



COMMONWEALTH OF PENNSYLVANIA

September 12, 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 Objection to the Joint Petition for Non-Unanimous Settlement Regarding Revenue Allocation and Rate Design, 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.	:	

**OBJECTION TO JOINT PETITION FOR NON-UNANIMOUS SETTLEMENT
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

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

**For: NazAarah Sabree
Small Business Advocate**

**Office of Small Business Advocate
555 Walnut Street, 1st Floor
Harrisburg, PA 17101
(717) 783-2525
(717) 783-2831 (fax)**

Date: September 12, 2022

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Introduction

On September 2, 2022, all parties submitted a Partial Settlement (“*Partial Settlement*”). The Office of Small Business Advocate (“OSBA”) was a signatory to the *Partial Settlement* and submitted a Statement in Support of the *Partial Settlement*.

On September 2, 2022, all parties except for the OSBA and Mr. Richard C. Culbertson submitted a Non-Unanimous Settlement (“*NUS*”) on the issue of Revenue Allocation and Rate Design. The OSBA is not a party to the *NUS*.

On September 2, 2022, ALJ Christopher P. Pell and ALJ John Coogan sent a Letter stating that “written comments or objections [to the *NUS*] must be electronically time-stamped as received no later than 4:30 p.m. on Monday, September 12, 2022.” The OSBA submits this written Objection to the *NUS* in accordance with the ALJs’ September 2nd Letter.

Legal Standards

A Commission decision must be supported by substantial evidence in the record. *Popowsky v. Pa. PUC*, 594 Pa. 606 (2007). “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established. *Norfolk & Western Ry. Co. v. Pa. PUC*, 489 Pa. 109, 413 A.2d 1037 (1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 166 A.2d 96 (Pa. Super. 1961); *Murphy v. Comm. Dept. of Public Welfare, White Haven Center*, 480 A.2d 382 (Pa. Cmwlth. 1984).

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.

Summary of Argument

All Commission decisions must be based upon substantial record evidence.

The proposed revenue allocation set forth in the *NUS* is not based upon record evidence and it is not just and reasonable. The *NUS* revenue allocation fails to meet the legal standards for two reasons:

First, the *NUS* revenue allocation is hopelessly inconsistent with the cost standard established by the Commission in its February 2021 decision for Columbia's 2020 base rates proceeding.¹ In that proceeding, the Commission determined that the appropriate method for allocating distribution mains costs required the use of a "peak-and-average" ("P&A") costing approach. While different cost allocation studies were offered in this proceeding based on the P&A methodology, no party presented record evidence to support the *NUS* revenue allocation. Furthermore, the *NUS* rate increase for the LDS/LGSS class is well below the *NUS* rate increase for the SDS/LGSS class, and is even modestly below the rate increase for the SGS2 rate class group, despite the fact that the Commission-approved costing methodology shows that the LDS/LGSS class exhibits the lowest class rate of return at present rates.

Second, even if the Commission determines that it is reasonable for the *NUS* to rely, in part, on cost allocation evidence that conflicts with the Commission's February 2021 decision,

¹ *Opinion and Order*, Docket No. R-2020-3018835 (Order entered February 19, 2021).

the *NUS* allocation of the rate increase among the various rate classes is unduly discriminatory. In particular, the proposed increase to the SDS/LGSS rate class at **1.85** times system average is far higher than that for any other rate class, a result that is not supported by any record evidence in this proceeding. It appears that the *NUS* has achieved agreement among the parties by assigning an unduly large rate increase to the class without legal representation in this proceeding.

The *NUS*'s proposed rate design for the SGS/SCD/SGDS rate classes is acceptable to the OSBA.

Argument

The Non-Unanimous Settlement Proposed Revenue Allocation

The revenue allocation proposed by the *NUS* is set forth, in various formats, throughout the *NUS* document and the various Statements in Support. The following table is provided by Penn State, summarizing the *NUS* revenue allocation proposal:²

Class	Current Base Revenue	Allocation	Percentage Increase
RS/RDG/RDS/RDGDS/RC2	\$376,337,071	\$26,500,019	7.04%
SGSS1/SCD1/SGDS1	\$48,026,277	\$4,537,000	9.45%
SGSS2/SCD2/SGDS2	\$49,996,372	\$6,030,000	12.06%
SDS/LGS	\$30,056,285	\$4,627,000	15.39%
LDS/LGS	\$23,906,690	\$2,800,000	11.71%
MDS/NSS	\$1,445,860	\$0	0.00%
Flex/NCS	\$4,265,890	\$5,981	0.14%
Total	\$534,034,445	\$44,500,000	8.33%

² The parties employ different methods for deriving the measure of current base revenues, which thus yield varying measures of overall and class percentage increases. The Penn State table relies on the Company's definition of current base rate revenues as reported in Exhibit 103 Schedule 8, page 4, and similarly in the *NUS*. For reasons unknown, the Company excludes revenues associated with the Company's universal service program (Rider USP), as well as revenues from Rider CC, the GPC and the MFC, despite the fact that Rider USP is affected by the rate increase, and the GPC/MFC costs are included in base rates distribution costs. This Objection does not endeavor to reconcile all these differences herein, as the relative differences are directionally similar across classes and do not materially affect the substance of the OSBA's argument.

Statement of The Pennsylvania State University in Support of the Joint Petition for Non-Unanimous Settlement Regarding Revenue Allocation and Rate Design, at 8 (emphasis added) (footnotes omitted).

For this revenue allocation proposal to be consistent with record evidence, the OSBA respectfully submits that the revenue allocation proposal must be directionally consistent with the results of the allocated cost of service (“ACOS”) study. Moreover, because the Commission ruled that the P&A ACOS methodology is to be used for Columbia’s allocation of mains costs in its February 2021 Order, the OSBA respectfully submits that the *NUS* revenue allocation must be consistent with cost allocation evidence that is consistent with the Commission’s decision. As explained in the OSBA’s Main Brief and Reply Brief, that decision rejects any reliance on the Customer-Demand (“CD”) method for allocating mains costs and requires reliance on the P&A method.

OSBA witnesses Ewen and Knecht explained how revenue allocation should reflect the results of the ACOS study:

In using the results from an ACOS to develop class revenue requirements, utilities and regulatory authorities usually have a longer-term goal of moving the revenue recovered from each class as close as possible to the costs allocated to that class. That is, in each proceeding, regulators try to move class revenues more into line with cost-based rates. Thus, rate classes whose revenues substantially exceed allocated costs are assigned either relatively low rate increases or rate decreases. Rate classes whose revenues are well below allocated costs are assigned larger rate increases than those classes whose revenues are only slightly below allocated costs.³

While there is some disagreement between the OSBA and the Company regarding certain technical details with the P&A allocation study, the OSBA submits that the *NUS* revenue allocation is substantially inconsistent with the results of *any* P&A ACOS studies filed in this

³ OSBA Statement No. 1 at 12

proceeding. The table below compares the class rates of return at present rates in both the Company and OSBA P&A ACOS studies, with the *NUS* proposed percentage rate increases.⁴

	ACOSS Results: Class Rate of Return at Current Rates		Rate Increase
	Columbia P&A	OSBA P&A	NUS
Residential	8.0%	7.6%	7.04%
SGS1 ⁵	6.7%	7.1%	9.45%
SGS2	6.7%	6.5%	12.06%
SDS/LGSS	5.4%	5.8%	15.39%
LDS/LGSS	1.7%	1.7%	11.71%
MDS	179.2%	179.2%	0.00%
Flex	-4.2%	-4.0%	0.14%
Total	6.1%	6.1%	8.33%
Sources: Exhibit 111, Schedule 2; IEC WPS3; NUS			

Regarding the inconsistencies in the *NUS* revenue allocation proposal, the OSBA observes the following:

- At current rates, and relative to the total system return of 6.1 percent, the Residential class is over-recovering costs (at an 8% percent rate of return), as are both SGS classes, albeit by a smaller amount. The SDS classes moderately under-recover costs.
- At current rate, the LDS/LGSS class substantially under-recovers allocated cost. As shown in the OSBA’s testimony, the LDS/LGSS revenues represent less than half the class’s allocated costs. Thus, to move revenues in line with costs for that class, a rate

⁴ The OSBA uses class rates of return at present rates as a comparator of cost recovery because the Commission is familiar with this approach. A rate of return below system average indicates that the class is under-recovering costs, and a rate of return above system average indicates an over-recovery.

⁵ As explained by Messrs. Ewen and Knecht, the Company combines its SGSS, SCD and SGDS rate classes for cost allocation and most rate design purposes into an SGS class group, but it then splits that group by customer size into SGS1 and SGS2 for cost allocation and rate design. OSBA Statement No. 1, at 7-8.

increase of more than 100 percent would be necessary. OSBA Statement No. 1, at 20.

- The system average rate increase agreed to by the parties in the *Partial Settlement* is 8.33%. The *NUS* proposed increase for the Residential class of 7.0 percent is directionally consistent with the results of the P&A ACOS studies, in that it is below system average.⁶ The *NUS* proposed increase for the SGS1 class is modestly above the system average increase despite having a class rate of return above system average. However, the OSBA does not deem this increase to be obviously unreasonable, given the need to recover the enormous revenue shortfall from the LDS/LGSS and Flex rate classes.
- The *NUS* proposed revenue allocation for the other rate classes, however, is completely detached from the P&A ACOS study.
- First, the OSBA observes that the *NUS*'s proposed percentage increase for the LDS/LGSS class is *lower* than the proposed increase for the SGS2 class, despite the fact that the SGS2 rate class is over-recovering costs while the LDS/LGSS class produces revenue far below allocated costs.
- Second, the SDS/LGSS customer class would receive a 15.4% rate increase, while the LDS/LGSS customer class would receive an 11.7% increase, despite the fact that the SDS/LGSS class exhibits a far higher class rate of return than the LDS/LGSS class.

In addition to the requirement for directional consistency with the P&A ACOS study, the OSBA submits that the *NUS* revenue allocation must also be consistent with the evidence for rate

⁶ In the OSBA's view, the *NUS* 7.0 percentage rate increase for the Residential class is moderately overstated, due to the Company's exclusion of Rider USP revenues from current rate revenues. The OSBA notes that OCA witness Mierzwa includes USP revenues in calculating percentage rate increases. OCA Statement No. 3, Table 3 at 11.

gradualism. In this proceeding, the Company generally advocated that class rate increases should not exceed 1.5 times the system average, and cites to Commission precedent from the February 2021 decision in support of that position.⁷ In contrast, the OCA and OSBA expert witnesses both explicitly advocated a more relaxed standard for this particular case, with increases up to 2.0 times the system average, reflecting the extreme cost under-recovery from some rate classes.⁸

The maximum class increase of *NUS* revenue allocation is 15.39 percent, or 1.85 times the 8.33 percent system average increase.⁹ The OSBA therefore concludes that the *NUS* revenue allocation is consistent with the record evidence regarding the maximum possible increase for any rate class. Furthermore, the *NUS* revenue allocation does indicate that the *NUS* settling parties do not believe that a 1.5 times system average should be the upper limit for rate gradualism in this proceeding, and they ask the Commission to confirm that view.

The Record Evidence of Revenue Allocation Proposals

In this proceeding, Columbia submitted three different COSS methodologies: Peak and Average (“P&A”); Customer/Demand (“CD”); and the average of the two.¹⁰ Although Columbia primarily used the P&A COSS methodology in this proceeding, the Company did incorporate some results from the CD COSS.¹¹

The revenue allocation that results from Columbia’s cost of service methodology is set forth, below:

⁷ Columbia Main Brief, at 10. Columbia provides no page citation for this claim.

⁸ OSBA Reply Brief, at 7.

⁹ The ratio would be modestly higher if the Company had properly included USP revenues in current rate revenues.

¹⁰ Columbia Exhibit 111, Schedules 1, 2, and 3. *See also*, Columbia Statement No. 6.

¹¹ OSBA Statement No. 1, at 14 (citing Columbia Statement No. 6, at 17-19).

Columbia Revenue Allocation Proposal		
	(\$mm)	%
Residential	\$ 56.39	13.4%
SGS1	\$ 6.92	14.4%
SGS2	\$ 7.33	14.6%
SDS/LGSS	\$ 6.16	20.5%
LDS/LGSS	\$ 5.25	22.0%
MDS	\$ -	0.0%
Flex	\$ 0.01	0.3%
Total	\$ 82.06	14.2%
Note: Percentage increases are based on current revenues including USP, GPC, MFC. Source: OSBA Statement No. 1-R, Table IEc-1R		

OSBA Statement No. 1-R, at 4 (emphasis added) (formatting added).

According to Columbia’s proposed revenue allocation, at the full revenue increase requested by the Company, the SDS customer class would receive *less* of an increase (20.5%) than the LDS customer class (22.0%).

The OSBA observes that the Company’s filed proposal is directionally consistent with the results of its P&A ACOS study, in that the largest increases are assigned to the SDS/LGSS and LDS/LGSS classes where current revenues fall far short of allocated cost. As noted earlier, the Company’s proposed increases are limited to no more than 1.5 times the system average, with the highest increase assigned to the class with the lowest rate of return at present rates (LDS/LGSS).

I&E supported the use of Columbia’s P&A cost of service study.¹² However, I&E tweaked Columbia’s original revenue allocation in two ways: first, I&E proposed first dollar

¹² I&E Statement No. 3, at 12.

relief (“FDR”) to the Residential Class of \$20 million; and second, I&E proposed to shift an additional \$600,000 from the Residential Class to the SDS class.¹³

The I&E revenue allocation proposal is set forth, below:

I&E Revenue Allocation Proposal		
	(\$mm)	%
Residential	\$ 35.79	8.5%
SGS1	\$ 6.92	14.4%
SGS2	\$ 7.33	14.6%
SDS/LGSS	\$ 6.76	22.5%
LDS/LGSS	\$ 5.25	22.0%
MDS	\$ -	0.0%
Flex	\$ 0.01	0.3%
Total	\$ 62.06	10.7%
Note: Percentage increases are based on current revenues including USP, GPC, MFC.		
Source: OSBA Statement No. 1-R, Table IEC-1R		

According to I&E’s proposed revenue allocation, the SDS/LGSS customer class receives a *slightly higher increase* (22.5%) of 0.5% compared to the LDS/LGSS customer class (22.0%).¹⁴

Moreover, the I&E revenue allocation advocates for a modestly greater than 2.0-times the system average increase for both the SDS/LGSS and LDS/LGSS classes. In effect, the I&E implicitly recommended that the Commission allow for rate increases to the larger customer rate classes in excess of the 1.5 to 2.0 times system averages that serve as the usual rule-of-thumb for rate gradualism.

¹³ I&E Statement No. 3, 16-17.

¹⁴ It is unclear how I&E Witness Cline justifies a larger increase for the SDS/LGSS rate class, in that he relies on the Company’s P&A ACOS study, which produces a much higher class rate of return for the SDS/LGSS class than the LDS/LGSS class. The OSBA infers that Witness Cline simply proposed to assign the maximum reasonable increase to both the SDS/LGSS and LDS/LGSS rate classes, and that the difference is negligible.

The OCA supported the use of Columbia’s P&A cost of service study.¹⁵ In regard to the OCA’s proposed revenue allocation, OSBA witnesses Knecht and Ewen summarized the OCA’s proposal, as follows:

Mr. Mierzwa offers an alternative revenue allocation proposal, which moderates the increase to the Residential class and sets aggressive increases for small and medium commercial classes.

OSBA Statement No. 1-R, at 3. The OCA revenue allocation is set forth below:

OCA Revenue Allocation Proposal		
	(\$mm)	%
Residential	\$ 44.04	10.5%
SGS1	\$ 10.90	22.6%
SGS2	\$ 11.96	23.8%
SDS/LGSS	\$ 8.49	28.2%
LDS/LGSS	\$ 6.75	28.2%
MDS	\$ -	0.0%
Flex	\$ 0.01	0.3%
Total	\$ 82.15	14.2%
Note: Percentage increases are based on current revenues including USP, GPC, MFC.		
Source: OSBA Statement No. 1-R, Table IEC-1R		

According to the OCA’s proposed revenue allocation, the SDS/LGSS customer class will receive the *same increase* (28.2%) as the LDS/LGSS customer class (28.2%). Moreover, the OCA proposed percentage increases for those two classes is approximately equal to two times the system average.

As set forth in the OSBA’s Main Brief, the OSBA witnesses made a series of modifications to the Company’s ACOS study but retained the P&A mains costing methodology consistent with Commission precedent. It should be recognized that the OSBA relied on

¹⁵ OSBA Statement No. 1-R, at 1.

Commission precedent in this proceeding for mains cost allocation, despite the reservations of Messrs. Ewen and Knecht regarding that method and the negative impact of that method on costs allocated to small business customers. The OSBA proposed revenue allocation is set forth below:

OSBA Initial Revenue Allocation Proposal		
	(\$mm)	%
Residential	\$ 54.05	12.9%
SGS1	\$ 6.75	14.0%
SGS2	\$ 8.10	16.2%
SDS/LGSS	\$ 6.35	21.1%
LDS/LGSS	\$ 6.78	28.4%
MDS	\$ -	0.0%
Flex	\$ 0.01	0.3%
Total	\$ 82.06	14.2%
Note: Percentage increases are based on current revenues including USP, GPC, MFC.		
Source: OSBA Statement No. 1-R, Table IEC-1R		

According to the OSBA’s original revenue allocation, the SDS customer class receives a *smaller increase* (21.1%) compared to the increase for the LDS class (28.4%), consistent with the results for both the Columbia P&A ACOS study and the modified OSBA P&A ACOS study.

However, 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). Consistent with long-standing OSBA policy to aggressively move rates into line with allocated cost, Messrs. Ewen and Knecht modified their initial revenue allocation proposal:

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 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:

OSBA Revised Revenue Allocation Proposal		
	(\$mm)	%
Residential	\$48.86	11.6%
SGS1	\$ 6.87	14.3%
SGS2	\$10.99	21.9%
SDS/LGSS	\$ 8.53	28.4%
LDS/LGSS	\$ 6.78	28.4%
MDS	--	0.0%
Flex	\$ 0.01	0.3%
Total	\$82.06	14.2%
Note: Percentage increases are based on current revenues including USP, GPC, MFC.		
Source: OSBA Statement No. 1-S, Table IEC-S3, page 6		

In the OSBA’s “more aggressive” revenue allocation proposal (which is similar to the OCA proposal), the SDS customer class receives the *same increase* (28.4%) as the LDS customer class (28.4%), with both increases capped at the 2.0 times system average constraint for rate gradualism.

Penn State advocated for the sole use of the Customer-Demand (“CD”) cost of service methodology in this proceeding.¹⁶ However, Penn State failed to provide any revenue allocation

¹⁶ Penn State Statement No. 1-SR, at 18-19.

proposals in testimony prior to the surrebuttal stage of the proceeding. As such, parties other than the Company have had no opportunity for their experts to evaluate and testify as to the Penn State revenue allocation proposals. The OSBA respectfully submits that the Commission should recognize that the Penn State revenue allocation proposals have not been subject to rigorous expert review and rebuttal when considering their relevance to the *NUS*.

Since Penn State supports reliance on the CD costing method for mains, Penn State’s revenue allocation proposals at the Company’s full revenue requirement request are presumably based upon that costing method.¹⁷ Ultimately, Penn State submitted three alternative revenue allocation proposals in its Surrebuttal testimony, set forth below:

Penn State Revenue Allocation Proposals						
	Penn State Proposal 1		Penn State Proposal 2		Penn State Proposal 3	
	(\$mm)	%	(\$mm)	%	(\$mm)	%
Residential	117.72	31.3%	82.14	21.8%	62.52	16.6%
SGS1	4.61	9.6%	-	0.0%	6.75	14.1%
SGS2	(17.46)	-34.9%	-	0.0%	8.10	16.2%
SDS/LGSS	(12.52)	-41.6%	-	0.0%	2.93	9.8%
LDS/LGSS	(10.21)	-42.7%	-	0.0%	1.83	7.7%
MDS	0.00	0.0%	0.00	0.0%	0.00	0.0%
Flex	0.01	0.3%	0.01	0.3%	0.01	0.3%
Total	82.15	15.4%	82.15	15.4%	82.15	15.4%
<p>Note: The percentage increases reported in Exhibit PSU-SR-1 are based on current rate revenues inclusive of gas costs. Including gas costs is not appropriate, because this is a base rates proceeding which does not address gas costs, and because including gas costs unreasonably serves to understate the percentage increases for the smaller customer classes who take utility gas supply service. The percentages have therefore been recalculated from the revenues shown in the Penn State Main Brief. Because those calculations exclude USP and other revenues from current rates, the percentage increases in this table, particularly for the Residential and Total categories, are higher than the earlier tables in this document.</p> <p>Source: Exhibit PSU-SR-1, Penn State Main Brief</p>						

The Penn State revenue allocation proposals show wildly divergent results. In Penn State’s first proposal, both the SDS and LDS customer classes receive *negative rate increases* (-

¹⁷ Penn State Statement No. 1-SR, at 19.

41.6% and -42.7%, respectively). Penn State's second proposal allocates *no rate increases* (0.00%) to both the SDS and LDS customer classes. In its third proposal, Penn State allocates an 9.8% increase to the SDS customer class, *2.1% more* than the 7.7% increase to the LDS class.¹⁸

Revenue Allocation Proposals Summary and Conclusion

Here is a summary of the various revenue allocation proposals set forth in the record evidence in this proceeding:

- Columbia: SDS (+20.5%) LDS (+22.5%) [SDS < LDS]
- I&E: SDS (+22.5%) LDS (+22.0%) [SDS 0.5% greater than LDS]
- OCA: SDS (+28.2%) LDS (+28.2%) [SDS = LDS]
- OSBA: SDS (+21.1%) LDS (28.4%) [SDS < LDS]
- OSBA Aggressive: SDS (+28.4) LDS (28.4%) [SDS = LDS]
- Penn State 1: SDS (-35.10%) LDS (-42.17%) [SDS and LDS rate decreases]
- Penn State 2: SDS (0.00%) LDS (0.00%) [SDS = LDS]
- Penn State 3: SDS (9.8%) LDS (7.7%) [SDS 2.1% greater than LDS]

As set forth above, the *NUS* proposes the following:

NUS: SDS (+15.39%) LDS (+11.71%) [SDS 3.68 percentage points greater than LDS]

In comparing the *NUS* revenue allocation to the litigation positions, it is important to recognize that the *NUS* revenue allocation applies to *a much lower overall increase* than the revenue allocation proposals filed in expert testimony. Specifically, the allowed increase in the *Partial Settlement* is \$44.50 million, which represents approximately half (54%) of the originally

¹⁸ It is unclear how Penn State Witness Crist justifies a larger increase for the SDS/LGSS class than for the LDS/LGSS class. Under the Company's CD ACOS study, the class rate of return at present rates for the SDS/LGSS class is 18.226 percent, only fractionally lower than the LDS/LGSS class rate of return of 18.684%. See Columbia Exhibit 111, Schedule 1. Because the parties had no opportunity to conduct discovery or to respond to these revenue allocation proposals in Witness Crist's surrebuttal testimony, this question cannot be answered.

filed increase of \$82.15 million. When the revenue allocation is scaled back, the differences in percentage increases among the classes are similarly scaled back. Thus, if Mr. Crist’s proposed differential between SDS/LGSS and LDS/LGSS of 2.1% is scaled back by 54%, *his proposed differential between those two classes would be 1.1 percent.*¹⁹

Therefore, the NUS’s proposed revenue allocation must be rejected by the ALJs and the Commission. There is no record evidence that would allocate an increase to the SDS/LGSS customer class that is more than *3.8 percentage points greater* than the increase to the LDS customer class. In fact, of the eight revenue allocation proposals present in record evidence, six of the eight would require rate decreases to SDS/LGSS, lesser increases to SDS/LGSS, or equal increases to SDS/LGSS in comparison to LDS/LGSS.

Of the remaining two revenue allocation proposals, the I&E revenue allocation differential is *de minimis*. The Penn State revenue allocation relies on the CD cost of service methodology, which the Commission explicitly rejected in its February 2021 Order.²⁰ Even if the Penn State position is partially relied upon, the Penn State revenue allocation differential is only 1.1 percent.

Scale Back Proposals of the Revenue Allocation

In its Statement in Support, Penn State includes a table that is entitled “Comparison of Scaled Back Litigation Positions vs. Settlement Revenue Allocation.”²¹ For ease of review, Penn State’s table is attached as Appendix A to this document.

¹⁹ The table provided in the Penn State Statement In Support for the NUS at page 10 is consistent with this value. In effect, Penn State confirms that its litigation position would produce a differential of no more than 1.1 percentage points between SDS/LGSS and LDS/LGSS.

²⁰ 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, would be inconsistent with Commission precedent and generally accepted principles for NGDCs because they both contain customer cost components.”).

²¹ Penn State Statement in Support, at 10.

According to that table, a scale back of Columbia's proposed increases would have resulted in *less* of an increase to SDS/LGSS compared to LDS/LGSS; a scaleback of OCA's proposal would have resulted in *less* of an increase to SDS/LGSS compared to LDS/LGSS; a scaleback of the OSBA's revenue allocation proposal would have resulted in the *same increases* to SDS/LGSS and LDS/LGSS; I&E's radical FDR scale back mechanism would have resulted in a *slightly higher (0.52%) increase* to SDS compared to LDS;²² and a scaleback of the Penn State revenue allocation proposal would have resulted in a *1.13% higher increase* to SDS/LGSS compared to LDS/LGSS.

Even if the ALJs and Commission consider the Penn State table extra-record evidence, it also shows that no party presented record evidence that would require the SDS customer class to receive a rate increase that was 3.68 percentage points greater than the LDS class.

Implications of Approving the NUS

The OSBA respectfully submits that Commission approval of the *NUS* would have the following implications for future Columbia base rate proceedings, all other natural gas distribution company rate proceedings, and likely electric and water rate proceedings, as well.

First, Commission precedent regarding cost allocation methodology will either be mostly or entirely irrelevant. This will discourage participants from adhering to Commission precedent in testimony and may encourage increased litigation of cost allocation matters.

Second, approval of the *NUS* in this proceeding will essentially imply that a settlement can be deemed reasonable if the increases for each class are within the range of increases proposed by the various parties for that class. There will be no need for consistency of revenue

²² OSBA believes that the Penn State table accurately reflects the impact of I&E's proposed FDR mechanism at a \$44.5 million increase, namely increases for the SDS/LGSS and LDS/LGSS classes of about 22 percent, or more than 2.5 times the system average increase of 8.3 percent.

increases across rate classes, or consistency with any particular costing methodology. This result will effectively render the *Lloyd* decision moot, resulting in numerous appeals to the Commonwealth Court.

Third, approval of the *NUS* will implicitly accept the position of the OCA, OSBA and I&E experts in this proceeding that an increase for some Columbia rate classes can reasonably exceed 1.5 times the system average increase.

Fourth, approval of the *NUS* in this proceeding will encourage settling parties to assign disproportionately large rate increases to unrepresented rate classes. In this proceeding, OCA represents the Residential class interests (for cost and revenue allocation), OSBA represents the SGS1 and SGS2 interests, Penn State and CII represent LDS/LGSS interests, and I&E represents the public interest. No party explicitly represents the SDS/LGSS class interests. It is inappropriate but unsurprising that the *NUS* assigns a disproportionately large increase, unsupported by any record evidence, to the SDS/LGSS class in this proceeding.

Rate Design

The *NUS* proposes a customer charge of \$29.92 for the smaller customers within the SGS classes (less than 6,440 Therms Annually) (rates SGSS1, SCD1, SGDS1).²³ This is the current customer charge, and the OSBA does not oppose keeping it unchanged. The OSBA notes that the \$29.92 charge is already one of the highest for small commercial customers in the Commonwealth, although that is perhaps not surprising since Columbia has the highest distribution rates in the Commonwealth. OSBA Statement No. 1, at 26-29.

²³ *NUS*, Schedule No. 8, Page 9.

The *NUS* proposes a customer charge of \$57.00 for Small General Service Rate Design (greater than 6,440 and less than 64,400 Therms Annually) (SGSS2, SCD2, SGDS2).²⁴ OSBA witnesses Knecht and Ewen recommended keeping this customer charge at \$57.00, because the cost basis for the SGS2 customer charge is only \$53.59 per month, even at the Company's full proposed increase.²⁵

Therefore, as the *NUS* adopts the OSBA position on this customer charge, the OSBA supports the NUS on this issue.

Conclusion

The Commonwealth Courts and the Public Utility Commission have consistently held that any order entered by the Commission must be based upon substantial, on the record, evidence.

The Non-Unanimous Settlement, on the issue of Revenue Allocation, is not based upon record evidence. Therefore, in accordance with Commission and Commonwealth Court precedent, the Non-Unanimous Settlement proposed revenue allocation must be rejected by the ALJs and the Commission.

In its Main Brief, the OSBA presented a corrected Peak & Average cost of service study and developed a revenue allocation based upon that cost of service study.

In this proceeding, the OCA, CII, CAUSE-PA, the RESA/NGS Parties, the PA Weatherization Providers Task Force, and the Natural Resources Defense Council did not file Main Briefs supporting their respective positions on the proper cost of service study, and the

²⁴ NUS, Schedule No. 8, at 7.

²⁵ OSBA Statement No. 1, at 29.

resulting revenue allocation. By choosing to support the Non-Unanimous Settlement on revenue allocation, they have all abandoned their respective positions on this issue.

Therefore, the only remaining just and reasonable revenue allocation before the ALJs and the Commission is that of the OSBA.

The OSBA accepts the Non-Unanimous Settlement proposed rate design as a just and reasonable resolution of that issue.

Respectfully submitted,

/s/ Steven C. Gray

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

For:
NazAarah Sabree
Small Business Advocate

Office of Small Business Advocate
555 Walnut Street
Forum Place, 1st Floor
Harrisburg, PA 17101
(717) 783-2525
(717) 783-2831 (fax)

Dated: September 12, 2022

APPENDIX

Comparison of Scaled Back Litigation Positions vs. Settlement Revenue Allocation

	CPA ¹		OCA ²		OSBA ³		I&E ⁴		PSU ⁵		Settlement	
	Allocation	Increase	Allocation	Increase	Allocation	Increase	Allocation	Increase	Allocation	Increase	Allocation	Increase
RS/RDS	\$30,577,763	8.13%	\$25,212,076	6.70%	\$26,498,108	7.04%	\$23,230,021	6.17%	\$33,867,576	9.00%	\$26,500,019	7.04%
SGSS1/S CD1/ SGDS1	\$ 3,752,254	7.81%	\$ 5,166,273	10.76%	\$ 3,726,845	7.76%	\$ 4,488,601	9.35%	\$ 3,656,336	7.61%	\$ 4,537,000	9.45%
SGSS2/S CD2/ SGDS2	\$ 3,976,231	7.95%	\$ 6,030,930	12.06%	\$ 5,961,404	11.92%	\$ 4,755,919	9.51%	\$ 4,387,603	8.78%	\$ 6,030,000	12.06%
SDS/LGS	\$ 3,339,868	11.11%	\$ 4,414,844	14.69%	\$ 4,627,285	15.40%	\$ 6,762,891	22.50%	\$ 1,588,393	5.28%	\$ 4,627,000	15.39%
LDS/LGS	\$ 2,847,357	11.91%	\$ 3,675,877	15.38%	\$ 3,679,219	15.39%	\$ 5,253,498	21.98%	\$ 992,576	4.15%	\$ 2,800,000	11.71%
MDS/NSS	\$	0%	\$	0%	\$	0%	\$ 224	0.02%	\$ 122	0.01%	\$ -	0.00%
Flex/NCS	\$ 6,526	0.21%	\$	0%	\$ 7,139	0.17%	\$ 8,845	0.21%	\$ 5,981	0.14%	\$ 5,981	0.14%
Total	\$44,500,000	8.33%	\$44,500,000	8.33%	\$44,500,000	8.33%	\$44,500,000	8.33%	\$44,500,000	8.33%	\$44,500,000	8.33%

The CPA allocation was derived by applying the Company's proposed allocation percentages for each class to the to the agreed-upon revenue increase. See CPA St. 6 at 20:7-11. Increase percentages were derived by dividing the allocation by the Company's current base revenue. See CPA Exh. 103, Sch. 8, Pg. 4, Ln. 20.

² The OCA allocation was derived by applying the OCA's proposed scale back methodology to OCA's litigation position on revenue allocation. See OCA St. 3-SR at 4, Table 1-SR; see also OCA St. 3 at 12:23-25. Increase percentages were derived by dividing the OCA allocation by the Company's current base revenue. See CPA Exh. 103, Sch. 8, Pg. 4, Ln. 20.

³ The OSBA allocation was derived by proportionally scaling back OSBA's litigation position on revenue allocation. See OSBA St. 1-S at 6, Table IEC-S3. Increase percentages were derived by dividing the OSBA allocation by the Company's current base revenue. See CPA Exh. 103, Sch. 8, Pg. 4, Ln. 20.

⁴ The I&E allocation was derived by applying I&E's scaleback methodology to the Company's as-filed revenue allocation. See I&E St. 3 at 26:13-18; see also I&E Exh. 3, Sch. 6, Pg. 2. Increase percentages were derived by dividing the I&E allocation by the Company's current base revenue. See CPA Exh. 103, Sch. 8, Pg. 4, Ln. 20.

⁵ The PSU allocation was derived by proportionally scaling back PSU's alternative 3 revenue allocation. See PSU St. 1-SR, Exh. PSU-SR-1. Increase percentages were derived by dividing the PSU allocation by the Company's current base revenue. See CPA Exh. 103, Sch. 8, Pg. 4, Ln. 20.

**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).

The Honorable Christopher P. Pell
Deputy Chief Administrative Law Judge
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
801 Market Street, Suite 4063
Philadelphia, PA 19107
cpell@pa.gov

Erika McLain, Esq.
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
ermclain@pa.gov

Honorable John Coogan
Administrative Law Judge
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
400 North Street
Harrisburg, PA 17120
jcoogan@pa.gov
sdelvillar@pa.gov

Charis Mincavage, Esquire
Kenneth Stark, Esquire
McNees Wallace & Nurick LLC
100 Pine Street
Harrisburg, PA 17101
cmincavage@mcneeslaw.com
kstark@mcneeslaw.com

Thomas J. Sniscak, Esquire
Whitney E. Snyder, Esquire
Phillip D. Demanchick, Jr., Esquire
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tjsniscak@hmslegal.com
wesnyder@hmslegal.com
pddemanchick@hmslegal.com

Todd S. Stewart, Esquire
Hawke McKeon & Sniscak LLP
100 North Tenth Street
Harrisburg, PA 17101
tsstewart@hmslegal.com

Amy E. Hirakis, Esq.
Theodore J. Gallagher, Esq.
Columbia Gas of Pennsylvania, Inc.
800 North 3rd Street, Suite 204
Harrisburg, PA 17102
tjgallagher@nisource.com
ahirakis@nisource.com

Michael W. Hassell, Esquire
Lindsay A Berkstresser, Esquire
Post & Schell PC
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
mhassell@postschell.com
lberkstresser@postschell.com

Lauren E. Guerra, Esq.
Barrett C. Sheridan, Esq.
Harrison W. Breitman, Esq.
Darryl A. Lawrence, Esq.
Office of Consumer Advocate
555 Walnut Street
5th Floor Forum Place
Harrisburg, PA 17101-1923
ocacolumbiagas@paoca.org

Joseph L. Vullo, Esquire
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@bvrrlaw.com

John W. Sweet, Esq.
Ria M. Pereira, Esq.
118 Locust Street
Harrisburg, PA 17101
717-710-3839
pulp@palegalaid.net

Jennifer E. Clark, Esq.
Fair Shake Environmental Legal Services
100 S. Juniper St.
3rd Floor
Philadelphia, PA 19107
jclark@fairshake-els.org

Andrew Karas
Mark Szybist
Natural Resources Defense Council
1152 15th St. NW, Suite 300
Washington, DC 20005
akaras@fairshake-els.org

James L. Crist, P.E.
Lumen Group, Inc.
4226 Yarmouth Drive, Suite 101
Allison Park, PA 15101
JLCrist@aol.com

Constance Wile
922 Bebout Road
Venetia, PA 15367
cjazdrmr@yahoo.com

Jose A. Serrano
2667 Chadbourne Drive
York, PA 17404
jas673@hotmail.com

Richard C. Culbertson
1430 Bower Hill Road
Pittsburgh, PA 15243
richard.c.culbertson@gmail.com
mzybist@fairshake-els.org

Lafayette Morgan
Exeter Associates, Inc.
10480 Little Patuxent Pkwy, Suite 300
Columbia, MD 21044-3575
OCAColumbiaGas2022@paoca.org

Roger Colton
Fisher, Sheehan & Colton
34 Warwick Road
Belmont, MA 02478
OCAColumbiaGas2022@paoca.org

David Garrett
Resolve Utility Consulting PLLC
101 Park Avenue, Suite 1125
Oklahoma City, OK 73102
OCAColumbiaGas2022@paoca.org

Jerome Mierzwa
Exeter Associates, Inc.
10480 Little Patuxent Pkwy, Suite 300
Columbia, MD 21044-3575
OCAColumbiaGas2022@paoca.org

James L. Crist, P.E.
Lumen Group, Inc.
4226 Yarmouth Drive, Suite 101
Allison Park, PA 15101
JLCrist@aol.com

/s/ Steven C. Gray

DATE: September 12, 2022

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