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October 22, 2018

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: Alternative Ratemaking Methodologies
Docket No. M-2015-2518883

Dear Ms. Chiavetta:

Enclosed for filing, please find Columbia Gas of Pennsylvania, Inc.'s Comments in accordance with the Pennsylvania Public Utility Commission's Proposed Policy Statement Order entered May 23, 2018, in the referenced proceeding.

Please direct any questions with regard to this filing to the undersigned by calling (724) 416-6355.

Sincerely,

Theodore J. Gallagher

Enclosure

cc: Kriss Brown, Esq., Law Bureau
Marissa Boyle, TUS
Andrew Hester, TUS

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Alternative Ratemaking Methodologies	:	Docket No. M-2015-2518883

COMMENTS OF COLUMBIA GAS OF PENNSYLVANIA, INC.

I. INTRODUCTION & BACKGROUND

On March 16, 2016, the Pennsylvania Public Utility Commission ("Commission") held an *en banc* hearing at the above-captioned docket to seek information from interested stakeholders on the efficacy and appropriateness of alternatives to traditional ratemaking principles for public utilities. Interested parties, including Columbia Gas of Pennsylvania, Inc. ("Columbia," "the Company," or "CPA"), testified before the Commission and provided their views on whether alternative ratemaking methodologies encourage utilities to implement energy efficiency and conservation programs, are just and reasonable and in the public interest, and are cost-effective. Interested stakeholders also filed written comments on or before March 16, 2016, relative to alternative ratemaking methodologies.

On March 2, 2017, the Commission issued a Tentative Order continuing its investigation by seeking additional comments on potential processes to advance alternative rate methodologies that address issues each utility industry faces. ("*March 2nd Tentative Order*"). The *March 2nd Tentative Order* identified a number of questions specifically addressed to natural gas distribution companies ("NGDC"). Columbia filed

Comments responding to the questions contained in the *March 2nd Tentative Order*, as well as to specific questions posed by individual commissioners.

On May 23, 2018, the Commission issued a Proposed Policy Statement Order *("May 23 Proposed Policy Statement")* that, *inter alia*, identifies the factors that the Commission will consider when reviewing alternative rate mechanisms requested by utilities in rate proceedings. The Commission's proposed policy statement is intended to provide guidelines to utilities and stakeholders to use in a Section 1308 rate proceeding. Comments to the *May 23 Proposed Policy Statement* were to be submitted within 60 days of it being published in the *Pennsylvania Bulletin*. The *May 23 Proposed Policy Statement* was published in the Pennsylvania Bulletin on June 23, 2018.

Shortly thereafter, on June 28, 2018, Governor Wolf signed into law Act 58 of 2018 ("Act 58"), which became effective on August 27, 2018. Act 58 amends Chapter 13 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 1301 *et seq.*, and recognizes the Commission's authority to approve an application made by a utility to establish alternative rates and rate mechanisms. Pursuant to Act 58, the Commission must "prescribe the specific procedures for the approval of an application to establish alternative rates" within 6 months of the effective date of Act 58. 66 Pa. C. S. § 1330(d). On August 23, 2018, the Commission issued a Tentative Implementation Order ("TIO") at Docket No. M-2018-3003269 to initiate implementation of Act 58. The TIO addressed the *May 23 Proposed Policy Statement,* stating that "the Commission intends to continue the investigation of the appropriateness of this proposed policy statement as such guidance appears, based on the comments submitted under that docket, to remain relevant to utilities and interested stakeholders in future Section 1308 base rate proceedings." *See* TIO, n. 4. A Secretarial Letter was issued by the Commission on August

14, 2018 extending the time period for filing comments to the *May 23 Proposed Policy Statement* to October 22, 2018.

Columbia files the instant Comments to respond to the *May 23 Proposed Policy Statement*. Columbia is engaged in the business of furnishing natural gas distribution service to approximately 426,000 customers in 26 counties in western and south-central Pennsylvania, and is a subsidiary of NiSource Inc.[1] ("NiSource").

Columbia has been at the forefront of alternative ratemaking in Pennsylvania. To support the Company's substantial investment in its accelerated pipeline replacement program, Columbia has filed seven base rate increases since 2008, and, in three of those proceedings, the Company submitted residential rate design proposals that sought to depart from traditional methods. In its 2012 base rate case, the Commission approved one of Columbia's proposed alternative rate designs - a Weather Normalization Adjustment ("WNA") - as a three-year pilot program. In its 2018 base rate case, which is currently pending before the Commission, Columbia proposed to implement a residential Revenue Normalization Adjustment ("RNA") and continue the Weather Normalization Adjustment ("WNA").[2]

As a proponent of alternative rate designs, the Company appreciates the continued opportunity to provide input on this important issue and commits to working with the

[1] NiSource, headquartered in Merrillville, Indiana, is an energy holding company whose subsidiaries provide natural gas and electricity distribution services to approximately 3.9 million customers located within a corridor that runs from the Midwest to New England. The NiSource gas distribution companies are: Northern Indiana Public Service Company, Bay State Gas Company d/b/a Columbia Gas of Massachusetts, Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, and Columbia Gas of Virginia.

[2] Columbia's 2018 rate base proceeding is currently pending before the Commission at Docket No. R-2018-2647577. A Joint Petition for Partial Settlement was filed with the Commission on August 31, 2018. The Joint Petition for Partial Settlement continues the WNA as a three year pilot and Columbia's RNA proposal has been withdrawn.

Commission and other interested parties to evaluate and implement alternative ratemaking methodologies that produce just and reasonable rates.

II. COMMENTS

At the outset, Columbia notes that it supports the comments being submitted by the Energy Association of Pennsylvania (EAP), which supports focus on the implementation of Act 58 rather than continued consideration of the *May 23Proposed Policy Statement Order* at this time. Although the Company agrees with the Commission that guidelines to proposed alternative rate designs remain relevant to utilities and interested stakeholders for future base rate proceedings, the *May 23 Proposed Policy Statement Order* was drafted prior to Act 58 being signed into law, and thus the alternative rate design landscape has changed since the policy statement was issued.

If the Commission determines to move forward with the policy statement at this time, Columbia offers the following comments for consideration.

A. Section 69.3301. Purpose and Scope

As proposed, the Purpose and Scope limits the policy objectives of alternative rate designs to energy efficiency, reducing disincentives for utilities to promote these objectives, providing incentives to improve system economic efficiency, avoiding future capital investments, and ensuring that fixed utilities receive adequate revenue to maintain the safe and reliable operation of their distribution systems. The Declaration of Policy of Act 58, however, recognizes additional policy objectives – to encourage and sustain utility investment in the safety, security, and the reliability or availability of utility infrastructure. *See* 66 Pa. C.S. § 1330(a)(2). In light of Act 58, the "Purpose and Scope" should be revisited to incorporate the additional policy objectives of Act 58.

The Scope and Purpose also suggests that alternative rate making methodologies may result in the avoidance of future capital investments, as indicated below.

> The purpose of this policy statement is to invite the proposal , within a utility's base rate proceeding, of fixed utility distribution rate designs that further promote these Federal and State policy objectives, reduce fixed utility disincentives for promoting these objectives, provide incentives to improve system economic efficiency, avoid future capital investments, and ensure that fixed utilities receive adequate revenue to maintain the safe and reliable operation of their distribution systems.

Columbia fervently disagrees with the assumption that the use of alternative rate making methodologies will avoid future capital investments. While alternative rate making will provide companies with options for cost recovery outside of traditional rate making mechanisms, it will not eliminate the need for capital investment to replace aging infrastructure. No rate making mechanism will alter the fact that nearly 20% of Columbia's inventory of pipe is either bare steel or cast iron, which is nearing the end of its useful life and needs to be replaced. As a natural gas distribution company, Columbia has an obligation to provide safe, reliable natural gas service to customers.

As mentioned above, Columbia has filed seven base rate cases since 2008, with the recovery of capital invested to replace bare steel, cast iron and wrought iron pipe being the primary issue in Columbia's rate cases. Beginning in 2007, Columbia has undertaken a significant, long-term distribution system infrastructure evaluation, repair and replacement program that is focused primarily on those portions of its system that were constructed using cast iron and bare steel pipe. Since the inception of the program in 2007, Columbia has replaced nearly 5 million feet of steel, wrought iron, and cast iron pipe that has reached the end of its useful life. The Company has committed to the Commission that aged bare steel, cast iron and wrought iron pipe will be removed from our system by 2029. Columbia's capital budget is expected to increase nearly 22% from

2018-2022 in support of this commitment. Regardless of the mechanisms available to recover these costs, the fact that these costs must be incurred in order to provide safe reliable service to our customers is irrefutable.

B. Section 69.3302. Distribution rate considerations

The *May 23 Proposed Policy Statement* identifies the following thirteen (13) factors that the Commission will consider when reviewing the proposed rates and rate structures requested by utilities in rate case proceeding:

1. How the rates align revenues with cost causation principles as to both fixed and variable costs.

Various parties have wholly different definitions of "cost causation principles" in rate proceedings. For example, in the Company's rate proceedings, some parties suggest that cost causation is determined by the customer's desire for gas service 365 days a year, whereas Columbia has testified that cost causation should be based on cost incurrence. Columbia submits that the first criterion of rate consideration should be to ensure the matching of cost incurrence with recovery from the customer group that causes cost incurrence, and that the proposed rate design should be judged by the effectiveness in yielding authorized total revenue requirement, yielding the recovery of fixed cost through fixed recovery and variable cost through variable recovery.

2. How the rates impact the fixed utility's capacity utilization.

Columbia has no comment on this issue, as it primarily impacts electric utilities.

3. Whether the rates reflect the level of demand associated with the customer's anticipated consumption levels.

Columbia has no comment on this issue, as it primarily impacts electric utilities.

4. How the rates limit or eliminate inter-class and intra-class cost shifting.

Columbia agrees that minimizing or eliminating both inter-class subsidies and intra-class subsidies is a factor that should be considered. The Company submits that additional consideration should be given to the fairness of the apportionment of total cost to the rate class based on cost incurrence to limit or eliminate inter-class cost shifting. Fairness of generating rate classes and or designing rate block intervals within rate classes in order to identify material cost of service differences within the rate class to limit or eliminate intra-class cost shifting.

5. How the rates limit or eliminate disincentives for the promotion of efficiency programs.

Columbia believes the fifth criterion of rate consideration should be re-written as follows: "How the rate design eliminates the inherent disincentive for a utility with volumetric distribution charges to offer an energy efficiency program". The goal of energy efficiency programs is to reduce customer consumption. When energy efficiency programs are effective in reducing customer consumption after rates are designed to recover fixed costs through variable rates, the rate design is no longer effective in yielding the authorized total revenue requirement without some kind of additional decoupling mechanism implemented in tandem with the rate design.

6. How the rates impact customer incentives to employ efficiency measures and distribution energy resources.

How rates impact customer incentives to employee efficiency measures and distribution energy resources should not be a consideration for a proper rate design for the following two reasons:

1) Designing rates to maximize the savings associated with the promotion of efficiency programs impedes the effectiveness in yielding total revenue requirement as

approved by the commission. A proper rate design should not discourage a utility from encouraging energy efficiency. Any consideration in how the rates impact customer incentives to employ efficiency measures and distribution energy resources when designing rates intentionally reduces the utility's opportunity to recovery its approved revenue requirement.

2) Designing rates to maximize the savings associated with the promotion of efficiency programs disregards the principle of designing rates on cost incurrence within a rate class resulting in intra-class cost shifting.

Customers already have the incentive to lower the amount paid for the cost of gas commodity, which is the cost that is avoided when the customer conserves. Utility's fixed distribution costs do not vary with conservation and therefore when customers conserve, and the utility charges a volumetric distribution charge, the recovery of a customer's cost of service is shifted either to other customers through rate design or absorbed by the utility. In either case, the customer does not pay for the costs the utility incurs on its behalf, which is inconsistent with the fairness principle.

7. How the rates impact low-income customers and support consumer assistance programs.

How rates impact low-income customers should not be a consideration for a proper rate design for two reasons:

1) Designing rates to subsidize any group of customers disregards the principle of fairness. Rates must be designed based on cost incurrence to avoid intra-class cost shifting.

2) Low income advocates advocate lower customer charges and corresponding higher volumetric distribution rates to recover cost of distribution service, however by doing so they are harming higher use low income customers and shifting fixed cost recovery to higher use residential customers based solely on their income.

Because low income customers cannot all be categorized into a single cost based group, any attempt to subsidize low income customers by way of rate design actually places a larger economic burden on other low income customers. There are many programs that exist to assist payment troubled customers much more efficiently than through rate design. Therefore, low-income customers and support of customer assistance programs should not be considerations when it come to a proper rate design.

8. How the rates impact customer rate stability principles.

Rate stability leads to a policy of gradualism in rate changes. Rate stability minimizes variances between revenue requirement approved by the commission and recovery of revenue by allowing customers to adapt to the new rate design. Columbia agrees rate stability principles should be a consideration in rate design.

9. How weather impacts utility revenue under these rates.

Columbia agrees that this is an important consideration for both the utility and the customer. Rate designs should minimize or eliminate the impact of weather on fixed cost recovery.

10. How the rates impact the frequency of rate case filings and affect regulatory lag.

The applicability of this factor is dependent on the alternative rate mechanism being sought by the utility and the level of investment the utility is making in its infrastructure. As stated above, while alternative rate making will provide companies

with options for cost recovery outside of traditional rate making mechanisms, it will not eliminate the need for capital investment to replace aging infrastructure. In addition, conservation efforts by customers, increasingly efficiency furnaces and appliance, and changing heating content of gas delivered also contribute to the impact on the timing of rate cases.

11. If or how rates interact with other revenue sources, such as Section 1307 automatic adjustment surcharges, 66 Pa. C.S. § 1307 (relating to sliding scale of rates; adjustments), riders such as 66 Pa. C.S. § 2804(9) relating to universal service and energy conservation policies) or system improvements charges, 66 Pa. C.S. § 1353 (relating to distribution system improvement charge).

Columbia agrees that ensuring that no overlap between base rate recovery and the timing of the surcharge (i.e., DSIC vs FPFTY base rates) is a factor that should be reviewed when a rate design is sought.

12. Whether the alternative rate mechanism includes appropriate consumer protections.

Consumers should be protected from a rate design that ensures the utility exceeds its authorized revenue requirement from colder than normal weather. Utilities should be protected from a rate design that ensures the utility has no reasonable opportunity to recover the authorized revenue requirement because of conservation or warmer than normal weather.

13. Whether the alternative rate mechanism is understandable and acceptable to consumers and comports with Pennsylvania law.

Simplicity and administrative ease is desirable because it requires less employee labor and customer education.

III. ADDITIONAL COMMENTS

In addition to the specific comments to the *May 23 Proposed Policy Statement*, Columbia also has a comment regarding reducing a utility's return on equity as a consumer protection on decoupling. It is Columbia's position that a downward adjustment to the cost of equity to recognize any theoretical risk-reducing effects of WNA and RNA programs would be redundant to the effects of the marketplace, and is therefore inappropriate. This is because the clear majority of companies comprising gas utility proxy groups today already utilize rate designs that are either fully or partially non-volumetric in nature. In fact, the vast majority of gas utility companies nationwide employ various forms of revenue stabilization mechanisms that share many of the same characteristics and are, therefore, generally comparable to the Company's WNA and proposed RNA program.

Therefore, a cost of equity evaluation which relies upon the market and financial data of the typical gas utility proxy group will already incorporate the effects of these revenue stabilization mechanisms on the risk perceptions and rate of return expectations of investors. This is particularly the case because Columbia's WNA and proposed RNA program only applies to residential customers. For this reason, an adjustment to Columbia's cost of equity to compensate for any such theoretical reduction of risk is clearly not warranted, since to the extent such risk-reducing effects were to actually occur, its effect on Columbia's cost of equity would have already been fully captured within the market data of the proxy group companies evaluated.

IV. CONCLUSION

Columbia Gas of Pennsylvania, Inc. appreciates the opportunity to provide these comments to the *May 23 Proposed Policy Statement*. The Company respectfully requests that the Commission consider these comments as the Commission moves forward with setting policy that guides the utilization of alternative rate mechanisms in the Commonwealth.

Respectfully submitted,

/s/ Amy E. Hirakis
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