COMMONWEALTH OF PENNSYLVANIA

August 23, 2022

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.
2022 Base Rate Filing / Docket No. R-2022-3031211**

Dear Secretary Chiavetta:

Enclosed please find the Main Brief, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney I.D. No. 77538

Enclosures

cc: Robert D. Knecht
Mark Ewen
Parties of Record

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2022-3031211**
	:	
Columbia Gas of Pennsylvania, Inc.	:	

MAIN BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

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Date: August 23, 2022

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I. Introduction

A. History of the Proceeding

On March 18, 2022, Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) filed Supplement No. 337 to Tariff Gas Pa. P.U.C. No. 9 (“Supplement No. 337”), which was filed with the Pennsylvania Public Utility Commission (“Commission”). The rates set forth in Supplement No. 337, if approved by the Commission, would increase Columbia’s annual jurisdictional revenues by approximately $82.2 million.

On March 28, 2022, the Office of Small Business Advocate (“OSBA”) filed a formal Complaint in opposition to Supplement No. 337.

On April 29, 2022, a telephonic prehearing conference was held before Administrative Law Judge (“ALJ”) Christopher P. Pell.

On May 2, 2022, ALJ John Coogan was assigned to this proceeding.

On May 3, 2022, ALJ Pell and ALJ Coogan issued their Prehearing Order #1.

On June 7, 2022, the OSBA served the Direct Testimony of Robert D. Knecht and Mark D. Ewen.

On July 6, 2022, the OSBA served the Rebuttal Testimony of Mr. Knecht and Mr. Ewen.

On July 26, 2022, the OSBA served the Surrebuttal Testimony of Mr. Knecht and Mr. Ewen.

On August 3, 2022, ALJ Pell and ALJ Coogan conducted an evidentiary hearing.

At the time of this writing, the OSBA understands that the parties to this proceeding, including Columbia, will be submitting a partial settlement of issues on the Reply Brief date of September 2, 2022. The issues of cost-of-service methodology and revenue allocation have been reserved for litigation.

The OSBA submits this Main Brief in accordance with the ALJs' May 3rd Prehearing Order #1.

B. Legal Standards

Section 1301 of the Public Utility Code, 66 Pa. C.S. § 1301, provides that "every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission."

The burden of proof to establish the justness and reasonableness of every element of the utility's rate increase rests solely upon the public utility. 66 Pa. C.S. § 315(a). "It is well-established that the evidence adduced by a utility to meet this burden must be substantial." *Lower Frederick Township. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

Although the burden of proof remains with the public utility throughout the rate proceeding, when a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Order entered July 17, 2008). "Section 315(a) of the Code, 66 Pa. C.S. § 315(a), applies since this is a proceeding on Commission Motion. However, after the utility establishes a prima facie case, the burden of going forward or the burden of persuasion shifts to the other parties to rebut the prima facie case." *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931 (Order entered September 28, 2007), at 12.

Furthermore, Section 523 of the Public Utility Code, 66 Pa. C.S. § 523, requires the Commission to "consider . . . the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates." In exchange for customers paying rates for service, which include the cost of utility plant in service and a rate of return, a public utility is obligated to provide safe, adequate, and reasonable service. "[I]n exchange for the utility's provision of safe, adequate and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return for the utility's investors . . . In return for providing safe and adequate service, the utility is entitled to recover, through rates, these enumerated costs." *Pa. PUC v. Pennsylvania Gas & Water Co.*, 61 Pa. PUC 409 (1986), at 415-16. *See also* 66 Pa. C.S. § 1501. As a result, the legislature has given the Commission discretionary authority to deny a proposed rate increase, in whole or in part, if the Commission finds "that the service rendered by the public utility is inadequate." 66 Pa. C.S. § 526(a).

II. Summary of Argument

The OSBA follows Commission precedent and uses the Peak & Average cost of service study methodology in this proceeding.

The OSBA follows Commission precedent and is not using the Customer Demand cost of service study methodology in this proceeding.

The OSBA corrected a variety of errors in Columbia's execution of its Peak & Average cost of service methodology.

The OSBA version of the Peak & Average cost of service study should be adopted in this proceeding.

The "indexed rate of return" metric to measure the progress of a customer class towards its cost of service should be should no longer be used by the Commission.

The OSBA proposed revenue allocation should be adopted in this proceeding.

The OSBA's proposed revenue allocation should be proportionally scaled-back to allocate the final revenue increases to the Company's customer classes.

IX. Rate Structure[1]

A. Cost of Service

1. Choice of Cost-of-Service Methodology

In Columbia's base rates proceeding at Docket No. R-2020-3018835, the Commission approved the use of a "Peak & Average" ("P&A") cost of service study ("COSS") methodology for mains cost allocation.[2]

In this proceeding, Columbia submitted three different COSS methodologies: P&A; Customer/Demand[3] ("CD"); and the average of the two.[4] Unsurprisingly, and considering the Commission's decision in the Company's previous base rates case, Columbia primarily used the P&A COSS methodology in this proceeding, but does incorporate some results from the CD COSS.[5]

The OSBA accepts the use of the P&A COSS methodology based upon the precedent set forth in the *February 2021 Order*. The Office of Consumer Advocate ("OCA") and the Bureau of Investigation and Enforcement ("I&E") also relied upon the P&A COSS methodology in their respective testimony.[6] Pennsylvania State University ("Penn State") advocated for the use of the CD COSS methodology in its direct testimony, and developed three alternative revenue

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[1] The ALJs set forth the outline structure of Briefs in Appendix A of their PreHearing Order #1. In the interest of judicial economy, the OSBA is omitting any sections that it is not briefing.

[2] Order, Docket No. R-2020-3018835 (Order entered February 19, 2021) ("*February 2021 Order*"), at 211-218 ("Based on our review of the record, and as noted by the ALJ, we have consistently used the Peak & Average methodology for the allocation of costs for NGDCs.").

[3] OSBA witnesses Robert D. Knecht and Mark D. Ewen provide a detailed summary of the CD methodology. *See* OSBA Statement No. 1, at 13.

[4] Columbia Exhibit 111, Schedules 1, 2, and 3. *See also*, Columbia Statement No. 6.

[5] OSBA Statement No. 1, at 14, *citing* Columbia Statement No. 6, at 17-19.

[6] OSBA Statement No. 1-R, at 1

allocation proposals more-or-less based on that method in surrebuttal.[7] As the Penn State revenue allocation proposals were not advanced until the surrebuttal stage of the proceeding, the OSBA was unable to respond to those proposals through expert testimony.

2. Errors in Columbia's Execution of the P&A COSS Service Methodology

In reviewing the Company's execution of the P&A COSS methodology, Mr. Knecht & Mr. Ewen discovered a series of errors, as follows:

> [I]n comparing the P&A ACOSS filed in this proceeding with that submitted in the 2021 base rates case, we identified a material change in the design day demand allocation factor. Also, in replicating the Company's ACOSS, we flagged three technical errors in the ACOSS that should be corrected.

OSBA Statement No. 1, at 15. [8],[9]

Finally, Mr. Knecht & Mr. Ewen identified a significant error in the Company's revenue allocation to the flex customer class. Columbia admits to this error.[10]

Initially, Mr. Knecht & Mr. Ewen corrected these errors in Columbia's P&A COSS and set forth an updated P&A COSS in IEc WP-3. Later, Mr. Knecht & Mr. Ewen stated, as follows:

> In rebuttal, [Columbia] Witness Johnson presents a revised allocated cost of service study ('ACOSS') that reflects technical corrections to the Company's originally filed ACOSS as explained in our direct testimony, and adjustments to the design day demand allocation factors to exclude inadvertently double-counted standby and elective balancing service ('EBS') demands.
>
> The Company's adjustments to the design day demand allocator have no impact on the residential and SGS1 design day demands,

[7] OSBA Statement No. 1-R, at 6, PSU Statement No. 1-SR, at 15-18.

[8] *See* OSBA Statement No. 1, at 15-18 for a detailed examination of the design day allocation factor inconsistencies. *See also* OSBA Statement No. 1-S, at 2-5 for a detailed explanation as to why the Company's rebuttal testimony on this issue is not convincing.

[9] *See* OSBA Statement No. 1, at 18-19 for a discussion of the three technical errors.

[10] OSBA Statement No. 1, at 6 and 19-20 for a discussion of the OSBA's correction to Columbia's flex rate error.

> only a tiny impact on the design day demands for the SGS2 class, but they result in material reductions in design day demands for the SDS, LDS and Flex rate classes.
>
> The effect of these changes is generally to shift costs from the rate classes with larger customers (SDS, LGS and Flex) to the smaller customer classes (Residential, SGS1 and SGS2.
>
> We have replicated the Company's revised ACOSS, and we include an electronic version of the model as IEc WPS2 in Exhibit IEc-S1.

OSBA Statement No. 1-S, at 1 (formatting added).

Finally, there remains disagreement between Columbia and the OSBA regarding how the design day demand allocation factor is calculated. Ultimately, Mr. Knecht & Mr. Ewen stated, as follows:

> We first conclude that the Company's method for allocating design day demand allocators among the rate classes is not reasonable, because it fails to reflect design day conditions. In future base rates cases, the Company should modify its method accordingly.
>
> Second, we conclude that the Company has not justified the material shift in design day demands away from the residential class and to the SGS1 and SGS2 classes that it proposes in this proceeding. We therefore retain the adjustments that we recommended in our direct testimony, and we have incorporated those into the Company's revised ACOSS. Our updated ACOSS is provided electronically as IEc WPS3.

OSBA Statement No. 1-S, at 5.

3. Conclusion & Recommendation

As set forth above, the Commission, in its *February 2021 Order* concluded that Columbia should use the P&A methodology. Furthermore, the Commission specifically rejected the use of the CD methodology.[11]

[11] Order, Docket No. R-2020-3018835 (Order entered February 19, 2021), at 215 ("In this regard, we find that the Customer-Demand method and the Average ACCOSS, which depends on the Customer-Demand methodology,

Therefore, the OSBA accepts the use of the P&A COSS methodology, based upon that recent Commission precedent, for use in this proceeding.[12] However, as set forth above, the OSBA has identified and corrected three technical errors in the Company's P&S COSS, and fixed a major error (admitted to by the Company) involving Columbia's flex rates. The OCA agreed with the OSBA's correction to Columbia's flex rates.[13]

As set forth above, the OSBA also disputed how Columbia calculated its design day demand allocation factor.

The OSBA respectfully requests that the ALJs and the Commission adopt the OSBA's version of the Company's P&A COSS, as it corrects significant errors made by Columbia.

B. Revenue Allocation

1. Legal Standards

Section 1301(a) of the Public Utility Code states, as follows:

> ***Regulation.*** – Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission.

66 Pa. C.S. § 1301(a) (Rates to be just and reasonable).

Section 1304 of the Public Utility Code states, as follows:

> No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal

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would be inconsistent with Commission precedent and generally accepted principles for NGDCs because they both contain customer cost components.").

[12] The OSBA would welcome a Commission decision which would allow gas distribution utilities to consider the results of a CD COSS, as well as the P&A and A&E methodologies. As Messrs. Ewen and Knecht explained, the CD method is more reflective of cost causation because it recognizes that mains are sized to meet peak demands and that there are scale economies to serving larger customers. OSBA Statement No. 1, at 13 and15. However, as the Commission explicitly approved the P&A method for Columbia, and it explicitly rejected the CD method for Columbia, both only 18 months ago, the OSBA sees little value to relitigating that issue at this time.

[13] OSBA Statement No. 1-S, at 3.

> corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.

66 Pa. C.S. § 1304 (Discrimination in rates)

The Commonwealth Court in *Lloyd v. Pennsylvania Public Utility Commission*, 904 A.2d 1010 (Pa. Cmwlth. 2006), *appeal denied*, 591 Pa. 676 (2007) decided, as follows:

> However, while permitted, gradualism is but one of many factors to be considered and weighed by the Commission in determining rate designs, and principles of gradualism cannot be allowed to trump all other valid ratemaking concerns and do not justify allowing one class of customers to subsidize the cost of service for another class of customers over an extended period of time.
>
> * * *
>
> [I]n effect, the Commission has determined that the principle of gradualism trumps all other ratemaking concerns - especially the polestar - cost of providing service.

2. <u>The Parties Proposed Revenue Allocations</u>

a. <u>Columbia</u>

In designing the Company's revenue allocation, Columbia's "criteria appear to be that the revenue allocation produce rates that are just and reasonable, not unduly discriminatory, and which move each class cost recovery closer to 'parity.'"[14]

Unfortunately, Columbia also uses the "indexed rate of return" metric at current and proposed rates to determine if a customer class is moving closer to its cost of service.[15] Using the indexed rate of return (or "unitized rate of return" or "relative rate of return") is a methodology that is mathematically invalid. This is not an opinion that lawyers can debate, but a

[14] OSBA Statement No. 1, at 22.

[15] OSBA Statement No. 1, at 22.

fact of the simple arithmetic involved. In Appendix A to their direct testimony, Mr. Knecht and Mr. Ewen explain that the indexed rate of return metric *can* show if a customer class is under-recovering costs. But indexed rate of return *cannot be used* to show progress towards a class's cost of service using current and proposed rates.[16] Specifically, Mr. Knecht and Mr. Ewen demonstrate that indexed rate of return *sometimes correctly* shows progress towards cost of service, and *sometimes doesn't*. The failure of indexed rate of return to provide consistent and accurate results of progress towards cost-of-service is an example of something that every mathematician in the Commission knows as the technique of "Disproof by Counterexample."

However, here is a simple reason that even a Poli-Sci Lawyer can understand. Because indexed rate of return sometimes is *correct* (when it shows progress) and sometimes is *incorrect* (when it shows progress), and since a Lawyer can't tell which is which in any given proceeding, it is impossible to trust any "progress" that the metric reports.[17]

Finally, Columbia claims to support the concept of "gradualism," and restricts rate increases to 1.50 times the system average increase.[18]

Mr. Knecht and Mr. Ewen summarized Columbia's revenue allocation proposal at the Company's full revenue requirement request, as follows:

> [T]he Company's proposed revenue allocation yields no material progress toward cost-based rates for Residential, SGS1 and SGS2 classes. In addition, because the revenue-cost ratio for the LDS/LGSS class is so low, an increase even at 1.5 times the system average results in little progress toward cost-based rates. The only classes to exhibit even moderate progress toward cost-based rates under the Company's propsal [sic] are the Medium General (SDS/LGSS) class (with an increase well above system

[16] See OSBA Statement No. 1, Appendix A.

[17] Because "indexed rate of return" is not a reliable metric, the OSBA recommends the Commission adopt the "Revenue-Cost" metric. The R-C metric is described in OSBA Statement No. 1, at 23-24, and Appendix A.

[18] OSBA Statement No. 1, at 22.

> average) and the MDS class (with no increase). Our analysis of this proposal indicated that the Company's inability to make material progress toward cost-based rates primarily lies with the gradualism constraints for the LDS/LGSS rate class.

OSBA Statement No. 1-R, at 2-3.

b. <u>OCA</u>

The OCA "offers an alternative revenue allocation proposal, which moderates the increase to the Residential class and sets aggressive increases for small and medium commercial classes."[19]

Mr. Knecht and Mr. Ewen reviewed the OCA's proposed revenue allocation at the Company's full revenue requirement request, and made the following observations:

> The Residential class receives a below system average increase, yielding a substantial decline in subsidies from this class.
>
> The small business classes, SGS1 and SGS2, experience significant and unreasonable increases. Specifically, SGS1 rises from a subsidy neutral position to providing a substantial subsidy to other classes. The subsidy to SGS2 is fully reversed, and now provides a system subsidy under [the OCA] proposal.
>
> * * *
>
> The proposed increase for the Medium General and Large General classes . . .yields much greater progress toward cost-based rates for the Medium General class (61 percent for Medium General and only 15 percent for Large General). This pattern is inequitable, particularly to Medium General Service ratepayers.

OSBA Statement No. 1-R, at 5.

c. <u>I&E</u>

[19] OSBA Statement No. 1-R, at 3.

In this proceeding, as set forth above, I&E accepts Columbia's P&A COSS. In addition, I&E also accepts Columbia's proposed revenue allocation at the Company's full revenue requirement request.[20]

d. Penn State

As set forth above, Penn States advocates solely for the use of the CD COSS methodology in this proceeding. Consequently, Penn State's revenue allocation at the Company's full revenue requirement request is based upon Columbia's CD COSS. In addition, as set forth above, Penn State submitted three alternative revenue allocation proposals in its Surrebuttal testimony.

e. OSBA

As set forth above, the OSBA's experts use the revenue-cost ("R-C") ratio, and each customer class's revenue increase relative to the system average, as the metric for determining progress towards cost of service. Furthermore, the ratio of the class percentage increase to the system average increase is also reported.

In surrebuttal, Witnesses Knecht and Ewen observed, as follows:

> [OCA] Witness Mierzwa agrees with our recommendations that the shortfall from the flex rate customers be allocated among the various rate classes based on the mains allocator, and that percentage rate increases to any particular class should not exceed 2.0 times the system average. Witness Mierzwa opines that we were ***unduly timid*** in moving rates into line with allocated cost, and that more progress can be achieved in this proceeding.

OSBA Statement No. 1-S, at 5 (emphasis added). As proud New Englanders, Mr. Knecht & Mr. Ewen could not let that stand – they agreed to be more aggressive:

> We therefore developed a revised revenue allocation proposal, in which rates for SGS1, SGS2 and SDS classes are moved fully into line with allocated cost (inclusive of the responsibility for the flex

[20] OSBA Statement No. 1-R, at 3.

> rate discounts). As with [OCA] Witness Mierzwa's proposal, the Residential class will continue to bear most of the shortfall from the LDS class. The primary difference between our revised proposal and that of Witness Mierzwa is that we rely on our revised ACOSS, while Witness Mierzwa has not accepted our proposed changes to the design day demand allocators. Our revised revenue allocation proposal is shown in Table IEc-S3 below and is detailed in IEc WPS3.

OSBA Statement No. 1-S, at 5.

Table IEc-S3 is set forth, below:

Table IEc-S3

Summary of IEc Surrebuttal Revenue Allocation Proposal

	Increase $mm	**Increase %**	**R/C Current**	**R/C Proposed**	**"Progress"**
Residential	$48.86	11.6%	106.1%	103.7%	39%
SGS1	$ 6.87	14.3%	99.9%	100.0%	100%
SGS2	$10.99	21.9%	93.6%	100.0%	100%
Med Gen'l (SDS/LGSS)	$ 8.53	28.4%	88.4%	99.4%	95%
Lg Gen's (LDS/LGSS)	$ 6.78	28.4%	56.0%	63.0%	16%
MDS	--	0.0%	1333.7%	1167.9%	13%
Flex	$ 0.01	0.3%	NM	NM	NM
Total	**$82.06**	**14.2%**	**100.0%**	**100.0%**	**--**

Flex rate cost performance is not meaningful because $40 million shortfall is reallocated to other rate classes.

Source: IEc WP3

Table IEc-S3 demonstrates the progress towards cost-based rates in the OSBA's revenue allocation proposal:

- The Residential customer class makes significant progress towards its cost of service.
- SGS1, SGS2, and SDS are moved to, or nearly to, their respective cost of service, as proposed by OCA Witness Mierzwa.

- The large industrial class makes progress towards its cost of service, but because the LDS class has so far to get to its cost of service, that progress is limited.

In addition, Mr. Knecht and Mr. Ewen addressed the metric to measure "gradualism," as follows:

> We developed an alternative revenue allocation proposal that (a) relies on our alternative ACOSS, (b) is somewhat more aggressive in attempting to move rates into line with allocated cost for the smaller customer classes, and (c) allows for a larger rate increase for the LDS/LGSS class to reflect the enormous revenue-cost difference under current rates.
>
> [A] common rule of thumb for rate gradualism is to limit the increase for any particular rate class to no more than 1.5 or 2.0 times system average. Under normal conditions, the 1.5 times parameter will not unduly constrain the ability of the regulator to move rates substantially more into line with allocated cost. However, as shown in the Company's revenue allocation, the 1.5-times limit in this case produces little in the way of progress toward cost-based rates for the LDS/LGSS class. Thus, for the purposes of this proceeding, we assign the LDS/LGSS class an increase at the upper end of the range, or 2.0 times system average. This adjustment produces some modest progress toward cost-based rates, with the revenue-cost ratio moving from 54.6% under current rates to 61.4% under proposed rates.

OSBA Statement No. 1, at 24-25. The OCA agreed with the OSBA that 2.0 times system average increase is an appropriate upper bound for gradualism.[21]

Finally, the Commission should recognize that the revenue allocation proposals put forth by Witnesses Knecht and Ewen in both direct and surrebuttal testimony assign a larger increase to the combined SGS1/SGS2 classes than that proposed by the Company. The OSBA's revenue allocation proposal is based on allocated cost that relies on Commission precedent; it is not based on blind advocacy.

3. <u>Scaling Back the Revenue Allocations</u>

[21] OSBA Statement No. 1-S, at 5.

At the time of this writing, the OSBA understands that the parties have agreed that Columbia should receive an overall revenue increase of $44.5 million, and that will be memorialized in a Settlement Petition to be filed on the Reply Brief date.

Ultimately, when the ALJ and Commission decide upon the final revenue allocation, the starting point is the cost-of-service methodology that is used. The next step is whether the ALJ and Commission approve any modifications to that COSS methodology proposed by the various parties. Since the P&A methodology is the COSS of choice, the OSBA respectfully submits that its error-corrected P&A COSS should be adopted by the ALJ and the Commission.

The final step is how to scale back the revenue allocation in light of the final overall revenue increase.[22]

I&E proposes a novel approach of giving "first dollar relief" to the residential class.[23] As can be seen from the Table IEc-1R, set below, the LDS customer class is assigned a very large revenue increase under the I&E's methodology. If gradualism is 1.50 times, or even 2.0 times the system average increase, I&E's scale back proposal well exceeds that for the LDS class at a $44.5 million overall increase. Thus, while the OSBA does not support the I&E revenue allocation/scale back proposal, the OSBA also does not object to it. Table IEc-1R illustrates the I&E first dollar relief ("FDR") at the Company's full revenue request:

[22] OSBA Statement No. 1-R, at 3-4 and 6-7.

[23] OSBA Statement No. 1-R, at 3.

Table IEc-1R Summary of Revenue Increase Allocation Proposals								
	Columbia		**OSBA**		**OCA**		**I&E FDR**	
	($mm)	**%**	**($mm)**	**%**	**($mm)**	**%**	**($mm)**	**%**
Residential	$ 56.39	13.4%	$ 54.05	12.9%	$ 44.04	10.5%	$ 35.79	8.5%
SGS1	$ 6.92	14.4%	$ 6.75	14.0%	$ 10.90	22.6%	$ 6.92	14.4%
SGS2	$ 7.33	14.6%	$ 8.10	16.2%	$ 11.96	23.8%	$ 7.33	14.6%
Med Gen'l (SDS/LGSS)	$ 6.16	20.5%	$ 6.35	21.1%	$ 8.49	28.2%	$ 6.76	22.5%
Lg Gen'l (LDS/LGSS)	$ 5.25	22.0%	$ 6.78	28.4%	$ 6.75	28.2%	$ 5.25	22.0%
MDS	$ -	0.0%	$ -	0.0%	$ -	0.0%	$ -	0.0%
Flex	$ 0.01	0.3%	$ 0.01	0.3%	$ 0.01	0.3%	$ 0.01	0.3%
Total	$ 82.06	14.2%	$ 82.06	14.2%	$ 82.15	14.2%	$ 62.06	10.7%
Note: The OCA increase includes increases in other non-rate revenues. Percentage increases for I&E calculated net of $20 million first dollar relief adjustment. Source: IEc WP1-R								

OSBA Statement No. 1-R, at 3.

The Penn State revenue allocation and scale back proposal is premised on the use of CD COSS methodology. Nevertheless, the OSBA does not object to the use of the Penn State revenue allocation/scale back proposal if the Commission does adopt the CD COSS methodology.

The Columbia revenue allocation and scale back proposal is based upon its version of the P&A methodology, without the OSBA corrections. Regardless, the OSBA does not object to Columbia's revenue allocation/scale back proposal.

The OCA's revenue allocation and scale back proposal is based upon the OCA's proposed revenue allocation.

Finally, the OSBA submits that a standard proportional scale back is the most just and reasonable result. The scale back should be based upon the OSBA's revenue allocation proposal set forth above in Table IEc-S3.

D. Summary and Alternatives

To paraphrase President Barack Obama, "cost of service methodologies have consequences." The P&A methodology implies that smaller revenue increases should be assigned to smaller weather-sensitive customers, and larger revenue increases should apply to larger customers.

Nevertheless, the Commission was clear in its *February 2021 Order* that P&A is the methodology that must be used. Moreover, the OSBA is unable to locate any decision by the Commission in a natural gas distribution base rate proceeding in which it approved consideration of the results of a customer-demand method for allocating mains costs.

Therefore, the OSBA respectfully submits that the ALJ and the Commission should adopt the OSBA's updated version of the P&A COSS.

The OSBA also respectfully submits that a proportional scale back of the OSBA's revenue allocation is a just and reasonable result.

X. Conclusion

Wherefore, the OSBA respectfully requests that the ALJ and the Commission adopt the OSBA's corrected version of the P&A COSS and adopt the OSBA's resulting revenue allocation.

Furthermore, the OSBA respectfully requests that the ALJ and Commission approve a proportional scale back of the OSBA's revenue allocation based upon the settlement revenue number.

Respectfully submitted,

/s/ Steven C. Gray

____

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Dated: August 23, 2022

APPENDICES

Appendix A - Findings of Fact

Appendix B - Conclusions of Law

Appendix C – Proposed Ordering Paragraphs

Findings of Fact

1) On March 18, 2022, Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") filed Supplement No. 337 to Tariff Gas Pa. P.U.C. No. 9 ("Supplement No. 337"), which was filed with the Pennsylvania Public Utility Commission ("Commission"). The rates set forth in Supplement No. 337, if approved by the Commission, would increase Columbia's annual jurisdictional revenues by approximately $82.2 million.

2) On March 28, 2022, the Office of Small Business Advocate ("OSBA") filed a formal Complaint in opposition to Supplement No. 337.

3) In this proceeding, Columbia submitted three different COSS methodologies that differ in the allocation method applied to gas mains: a Peak-and-Average ("P&A") method; a Customer/Demand ("CD") method; and the average of the two. Columbia Exhibit 111, Schedules 1, 2, and 3.

4) Columbia primarily used the P&A COSS methodology in this proceeding but does incorporate some results from the CD COSS. Columbia Exhibit 111, Schedules 1, 2, and 3.

5) OSBA Witness Knecht and Ewen identified three technical errors in the Columbia's execution of the P&A COSS methodology. OSBA Statement No. 1, at 18-19.

6) OSBA witnesses Knecht and Ewen determined that Columbia had made an unexplained major change to its design day allocation factor. OSBA Statement No. 1, at 15-18.

7) Mr. Knecht & Mr. Ewen identified a significant error in the Company's revenue allocation to the flex customer class which Columbia admits. OSBA Statement No. 1, at 6 and 19-20.

8) In direct testimony, Messrs. Ewen and Knecht developed an alternative P&A COSS that corrected for the Company's errors. OSBA Statement No. 1, IEc WP-3.

9) The Company submitted revised COSS analyses in its rebuttal testimony that included various changes, including correcting for some of the errors identified by Messrs. Ewen and Knecht. Columbia Statement No. 6-R, at 14-16.

10) In surrebuttal, OSBA witnesses Knecht and Ewen updated their P&A COSS to reflect the Company's changes to its COSS analysis, while retaining the modifications from the direct testimony. OSBA Statement No. 1-S, IEc WPS2.

11) The "indexed rate of return" metric used to determine if a customer class's revenue is moving closer to its cost of service gives inconsistent and sometimes inaccurate results. OSBA Statement No. 1, Appendix A.

12) One metric to measure the "gradualism" of class rate increases can be class rates increases that are restricted to 1.5 to 2.0 times the system average increase. OSBA Statement No. 1, at 24-25.

Conclusions of Law

1) Section 1301 of the Public Utility Code, 66 Pa. C.S. § 1301, provides that "every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission."

2) The burden of proof to establish the justness and reasonableness of every element of the utility's rate increase rests solely upon the public utility. 66 Pa. C.S. § 315(a). "It is well-established that the evidence adduced by a utility to meet this burden must be substantial." *Lower Frederick Township. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

3) Although the burden of proof remains with the public utility throughout the rate proceeding, when a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Order entered July 17, 2008). "Section 315(a) of the Code, 66 Pa. C.S. § 315(a), applies since this is a proceeding on Commission Motion. However, after the utility establishes a prima facie case, the burden of going forward or the burden of persuasion shifts to the other parties to rebut the prima facie case." *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931 (Order entered September 28, 2007), at 12.

4) Furthermore, Section 523 of the Public Utility Code, 66 Pa. C.S. § 523, requires the Commission to "consider . . . the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates." In exchange for customers paying rates for service, which include the cost of utility plant in service and a rate of return, a public utility is obligated to provide safe, adequate, and reasonable service. "[I]n exchange for the utility's provision of safe, adequate and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return for the utility's investors . . . In return for providing safe and adequate service, the utility is entitled to recover, through rates, these enumerated costs." *Pa. PUC v. Pennsylvania Gas & Water Co.*, 61 Pa. PUC 409 (1986), at 415-16. *See also* 66 Pa. C.S. § 1501. As a result, the legislature has given the Commission discretionary authority to deny a proposed rate increase, in whole or in part, if the Commission finds "that the service rendered by the public utility is inadequate." 66 Pa. C.S. § 526(a).

5) In Columbia's base rates proceeding at Docket No. R-2020-3018835, the Commission approved the use of a "Peak & Average" ("P&A") cost of service study methodology for mains cost allocation. Order, Docket No. R-2020-3018835 (Order entered February 19, 2021), at 211-218.

6) In the Columbia's base rates proceeding at Docket No. R-2020-3018835, the Commission rejected the use of the Customer-Demand cost of service study methodology

for use with Columbia. Order, Docket No. R-2020-3018835 (Order entered February 19, 2021), at 215.

Proposed Ordering Paragraphs

1) The Office of Small Business's updated and corrected Peak & Average cost of service study is adopted for purposes of this proceeding.

2) The Office of Small Business's proposed customer class revenue allocation is adopted for purposes of this proceeding.

3) A proportional scale back of the Office of Small Business's revenue allocation is adopted for the allocation of customer class revenue increases at the reduced overall revenue increase.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2022-3031211**
	:	
Columbia Gas of Pennsylvania, Inc.	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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