Washington)	(2010 Gas Procurement Report)
Gas Light Company)	(PUBLIC)

**COMMENTS OF THE OFFICE OF THE PEOPLE’S COUNSEL
REGARDING THE 2010 GAS PROCUREMENT REPORT OF
WASHINGTON GAS LIGHT COMPANY**

I. INTRODUCTION

Pursuant to Rule 2315.5 of the District of Columbia Public Service Commission’s (“PSC” or “Commission”) Rules of Practice and Procedures,¹ and Commission Order No. 16040 issued November 2, 2010 in this proceeding,² the Office of the People’s Counsel of the District of Columbia (“OPC” or “Office”), respectfully submits its Comments concerning the 2010 Gas Procurement Report (“GPR” or “Report”) filed by Washington Gas Light Company (“WGL or “Company”) on November 15, 2010.

II. SUMMARY OF OPC’S POSITION

The objective of the GPR is two-fold. First, it should be a transparent and accurate account of WGL’s supply procurement activities. Second, it should facilitate the PSC’s and OPC’s ability to “more easily determine what the net benefits to District of Columbia natural gas

¹ 15 D.C.M.R. § 2315.5.

² *Formal Case No. 874, In the Matter of the Application of Washington Gas Light Company, District of Columbia Division, for Authority to Amend Its General Service Provisions*, Order No. 10640 at ¶ 1 (rel. Nov. 2, 2010).

ratepayers are and whether the costs District ratepayers now pay for reliable gas service are reasonable.”³ OPC is concerned WGL has not satisfied this objective.

Accordingly, OPC recommends the following:

1. The GPR should contain narratives and analyses to put the numeric data in context. Specifically, sections II-V should be revised to provide summaries of demand, supply, costs and billing impacts by rate class with detailed narratives that discuss how forecasts made in prior years compare with WGL’s actual experience;
2. The natural gas supply section of the Report, currently Section VI, should be restructured to have four sections on demand forecast, supply forecast, distribution system planning and optimization of supply and demand.

III. PROCEDURAL HISTORY

On November 15, 2010, WGL filed the 2010 Gas Procurement Report. The Report covers WGL’s natural gas procurement activity for 2009 and 2010.⁴ WGL filed the Report pursuant to the requirements of Commission Order No. 9793, Order No. 10489 and Order No. 10679 in Formal Case No. 874 and 15 D.C.M.R. § 2315.

IV. SUMMARY OF WGL’S 2010 NATURAL GAS PROCUREMENT REPORT

The Report contains seven sections.⁵ Section I provides general information on the Report and a section by section overview. Sections II and III present the historical gas cost for 2009 and 2010. WGL presents numerical data showing, among other things, annual and monthly gas cost, natural gas delivery and balancing charges, interruptible margins and a comparison of firm and interruptible rates. Each section of the Report incorporates gas supply costs incurred by source of supply; the allocation of gas supply costs including Weighted Average Cost of Gas

³ *Id.*, Comments of the Office of the People’s Counsel Regarding the 2006 Gas Procurement Report of Washington Gas Light company—Revised Public at 7, filed Feb. 16, 2007.

⁴ *Id.*, Report at Section I, p. 3.

⁵ *Id.*

(WACOG) by jurisdiction and customer classes; billing determinants and costs; revenues from sources such as capacity release, among other things. Sections IV and V contain a similar set of information for the projected gas cost in 2011 and 2012. OPC notes Sections II-V contain only numeric data presented in various schedules. **(CONFIDENTIAL INFORMATION OMITTED.)**

V. DISCUSSION

OPC has had long standing concerns about the value of the Report to the Commission, the Office and other stakeholders. WGL's penchant for providing little analysis or explanation in the Report has compelled OPC to constantly make recommendations intended to improve the GPR. For example, in its Comments on the 2006 GPR, OPC recommended future GPRs contain a summary explanation of the basis upon which it forecasts gas purchases, transportation, storage and peaking shaving unit cost; identify the basis for forecast volume changes because it was largely unexplained in the GPR; and incorporate forecasted jurisdictional allocators to eliminate the false appearance of significant changes in future unit costs, among other recommendations.⁶

Two years later, in its Comments on WGL's 2008 GPR, OPC observed "the GPR provides an overview of WG's gas procurement activities by reference to aggregated monthly data, but provides little transparency into the prudence of WG's management of those activities. Aside from the presentation of dollar, volume and per-dekatherm costs, the GPR devotes relatively little description for the details regarding WG's gas purchasing decisions and portfolio management during the annual periods ending August 2007 and August 2008, particularly the important asset optimization activities."⁷ OPC requested the Commission conduct an evidentiary hearing to thoroughly investigate WGL's Asset Optimization activities, among other recommendations.⁸ While the Commission denied OPC's request to initiate an investigation,⁹ it

⁶ *Id.* OPC's 2007 Comments on the 2006 WGL GPR at 13-14.

⁷ *Id.*, Comments of the Office of the People's Counsel Regarding the 2008 Gas Procurement Report of Washington Gas Light Company at 3, filed Jan. 30, 2009.

⁸ *Id.* at 1, 5.

⁹ *Id.*, Order No. 15658 at ¶ 12 (rel. Jan. 19, 2010).

did direct WGL to provide more information than it had previously provided regarding its asset optimization activities.¹⁰

OPC acknowledges WGL has made some improvements in the GPR over the years; nevertheless, more can and needs to be done as OPC's following Comments on the 2010 GPR indicate.

A. The Report Contains Numerical Data Without Context.

A report dealing with natural gas supply mix, acquisition and delivery should be informative so the Commission, OPC and stakeholders can easily determine whether or not WGL has successfully acquired and provided natural gas to its customers at a reasonable cost. Of the 300 pages in the Report, approximately 200 pages or 70% of the Report contains only numerical data. OPC submits the Report should not be filled with numeric data without narratives because it (i) is devoid of context within which to interpret the numbers and (ii) does not inform the Commission and stakeholders as to whether or not WGL is fulfilling its statutory obligation. OPC submits it is difficult to assess, merely by looking at the Report's numeric data, how well WGL performed compared to prior years, how prepared WGL was to meet projected demand, the extent to which WGL envisions and incorporates potential sources of risk and uncertainty that may jeopardize the safe and reliable delivery of natural gas to District consumers.

A closer examination of the numeric data shows only natural gas volume and cost information. The Report does not discuss or analyze the volume of natural gas procured, costs incurred, and all parameters related to a sound natural gas procurement plan. Unless WGL's accounting entry of the volume of gas, costs and related parameters require auditing for

¹⁰ *Id.* at ¶¶ 13-19.

verification, nearly 70% of the 2010 Report cannot be used to develop a sound policy recommendation regarding the manner in which WGL procures and delivers natural gas to its customers in the District. OPC submits WGL's Report is not useful as filed absent an understanding of WGL's procurement planning process.

OPC recommends Sections II-V dealing with natural gas procurement costs for the prior two years and future two years be structured differently. Specifically, OPC recommends Sections II-V provide summaries of demand, supply, costs and billing impacts by rate class with detailed narratives that discuss how forecasts made in prior years compared with WGL's actual experience. Additionally, the narratives should show changes between prior years and future two years, including a discussion of the reasons for the changes. Much of the data reported in these sections can be filed on electronic media as appendices rather being filed as the main body of the Report. OPC submits restructuring these sections in this manner will make it more informative and easier for the Commission, OPC and other stakeholders to assess how well WGL is executing its statutory obligations and whether or not some policy changes need to be proposed to better serve the public interest with respect to WGL's gas procurement activities.

B. The Natural Gas Supply Plan Section Of The Report Should Be Restructured.

OPC submits if a regulated natural gas company plans its procurement strategies, it invariably must do each of the following tasks: (i) forecast customer growth by class; (ii) forecast load growth, and perform scenarios based on variations of normal weather events; (iii) develop a list of supply options such as storage, short or long term contracts, spot purchases, exchanges and so on; (iv) determine if the projected supply can meet the various demand or load forecast scenarios and develop measures to ensure adequate and reliable supply under the various demand scenarios; and (v) anticipate emerging policies that could alter the projected supply and

demand, such as major federal or state policies, and attempt to include the impact of these policies in the development of the gas procurement plan.

A review of natural gas and electric resource plans in Delaware, Washington, Oregon, Virginia, and Ohio indicates key common elements OPC believes should be components of a portfolio management plan or an integrated resource plan.¹¹ In general, such a report will have at least four sections, as discussed below.¹²

1. Section I: Demand Forecast

The demand forecast section could include annual growth and use per customer forecasts, design and peak day forecasting, and demand uncertainties. **(CONFIDENTIAL INFORMATION OMITTED.)** Supplementing this section of the demand forecast and scenarios with demand changes due to factors other than weather (e.g., penetration of demand side resources that may affect growth in demand) will help WGL provide a realistic outlook regarding natural gas needs of its District customers.

2. Section II: Supply Forecast

The supply forecast section will examine all feasible ways of meeting demand including supply-side and demand-side resources. An analysis of demand-side resources should also show potential demand-side management measures, their costs, implementation issues, uncertainties, and environmental externalities. An analysis of supply-side resources will show gas supply

¹¹ See, for example, (Delaware): <http://dep.sc.delaware.gov/electric.shtml> ; (Vermont): <http://publicservice.vermont.gov/divisions/planning.html> ; (Washington): <http://www.avistautilities.com/inside/resources/IRP/pages/default.aspx> , https://www.nwnatural.com/content_aboutus.asp?id=480, <http://www.pacificcorp.com/es/irp.html>, <http://pse.com/energyenvironment/energyresourceplanning.aspx> and http://www.cngc.com/docs/Cascade_Natural_Gas_2008_IRP.pdf ; (Virginia): http://www.scc.virginia.gov/newsrel/e_irp_09.aspx and for Ohio: <http://codes.ohio.gov/oac/4901%3A5-7> .

¹² <http://www.avistautilities.com/inside/resources/irp/electric/Documents/2009%20Natural%20Gas%20IRP-FINAL.pdf>, pp.1.1-1.14

resource options, capacity resource options, supply side uncertainties, hedging practices and asset optimization strategies. The supply options to meet projected demand could be broadly grouped into supply-side and demand-side resources.

(CONFIDENTIAL INFORMATION OMITTED.)

3. Section III: Distribution System Planning

OPC submits any natural gas supply plan must address the critical issue of whether or not its distribution system is functioning well to deliver gas to its customers. Without a reliable distribution system, there will be no gas delivery. Therefore, any gas procurement or integrated resource plan must discuss (i) whether or not its distribution system is functioning well, and (ii) anticipated potential areas where pressure may be declining or upgrades may be needed. This aspect of gas supply is missing from the Report.

A regulated utility should develop a resource plan that includes the safe, economical and reliable full-path delivery of natural gas from wellhead to burner tip. In order to have sound distribution planning, WGL should forecast future demand growth, identify potential areas of distribution system constraints, develop potential solutions and their corresponding costs to minimize and/or eliminate the constraints. The distribution planning section should examine the Company's distribution main pipelines, regulator stations, service distribution lines, monitoring and metering devices, and other equipment in the District as well as neighboring jurisdictions where it offers similar service. The outcome of distribution planning must demonstrate the system has adequate pressure to deliver gas during peak hours. By using software used in the gas industry, WGL can perform distribution planning to identify needs (e.g., additions, reinforcements, expansions) to accommodate current and future demand growth.

WGL has not discussed distribution planning in its GPR. This is one area of the planning document OPC recommends should be fully developed in future reports.

4. Section IV: Optimization of Supply and Demand

The optimization section of the report will help determine (i) optimal mixes of resource to meet forecasted demand at a reasonable cost, and (ii) resource deficiencies over the planning horizon. Of significant importance to the optimization model is the necessity to meet the demand planning criteria of design day or coldest day demand. In order to meet this demand, WGL can model firm resources such as contracts, storage and pipeline resources. All supply and demand variables will be fed into an industry accepted optimization model such as SENDOUT. The inputs to the model include variables such as customer count, weather patterns, transportation resources and costs, capacities and costs, demand- side management resources and natural gas prices, among others. The output of the optimization model shows options that will meet the forecasted demand at a minimum cost. Various scenarios can be performed on any of the outcomes.

(CONFIDENTIAL INFORMATION OMITTED.)

OPC recommends future reports should also include commodity prices because it is a significant component of the total resource cost of a resource option. OPC notes often these price forecasts can be obtained from third party firms specializing in producing short and long-term natural gas price forecasts and scenarios. If **WGL's (CONFIDENTIAL INFORMATION OMITTED)** is unable to accommodate all the demand and supply variables as discussed above, OPC recommends WGL explore better optimization software such as SENDOUT. It is a tool that integrates supply, demand and all components of a sound natural gas supply plan. The results will show how supplies and demand for natural gas are brought

together as a portfolio of resources. The optimization could be run for various weather, price, policy, among other scenarios.

VI. CONCLUSION

WHEREFORE, for the foregoing reasons, the Office of the People's Counsel requests the Commission adopt its recommendations herein with respect to WGL's 2010 Gas Procurement Report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brenda K. Pennington", is written over a horizontal line.

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Dated: January 31, 2011

CERTIFICATE OF SERVICE

Formal Case No. 874

I hereby certify that on this 31st day of January, 2011 a copy of the foregoing “Comments of the Office of the People’s Counsel Regarding the 2010 Gas Procurement Report of Washington Gas Light Company—Public Version” was served via hand delivery or first class mail, postage prepaid on the following parties of record:

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