**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17120**

Commissioners Present:

Gladys Brown Dutrieuille, Chairman, Joint Statement

David W. Sweet, Vice Chairman, Joint Statement

John F. Coleman, Jr.

Ralph V. Yanora

Pennsylvania Public Utility Commission R-2020-3018835

Office of Small Business Advocate C-2020-3019702

Office of Consumer Advocate C-2020-3019714

Columbia Industrial Intervenors C-2020-3020105

Dr. Richard Collins C-2020-3020207

Ionut R. Ilie C-2020-3020498

The Pennsylvania State University C-2020-3020666

v.

Columbia Gas of Pennsylvania, Inc.

**OPINION AND ORDER**

# Table of Contents

[I. Background 2](#_Toc63764408)

[II. History of the Proceeding 3](#_Toc63764409)

[III. Legal Standards 8](#_Toc63764410)

[IV. Overall Rate Increase Request 13](#_Toc63764411)

[A. Positions of the Parties 13](#_Toc63764412)

[B. Recommended Decision 14](#_Toc63764413)

[C. Exceptions and Replies 20](#_Toc63764414)

[1. Columbia Exception No. 1 and Replies 20](#_Toc63764415)

[2. Columbia Exception No. 2 and Replies 32](#_Toc63764416)

[3. I&E Exception No. 1 and Replies 35](#_Toc63764417)

[D. Disposition 42](#_Toc63764418)

[V. Rate Base 55](#_Toc63764419)

[A. Cloud-Based Computing 55](#_Toc63764420)

[1. Positions of the Parties 55](#_Toc63764421)

[2. Recommended Decision 56](#_Toc63764422)

[3. Disposition 56](#_Toc63764423)

[B. Utility Plant in Service / Depreciation Reserve / ADIT 56](#_Toc63764424)

[1. Positions of the Parties 56](#_Toc63764425)

[2. Recommended Decision 59](#_Toc63764426)

[3. Columbia Exception No. 3 and Replies 60](#_Toc63764427)

[4. Disposition 61](#_Toc63764428)

[VI. Revenue 62](#_Toc63764429)

[A. Positions of the Parties 62](#_Toc63764430)

[B. Recommended Decision 64](#_Toc63764431)

[C. Columbia Exception No. 4 64](#_Toc63764432)

[D. Disposition 65](#_Toc63764433)

[VII. Expenses 66](#_Toc63764434)

[A. Labor Expense 66](#_Toc63764435)

[1. Positions of the Parties 66](#_Toc63764436)

[a. Annualization Adjustment 67](#_Toc63764437)

[b. Employee Complement 67](#_Toc63764438)

[2. Recommended Decision 68](#_Toc63764439)

[a. Annualization Adjustment 68](#_Toc63764440)

[b. Employee Complement 69](#_Toc63764441)

[3. Exceptions and Replies 69](#_Toc63764442)

[a. Columbia Exception No. 5 and Replies 69](#_Toc63764443)

[b. Columbia Exception No. 6 and Replies 70](#_Toc63764444)

[4. Disposition 70](#_Toc63764445)

[B. Other Employee Benefits 72](#_Toc63764446)

[1. Positions of the Parties 72](#_Toc63764447)

[2. Recommended Decision 72](#_Toc63764448)

[3. Disposition 72](#_Toc63764449)

[C. Incentive Compensation and Stock Rewards 73](#_Toc63764450)

[1. Positions of the Parties 73](#_Toc63764451)

[a. Incentive Compensation 73](#_Toc63764452)

[b. Stock Rewards 73](#_Toc63764453)

[2. Recommended Decision 74](#_Toc63764454)

[a. Incentive Compensation 74](#_Toc63764455)

[b. Stock Rewards 74](#_Toc63764456)

[3. Disposition 75](#_Toc63764457)

[D. PUC, the OCA, and the OSBA Fees 76](#_Toc63764458)

[1. Positions of the Parties 76](#_Toc63764459)

[2. Recommended Decision 76](#_Toc63764460)

[3. Columbia Exception No. 7 and Replies 76](#_Toc63764461)

[4. Disposition 77](#_Toc63764462)

[E. Rate Case Expense 77](#_Toc63764463)

[1. Positions of the Parties 77](#_Toc63764464)

[2. Recommended Decision 78](#_Toc63764465)

[3. Disposition 78](#_Toc63764466)

[F. Outside Services 79](#_Toc63764467)

[1. Positions of the Parties 79](#_Toc63764468)

[2. Recommended Decision 80](#_Toc63764469)

[3. Columbia Exception No. 8 and Replies 80](#_Toc63764470)

[4. Disposition 81](#_Toc63764471)

[G. Other Adjustments for Safety Initiatives and Compensation 82](#_Toc63764472)

[1. Cross Bore Identification 83](#_Toc63764473)

[a. Positions of the Parties 83](#_Toc63764474)

[b. Recommended Decision 84](#_Toc63764475)

[c. Columbia Exception No. 9 and Replies 84](#_Toc63764476)

[d. Disposition 85](#_Toc63764477)

[2. Gas Qualification Specialists 86](#_Toc63764478)

[a. Positions of the Parties 86](#_Toc63764479)

[b. Recommended Decision 87](#_Toc63764480)

[c. Columbia Exception No. 10 and Replies 87](#_Toc63764481)

[d. Disposition 88](#_Toc63764482)

[3. Legacy Service Line Records 89](#_Toc63764483)

[a. Positions of the Parties 89](#_Toc63764484)

[b. Recommended Decision 90](#_Toc63764485)

[c. Columbia Exception No. 11 and Replies 90](#_Toc63764486)

[d. Disposition 91](#_Toc63764487)

[4. Customer-owned Field-Assembled Riser Replacement 92](#_Toc63764488)

[a. Positions of the Parties 92](#_Toc63764489)

[b. Recommended Decision 93](#_Toc63764490)

[c. Columbia Exception No. 12 and Replies 94](#_Toc63764491)

[d. Disposition 95](#_Toc63764492)

[5. Compensation Adjustment 96](#_Toc63764493)

[a. Positions of the Parties 96](#_Toc63764494)

[b. Recommended Decision 96](#_Toc63764495)

[c. Columbia Exception No. 13 and Replies 96](#_Toc63764496)

[d. Disposition 97](#_Toc63764497)

[H. Depreciation Expense 98](#_Toc63764498)

[1. Positions of the Parties 98](#_Toc63764499)

[2. Recommended Decision 98](#_Toc63764500)

[3. Columbia Exception No. 14 and Replies 98](#_Toc63764501)

[4. Disposition 99](#_Toc63764502)

[VIII. Taxes 99](#_Toc63764503)

[A. Taxes Other Than Income Taxes 99](#_Toc63764504)

[1. Positions of the Parties 99](#_Toc63764505)

[2. Recommended Decision 100](#_Toc63764506)

[3. Exceptions and Replies 100](#_Toc63764507)

[4. Disposition 101](#_Toc63764508)

[B. Income Taxes 101](#_Toc63764509)

[1. Positions of the Parties 101](#_Toc63764510)

[2. Recommended Decision 102](#_Toc63764511)

[3. Disposition 102](#_Toc63764512)

[IX. Fair Rate of Return 103](#_Toc63764513)

[A. Proxy Groups 103](#_Toc63764514)

[1. Positions of the Parties 103](#_Toc63764515)

[2. Recommended Decision 107](#_Toc63764516)

[3. OCA Exception No. 3A and Replies 108](#_Toc63764517)

[4. Disposition 110](#_Toc63764518)

[B. Capital Structure Ratios 112](#_Toc63764519)

[1. Positions of the Parties 112](#_Toc63764520)

[2. Recommended Decision 114](#_Toc63764521)

[3. Columbia Exception No. 16 and Replies 114](#_Toc63764522)

[4. Disposition 116](#_Toc63764523)

[C. Cost of Debt 119](#_Toc63764524)

[1. Positions of the Parties 119](#_Toc63764525)

[2. Recommended Decision 119](#_Toc63764526)

[3. Disposition 120](#_Toc63764527)

[D. Cost of Common Equity 120](#_Toc63764528)

[1. Methods for Determining the Cost of Common Equity 121](#_Toc63764529)

[a. Discounted Cash Flow Method (DCF) 121](#_Toc63764530)

[i. Positions of the Parties 121](#_Toc63764531)

[b. Capital Asset Pricing Model (CAPM) 125](#_Toc63764532)

[i. Positions of the Parties 126](#_Toc63764533)

[c. Risk Premium (RP) Model and Comparable Earnings (CE) Model 127](#_Toc63764534)

[i. Positions of the Parties 128](#_Toc63764535)

[ii. Recommended Decision 130](#_Toc63764536)

[iii. Exceptions 131](#_Toc63764537)

[iv. Disposition 131](#_Toc63764538)

[2. Management Effectiveness Adjustment 132](#_Toc63764539)

[a. Positions of the Parties 132](#_Toc63764540)

[b. Recommended Decision 134](#_Toc63764541)

[c. Exceptions 134](#_Toc63764542)

[d. Disposition 135](#_Toc63764543)

[3. Rate of Return on Common Equity 135](#_Toc63764544)

[a. Positions of the Parties 135](#_Toc63764545)

[b. Recommended Decision 137](#_Toc63764546)

[c. Exceptions and Replies 138](#_Toc63764547)

[i. Columbia Exception No. 17 and Replies 138](#_Toc63764548)

[ii. OCA Exception No. 3B and Replies 139](#_Toc63764549)

[d. Disposition 141](#_Toc63764550)

[E. Overall Rate of Return 141](#_Toc63764551)

[1. Positions of the Parties 141](#_Toc63764552)

[2. Recommended Decision 142](#_Toc63764553)

[3. Exceptions and Replies 142](#_Toc63764554)

[4. Disposition 143](#_Toc63764555)

[X. Miscellaneous Issues 144](#_Toc63764556)

[A. Low-Income Customer Issues 144](#_Toc63764557)

[1. Customer Assistance Program 144](#_Toc63764558)

[a. Positions of the Parties 144](#_Toc63764559)

[b. Recommended Decision 146](#_Toc63764560)

[c. Columbia Exception No. 22 and Replies 147](#_Toc63764561)

[d. Disposition 148](#_Toc63764562)

[XI. Energy Burdens 152](#_Toc63764563)

[A. Positions of the Parties 152](#_Toc63764564)

[B. Recommended Decision 154](#_Toc63764565)

[C. CAUSE-PA Exception No. 1 and Replies 155](#_Toc63764566)

[D. Disposition 160](#_Toc63764567)

[1. Low-Income Customer Outreach 161](#_Toc63764568)

[a. Positions of the Parties 161](#_Toc63764569)

[b. Recommended Decision 165](#_Toc63764570)

[c. OCA Exception No. 2 and CAUSE-PA Exception No. 3 and Replies 165](#_Toc63764571)

[d. Disposition 172](#_Toc63764572)

[2. Health and Safety Pilot 173](#_Toc63764573)

[a. Positions of the Parties 173](#_Toc63764574)

[b. Recommended Decision 174](#_Toc63764575)

[c. Disposition 174](#_Toc63764576)

[3. LIURP 174](#_Toc63764577)

[a. Positions of the Parties 174](#_Toc63764578)

[b. Recommended Decision 175](#_Toc63764579)

[c. Disposition 175](#_Toc63764580)

[4. Hardship Fund 176](#_Toc63764581)

[a. Positions of the Parties 176](#_Toc63764582)

[b. Recommended Decision 177](#_Toc63764583)

[c. Disposition 177](#_Toc63764584)

[E. Pipeline Replacement Issues 177](#_Toc63764585)

[1. Distribution Integrity Management Program 177](#_Toc63764586)

[a. Positions of the Parties 177](#_Toc63764587)

[b. Recommended Decision 178](#_Toc63764588)

[c. Disposition 179](#_Toc63764589)

[2. Pipeline Replacement 180](#_Toc63764590)

[a. Positions of the Parties 180](#_Toc63764591)

[b. Recommended Decision 181](#_Toc63764592)

[c. Disposition 181](#_Toc63764593)

[3. Pipeline Replacement Costs 181](#_Toc63764594)

[a. Positions of the Parties 181](#_Toc63764595)

[b. Recommended Decision 182](#_Toc63764596)

[c. Disposition 183](#_Toc63764597)

[4. Risk Reduction 183](#_Toc63764598)

[a. Positions of the Parties 183](#_Toc63764599)

[b. Recommended Decision 185](#_Toc63764600)

[c. Disposition 186](#_Toc63764601)

[XII. Rate Structure 186](#_Toc63764602)

[A. Allocated Class Cost of Service Study (ACCOSS) 187](#_Toc63764603)

[1. Positions of the Parties 190](#_Toc63764604)

[2. Recommended Decision 197](#_Toc63764605)

[3. Exceptions and Replies 198](#_Toc63764606)

[a. Columbia Exceptions Nos. 18 & 19 198](#_Toc63764607)

[b. OSBA Exception No. 1 202](#_Toc63764608)

[c. PSU Exception No. 1 205](#_Toc63764609)

[d. Replies to Exceptions 209](#_Toc63764610)

[4. Disposition 211](#_Toc63764611)

[B. Revenue Allocation 218](#_Toc63764612)

[1. Proposed Revenue Allocation and Alternatives 218](#_Toc63764613)

[a. Positions of the Parties 218](#_Toc63764614)

[b. Recommended Decision 226](#_Toc63764615)

[c. Exception and Replies 226](#_Toc63764616)

[i. Columbia Exception No. 20 226](#_Toc63764617)

[ii. OSBA Exception No. 1 and PSU Exception No. 1 228](#_Toc63764618)

[iii. OCA’s Replies 229](#_Toc63764619)

[d. Disposition 230](#_Toc63764620)

[2. Flex Customers 236](#_Toc63764621)

[a. Positions of the Parties 236](#_Toc63764622)

[b. Recommended Decision 237](#_Toc63764623)

[c. Columbia Exception No. 21 and Replies 238](#_Toc63764624)

[d. Disposition 240](#_Toc63764625)

[3. Allocation of Universal Service Costs 241](#_Toc63764626)

[a. Positions of the Parties 241](#_Toc63764627)

[b. Recommended Decision 244](#_Toc63764628)

[c. Exceptions and Replies 245](#_Toc63764629)

[i. OCA Exception No. 1 245](#_Toc63764630)

[ii. CAUSE-PA Exception No. 2 249](#_Toc63764631)

[iii. Replies 252](#_Toc63764632)

[d. Disposition 258](#_Toc63764633)

[C. Rate Design 261](#_Toc63764634)

[1. Residential Rate Design 262](#_Toc63764635)

[a. Positions of the Parties 262](#_Toc63764636)

[i. Residential Customer Charge 262](#_Toc63764637)

[ii. Weather Normalization Adjustment 263](#_Toc63764638)

[iii. Revenue Normalization Adjustment 263](#_Toc63764639)

[b. Recommended Decision 264](#_Toc63764640)

[c. Disposition 265](#_Toc63764641)

[2. Small C&I Customer Rate Design 265](#_Toc63764642)

[a. Positions of the Parties 265](#_Toc63764643)

[b. Recommended Decision 266](#_Toc63764644)

[c. Disposition 266](#_Toc63764645)

[3. Large C&I Customer Rate Design 267](#_Toc63764646)

[a. Positions of the Parties 267](#_Toc63764647)

[b. Recommended Decision 268](#_Toc63764648)

[c. Disposition 268](#_Toc63764649)

[4. Gas Procurement Charge Rider 268](#_Toc63764650)

[a. Positions of the Parties 268](#_Toc63764651)

[b. Recommended Decision 269](#_Toc63764652)

[c. Disposition 269](#_Toc63764653)

[D. Bill Impacts 269](#_Toc63764654)

[1. Positions of the Parties 269](#_Toc63764655)

[2. Recommended Decision 270](#_Toc63764656)

[3. Disposition 270](#_Toc63764657)

[XIII. Conclusion 270](#_Toc63764658)

[XIV. LIST OF ABBREVIATIONS 1](#_Toc63764659)

[XV. Commission Tables Calculating Allowed Revenue Increase 3](#_Toc63764660)

**BY THE COMMISSION:**

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Columbia Gas of Pennsylvania, Inc. (Columbia, CG, or the Company), the Commission’s Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), and the Pennsylvania State University (PSU), filed on December 22, 2020, to the Recommended Decision (R.D.) of Administrative Law Judge (ALJ) Katrina L. Dunderdale, issued on December 4, 2020, in the above-captioned proceeding. Columbia, I&E, the OCA, the OSBA, CAUSE-PA, and PSU filed Replies to Exceptions on December 30, 2020.

For the reasons discussed below, we shall: (1) reverse the ALJ’s recommendation to completely deny Columbia’s requested rate relief due to the pandemic; (2) grant, in part, and deny, in part, the Exceptions filed by Columbia and I&E; and (3) deny the Exceptions filed by the OCA, the OSBA, CAUSE-PA, and PSU.

Additionally, as discussed below, Columbia proposed rate changes that would have increased its total annual operating revenues by $100,437,420, or approximately 17.5%, based on a fully projected future test year (FPFTY) ending December 31, 2021.[[1]](#footnote-2) In this Opinion and Order, we shall approve an annual revenue increase of $63,548,905 to the Company’s pro forma revenue at present rates of $572,769,574, or approximately 11.10%.

# Background

Columbia is a public utility and natural gas distribution company (NGDC), as those terms are defined in the Pennsylvania Public Utility Code (Code), 66 Pa. C.S.

§§ 102 and 2202, providing natural gas distribution, sales, transportation, and/or supplier of last resort services to approximately 433,000 retail customers in portions of twenty-six counties in western, northwestern, southern, and central Pennsylvania. Columbia is a wholly-owned subsidiary of NiSource Gas Distribution Group, Inc., which is a subsidiary of NiSource, Inc. NiSource, Inc. (NiSource) acquired the Columbia Energy Group and its subsidiaries on November 1, 2000.

Columbia’s testimony provided that its requested increase in annual operating revenues was driven by two main contributing factors: (1) its continued investment in its accelerated pipeline replacement program and (2) the Company’s increased expenses on a variety of safety initiatives, including repairs to be undertaken on customer-owned pipes. Columbia St. 1 at 7-9. The Company’s original request, Supplement No. 307 to Tariff Gas – Pa. P.U.C. No. 9 (Supplement No. 307), filed on April 24, 2020, sought an increase in annual distribution operating revenues of $100,437,420, based on a fully projected future test year (FPFTY) ending December 31, 2021.[[2]](#footnote-3) Subsequently, the Company filed revised base rate schedules revising its requested increase to $100,366,797, which is designed to provide the Company with an opportunity to earn an 8.00% overall rate of return, including a 10.95% return on common equity, on a claimed rate base of $2.401 billion. *See* CG Exh. KKM‑1R at 3; CG Exh. 400 (Updated), Sch. 1 (accompanying CG St. 8-R). Columbia argued that absent rate relief, its overall rate of return on its FPFTY rate base will be “grossly inadequate” 4.88%. CG M.B. at 1.

Columbia also proposed the following tariff revisions in its filing: (1) an increase in the monthly residential customer charge from $16.75 to $23.00, or by 37.3%; (2) the elimination of the 3 percent deadband provision of its Weather Normalization Adjustment (WNA) Rider program; and (3) the introduction of a Revenue Normalization Adjustment (RNA) Rider. CG M.B. at 149-156.

# History of the Proceeding

On April 24, 2020, Columbia filed Supplement No. 307 at Docket No. R‑2020-3018835, with an effective date of January 23, 2021.[[3]](#footnote-4) Columbia proposed to increase overall rates by approximately $100.4 million per year, or 17.54% over present revenues. Columbia’s proposal, if granted, would increase the average monthly residential customer bill from $87.57 to $103.19, or by approximately 17.84%.

On April 27, 2020, I&E filed a Notice of Appearance. On May 4, 2020, the OSBA filed a Public Statement and Formal Complaint at Docket No. C-2020-3019702. On May 5, 2020, the OCA filed a Public Statement and Formal Complaint at Docket No. C-2020-3019714.

On May 14, 2020, the Community Action Association of Pennsylvania (CAAP), which represents Pennsylvania’s community action agencies that provide anti-poverty planning and community development activities for low-income communities and services to individuals and families who are customers of Columbia, filed a Petition to Intervene.

On May 18, 2020, CAUSE-PA, which represents low- and moderate-income individuals and advocates on behalf of its members to enable consumers of limited economic means to connect to and maintain affordable water, electric, heating, and telecommunication services, filed a Petition to Intervene.

By Order entered May 21, 2020, the Commission suspended the implementation of Supplement No. 307 by operation of law, pursuant to 66 Pa. C.S. § 1308(d), until January 23, 2021, unless permitted by Commission Order to become effective at an earlier date, and instituted an investigation into the lawfulness, justness, and reasonableness of the rates, rules, and regulations proposed. The Commission assigned the matter to the Office of Administrative Law Judge (OALJ) for the prompt scheduling of such hearings as may be necessary and issuance of a Recommended Decision.

On May 29, 2020, the Columbia Industrial Intervenors (CII), on behalf of its members (Hanover Foods Corporation, Knouse Foods Cooperative, Inc. and RHI Magnesita), filed a Formal Complaint at Docket No. C-2020-3020105.

On May 29, 2020, I&E filed an Expedited Motion to Extend the Statutory Suspension Period During the Emergency Interruption of Normal Operations of the Pennsylvania Public Utility Commission (Motion to Extend). I&E asked Chief Administrative Law Judge (CALJ) Charles Rainey to grant an extension of the suspension period from January 23, 2021, to February 4, 2021, pursuant to the Commission’s Emergency Order at Docket No. M-2020-3019262, dated March 20, 2020, and ratified by the Commission on March 26, 2020, which authorized the CALJ to establish reasonable deadlines under the circumstances, after consideration of the positions of the Parties and the presiding ALJ, if necessary, in response to the obstacles created by the COVID-19 pandemic.

On June 3, 2020, the ALJ conducted a prehearing conference in which various procedural matters were discussed and a litigation schedule was established. Columbia, the OCA, the OSBA, I&E, CII, CAAP, and CAUSE-PA were present and represented by counsel. After the Parties were provided with an opportunity to state their positions on the record, CALJ Rainey ruled orally to grant I&E’s Motion to Extend. In a written Order dated June 3, 2020 (*June 3 Order*), CALJ Rainey granted I&E’s Motion to Extend and extended the suspension period for resolution of this case by twelve days, from January 23, 2021 to February 4, 2021.

Also, on June 3, 2020, a Dr. Richard Collins filed a Formal Complaint at Docket No. C-2020-3020207.

On June 18, 2020, Columbia submitted an unopposed Motion for Protective Order pursuant to 52 Pa. Code § 5.423(a), which was granted on June 23, 2020.

Also, on June 23, 2020, Columbia filed a Petition for Reconsideration from Staff Action (Petition for Reconsideration) and sought a reversal of the CALJ’s *June 3 Order*. I&E, the OCA, and the OSBA filed responses to the Petition.

On June 24, 2020, Ionut (John) R. Ilie filed a Formal Complaint at Docket No. C-2020-3020498.[[4]](#footnote-5)

On July 8, 2020, ALJ Dunderdale conducted a telephonic public input hearing during which two witnesses testified. Also, on July 8, 2020, PSU filed a Formal Complaint at Docket No. C-2020-3020666.

On July 15, 2020, Columbia filed Objections of Columbia Gas of Pennsylvania, Inc. to the Written Statement and Exhibits of Richard C. Culbertson (Objections to Culbertson Testimony), in which the Company requested the ALJ exclude certain portions of the written statement and exhibits Mr. Culbertson submitted at the public input hearing. Columbia specifically objected to Public Input Exhibits 1, 5 and 6. On July 31, 2020, a prehearing conference was held at which Columbia argued in favor of its objections, and the OCA and CAAP argued against the objections.

By Opinion and Order entered on August 20, 2020 (*August 2020 Order*), Columbia’s Petition for Reconsideration was denied, in part, and granted, in part. The Commission denied the Petition for Reconsideration in that it affirmed the *June 3 Order* of CALJ Rainey to grant the Petition for Extension and granted the Petition in that the effective suspension date remained January 23, 2021. In addition, the OALJ was directed to issue a Recommended Decision in this matter on or before November 20, 2020.

On August 11, 2020, the Parties notified the presiding officer via email that in an effort to maintain the original procedural schedule, an agreement had been reached by the Parties which would extend the suspension date to February 25, 2021, maintain the effective date of January 23, 2021, as required by the Commission’s *August 2020 Order*, and move the due date for the Recommended Decision from November 20, 2020 to December 4, 2020.

On August 12, 2020, Columbia filed Supplement No. 315 to Tariff Gas – Pa. P.U.C. No. 9 (Supplement No. 315), which voluntarily suspended its statutory suspension period from January 23, 2021 to February 25, 2021, with rates to go into effect January 23, 2021 – *i.e*., subject to the condition that Columbia will bill retroactively for the revenues lost at the final approved rates for the period from the end of the statutory suspension period (January 23, 2021) through the date the Commission makes its approved rates effective by approving the requisite compliance filing.

On August 13, 2020, ALJ Dunderdale issued the Third Interim Order which denied Columbia’s Objections to Mr. Culbertson’s Testimony and admitted the written statement and exhibits of Mr. Culbertson.

On September 24, 2020, ALJ Dunderdale conducted the telephonic evidentiary hearing. At the hearing, the Parties submitted written statements, with signed affidavits from each witness, and exhibits of the various witnesses pursuant to an agreement between the Parties that cross-examination would not be necessary.

On September 25, 2020, ALJ Dunderdale issued the Post-Hearing Order which ordered that the written statements, exhibits and verifications sponsored and moved into the hearing record by the Parties on September 24, 2020, should be entered into the Commission’s hearing record in the instant proceeding. The Post-Hearing Order required all the Parties which had evidence admitted into the hearing record to file an accurate copy of that evidence with the Commission on or before October 9, 2020. By the same Order, the presiding officer closed the hearing record. The pre-hearing and hearing transcripts consist of 221 pages.

On October 16, 2020, Columbia, I&E, the OCA, the OSBA, CAUSE-PA, CAAP, CII and PSU filed Main Briefs on the issues reserved for litigation. These Parties filed Reply Briefs on October 30, 2020.

In the Recommended Decision, issued on December 4, 2020, ALJ Dunderdale recommended that the Commission deny Columbia’s request in its entirety on the basis that the Company did not satisfy its burden of proving, by substantial evidence, that the proposed base rate revenue increase will result in just and reasonable rates, as required by 66 Pa. C.S.§ 1301, during the current COVID-19 pandemic. According to ALJ Dunderdale, because the Commission may disagree with the recommendation to deny the proposed base rate revenue increase in its entirety, she reviewed each element in the proposed base rate increase and addressed whether Columbia proved each proposal by substantial evidence.[[5]](#footnote-6) Further, ALJ Dunderdale stated that she did not recommend an alternative revenue requirement and rate of return, as explained in Section III, Subsection C-9 of the Recommended Decision, because the mathematical calculation may change if the Commission agrees with some, but not all of the recommendations, for each proposal. R.D. at 1, 409.

As previously noted, Columbia, I&E, the OCA, the OSBA, CAUSE-PA, and PSU filed Exceptions to the Recommended Decision on December 22, 2020. On December 30, 2020, Columbia, I&E, the OCA, the OSBA, CAUSE-PA, and PSU filed Replies to Exceptions.

# Legal Standards

At issue here is the Company’s request for a general base rate increase, which is governed by Section 1308(d) of the Code. Section 1308(d) of the Code provides the procedures for changing base rates, the time limitations for the suspension of the new rates, and the time limitations on the Commission’s actions. 66 Pa. C.S. § 1308(d).[[6]](#footnote-7) “Under traditional ratemaking, utilities may not change rates charged to customers outside of a base rate case.” *McCloskey v. Pa. PUC*, 127 A.3d 860, 863 n.2 (Pa. Cmwlth. 2015).

Section 1301(a) of the Code mandates that “[e]very rate made, demanded, or received by any public utility ... shall be just and reasonable, and in conformity with [the] regulations or orders of the [C]ommission.” 66 Pa. C.S. § 1301(a). Pursuant to the just and reasonable standard, a utility may obtain “a rate that allows it to recover those expenses that are reasonably necessary to provide service to its customers[,] as well as a reasonable rate of return on its investment.” *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002) (*City of Lancaster*). There is no single way to arrive at just and reasonable rates, and “[t]he [Commission] has broad discretion in determining whether rates are reasonable” and “is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.” *Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (*Popowsky II*).

A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). In determining a fair rate of return, the Commission must adhere to the constitutional standards established by the United States Supreme Court in the seminal cases *Bluefield Water Works and Improvement Co. v. Public Service Comm’n of West Virginia*, 262 U.S. 679, 692-93 (1923) (*Bluefield*) and *Federal Power Commission v. Hope Natural Gas Co.*,320 U.S. 591, 603 (1944) (*Hope Natural Gas*). In *Bluefield*, the Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

*Bluefield,* 262 U.S. at 692-93. Twenty years later, in *Hope Natural Gas*, the Supreme Courtreiterated:

From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

*Hope Natural Gas*, 320 U.S. at 603.

The Commission is required to investigate all general rate increase filings. *Popowsky II*, 683 A.2d at 961. The burden of proof to establish the justness and reasonableness of every element of a public utility’s rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. 66 Pa. C.S. § 315(a); s*ee also,* *Lower Frederick Twp. Water Co. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980) (*Lower Frederick*); *see also*, *Brockway Glass Co. v. Pa. PUC*, 437 A.2d 1067 (Pa. Cmwlth. 1981). Section 315(a) of the Code provides as follows:

**Reasonableness of rates.** – In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa. C.S. § 315(a). The evidence necessary to meet that burden must be substantial. *Lower Frederick* at 507.

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility’s burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate proceeding. There is no similar burden placed on parties to justify a proposed adjustment to the Company’s filing. The Pennsylvania Supreme Court has held:

[T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to

demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

*Berner v. Pa. PUC*, 116 A.2d 738, 744 (Pa. 1955).

However, in proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned. As the Pennsylvania Commonwealth Court has held:

While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

*Allegheny Center Assocs. v. Pa. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990) (citation omitted); *see also Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 310, 359-360 (1990).

Additionally, Section 315(a) of the Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose. 66 Pa. C.S. § 315(a). The burden of proof must be on the party who proposes a rate increase beyond that sought by the utility. *Pa. PUC v. Metropolitan Edison Company*,Docket No.

R-00061366, 2007 Pa. PUC LEXIS 5 (Order entered January 11, 2007). The mere rejection of evidence contrary to that presented by the public utility is not an impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pa. PUC*, 456 A.2d 686 (Pa. Cmwlth. 1983).

Finally, any issue or Exception that we do not specifically address shall be deemed to have been duly considered and denied without further discussion. The Commission is not required to consider expressly or at length each contention or argument raised by the parties. *Consolidated Rail Corp. v. Pa. PUC*, 625 A.2d 741 (Pa. Cmwlth. 1993); *also see, generally, University of Pennsylvania v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984).

# Overall Rate Increase Request

## A. Positions of the Parties

In its base rate increase filing, Columbia requested a $100.4 million[[7]](#footnote-8) increase to its revenue requirement and an increase in the fixed residential customer charge, from $16.75 to $23.00 monthly. Columbia’s position is that it should receive its requested increase, based upon the long-standing ratemaking process used in Pennsylvania, which reflects the “formula:” expenses plus (rate base x rate of return) plus taxes. Columbia argues that a complete denial of its proposed rate increase in response to COVID-19 violates Section 1301 of the Code and the constitutional standards established in *Bluefield* and *Hope Natural Gas*. Columbia appreciates and empathizes with the concerns of various Parties about the inability of some customers to pay an increase to their utility bills due to the recession brought on by the COVID-19 pandemic. However, Columbia argues that simply denying it any rate relief will only impair Columbia’s ability to invest in the construction and maintenance of a safe utility system. Supporting Columbia’s robust Commission-approved main replacement program also will assist the Commonwealth as it works out of the current recession, by providing employment and supporting jobs for thousands of Pennsylvanians. Furthermore, Columbia submits that its FPFTY data is reliable and cannot be disregarded. According to Columbia, the best response to increased payment difficulties brought on by the pandemic-induced recession is enhanced programs to assist customers with payment difficulties, as implemented by Columbia, and not to adopt an unprecedented and unconstitutional proposal to disregard traditional ratemaking concepts and disallow any rate increase. CG M.B. at 15-30.

The OCA, CAAP, CAUSE-PA and CII – the opposing Parties – strongly advocated that the Commission deny the increase request on its face, alleging Columbia’s failure to consider and appreciate the dire straits in which its customers and the Commonwealth find themselves due to the COVID-19 pandemic, and asserting the pandemic has altered the socio-economic landscape of Columbia’s customers so drastically, that any increase would result in unjust and unreasonable rates. These Parties urge that the Commission’s ratemaking discretion is broad enough to include a complete denial of Columbia’s rate increase in its entirety during an unprecedented and economically devastating pandemic. Furthermore, they argue that denying rate relief is both a reasonable and temporary outcome in these extraordinary times, and that it will result in just and reasonable rates until such time when fewer customers are suffering financially, and the future is more ascertainable for ratemaking. Moreover, these Parties argue that the FPFTY projections in Columbia’s filing based on pre-pandemic historic data cannot be given any credence in determining future rates in a vastly different economic environment. R.D. at 46-49; OCA M.B. at 13-28; CAUSE-PA M.B. at 6-11; CAAP M.B. at 2-4; CII M.B. at 3-5; OSBA M.B. at 3-4.

Meanwhile, I&E recommended an overall rate increase of $75.9 million based on its use of traditional ratemaking methodologies. I&E’s recommended increase incorporates I&E’s adjustments to rate base, expenses, taxes, and rate of return. I&E M.B. at 13-14.

## B. Recommended Decision

The ALJ recommended that the Commission deny Columbia’s requested rate relief, in its entirety. The ALJ’s recommendation was based on the following conclusions: (1) that, in light of the financial impact of the COVID-19 pandemic on customers, when balancing the interests of the utility, the ratepayers, the investors, and the public interest, a denial of the requested rate relief at this time is justified since Columbia will still have the opportunity to earn a positive rate of return; and (2) because Columbia could not prove the accuracy of its projections into the FPFTY using historic data that predates the pandemic; and (3) that the Commission has broad discretion in determining whether a utility’s rate increase is just and reasonable. R.D. at 49-51. Based upon all surrounding circumstances of this case related to COVID-19, the ALJ concluded that granting any rate relief at this time would not lead to just and reasonable rates in the public interest, especially for those residential customers who may be out of work, have suffered substantial reductions in wages, and/or are attempting to make ends meet with the loss of income due to job loss or death. *See* R.D. at 47-48, 50-51.

With regard to the impact of COVID-19 on Columbia’s customers, the ALJ noted that the OCA, CAAP, CAUSE-PA and CII argued about the need to establish utility rates that are just, reasonable and that do not unreasonably benefit the utility’s investors at the expense of unreasonably burdening the utility’s ratepayers. R.D. at 47. According to the OCA, CAAP, CAUSE-PA and CII – the base rate request is unreasonable as a matter of fact and law – and the Commission does not have to review every element of the rate base in order to determine Columbia’s request is unreasonable. The objecting Parties noted that particularly troubling was that Columbia requested a significant $100.4 million revenue increase at a time when many Pennsylvanians are struggling financially and need natural gas for heat, cooking, and hot water to curb the spread of the pandemic and to ensure their safety. R.D. at 46, 48.

The ALJ relied on the following data provided in the record to measure the impact of the pandemic on customers: (1) over 2 million Pennsylvanians filed for unemployment starting in mid-March, when the onset of the pandemic caused Pennsylvania’s unemployment claims to skyrocket; (2) from mid-March through late August, approximately 38% of Pennsylvania’s workforce filed an unemployment claim; (3) from February 2020 to July 2020, the unemployment rate for counties in Columbia’s service territory rose 186% and was at 13.1%, as of October 2020; and (4) as of mid‑July 2020, the unemployment rates in the counties served by Columbia ranged from 8.8% to 19.2%. R.D. at 48; see also OCA St. 1-S, Schedules SJR-1 and SJR-6S.

While the ALJ reasoned that Columbia is correct in its assertion that the law permits a utility to approach the Commission with an increase request for the purpose of ensuring that rates are just and reasonable and to cover all prudently incurred costs, the ALJ disagreed with the Company’s argument that case law requires the granting of rate relief. In support thereof, the ALJ asserted that no constitutional provision, statute, regulation, or policy assures that “the utility will receive an approved rate which gives the utility an opportunity to earn a return for the investors.” R.D. at 49. Specifically, the ALJ concluded:

[N]o constitutional provision, statute, regulation or policy statement guarantees a utility will receive a requested base rate increase. In fact, there is no guarantee the utility will receive an approved rate which gives the utility an opportunity to earn a return for the investors. Though not often seen, the Commission review of a utility request to increase the base rate may find the interests of the ratepayers and the public interest require a decreased rate for the utility because, upon review of all costs, the Commission determines the utility requires less than it currently receives.

R.D. at 49 (emphasis in the original).

The ALJ further rejected Columbia’s argument that a decision to deny any increase based on a subjective assessment related to the pandemic fails to balance the interests of customers and investors, and that investors will take their investment dollars to other states in the long term if the Commission does not grant Columbia’s request. R.D. at 49. The ALJ reasoned that, while Columbia is correct that investors will invest their money elsewhere if the utility has no opportunity to earn a return, the ALJ noted that no Party advocated Columbia should not receive any return. R.D. at 49. Instead, the four opposing Parties argued the just and reasonable actions herein are that Columbia should be able to provide safe, reliable service with the current return in place, although some expenses might have to be delayed until after the pandemic eases. Those Parties argued this pandemic is of such unprecedented proportions that an unprecedented response is necessary from the Commission. R.D. at 49-50.

Finally, the ALJ concluded that Columbia is incorrect that the Commission must review all elements of a base rate request before the Commission is able to determine if a requested rate is “just and reasonable.” The ALJ concluded that the Commission’s regulatory discretion to determine if a requested rate is just and reasonable is not confined merely to “an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy.” R.D. at 50 (citing *Popowsky I*, 665 A.2d at 812). The ALJ concluded that the Commission has the authority to determine a requested increase is unreasonable and will lead to an unjust and unreasonable rate for a utility’s customers, based upon all surrounding circumstances, including the presence of a far-reaching pandemic with fatal and disastrous consequences for, *inter alia*, Columbia’s customers. R.D. at 50. According to the ALJ, “[s]uch a set of circumstances exists herein.” R.D. at 50.

With regard to Columbia’s use of pre-pandemic data and calculations to support its revenue requirement projections in the FPFTY, the ALJ noted that Columbia based its filing on data from months earlier when Columbia and the Commonwealth functioned under normal conditions but filed the request approximately five weeks after the Commonwealth became mired in fighting COVID-19 and an emergency declaration was issued. The ALJ found that Columbia did not alter its filing or its requests in response to the COVID-19 pandemic despite knowing the COVID-19 pandemic altered normal functioning in arguably every segment of society while adversely impacting finances for almost every person and entity within the Commonwealth. R.D. at 46-47.

The ALJ noted that the OCA, CAAP, CAUSE-PA and CII argued strenuously against the Commission permitting Columbia to receive any increase until such time as the consequences of the pandemic can be ascertained, at which time the Commission can move forward in a coordinated manner to address the concerns and issues for all public utilities, ratepayers, Commonwealth citizens, investors, and the public interest. R.D. at 47. More specifically, the ALJ noted that these Parties advocated that the Commission should not rely on predictions based on data collected prior to the pandemic. To them, Columbia’s argument that a rejection of the increase will expose customers and the public to safety risks because investors will be denied a fair rate of return belied the fact that Columbia’s investors still receive a rate of return, though perhaps smaller than expected, while investors in other areas of the financial markets may not receive as much due to the downturn in the marketplace caused by COVID-19. They emphasized that Columbia’s ratepayers, both individuals and businesses, have been devastated by the pandemic. R.D. at 47.

The ALJ noted that Columbia presented data and made future projections for its revenue requirement using data from before the pandemic. The ALJ acknowledged that Columbia was correct and permitted to make future projections using historic data in a base rate request. At the same time, however, the ALJ found that the pandemic obscured its financial, economic, and social impacts. R.D. at 50. The ALJ concluded that, until the pandemic eases, it is near impossible to use historic data to project into the future with any confidence or reliability about the accuracy of the projections. R.D. at 50. The ALJ reasoned, for example, that, in April 2020, the Company, the Commission, the advocates, and the ratepayers did not know the pandemic would worsen in late 2020, and they did not know, in late 2020, how long the pandemic will last or what its impact will be on society or on business, or how many Pennsylvanians will not survive it. Thus, the ALJ concluded that the base rate request is unreasonable on its face[[8]](#footnote-9) because, in her opinion, Columbia cannot prove the accuracy of its projections into the future using historic data predating this unprecedented pandemic. R.D. at 50.

The ALJ found that the evidence presented by all Parties, including Columbia, reflects that, if the base rates remain unchanged, Columbia will have an opportunity to earn a positive rate of return in a range from 4% to 6%. The ALJ recognized that such a level of return, if sustained long-term, would create a challenge for Columbia to entice investors. However, the ALJ found credible Columbia’s insistence that it files base rate proceedings every year and has made a business decision to file new base rate proceedings every year going forward for the foreseeable future, and relied on these statements to conclude that Columbia can and should wait for a rate increase until it files a new base rate filing in April 2021, at which time Columbia will have additional data essential to gauge: (1) the impacts this pandemic has had and will have on socio-economic income levels; (2) the percentage of customers in default due to late/non-payments; (3) the amount of uncollectible debt; and (4) a myriad of other economic indicators of health among customers, businesses, and the Commonwealth. R.D. at 50‑51.

Based on the ALJ’s legal conclusions, and in balancing the interests of the utility, the ratepayers, the investors, and the public interest, the ALJ recommended that the Commission deny Columbia’s request to increase its base rates. The ALJ concluded that the Commission has the authority to deny this base rate increase in its entirety because the request will not lead to just and reasonable rates in the public interest due to the pandemic. The ALJ also concluded the Commission is authorized to require Columbia to return with a new base rate filing, and to require Columbia to collect specific data that will help Columbia, the Commission, the advocates, and the ratepayers to find the combination of rates, charges, fees, and programs that will work best for Columbia, its customers, and its investors specifically, and the Commonwealth generally. R.D. at 51. Accordingly, the ALJ recommended the Commission keep in place the rates, charges, and tariff provisions, having been previously approved, and keep the current Distribution System Improvement Charge (DSIC) charge in place, until Columbia’s next base rate case. R.D. at 51.

## C. Exceptions and Replies

### Columbia Exception No. 1 and Replies

In Columbia’s Exception No. 1, Columbia argues the ALJ erred in concluding that its proposed rate increase could be denied “without applying the ratemaking formula.” CG Exc. at 3 (citing R.D. at 50). Columbia submits that the following conclusions in the Recommended Decision are erroneous and fundamentally flawed: (1) that there exists no constitutional provision, statute, regulation, or policy which assures that “the utility will receive an approved rate which gives the utility an opportunity to earn a return for the investors;” and (2) that any positive return set by the Commission, in this case, a 5.52% overall return and a 6.53% return on equity for the FPFTY, is sufficient to meet constitutional standards. CG Exc. at 3-4 (citing R.D. at 49, 51). According to Columbia, long established public utility law provides that a utility must be permitted to recover its reasonable expenses and be provided an opportunity to earn a fair return. CG Exc. at 4 (citing *B**luefield*,262 U.S. 679; CG M.B. at 16-21). Columbia submits that the “ratemaking formula is designed to guide that process and determine the return at current rates” and “[e]xpert testimony is then used to determine the required return.” CG Exc. at 4. Columbia submits that, by declining to apply the “ratemaking formula and process” on the basis that *some* customers will not be able to afford an increase in rates, the Recommended Decision, fails to provide the fundamental analysis that is necessary to determine whether increases are required to meet constitutional standards and are just and reasonable. CG Exc. at 4 (emphasis in original). Columbia argues that the “just and reasonable” standard under Section 1301 of the Code requires the Commission to apply the “ratemaking formula” and the data required by the Commission’s Regulations in adjudicating a proposed increase in rates. CG Exc. at 4, n. 6 (citing CG M.B. at 18).

Columbia submits that the fundamental process in ratemaking was explained in detailed testimony by former Commission Chairman James Cawley who explained that declining to increase rates based solely on customer effects, as the Recommended Decision has done, fails to provide the constitutionally required balancing of the interests of both customers and investors and would be poor public policy. According to Columbia, as to the balancing of customer and investor interests, the “R.D. improperly concludes, without any market-based evidence, that the very low returns for the FPFTY at present rates would not be confiscatory.” CG Exc. at 4. Mr. Cawley also explained that denying a rate increase based on customer effects would provide no analytical standard on whether to allow increases in rates, would provide the Commission with total discretion to approve or deny rate increases, and would create deep uncertainty as to both the amount and timing of future rate increases. CG Exc. at 4. Mr. Cawley further explained that the ultimate result of such an action would be to disrupt the current reasonable expectations of capital markets and that capital committed to jurisdictional utilities would be provided a fair opportunity to earn a reasonable return, thereby making it difficult to obtain capital on reasonable terms. CG Exc. at 4-5 (citing CG St. 16-R at 16-17; CG M.B. at 20-21).

Columbia submits that the Recommended Decision’s citation to *P**opowsky I* does not provide the Commission complete discretion to forego an analysis of the Company’s requested rate relief, as the Recommended Decision suggests. CG Exc. at 5, n. 7 (citing R.D. at. 48-50). Rather, Columbia argues that *Popowsky I* requires both a conclusion based on evidence that rates are not confiscatory and still requires a balancing of the interests of the utility and customers in obtaining both safe and reliable service and reasonable rates. CG Exc. at 5, n. 7. Further, Columbia submits that *Popowsky I* recognizes that constitutional protections are applicable to both the utility and its customers. CG Exc. at 5, n. 7. As explained by the United States Supreme Court:

a State’s decision to arbitrarily switch back and forth between methodologies in a way which required investors to bear the risk of bad investments at some times while denying them the benefit of good investments at others would raise serious constitutional questions.

*D**uquesne Light Co. v. Barasch*, 488 U.S. 299, 315 (1989). CG Exc. at 5, n. 7.

Moreover, Columbia submits that the Recommended Decision’s conclusion to summarily deny its rate relief request is in error because it is not supported by substantial evidence. Columbia acknowledges that the Recommended Decision cites unemployment rates of 8.8% to 19.2% of the working population in Columbia’s service area to justify summarily denying its rate relief. CG Exc. at 5 (citing R.D. at 48). However, Columbia submits that these unemployment rates leave a large majority of customers who continue to be employed and remain capable of paying utility bills, which the Recommended Decision did not address. CG Exc. at 5. In addition, Columbia submits that most customers who have lost their jobs have received government support and may receive more support from the government, as well as assistance from the Company itself, based on the assistance programs Columbia is providing to customers experiencing financial hardship due to COVID-19, including CAP.[[9]](#footnote-10) CG Exc. at 6 (citing CG M.B. at 25-30).[[10]](#footnote-11)

Furthermore, according to Columbia, the Recommended Decision’s conclusion to summarily deny its rate relief request is in error because it simply disregards three pieces of substantial evidence in this record demonstrating that a revenue requirement increase is justified. First, the Recommended Decision disregarded the market-based equity cost analyses evidence presented by three major Parties in this proceeding (Columbia, I&E, and the OCA), all of which provide support for a revenue requirement increase in this case and none of which support the Recommended Decision’s conclusion to deny rate relief on its face. These analyses reject the notion that a 6.53% equity return for the FPFTY is a fair return that satisfies constitutional requirements. Specifically, (1) Columbia’s analysis showed a $100.4 million revenue increase is required based upon a 10.95% equity return; (2) I&E’s analysis showed a $75.9 million revenue increase is required based upon a 9.86% equity return; and (3) the OCA’s analysis showed a $31.5 million revenue increase is required based upon an 8.5% equity return. CG Exc. at 5 (citing CG M.B., Tables I and I(A); I&E M.B., Tables I and I(A); OCA St. 3 at 19-20; OCA St. 2 at 4).

The second piece of evidence Columbia submits was disregarded by the Recommended Decision is the evidence presented by Columbia that the $20 million of the proposed increase in base rates will not be a net increase to customers because it will be a roll-in to base rates of DSIC rates for FTY plant additions as of January 2021. Rather, after deducting the roll-in amount, and taking into account a revised Columbia revenue requirement of $76.8 million after the concessions set forth in Columbia’s Exceptions, Columbia submits that the net increase effective January 23, 2021, will be approximately $56.8 million, which Columbia proposes to phase in. CG Exc. at 6 (citing CG Exc. No. 20 at 32-38).

The third piece of evidence Columbia submits was disregarded by the Recommended Decision is the evidence presented by Columbia of its plans to spend $289 million on pipeline replacements and other Long Term Infrastructure Improvement Plan (LTIIP)-approved investments in the FPFTY. CG Exc. at 6. Disallowance of any rate increase will result in no transfer of DSIC revenues to base rates, which will further result in Columbia: (1) hitting the DSIC rate cap at 5% effective January 1, 2021;[[11]](#footnote-12) (2) earning no return on part of its FTY LTIIP-approved plant investments; and (3) earning no return on any of its FPFTY plant investments. CG Exc. at 6-7. Columbia acknowledges that the Recommended Decision stated that Columbia “insists it cannot continue to provide safe and reliable service without a $100.4 million rate increase.” R.D. at 46. According to Columbia, this description of its position is faulty. Instead, Columbia explained that its rate increase is primarily driven by pipeline replacement and a number of new or expanded safety initiatives and that a reasonable increase in revenue is necessary if Columbia is to maintain and improve safe and adequate service. CG Exc. at 7, n. 14. According to Columbia, the Commission cannot reasonably expect the Company to be able to finance such investment based upon an opportunity to earn a 6.53% equity return that assumes Columbia will only invest in $261 million in plant in the FPFTY. CG Exc. at 6 (citing Columbia’s Exception No. 3).

Finally, Columbia submits that the Recommended Decision failed to appreciate the consequences of its recommendation to deny the rate request on its face. If no increase is granted, even when justified by a traditional revenue requirement analysis, then the magnitude of Columbia’s next rate filing will be compounded, as another $50-$75 million rate increase will be added to the $100 million request in this case, as a further year of plant additions, wage increases, and other increased expenses are incurred. CG Exc. at 7.

Thus, Columbia submits, that for all the foregoing reasons, the Recommended Decision’s rejection of the rate increase without completion of a revenue requirement analysis is contrary to the law and the evidence of record and must be rejected. CG Exc. at 7 (citing CG M.B. at 15-30 and CG R.B. at 4-16).

In its Replies the OCA submits that the Company has not presented any Commission Regulation or Order to support its argument that the Commission must, in its determination of just and reasonable rates under Section 1301, blindly apply a ratemaking formula as Columbia would like. OCA R. Exc. at 1-2. The OCA submits that the Recommended Decision was correct in concluding that the Commission possesses authority and discretion to deny a rate increase request when the utility fails to meet its burden of providing substantial evidence that new rates would be just and reasonable so long as rates are not confiscatory from a constitutional standpoint. OCA R. Exc. at 2 (citing R.D. at 50-51). The OCA points to the Commission’s recent decision in *Pa. PUC v. PGW*, Docket No. R-2020-3017206 (Order entered Nov. 19, 2020) (*PGW Rate Order*), in which the Commission, citing to *Popowsky II* stated “[t]here is no single way to arrive at just and reasonable rates, and ‘[t]he [Commission] has broad discretion in determining whether rates are reasonable’ and ‘is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.’” OCA R. Exc. at 2, n.1.

The OCA submits that the case law discussed in the Recommended Decision and the OCA’s briefs supports the ALJ’s conclusion that the Commission has the authority and discretion in this matter to completely deny the Company’s rate increase request. OCA R. Exc. at 2 (citing R.D. at 49-51). Additionally, the OCA submits that the evidence presented in this case also demonstrates that the Recommended Decision’s denial of the rate relief was proper. Specifically, the OCA submits that the ALJ’s examination of Columbia’s current revenues and expenses properly led to her conclusion that the Company’s current revenues were sufficient to cover its costs and provide a return. The ALJ examined the case in full and determined that Columbia failed to meet its burden of proving, with substantial evidence, the accuracy of its pre-pandemic projections and that a rate increase would lead to just and reasonable rates. OCA R. Exc. at 2 (citing R.D. at 50-51; CG Exc. at 1). Furthermore, the OCA claims it presented evidence that Columbia could continue to provide safe, efficient, and adequate service at current rates and still have an opportunity to earn a fair rate of return, and the Company did not introduce evidence to counter the OCA’s evidence. OCA R. Exc. at 2 (citing R.D. at 51; OCA R.B. at 2; OCA St. 1 at 23).

According to the OCA, there is no basis, in law or evidence, for concluding that the Recommended Decision’s denial of Columbia’s requested rate increase is unconstitutional or confiscatory. OCA R. Exc. at 2-3. The OCA submits that, to invoke constitutional protection from confiscatory rates, it is not sufficient for a utility to merely assert in general language that rates are confiscatory. The utility must specifically set forth facts that make clear that the rates would necessarily deny it just compensation and deprive it of its property without due process of law. OCA R. Exc. at 3, n. 2 (citing *P**ublic Service Com. v. Great Northern Utilities Co.*, 289 U.S. 130, 136-37 (1933) (*Great Northern*)). When it comes to ratemaking, “[a]ll that is protected against, in a constitutional sense, is that the rates fixed by the Commission be higher than a confiscatory level.” OCA R. Exc. at 3 (citing *F**ederal Power Comm’n v. Texaco, Inc.*, 417 U.S. 380, 392-92 (1974) (citing *F**PC v. Natural Gas Pipeline Co.*, 315 U.S. at 585)). Additionally, “[t]he ratemaking process…, i.e., the fixing of ‘just and reasonable’ rates, involves a balancing of the investor and consumer interests . . . and does not insure that the business shall produce revenues.” OCA R. Exc. at 3 (citing *F**ederal Power Commission v. Hope Natural Gas Co*., 320 U.S. 591 (1944)) (*Hope*). Here, the OCA submits that the ALJ, after fully reviewing the evidence, balanced the interests of ratepayers, the utility, and its investors, evaluated the Company’s constitutional claims, and properly concluded that Columbia can continue to provide safe, efficient, and adequate service and earn a fair rate of return at current rates. OCA R. Exc. at 3 (citing R.D. at 49-51).

The OCA submits that at the core of the Recommended Decision, is the ALJ’s finding that the evidence presented in this case supports the conclusion that the COVID-19 pandemic is a significant social-economic event which, as the ALJ stated: “has obscured its financial, economic and social impacts” and “[u]ntil the pandemic eases, it will be difficult, if not impossible, to use historic data to project into the future with any confidence or reliability about the accuracy of the projections.” OCA R. Exc. at 4-5 (citing R.D. at 50). The OCA argues that the Company filed this base rate increase request knowing it had the burden of proving with substantial evidence that its FPFTY projections would lead to just and reasonable rates and it did not adjust any of its projections in light of the information available on the pandemic’s effects. OCA R. Exc. at 5. Thus, according to the OCA, the ALJ properly denied the rate increase request because the Company failed to meet its burden of proof. OCA R. Exc. at 5 (citing R.D. at 49-51).

The OCA further argues that the Recommended Decision properly concluded that the Company’s FPFTY spending claim made before the pandemic is, without support, significantly higher than the past three years and that, if the Company files for a rate increase in 2021 as it plans, it can request to recover plant spending from its FPFTY, the twelve-month period ending December 31, 2021. OCA R. Exc. at 3-4 (citing R.D. at 51; OCA R.B. at 15-17). In addition, as OCA witness Scott Rubin testified, the Company can defer construction projects that are not needed to ensure the current provision of safe and reliable service to existing customers, such as growth-related projects or system rehabilitation activities that are longer-term in nature. OCA R. Exc. at 4, n. 5 (citing OCA St. 1 at 26).

Regarding Columbia’s claim that its DSIC will reach 5% by January 1, 2021, and that it will not earn a return on part of its FTY plant investment or any of its FPFTY plant investment, the OCA submits that such claims do not recognize the actual intent and purpose of the DSIC, which is to reduce some regulatory lag until the utility’s next base rate case. OCA R. Exc. at 4 (citing CG Exc. at 6-7). The DSIC is not intended to provide the utility with a full return on every dollar spent on eligible plant investment as soon as it is made. The OCA submits that, while the Company’s concerns about the consequences of the denial of its rate increase request are largely speculative, under the Recommended Decision the Company will still: (1) receive enough revenue at current rates to continue its operations and earn a profit; (2) recover infrastructure investments through the DSIC; and (3) have management decisions available to conserve money during these extraordinary times. OCA R. Exc. at 4 (citing R.D. at 50-51; OCA M.B. at 20; OCA R.B. at 14-15).

Finally, the OCA submits that Columbia’s further claim that the denial of its current rate increase request will only serve to compound its next base rate increase case in 2021, where it will request the $100 million from this case along with an additional $50-$75 million, is speculative and without merit. OCA R. Exc. at 4. The OCA notes it presented evidence that, under Columbia’s “business-as-usual” approach for filing rate cases in every one to two years, Columbia should only receive a $31 million increase in this case. OCA R. Exc. at 4, n. 6 (citing OCA St. 2-S at 2; OCA M.B. at 4). The OCA submits that the $100.4 million increase requested by the Company is vastly overstated; each rate case must be judged on its own merits, and one cannot predict what the economy will look like when Columbia files its next rate case. OCA R. Exc. at 4, n. 6.

In its Replies, the OSBA argues there is one simple, over-arching decision that the Commission must reach before further deliberating: should this case be treated as a “traditional ratemaking” case or does the COVID-19 pandemic overshadow “traditional ratemaking” as recommended by the Recommended Decision. OSBA R. Exc. at 3. The OSBA supports the Recommended Decision to deny Columbia any revenue increase at this time because, based on all the latest data and news on the pandemic and how it is affecting the Commonwealth (which the OSBA is certain the Commissioners and their respective Staffs have knowledge about), the OSBA is concerned over how many small businesses will be critically and/or permanently affected by the pandemic and how long the pandemic will actually last. OSBA R. Exc. at 3. Additionally, the OSBA supports the Recommended Decision because Columbia has had eight rate cases over the last twelve years, with the most recent at Docket No. R-2018-2647577, and the OSBA surmises that Columbia can “forego yet another rate increase while the COVID-19 pandemic plays out.” OSBA R. Exc. at 3 (citing OSBA St. 1 at 3). Finally, the OSBA lodges “[t]he fact that Columbia’s criminally convicted parent company needs cash is also not a sufficient reason….” to reverse the recommendation to deny Columbia any revenue increase at this time. OSBA R. Exc. at 3.

In its Replies, CAUSE-PA asserts that Columbia’s position that the Recommended Decision erred by not applying “Columbia’s proposed ratemaking formula” lacks merit for two reasons. First, in *Popowsky I*, the Pennsylvania Supreme Court explicitly stated, “[T]he term ‘just and reasonable’ was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation…” Further, *Popowsky I* held that the Commission has discretion to determine the proper balance between interests of ratepayers and utilities and that it must consider broad public interests in the rate-making process. CAUSE-PA R. Exc. at 1 (citing *Popowsky I*, 665 A.2d at 812 (citations omitted); 66 Pa. C.S. § 1301).

CAUSE-PA reiterates its position as that the ongoing COVID-19 pandemic makes it unjust and unreasonable to raise utility rates, and that this is especially true for low-income customers who have been hit hardest by the economic and health consequences of it. CAUSE-PA R. Exc. at 2 (citing CAUSE-PA M.B. at 6-11; CAUSE‑PA R.B. at 3-6). Moreover, CAUSE-PA argues that the incremental steps taken by Columbia to address the crisis are wholly inadequate to address existing, longstanding unaffordability of Columbia’s rates, let alone the compounding unaffordability that would be created by an additional rate increase in the midst of this unprecedented crisis. CAUSE-PA R. Exc. at 2. According to CAUSE-PA, the inadequacies of Columbia’s response are demonstrated in this record by the evidence of the continued growth of arrearages, especially among low-income customers, as well as its disproportionate confirmed low-income and CAP termination rates. CAUSE-PA R. Exc. at 2 (citing CAUSE-PA M.B. at 8-10). CAUSE-PA submits that the record in this proceeding demonstrates that Columbia’s existing universal service programs are categorically unaffordable according to the Commission’s established affordability standards and enrollment in the program has remained stagnant for a decade. CAUSE-PA R. Exc. at 3 (citing CAUSE-PA M.B. at 11-24). CAUSE-PA notes that Columbia has rejected calls to lower its CAP energy burdens or to increase its CAP outreach, despite the impact of COVID-19 and the fact that Columbia had already agreed to adopt the Commission’s affordability standards in its last rate case. CAUSE-PA R. Exc. at 3 (citing CAUSE-PA M.B. at 11-15, 20-23; CAUSE-PA R.B. at 10-15).

CAUSE-PA replies specifically to the following three assertions set forth in Columbia’s Exception No. 1: (1) that despite the unemployment statistics, other customers are still working and able to pay increased rates; (2) that unemployed customers have received government support; and (3) that customers who have experienced a reduction or loss of their incomes are eligible to apply for CAP. CAUSE‑PA R. Exc. at 3-5 (citing CG Exc. at 6). Regarding Columbia’s first assertion, CAUSE‑PA argues it only goes to underscore the conclusion of the ALJ (and the assertions of the opposing Parties) that Columbia has failed to understand or consider the gravity of the economic devastation its customers currently face due to the pandemic. CAUSE-PA R. Exc. at 3 (citing OCA M.B. at 14). Here, CAUSE-PA argues that the measure of reasonableness must be whether rates are affordable for all customers to access utility service, stating, “Indeed, this principle is fundamental to the promise of universal service.” CAUSE-PA R. Exc. at 3 (citing 66 Pa. C.S. §§ 2802, 2803(1), 2803(7), 2803(8)).

Regarding Columbia’s second assertion, CAUSE-PA argues that Columbia fails to take into account that government relief packages to date have provided only temporary, short term relief. CAUSE-PA R. Exc. at 4 (citing CAUSE-PA St. 1 at 15). In any event, CAUSE-PA argues that the existence of government assistance does not relieve Columbia of its obligation to provide affordable rates to its customers – nor does it alleviate the Commission of its duty to protect the public interest and ensure that all rates charged are just, reasonable, and universally accessible to those in need. CAUSE‑PA R. Exc. at 4.

Regarding Columbia’s third assertion, CAUSE-PA argues that: (1) a majority of Columbia’s CAP customers will experience an increase in rates as a result of any approved rate increase; (2) not all low-income customers qualify for CAP and, even so, CAP only reaches a small percentage of those who qualify; and (3) even for those customers who qualify and are able to enroll, Columbia’s CAP rates remain categorically unaffordable according to the Commission’s standards, as explained above. CAUSE-PA R. Exc. at 4-5 (citing CAUSE-PA M.B. at 22-24; CAUSE-PA R.B. at 7-15).

Finally, regarding Columbia’s further claim in its Exception No. 1 that the denial of its current rate increase request will only serve to compound its next base rate increase case in 2021, where it will request the $100 million from this case along with an additional $50-$75 million, CAUSE-PA recognizes that such a future rate request is certainly within Columbia’s prerogative to make, but Columbia will have to prove its case for why such an increase is just and reasonable and fully supported by substantial evidence. CAUSE-PA argues that Columbia has succeeded in raising rates exponentially over the last decade, with substantial rate increases awarded seven times in the last ten years. CAUSE-PA expresses its hope that by the time Columbia files its next rate case, the global pandemic will have subsided from its current levels and the economic impacts will be better understood. If so, CAUSE-PA submits that the Commission and stakeholders will be able to perform a meaningful review and determine whether Columbia’s proposal is just and reasonable based on the current circumstances at that time. On that point, CAUSE-PA submits that “Indeed, no party has ever argued that Columbia never be allowed to raise rates, only that now is not the appropriate time.” CAUSE-PA R. Exc. at 5 (citing CAUSE-PA R.B. at 5-6).

### Columbia Exception No. 2 and Replies

In its second Exception, Columbia submits that the Recommended Decision improperly concludes that Columbia’s entire rate presentation is speculative and wrongfully rejects the traditional revenue requirement analysis on this basis. CG Exc. at 7 (citing R.D. at 50). Columbia submits that the Recommended Decision’s assertion is factually erroneous, places an impossible burden of proof on Columbia, and would nullify the entire concept of a FPFTY, which relies upon the use of reasoned projections.

Columbia argues that the Recommended Decision points to no evidence that Columbia’s projections are unreliable because there is no such evidence in this case. Columbia’s expenses have not declined due to the pandemic. In fact, even exclusive of increased uncollectible expenses, Columbia submits that its expenses unsurprisingly are above projections in 2020 because: (1) it has a duty to continue to provide safe and adequate service to its customers, which means it must execute its Work Plan; (2) as an essential business, Columbia was exempt from many of the restrictions imposed by the Governor’s Emergency Order; and (3) while certain operations were temporarily deferred, in particular those involving direct customer contacts, such services have since restarted. CG Exc. at 8 (citing CG R.B. at 12-16). While certain projected expenses for 2020 have been reduced, such as travel and meetings, other expenses, such as the need to acquire personal protective equipment, cleaning and sanitizing supplies and costs associated with remote work and the need to implement social distancing, have increased. CG Exc. at 8-9 (citing CG St. 9-R at 7). According to Columbia, its 2021 Operations and Maintenance (O&M) budget may be conservative in light of the potential need to maintain certain COVID-19 protections in 2021, but this is no basis to reject the budget projections as unreliable. CG Exc. at 9.

Columbia notes it also has continued to execute its capital budget and submits that the OCA’s Witness, Mr. David J. Effron, acknowledged that the facts of record support a conclusion that, despite the temporary construction limitations experienced earlier this year, Columbia was still anticipated to meet its capital budget for 2020. CG Exc. at 9 (citing OCA St. 2 at 6). Such temporary construction restrictions have been lifted, and Columbia asserts that there is no basis to speculate that Columbia will be unable to execute its capital budget for 2021, consistent with its Commission-approved LTIIP. CG Exc. at 9 (citing CG R.B. at 13-14).

Columbia submits that the Legislature anticipated that projections used for FTY and FPFTY may vary from actual results and provided a mechanism to address that possibility. As the Commission explained*:*

Furthermore, the legislature has addressed the concerns of overstated plant projections in Section 315(e) of the Code, which authorizes a Commission audit of the FPFTY results after the fact to determine whether they were accurate and an adjustment of rates to reflect material differences. Section 315(e) provides in pertinent part:

…Whenever a utility utilizes a…fully projected future test year in any rate proceeding and such…fully projected test year forms a substantive basis for the final rate determination of the commission, the utility shall provide, as specified by the commission in its final order, appropriate data evidencing the accuracy of the estimates contained in the…fully projected future test year, and the commission may after reasonable notice and hearing, in its discretion, adjust the utility’s rates on the basis of such data…

*P**a. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058 (Order entered October 2, 2018) (*UGI Electric*) at 26, *aff’d* *M**cCloskey v. Pa. PUC*, 225 A.3d 192, 197 (Pa. Cmwlth. 2020); CG Exc. at 9-10. Columbia submits that to declare, without evidence, that Columbia’s projections are unreliable on their face, nullifies the entire structure of the FPFTY ratemaking process established by the Legislature. Accordingly, for the reasons explained, Columbia urges the Commission to reject the Recommended Decision’s conclusion that Columbia’s projections are speculative. CG Exc. at 10.

In its Replies, the OCA argues that the Recommended Decision was correct in concluding that Columbia failed to prove the accuracy of its FPFTY projections made prior to the COVID-19 pandemic. OCA R. Exc. at 7 (citing R.D. at 50; OCA M.B. at 26‑28; OCA R.B. at 16; CG Exc. at 7). The OCA submits that Columbia’s reliance on the Commission’s decision in the *UGI Electric* is misplaced here because this case involves the determination of just and reasonable rates during an unprecedented pandemic and the Company failed to introduce any evidence to reflect the effects of the pandemic on the FPFTY projections. The OCA argues that the holding in the *U**GI Electric* does not remove the Company’s burden of proving its FPFTY projections are reasonable and reliable and that the ALJ was correct in concluding that the Company failed to prove the accuracy of its projections made prior to the COVID-19 pandemic. OCA R. Exc. at 8.

In its Replies, CAUSE-PA disputes Columbia’s assertion that the Recommended Decision “points to no evidence that Columbia’s projections are unreliable.” CAUSE-PA R. Exc. at 5 (citing CG Exc. at 7-8). CAUSE-PA submits that the Recommended Decision cited substantial evidence that the data used by Columbia is no longer valid, including the worsening of the pandemic and its impact on society and businesses, including those in Columbia’s service territory. CAUSE-PA R. Exc. at 5-6 (citing R.D. at 50). The Recommended Decision further explained that the historic data used by Columbia to develop its projections was no longer valid because it predates the COVID-19 pandemic.  CAUSE-PA R. Exc. at 6 (citing R.D. at 5). CAUSE-PA submits that, indeed, there is little doubt that the world today is a drastically different place than it was in early 2020 and the future is as uncertain as it has ever been. CAUSE-PA R. Exc. at 6 (citing CAUSE-PA M.B. at 6-11). At no point during the proceeding did Columbia attempt to adjust its projections to account for the far-ranging economic impacts of the pandemic. Instead, Columbia opted to push ahead, assuming that it will be able to spend and earn unimpeded by the pandemic that has crippled nearly every other business in the Commonwealth and brought the states’ economy to a near standstill. CAUSE-PA R. Exc. at 6 (citing CAUSE-PA M.B. at 6-11; OSBA R.B. at 4). According to CAUSE-PA, the ALJ was, therefore, correct to conclude that Columbia’s projections are no longer reliable due to intervening circumstances, and appropriately concluded that Columbia failed to meet its burden of proof to support its request for a substantial rate increase in the midst of deep, unprecedented, and unpredictable economic crisis. CAUSE-PA R. Exc. at 6.

### I&E Exception No. 1 and Replies

I&E submits only one Exception in this proceeding, and it was on this issue. In its Exception, I&E argues the Recommended Decision erred by denying Columbia a revenue increase as it is inconsistent with traditional ratemaking. I&E Exc. at 6. I&E highlights that it conducted a traditional ratemaking analysis of Columbia’s base rate filing and concluded that a $75.9 million increase was just and reasonable and points out that, under those same traditional ratemaking principles, the OCA’s analysis produced a $31 million increase. I&E’s recommendation is based upon its adjustments to expenses, rate base, taxes, pipeline replacement and rate of return. While I&E expresses its appreciation for the Recommended Decision’s taking into account the current financial climate surrounding the ongoing pandemic, I&E expressed its position that, until directed otherwise by the Commission, I&E has continued to employ its traditional ratemaking analysis in this rate case. I&E Exc. at 6.

I&E asserts that its $75.9 million revenue increase recommendation is based upon I&E’s charge to represent the public interest, which includes balancing the interests of ratepayers, the regulated utility, and the regulated community to ensure that the rates charged are just, reasonable, non-discriminatory, and are at a level that affords the utility the opportunity to provide safe and reliable service. *Id*. at 6-7. I&E’s position is that it is within the public interest to award Columbia a revenue increase in order for the Company to fulfill its obligation to provide customers with safe and reliable service. *Id*. at 7.

More specifically, and as demonstrated by I&E’s Pipeline Safety testimony provided in this case, Columbia, an NGDC, is mandated to adhere to its Distribution Integrity Management Program (DIMP) under the Code of Federal Regulations. I&E Exc. at 7 (citing 49 Part 192.1001-192.1015, Subpart P; I&E St. 4 at 3). Columbia’s DIMP, together with its Commission approved LTIIP, provide the framework for pipeline replacement. In order to maintain the safety and integrity of the system, I&E posits that it is likely that Columbia will need an increase in revenues to stay on track for its pipeline replacement efforts outlined in its Commission approved LTIIP. Specifically, I&E’s Pipeline Safety testimony emphasized the concern regarding Columbia’s pipeline replacement efforts and recommended that Columbia increase its pipeline replacement efforts to meet the 2029 LTIIP goal. I&E Exc. at 7 (citing I&E St. 4 at 12). According to I&E, denying any revenue increase may diminish Columbia’s pipeline replacement efforts, which could greatly impact the safety and reliability of the system and is directly at odds with the recommendations made in I&E’s testimony. I&E Exc. at 7.

Moreover, I&E asserts that the issue of increasing rates during the global pandemic was reviewed by the Commission most recently in the *PGW Rate Order*. In that proceeding, a partial settlement was reached in which the Company would, in lieu of its requested $70 million base rate increase, be permitted to increase rates by $35 million in a three-step process. Pursuant to the settlement, PGW agreed to implement a $10 million increase on January 1, 2021, another $10 million increase on July 1, 2021, and the final $15 million increase on January 1, 2022. I&E Exc. at 7-8. I&E explains that the ALJs in the *PGW Rate Order* proceeding issued a Recommended Decision substantially altering the revenue requirement contained in the settlement as it recommended pushing the three-step increase out an additional six months. Specifically, the ALJs recommended that the Commission issue an order in which PGW would recover $35 million; however, the first step would not be implemented until July 2021, rather than January 2021 as agreed by the Joint Petitioners in the settlement. I&E Exc. at 8 (citing *PGW Rate Order*, R.D. at 77). The ALJs further recommended that the other two steps of the rate increase be deferred for six months and be implemented on January 1, 2022 and July 1, 2022, respectively. I&E Exc. at 8 (citing *PGW Rate Order*, R.D. at 77, 100). Although the Commission acknowledged the ALJs’ well-meaning suggested modifications, it ultimately determined that the negative effects of the suggested modifications had been soundly demonstrated. I&E Exc. at 8-9 (citing *PGW Rate Order* at 71). The Commission noted that “it is in the public interest to provide a public utility with the financial ability to proffer safe, efficient, and adequate service to its customers.” I&E Exc. at 8-9 (citing *PGW Rate Order* at 64).

I&E submits that the Commission’s determination in the *PGW Rate Order* is in keeping with the constitutional standards established in *Bluefield* and *Hope Natural Gas*. I&E argues that the Coronavirus pandemic has not changed these constitutional standards. Rather, just the opposite is true, according to I&E, as the Commission has approved several rate increase requests based on traditional ratemaking principles during this pandemic. For example, in addition to approving the PGW rate increase discussed above, the Commission also recently approved rate increases for UGI Utilities, Inc. - Gas Division and Pittsburgh Water and Sewer Authority. I&E Exc. at 10 (citing *Pa. PUC v. UGI Utilities, Inc. - Gas Division*, Docket No. R-2019-3015162 (Order entered October 8, 2020) (*UGI Gas Rate Order*); *Pittsburgh Water and Sewer Authority*, Docket Nos. R‑2020-3017951, R-2020-3017970 (Order entered December 3, 2020) (*PWSA Rate Order*)). Therefore, in I&E’s view, public utilities continue to be entitled to revenue increases provided that the utility shows its expenses were reasonably and prudently incurred and the rate increase results in just and reasonable rates. It is clear that Columbia’s operations and capital expenditures will not stop during this pandemic and, as a result, a revenue stream that allows for the provision of safe and reliable service to all customers continues to be necessary. I&E Exc. at 10.

I&E submits that the ALJ’s recommendation to deny Columbia a revenue increase echoes the well-meaning modifications recommended by the ALJs’ to the Partial Settlement in the *PGW Rate Order* proceeding, as both Recommended Decisions take into account the economic impact of the ongoing pandemic. However, in the *PGW Rate Order*, the ALJs proposed only to delay a phase-in of a rate increase, while, here, the ALJ denied Columbia a revenue increase entirely. I&E Exc. at 10. I&E states that while it understands and appreciates the factors considered by the ALJ in the instant proceeding, the denial of a rate increase is significant. I&E Exc. at 10-11. Columbia is tasked to provide safe and reliable service to its customers and, according to I&E, denying a revenue increase may jeopardize its efforts. Accordingly, I&E believes that it is within the public interest for Columbia to receive a revenue increase. I&E Exc. at 11.

In its Replies, the OCA disputes I&E’s argument that the COVID-19 pandemic has no effect on just and reasonable rates under the constitutional standards set out in *Bluefield* and *Hope Natural Gas*. The OCA argues that, to the contrary, traditional ratemaking standards require a balance between the interests of all relevant sectors of the public and, in doing so, regulators must factor in the changes in market forces and the economy. OCA R. Exc. at 5 (citing OCA M.B. at 26; OCA R.B. at 14-15; OCA St. 1 at 5, 9). The OCA highlights the testimony of its witness, Mr. Scott Rubin, who testified as follows:

“If regulation is supposed to be a substitute for market forces, then we must recognize that except for those commodities experiencing significant imbalances of supply and demand due to the pandemic, competitive businesses cannot sustainably raise prices when their customers’ incomes have decreased significantly…Simply stated, what may have been a “just and reasonable” rate earlier this year may be unreasonable today.”

OCA R. Exc. at 5, n.7 (citing OCA St. 1 at 9).

The OCA submits that I&E presents a meritless argument in its Exception that the Commission should reject. Specifically, the OCA rejects the argument that the Commission’s rejection of the ALJ’s modifications to the settlements in the *PGW,* the *UGI Gas,* and the *PWSA Rate Orders* mean that the Commission cannot, nor does not, factor the COVID-19 pandemic into the traditional ratemaking model because it would interfere with PGW’s financial ability to provide safe, efficient, and adequate service to its customers. OCA R. Exc. at 5-6. The OCA points out that, in the *P**GW Rate Order*, the Commission rejected the ALJs’ modifications of the partial settlement because the parties to the partial settlement persuasively urged the Commission “that the many benefits of the Partial Settlement represent a fair compromise of the Parties’ respective positions and an accord that is consistent with the public interest” and the ALJs’ postponement of the three phased-in rate implementation dates was “not warranted or advisable.” *PGW Rate Order* at 66; OCA R. Exc. at 6, n. 8. The OCA acknowledges that while the Commission agreed with PGW that the ALJs’ recommended modifications to the partial settlement to delay the agreed-upon phase-in for an additional six months would have negative impacts on PGW’s financial metrics and ability to pay its bills, the modifications were rejected by the Commission because the partial settlement reached was a compromise between the parties and in the public interest and the Commission did not want to disturb the settlement and possibly contravene its own policy statement encouraging settlements. OCA R. Exc. at 6. The *PGW Rate Order* provided: “[t]he scale of settlement was well-balanced and is supported by substantial evidence of record. We decline to upset that careful balance reached by stakeholders representing all of the varied interests.” *P**GW Rate Order* at 70-71. Furthermore, the OCA notes that in both the *U**GI Gas Rate Order* and *P**GW Rate Order* the Commission approved settlements that included phased-in revenue increases that are not consistent with “traditional ratemaking models.” OCA R. Exc. at 6, n. 10. Thus, the OCA urges the Commission to reject I&E’s contention that the Commission should only ever apply the “traditional ratemaking methodology” unless the Commission directs the Parties otherwise. OCA R. Exc. at 6.

Furthermore, the OCA submits that I&E presents a speculative statement in support of its Exception related to pipeline safety that the Commission should reject – that is, “[i]n order to maintain the safety and integrity of the system, it is likely that Columbia will need an increase in revenues to stay on track for its pipeline replacement efforts outlined in its Commission approved LTIIP.” OCA R. Exc. at 7 (citing I&E Exc. at 7). The OCA argues that this speculative statement does not address the ALJ’s conclusion that Columbia failed to meet its burden of proving that its requested increase would lead to just and reasonable rates in this proceeding. OCA R. Exc. at 7. Nonetheless, as recognized in the R.D., Columbia can also fully utilize the DSIC and, if necessary, request to have its 5% cap waived if it falls short of funds for DSIC-eligible plant investments before its next base rate increase. OCA R. Exc. at 7 (citing R.D. at 51, 62-63). In addition, as testified by the OCA witness Scott Rubin:

one obvious way to preserve cash is to defer construction projects that are not needed to ensure the current provision of safe and reliable service to existing customers. For example, growth-related projects or system rehabilitation activities that are longer-term in nature (that is, projects that are not needed to ensure current levels of service within the next six to 12 months) could be delayed by several months to preserve cash, if necessary.

OCA St. 1 at 26. The OCA submits that Judge Dunderdale properly concluded that Columbia’s current rates will provide sufficient funds, under constitutional requirements, to provide safe, efficient, and adequate service. OCA R. Exc. at 7 (citing R.D. at 49-51).

The OSBA’s Replies to I&E’s Exception is the same as its Replies to Columbia’s Exception No. 1. In summary, the OSBA urges the Commission to first decide whether this case should be treated as a “traditional ratemaking” case, or whether the COVID-19 pandemic overshadows “traditional ratemaking” as recommended by the Recommended Decision. OSBA R. Exc. at 3. The OSBA supports the Recommended Decision denying Columbia any revenue increase at this time. Based on all the latest data and news on the pandemic and how it is affecting the Commonwealth (which the OSBA is certain the Commissioners and their respective Staffs have knowledge about), the OSBA is concerned over how many small businesses will be critically and/or permanently affected by the pandemic and how long the pandemic will actually last. OSBA R. Exc. at 3. Additionally, the OSBA supports the Recommended Decision because Columbia has had eight rate cases over the last twelve years, with the most recent at Docket No. R-2018-2647577, and the OSBA surmises that Columbia can “forego yet another rate increase while the COVID-19 pandemic plays out.” OSBA R. Exc. at 3 (citing OSBA St. 1 at 3).

## D. Disposition

As discussed in more depth below, we shall decline to adopt the ALJ’s recommendation to completely deny Columbia’s requested rate relief due to the pandemic, for the following two reasons: (1) in our opinion, the continued use of traditional ratemaking methodologies during this pandemic is consistent with the setting of just and reasonable rates and the constitutional standards established in *Bluefield* and *Hope Natural Gas*, and the pandemic does not change the continued application of these standards; and (2) there is a lack of substantial evidence in this record to support the ALJ’s recommendation to completely deny the Company’s requested rate increase due to the pandemic. Accordingly, consistent with the discussion herein, we shall: (1) deny, in part, and grant, in part, Columbia’s first Exception; (2) grant, in part, I&E’s first Exception; and (3) grant Columbia’s second Exception.

It is well-established that the Commission must ensure that a public utility’s base rates are just and reasonable and not unduly discriminatory. *See* 66 Pa. C.S.

§§ 1301, 1304. “In determining just and reasonable rates, the PUC has discretion to determine the proper balance between interests of ratepayers and utilities…Further, the PUC is obliged to consider broad public interests in the rate-making process.” *Popowsky I*, 665 A.2d at 812 (citations omitted); *see also* *Hope Natural Ga*s, 320 U.S. at 603 (the “fixing of ‘just and reasonable’ rates, involves a balancing of the investor and the consumer interests…”).

Regarding our discretion in fixing just and reasonable rates, the Pennsylvania Supreme Court explained:

There is ample authority for the proposition that the power to fix “just and reasonable” rates imports a flexibility in the exercise of a complicated regulatory function by a specialized decision-making body and that the term “just and reasonable” was not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulation but rather to confer upon the regulatory body the power to make and apply policy concerning the appropriate balance between prices charged to utility customers and returns on capital to utility investors consonant with constitutional protections applicable to both.

*Popowsky I*, 665 A.2d at 812 (citations omitted).

The main issue at litigation here is whether and how the ongoing COVID‑19 global pandemic affects our authority and discretion in determining just and reasonable rates to be charged by Columbia during the prospective period in which its rates will be in effect.

On the one hand, the ALJ and the opposing Parties - the OCA, CAAP, CAUSE-PA and CII – assert the Commission has broad discretion in its ratemaking authority, permitting the Commission to forego the use of its traditional ratemaking methodologies for setting a public utility’s base rates due to the unprecedented impact of and uncertainty surrounding this pandemic.[[12]](#footnote-13) Further, the ALJ and the opposing Parties argue that a proper exercise of the Commission’s ratemaking authority and discretion is to completely deny Columbia’s revenue increase request due to: (1) the financial impact of the COVID-19 pandemic on certain customers; (2) the inability of Columbia to prove the accuracy of its FPFTY data based on historic data that predates the pandemic; and (3) the fact that, under currently effective rates, Columbia will still be able to provide safe and reasonable utility service while having the opportunity to earn a positive return on equity, albeit at a lower rate than what it requested.

On the other hand, Columbia argues that the Commission’s ratemaking discretion is limited to the use of a prescribed “ratemaking formula” in carrying out its authority in setting just and reasonable rates. It argues that for the Commission to summarily deny its requested rate increase, based on the pandemic’s impact, would (1) amount to an abuse of the Commission’s discretion and (2) result in a rate of return that is in violation of the constitutional standards set forth in *Bluefield* and *Hope Natural Gas*. Columbia suggests that “traditional ratemaking models” leave little to no room for consideration of the impact of this pandemic. Rather, according to Columbia, the Commission may address the impact of the pandemic on customer rates by approving a utility-consented to “phase-in” of the Commission-approved revenue increase[[13]](#footnote-14) and/or by approving appropriate customer assistance programs to be offered by the Company.

After careful review of the applicable legal standards, constitutional standards, and our prior rate orders, we believe neither position is fully correct. As an initial matter, we must reject the notion articulated by Columbia that there is a prescribed “ratemaking formula” that the Commission must adhere to when determining just and reasonable rates. Rather, the Commission “has broad discretion in determining whether rates are reasonable” and “is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.” *Popowsky II*, 683 A.2d at 961. Included in the Commission’s broad ratemaking authority is the authority to approve alternative rates and rate mechanisms, including formula rates as well as decoupling mechanisms,

performance-based rates, and multiyear rate plans. 66 Pa. C.S. § 1330(b)(1)(i)-(v).[[14]](#footnote-15)

With that said, we acknowledge that a set of ratemaking norms[[15]](#footnote-16) have been developed over time and consistently utilized by parties in rate cases before the Commission to determine the appropriate level of a utility’s requested revenue increase in accordance with all applicable legal and constitutional standards. These norms, or traditional ratemaking methodologies,[[16]](#footnote-17) are used to determine a utility’s cost of providing

service, or its revenue requirement,[[17]](#footnote-18) and to determine appropriate rate structure, which includes, among other things, the appropriate allocation of the revenue requirement to various customer classes. However, as discussed in more depth below, we reject the notion that our continued use of these traditional ratemaking methodologies to determine the utility’s cost of service somehow inherently limits our consideration and weighing of important factors or principles in setting just and reasonable rates, such as quality of service,[[18]](#footnote-19) gradualism,[[19]](#footnote-20) and rate affordability,[[20]](#footnote-21) during this pandemic.

Under these traditional methodologies, a utility’s cost of service, or revenue requirement, is determined typically through the examination of the following two main components: (1) the allowed total expense claim, plus (2) the allowed return on investment. The allowed total expense claim typically includes the utility’s operating expenses,[[21]](#footnote-22) depreciation expense, and taxes that are found to be prudent, reasonably necessary, and fully substantiated in the FPFTY. [[22]](#footnote-23) The allowed return on investment is typically determined by multiplying the utility’s allowed rate base claim by the fair rate of return.[[23]](#footnote-24) The allowed rate base claim is typically found to be the net plant (gross plant less accumulated depreciation) plus any other capital items reasonably necessary to provide utility service funded with investor capital, as fully substantiated in the FPFTY.[[24]](#footnote-25) Meanwhile, the fair rate of return is typically calculated based on the utility’s capital structure and the cost of capital[[25]](#footnote-26) during the period in issue.

While these ratemaking norms provide a rational and methodical way to analyze and determine the utility’s cost of service, they also permit the consideration and weighing of important factors or principles in setting just and reasonable rates, such as quality of service, gradualism and rate affordability. This is true in normal circumstances as well as extraordinary circumstances, such as this pandemic.[[26]](#footnote-27) Indeed, in our opinion, the applicable legal standards that require the Commission to balance between the interests of the utility’s customers, investors, and the public interest, require the Commission, by necessary implication, to weigh evidence or unique considerations related to changes in service, market forces, and the economy. Thus, it is our responsibility under the applicable legal and constitutional standards to weigh evidence and unique considerations related to the COVID-19 pandemic in setting just and reasonable rates, and our continued use of traditional ratemaking methodologies permit our consideration of important ratemaking principles, like gradualism and rate affordability, in relation to this pandemic. Moreover, the traditional ratemaking methodologies permit consideration of evidence presented regarding the risks, uncertainties, and impact of the COVID-19 global pandemic in determining various components of a utility’s cost of service, or revenue requirement. As explained further below, such components include, for example, a fair rate of return, projected expenses, and projected capital spending.

With regard to a fair rate of return, for example, it would seem consistent with the constitutional standards articulated in *Bluefield* and *Hope Natural Gas* to give weight to an expert witness’ opinion on rate of return that considers, rather than disregards, a major market event’s demonstrated effect on general opportunities for investment and the financial markets’ expectations for maintaining and supporting credit and raising capital.[[27]](#footnote-28) Indeed, the Supreme Court stated that a fair return[[28]](#footnote-29) on rate base is one that is “equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties…” *Bluefield,* 262 U.S. at 692-93. Further, the Court stated, the “return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks.” *Hope Natural Gas*, 320 U.S. at 603. Indeed, the Court further recognized that “[a] rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.” *Bluefield,* 262 U.S. at 692-93.

With respect to projected spending, for example, evidence of the changes, risks, and uncertainties created by this pandemic will continue to raise questions related to spending priorities in the FPFTY, both in terms of (1) O&M expense claims and (2) capital investments. With respect to expenses, the Commission is charged with determining whether the utility’s projected expenses “are reasonably necessary to provide service…” during the prospective period in which its rates will be in effect. *City of Lancaster Sewer Fund v. Pa. PUC*, 793 A.2d 978, 982 (Pa. Cmwlth. 2002). This standard permits an examination by parties and the Commission of whether the utility’s proposed specific expense claims in the FPFTY are “reasonably necessary to provide service” during the pandemic, which may lead to a trimming of certain expenses. At the same time, such an examination may lead to an increase in spending in certain expense categories where expenses are tied to the pandemic and directly related to increased costs, such as cleaning, sanitation, or providing personal protective equipment. Additionally, in the area of adjustments to rate base, the Commission has wide discretion. *Pennsylvania Power & Light Company v. Pa. PUC*,516 A.2d 426 (Pa. Cmwlth. 1985); *UGI Corp. v. Pa. PUC*, 410 A.2d 923, 929 (Pa. Cmwlth. 1980); *Duquesne Light Co. v. Pa. PUC*,99 A.2d 61, 69 (Pa. Super. 1953). However, the adjustments must be supported by sound reasons. *Philadelphia Suburban Water Co. v. Pa. PUC,* 394 A.2d 1063 (Pa. Cmwlth. 1978).

Because of the many variables involved, determining the reasonableness of spending priorities related to expenses and capital investments in the midst of the pandemic ultimately will become a matter of judgement for the Commission, governed by the evidence presented in the record and guided by this agency’s regulatory expertise. *See generally Lower Paxton Township v. Pa. PUC*, 317 A.2d 917, 921 (Pa. Cmwlth. 1974); *see also* *Equitable Gas Co. v. Pa. PUC*, 405 A.2d 1055, 1059 (Pa. Cmwlth. 1979) (determination of cost of capital is basically a matter of judgment which should be left to the regulatory agency and not disturbed absent an abuse of discretion); *see also* *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2015-2290597 (Order entered December 28, 2012).

Based on the foregoing, while we acknowledge that the COVID-19 pandemic is a significant social-economic event, we disagree with the ALJ’s recommendation to completely deny Columbia’s requested rate relief due to the pandemic’s impact and to forgo a review of the case utilizing the traditional ratemaking methodologies. We note that our continued use of traditional ratemaking methodologies, as discussed *supra*: (1) allow for the factoring in of important ratemaking principles, such as quality of service, gradualism, and rate affordability, in setting just and reasonable rates during this pandemic and (2) require consideration of evidence of the impact of this pandemic in determining the Company’s cost of providing service. Thus, in our opinion, the continued use of traditional ratemaking methodologies during this pandemic is consistent with the setting of just and reasonable rates and the constitutional standards established in *Bluefield* and *Hope Natural Gas*, and the pandemic does not change the continued application of these standards. We, therefore, look with favor to I&E’s Exception No. 1, which argues the same.

Furthermore, we find the justifications set forth in the Recommended Decision to completely deny the Company’s requested rate increase are not supported by substantial evidence in this record. First, with regard to the pandemic’s impact on customers, the ALJ cited unemployment rates of 8.8% to 19.2% of the working population in Columbia’s service area. R.D. at 48. While we acknowledge the gravity of these unemployment statistics, it has not been demonstrated in this case with substantial evidence or explanation that the impact of *any* rate increase on unemployed customers will lead to harm that outweighs all other valid ratemaking concerns “especially the polestar – cost of providing service.” *Lloyd*, 904 A.2d at 1020. Furthermore, taking the approach of denying any rate relief due to rising unemployment numbers among residential customers is inconsistent with our prior rate orders issued during this pandemic: specifically, the *PGW Rate Order*, the *UGI Gas Rate Order*, and the *PWSA Rate Order*, where we granted rate increases despite rising unemployment numbers across the Commonwealth due to the pandemic. No party in this proceeding has offered a rational basis to justify a different treatment under the circumstances here. Indeed, we are not persuaded by the argument that the final rates in the other cases were the results of settlement agreements, as that fact alone does not change the reality that such settlements would not be effective unless approved under our ratemaking authority, and we clearly acknowledged the need for revenue increases during this pandemic for these companies by approving the settled-upon rate increases after we found that such settlements were in the public interest and resulted in just and reasonable rates. *See PGW Rate Order, UGI Gas Rate Order, PWSA Rate Order.*

Next, with respect to the ALJ’s conclusion that Columbia’s entire rate presentation is speculative on the basis that the Company’s FPFTY projections are based on historical data that predates the pandemic, we look with favor to Columbia’s Exception No. 2. The ALJ does not point to any evidence in the record that Columbia’s projections are unreliable. Columbia submits the reason for this lapse is because there is no such evidence of unreliable data in this case. Based on our review of the record, we agree. In our opinion, the question of whether supporting data is unreliable requires a claim-by-claim analysis based on the record evidence rather than a “broad brush” determination.[[29]](#footnote-30)

On this point, we note with favor the substantial explanations offered by Columbia in its second Exception related to its projected increases in expenses and rate base investments in the FPFTY in support of its requested rate relief, which, alone, indicate that a proper exercise of our discretion requires us to carefully examine the evidence and positions presented by the Company and the opposing Parties with regard to the Company’s cost of service and other ratemaking concerns using the traditional ratemaking methodologies, rather than to outright disregard the requested rate relief due to the pandemic. More specifically, in its second Exception, Columbia submits that it presented evidence in this proceeding to show that its expenses have not declined due to the pandemic. While we address the Company’s expense claims more specifically, below, we highlight here that Columbia submits that while certain projected expenses for 2020 have been reduced, such as travel and meetings, other expenses, such as the need to acquire personal protective equipment, cleaning and sanitizing supplies and costs associated with remote work and the need to implement social distancing, have increased. CG Exc. at 8-9 (citing CG St. 9-R at 7). And while we address the Company’s rate base claims and LTIIP expenditures in more depth below, we highlight that Columbia, in its second Exception, submits it has continued to execute its capital budget and that even the OCA’s Witness, Mr. Effron, acknowledged that the facts of record support a conclusion that, despite the temporary construction limitations experienced earlier this year, Columbia was still anticipated to meet its capital budget for 2020. CG Exc. at 9 (citing OCA St. 2 at 6). Such temporary construction restrictions have been lifted, and Columbia asserts that there is no basis to speculate that Columbia will be unable to execute its capital budget for 2021, consistent with its Commission-approved LTIIP. CG Exc. at 9 (citing CG R.B. at 13-14). While our review and dispositions related to such claims by the Company appear in later Sections of this Order, we highlight these substantial explanations offered by Columbia in its second Exception to support our opinion that it is a proper exercise of our ratemaking discretion in this case to carefully examine the evidence and positions presented by the Parties using the traditional ratemaking methodologies rather than to disregard the requested rate relief due to the pandemic.

Finally, the ALJ concluded that denying the rate request is justified because, when considering the pandemic’s impact, any positive return between 4% and 6% is sufficient to meet constitutional standards. R.D. at 13, 51. While we address the Company’s rate of return more specifically below, we note that this justification for denying the rate increase on its face was not supported by any expert witness testimony on rate of return in this case. The OCA calculated that approving no revenue increase produces a 5.52% overall return and a 6.53% return on equity for the FPFTY. OCA M.B., Table I (Zero Increase). However, the 6.53% return on equity for the FPFTY, specifically, was not supported by any expert witness testimony on rate of return. For example, the Company’s analysis, prior to the concessions set forth in the Company’s Exceptions,[[30]](#footnote-31) indicated an increase of $100.4 million, based upon a 10.95% equity return. CG M.B., Tables I and I(A). I&E proposed a revenue increase of $75.9 million based upon a 9.86% equity return. I&E M.B., Tables I and I(A). The OCA’s analysis produced a $31.5 million increase, based upon an 8.5% equity return. OCA St. 3 at 19-20; OCA St. 2 at 4; OCA M.B., Tables I and I(A) (Traditional Ratemaking). None of these market-based equity cost analyses presented in the evidence provide any basis for concluding that the 6.53% equity return for the FPFTY is a fair return.

Therefore, based on the foregoing discussion, we shall decline to adopt the ALJ’s recommendation to completely deny Columbia’s requested rate relief for the following two reasons: (1) the continued use of traditional ratemaking methodologies during this pandemic is consistent with the setting of just and reasonable rates and the constitutional standards established in *Bluefield* and *Hope Natural Gas*, and the pandemic does not change the continued application of these standards; and (2) there is a lack of substantial evidence in this record to support the ALJ’s recommendation to completely deny the Company’s requested rate increase due to the pandemic. Therefore, consistent with the above discussion, we shall: (1) deny, in part, and grant, in part, Columbia’s first Exception; (2) grant, in part, I&E’s first Exception; and (3) grant Columbia’s second Exception. Accordingly, the remainder of this Opinion and Order is dedicated to reviewing the evidence and arguments presented by the Parties in this proceeding relating to Columbia’s requested revenue increase and in setting just and reasonable rates. We will also address, in turn, the ALJ’s alternative recommendations on the issues in this proceeding.

# Rate Base

## Cloud-Based Computing

### Positions of the Parties

Based on the FERC guidance issued on December 20, 2019, at Docket No. AI20-1-000 (Attachment NMS-1 to CG St. 6), Columbia witness Ms. Nicole Shultz discussed the Company’s proposal to change its accounting treatment of cloud-based assets. Specifically, Columbia proposed to change the accounting of its Cloud-Based Computing expense to record the investments at Plant & Equipment accounts in 2020. CG St. 6 at 11-12. Columbia stated that the in-service assets will be included in Account 303 – Intangible Plant, and the costs incurred but not yet in-service will be included in Account 107 – Construction Work in Progress. Additionally, the amortization expense related to the in-service investment will be charged to Account 404 – Amortization of Limited-Term Gas Plant.[[31]](#footnote-32) Ms. Shultz described the relatively recent emergence of Cloud Based Computing:

Cloud Based Computing is an arrangement where the IT provider (e.g., SAP, PeopleSoft) maintains the software and data on their own hardware and the user (e.g., Columbia) accesses the IT providers system to perform work functions. This is a growing trend in the Information Technology space and differs from traditional arrangements where the IT user loaded the software on its own hardware.

CG St. 6 at 11.

### Recommended Decision

Since no Party raised any objections, the ALJ recommended approval of the Company’s proposal, explaining that adding additional details on its investments will give Columbia the opportunity to show the Commission and parties investments with greater detail, which, in turn, will aid in verification of what costs are reasonable. R.D. at 59.

### Disposition

No Party filed Exceptions on this issue. Finding the ALJ’s recommendation to be reasonable, we adopt it without further comment.

## Utility Plant in Service / Depreciation Reserve / ADIT

### Positions of the Parties

As discussed above, Columbia has requested that the Commission approve an increase in annual operating revenues of $100,366,797. The Company based this increase on a FPFTY ending December 21, 2021, which is designed to provide Columbia with the opportunity to earn an 8.00% overall rate of return, including a 10.95% return on common equity, on a claimed rate base of $2.401 billion. *See* CG Exh. KKM-1R at 3; CG Exh. 400 (Updated), Sch. 1 (accompanying CG St. 8-R). According to the Company, its final claimed rate base of $2,401,427,019 reflects all adjustments adopted by the Company in this proceeding, which consists of the original cost of its utility Plant in Service as of December 31, 2021, including the associated Depreciation Reserve, Working Capital, Deferred Income Taxes, Customer Deposits, and Customer Advances projected as of December 31, 2021. CG M.B. at 30 (citing CG Exh. 108 at 3). The Company asserted that its rate claim, based on plant projected to be in service at the end of the FPFTY, is consistent with recent Commission direction. Citizens’ M.B. at 17-18 (citing, in part, *Pa. PUC v. UGI Utilities, Inc. – Electric Division,* Docket No. R‑2017‑2640058 (Order entered October 25, 2018) (*UGI Electric*). CG M.B. at 30.

The Company’s forecasted additions to plant in service by month, from December 2019 through December 2021, are shown on Schedule 1 of Columbia Exhibit 108. According to this schedule, Columbia is projecting net plant additions (gross plant additions less retirements) of $280,735,000 in 2020 and $338,559,000 in 2021. CG Exh. 108, Sch. 1. Columbia attributes the continued increases in projected plant additions to its commitments to replace aging infrastructure. CG M.B. at 32.

The OCA submitted that, while the forecasted plant additions for 2020 are in line with the plant additions amounts in 2018 and 2019, the projected cost of plant additions for 2021 is significantly higher in comparison. Therefore, the OCA recommended a $72.303 million adjustment to the Company’s claimed rate base, reflecting its proposal to disallow $76.783 million of FPFTY plant additions. OCA M.B. at 29-30. The OCA’s witness, Mr. David J. Effron, calculated his proposed rate base adjustment by deriving a three-year average of historic (2018 and 2019) and projected (2020) net plant additions, equaling approximately $261.776 million, as follows:

|  |  |
| --- | --- |
|  | **Net Plant Additions**  (Ref. OCA St. 2, Sch. B-1) |
| **2018** | $209,984,000 |
| **2019** | $294,610,000 |
| **2020** | $280,735,000 |
| **3-yr. Average** | $261,776,000 |

Mr. Effron deducted that amount from the Company’s FPFTY net plant additions of $338.559 million to derive an adjustment to FPFTY plant additions of $76.783 million ($338.559 million - $261.776 million). He then applied the ratio of his disallowance ($76.783 million) to FPFTY net plant additions ($338.559 million), to reduce the Company’s FPFTY depreciation reserve by approximately $1,958,000 and accumulated deferred income taxes (ADIT) by approximately $2,522,000, producing net rate base adjustment of $72.303 million. OCA St. 1 at 6-7; OCA St. 2-S, Sch. B-1. Mr. Effron noted that this reduction to plant in service also results in a reduction to FPFTY depreciation expense of $1,958,000. OCA St. 2 at 7.

The Company argued that the OCA’s recommended adjustments should be rejected as having no merit because: (1) the OCA does not challenge the amount as being imprudent or unnecessary; (2) the OCA has not asserted that its adjustment is based upon historic experience that Columbia has underspent its budgeted plant additions; (3) Columbia has a history of meeting and exceeding its projected capital additions; and (4) Columbia’s LTIIP spending is not flat year to year, but rather, increasing every year. CG M.B. at 31-32.

Additionally, Columbia argued that it has not overlooked the DSIC to recover infrastructure investments, despite the OCA’s assertions to the contrary. Columbia contended it is the OCA that seeks to use the DSIC as a partial substitute for the FPFTY, contrary to the Commission’s holding in *UGI Electric.* Columbia explained the result would be a need for multiple rate increases in 2021 with the first to be effective in January 2021, and the second to be effective later in the year, as the DSIC is placed into effect for plant that was unjustifiably excluded from the FPFTY determination of plant in service. CG M.B. at 30-34.

Lastly, Columbia noted that as it argued the adjustment to net plant additions is improper, Columbia also argued the corresponding adjustments proposed by the OCA to Columbia’s FPFTY depreciation reserve and ADIT are also improper.[[32]](#footnote-33) CG M.B. at 36.

### Recommended Decision

The ALJ agreed with the OCA that Columbia’s projected cost of plant additions for 2021 is significantly higher in comparison to the net plant additions in 2018 and 2019 and the projected net plant additions for 2020. Finding that Columbia has not offered substantial evidence to dispute the OCA’s proposal, the ALJ recommended the Commission reduce the plant in service included in the 2021 FPFTY rate base by $76,783,000 and reduce the related FPFTY balances of depreciation reserve and ADIT.[[33]](#footnote-34) R.D. at 57-58. The ALJ explained that this reduction is reasonable and in line with Columbia’s historical spending, and the reduction is in the public interest because customers will not have to pay for plant that is not service in the event actual additions are not as high as expected. The ALJ also noted the DSIC is available to recover these expenses if the Company does spend over this lowered projection, because the adjustment is a balance of the Company’s need for plant additions with the customers’ need to only pay for the plant additions that are in service. R.D. at 58.

### Columbia Exception No. 3 and Replies

In its Exception No. 3, Columbia contends that the ALJ erred by accepting the OCA’s “factually unsupported adjustment,” which would jeopardize the Company’s ability to meet its LTIIP commitments. Columbia supports this argument by reiterating its claimed projection to spend $289 million on LTIIP-eligible construction alone in 2021, or over $27 million more than the ALJ’s allowance. Columbia maintains that it has an extensive track record of completing its capital budgets, asserting that the ALJ’s recommended adjustment is not based on any historic experience that Columbia has underspent its budgeted plant additions, or that any specific project is imprudent, unnecessary or unlikely to be completed. Additionally, the Company argues that the ALJ’s recommendation ignores the Commissions’ decision in *UGI Electric*, which held that the DSIC should not be used as a partial substitute for the FPFTY. CG Exc. at 10‑11.

In its Replies to Columbia Exception No. 3, the OCA submits that this case involves a lack of substantial evidence provided by the Company regarding its projected cost of plant additions; therefore, the OCA contends that the ALJ’s recommendation, based on the Company’s prior levels of plant additions spending, not only protects customers if the Company projections are in fact significantly overstated, but also recognizes that the Company is allowed to recover any excess plant costs through the DSIC. OCA R. Exc. at 8-9.

### Disposition

Upon review, we agree with the rationale and the recommendation of the ALJ to apply a downward adjustment of $76.783 million (22.7%) to the Company’s net plant additions projected for the FPFTY. Accordingly, we shall adopt the ALJ’s recommendation, including the associated recommended adjustments to the Company’s claimed FPFTY depreciation reserve and ADIT. Therefore, we shall deny Columbia’s Exception on this issue.

Although the ALJ’s recommendation is not based on any historic experience that Columbia has underspent its budgeted plant additions, the reliability of the Company’s projections of net plant additions for the FPFTY, which are significantly higher than plant additions recorded in recent years, have been called into question. We find persuasive the OCA’s argument, and the ALJ’s finding, that the Company failed to provide substantial evidence to adequately validate the Company’s FPFTY plant additions for the FPFTY; while the OCA’s adjustment was based on actual historical data. This is consistent with our discussion above under the first issue – determining net plant additions in the FPFTY is a matter of judgement for the Commission, governed by the evidence presented in this record and guided by our regulatory expertise. *See*, *supra*, Section IV. Furthermore, we find that the OCA’s proposal, that if the Company in fact spends more in investment than its average spending from actual 2018 through its projection in 2020, the DSIC is available to recover those additional expenses as necessary, is reasonable and protects customers from overpaying for plant not in service if the Company’s significant increase in spending does not come to fruition.

Regarding Columbia’s concern that the OCA’s proposal and the ALJ’s recommendation to adopt that proposal somehow contradicts the Commission’s findings in *UGI Electric*,we find the Company’s arguments unpersuasive. The relevant part of the *UGI Electric* decision the Company cites to deals with the year-end rate base versus average rate base dispute. CG. M.B. at 34. In the instant proceeding no party is challenging the Company’s use of an end-of-year rate base methodology in its FPFTY. However, any projections that Columbia makes as to the additions to rate base, or increased expense levels, must be supported with substantial evidence and cannot be supported with mere speculation. *See UGI Electric* at 27-31. As the Commission found in *UGI Electric*,use of the FPFTY and projected additions to rate base are not without limit. *Id*. Columbia has the burden of proof to provide substantial evidence to support its projections; and here, it has failed to do that. As such, we shall deny Columbia’s Exception No. 3 and adopt the ALJ’s alternative decision on this issue.

# Revenue

## Positions of the Parties

Columbia presented evidence to show its FPFTY *pro forma* revenues at present rates total $572,769,574, inclusive of purchased gas cost revenues, riders, late payment fees, Gas Procurement Charge revenues, Merchant Function Charge revenues, and miscellaneous revenues. Columbia detailed those revenues in Exhibit 103, at 15, and associated exhibits, as sponsored by Columbia’s Witness Melissa Bell. *See* CG St. 3; *see also* April 24, 2020 Initial Filing, Exhibit 103 at 15.

Additionally, in rebuttal testimony, Columbia explained that the DSIC is available to recover depreciation, return and taxes on DSIC-eligible investments added after the Company’s eligible plant balances exceed the levels projected as of December 31, 2019 in Columbia’s 2018 base rate proceeding. CG St. 9-R at 2-3. Columbia asserted it is now using the DSIC subject to the statutory limit of 5% of base rate revenues. *See* 66 Pa. C.S. § 1358(a)(1). For Columbia, this means that the DSIC can recover no more than $20.1 million, at the currently authorized DSIC return. CG St. 9-R at 6. Columbia explained that the statutory 5% limit on the DSIC rate would not even allow Columbia to recover the depreciation, return, and income taxes on its 2020 investments. Columbia also pointed out that the DSIC cannot be used to recover the depreciation, return, and investment on non DSIC-eligible property. CG M.B. at 23.

No Parties proposed any adjustments to the Company’s FPFTY revenues under present rates. However, CAUSE-PA and CII reiterated their overall position on the rate increase in the midst of the pandemic. Additionally, the OSBA responded to Columbia’s explanation that $20 million of its $100.4 million overall revenue increase request would otherwise be recoverable through the DSIC mechanism by stating that, “[a]bsent this rate proceeding, the $20 million would, by operation of law, be included in the Company’s tariff rates in January 2021.” OSBA M.B. at 3, 4.

Columbia argued that the OSBA’s assertion is inaccurate. CG R.B. at 18‑20. Rather, absent this rate proceeding, Columbia’s DSIC would be capped at 5% of base rate revenues. By law, the DSIC may only be reset to zero “as of the effective date of new base rates that provide for prospective recovery of the annual costs previously recovered under the distribution system improvement charge.” 66 Pa. C.S. § 1358(b)(1). Therefore, absent a base rate proceeding, or under a no rate increase scenario, Columbia contends its DSIC would not be zeroed out, and the DSIC would remain unavailable to recover portions of Columbia’s 2020 plant investments and all of its 2021 plant investments. CG R.B. 18-19.

Columbia further noted that the OSBA observed Columbia’s increase on a net basis is approximately $80.4 million, after recognizing the revenue available from the DSIC. CG R.B. at 19 (citing OSBA M.B. at 3). Columbia agreed, under normal ratemaking procedures, the DSIC is reset to zero once new base rates are established. However, in accordance with normal practice that has been used since the DSIC was established, the rate case presentation establishes *base rates*, and whatever the DSIC rate actually is at the time new rates are established, that rate is reset to 0%. The base rate proceeding does not attempt to project revenues from the DSIC at the time new base rates become effective, because that rate is dependent upon factors such as actual plant in service and the authorized DSIC return rate. CG R.B. at 19-20.

## B. Recommended Decision

The ALJ found that Columbia presented sufficient evidence to show its FPFTY revenues at present rates. R.D. at 62 (citing CG Exh. 103 at 15, and associated exhibits). However, the ALJ recommended that the Commission deny any increase in the revenue component over current revenues “because the effects of the pandemic render revenue projections too speculative.” R.D. at 63.

Additionally, the ALJ acknowledged that, while CAUSE-PA and CII reiterated their positions that Columbia should not be permitted to receive any revenue increase at all due to the pandemic, no Party proposed any adjustments to the pro forma revenues in the FPFTY under present rates. With respect to the OSBA’s assertion about the DSIC, the ALJ stated that Columbia “did not explain why it has not petitioned the Commission to raise the 5% cap.” R.D. at 62-63.

## Columbia Exception No. 4

Columbia points out that the Recommended Decision acknowledged that no Party proposed any adjustments to FPFTY revenues. CG Exc. at 11 (citing R.D. at 62). Columbia submits that, despite this acknowledgement, the Recommended Decision *sua sponte* concluded that Columbia’s revenue projections are speculative because of the COVID-19 pandemic. CG Exc. at 11. Columbia argues there is no evidence that Columbia’s projections of revenues for the FPFTY are unreasonable. CG Exc. at 11-12. Columbia submits that it fully explained how it developed its FPFTY revenue projections and met its initial burden to present a *prima facie* case. CG Exc. at 12. According to Columbia, the Recommended Decision’s rejection of those projections, without evidentiary support, is improper and should not be adopted. CG Exc. at 12.

No Party filed Replies to Columbia’s fourth Exception.

## Disposition

Based on our review of the record and the applicable law, we shall grant Columbia’s fourth Exception. In our view, the ALJ’s conclusion and recommendation regarding the Company’s FPFTY revenues at present rates conflict with one another. While concluding that Columbia presented “sufficient evidence” to show its FPFTY revenues at present rates, the ALJ nonetheless recommended that the Commission deny any increase in the revenue component over current revenues “because the effects of the pandemic render revenue projections too speculative.” R.D. at 62-63. The ALJ does not point to any evidence in the record that Columbia’s FPFTY revenue projections are “too speculative” or unreliable.

Columbia fully explained how it developed its FPFTY revenue projections and met its initial burden to present a *prima facie* case on revenues. CG St. 3; CG Exh. 103 at 15. This shifted the burden of production (or the burden of going forward with the evidence) to the other Parties. *See* [*Burleson v. Pa. PUC*, 443 A.2d 1373 (Pa. Cmwlth. 1982), *aff’d*, 501 Pa. 433, 461 A.2d 1234 (1983).](http://www.lexis.com/research/buttonTFLink?_m=0d7e78528297490763e78babd487bc42&_xfercite=%3ccite%20cc%3d%22USA%22%3e%3c%21%5bCDATA%5b2006%20Pa.%20PUC%20LEXIS%20102%5d%5d%3e%3c%2fcite%3e&_butType=3&_butStat=2&_butNum=16&_butInline=1&_butinfo=%3ccite%20cc%3d%22USA%22%3e%3c%21%5bCDATA%5b66%20Pa.%20Commw.%20282%5d%5d%3e%3c%2fcite%3e&_fmtstr=FULL&docnum=9&_startdoc=1&wchp=dGLzVzz-zSkAz&_md5=44d0f4cf51bc1159652e85695542a09d) Other than reiterating arguments urging the Commission to completely deny rate relief, which we reject, no Party presented adjustments to the Company’s revenue projections. Based on our review of the record, we find no evidence was presented by the other Parties to demonstrate that Columbia’s projections of revenues for the FPFTY are unreliable or should be adjusted. Therefore, we find Columbia presented sufficient evidence to show its FPFTY *pro forma* revenues at present rates total $572,769,574, inclusive of purchased gas cost revenues, riders, late payment fees, Gas Procurement Charge revenues, Merchant Function Charge revenues, and miscellaneous revenues. *See* April 24, 2020 Initial Filing, Exhibit 103 at 15, as sponsored by Columbia’s Witness Melissa Bell.

Finally, as noted above, Columbia proposed an overall revenue increase of $100.4 million in its filing, which would have resulted in a final revenue requirement of $673,136,371.[[34]](#footnote-35) However, based upon our findings regarding certain inputs to Columbia’s rate base, *supra,* and to Columbia’s expenses, cost of common equity, and overall rate of return, discussed, *infra,* we shall approve an overall revenue requirement of $636,318,479, which will result in an overall distribution revenue increase of $63,548,905 on an annual basis.

# Expenses

## Labor Expense

### Positions of the Parties

Columbia stated that its *pro forma* expense claim reflects an annualized and normalized level of expenses for the FPFTY ended December 31, 2021. Columbia explained that these expenses are annualized to the test year end in accordance with the Commission’s *UGI Electric* decision and traditional ratemaking procedures. CG M.B. at 37.

Columbia noted that the basis for its forecasted O&M is the Company’s most recent O&M budget for the Twelve Months Ended December 31, 2021, as adjusted for ratemaking purposes. Columbia provided that it budgets by cost category rather than by FERC account. CG M.B. at 37, n. 12. Columbia averred that its budget variance to actual has been within 5% in eight of the past eleven years. Additionally, in eight of those eleven years, actual O&M expense was greater than the original O&M budget. CG M.B. at 38-39 (citing CG St. 9 at 6-7).

#### Annualization Adjustment

Columbia noted that I&E proposed to disallow the Company’s entire claimed annualization of FPFTY labor expense, in the amount of $546,602. Columbia explained that the annualization adjustment reflects the base rate pay of Columbia’s employees as of December 31, 2021, annualized for the full year. CG M.B. at 39 (citing CG St. 4 at 9, 34; CG St. 11-R at 7).

#### Employee Complement

Columbia noted that both I&E and the OCA adjusted Columbia’s FPFTY labor expense with respect to the projected complement of Company employees reflected in the budget. I&E’s proposed labor adjustment is $2,506,926, while the OCA’s proposed adjustment is $773,000. Both I&E’s and the OCA’s witnesses contended that an adjustment is needed, as the Company’s labor expense assumes a full complement of employees and fails to reflect vacant positions. CG M.B. at 40-41 (citing I&E St. 1-SR at 12; OCA St. 2-S, Sch. C-1.1).

I&E provided that it would be unreasonable to expect Columbia to maintain 100% full staffing in the FPFTY. I&E used an average annual vacancy rate for the fiscal years of 2017-2020 to calculate a projected 53 vacancies in the 822 FPFTY budgeted positions. I&E recommended an adjustment to labor expense based on the vacancies of 53 employees. I&E R.B. at 20.

The OCA provided that, while Columbia forecasted an FPFTY Payroll Expense of $39,536,000 based on the Company’s proposal to add 59 employees in the FTY, this does not reflect the Company’s actual hiring experience in the FTY 2020. OCA M.B. at 33 (citing OCA St. 2-S at 5-6; CG St. 9-R, Exh. NJDK 5R at 3). According to the OCA, at the end of the HTY, the employee headcount was 763, peaked in April 2020 at 782, and decreased to 773 by August 2020. The OCA noted that this resulted in an increase of only 19 employees compared to the Company’s projected 59. The OCA contended that the Company’s forecast of 59 additional employees in the FTY is unreasonable and unsupported by the historic data relevant to employee complement. The OCA proposed an adjustment that reflects an employee complement of 782 – the high point of the Company’s employee complement recorded in April 2020. OCA M.B. at 33.

### Recommended Decision

#### Annualization Adjustment

The ALJ recommended that the Commission disallow the entire as-filed claim of $546,602 for the pay increase annualization adjustment as included in the FPFTY labor expense claim. The ALJ agreed with I&E that Columbia, by annualizing the FPFTY pay increase, claimed that full labor expense would occur as if the variably occurring pay increases all occurred on Day One of the FPFTY. The ALJ explained that if the Commission calculated the Company’s revenue requirement on this basis, Columbia would recover, dollar-for-dollar, an expense level for labor expense that will never be reached in the FPFTY. R.D. at 105.

#### Employee Complement

The ALJ recommended the Commission adjust the employee complement proposal to reflect an employee complement of 782, because that figure was the actual high recorded by the Company during 2020 (*i.e.* the FTY). R.D. at 106 (citing OCA St. 2-S at 5-6). The ALJ agreed with the OCA’s proposal that the Commission should reduce the FPFTY O&M expenses by $1,144,000, based on adjustments to new employee headcounts and benefits expense (as shown in OCA St. 2-S, Sch. C-1.1) and because the employee complement should reflect 782 as supported by the historic data relevant to employee complement. R.D. at 106.

### Exceptions and Replies

#### Columbia Exception No. 5 and Replies

In its Exception No. 5, Columbia contends the ALJ erred by adopting I&E’s proposed disallowance of $546,602 in FPFTY payroll annualization expense. The Company submits that the ALJ offered no basis, either in evidence or law, for disregarding the Commission’s longstanding process of annualizing expenses to end of test year conditions and its recent determination on this precise issue in *UGI Electric*. CG Exc. at 12.

In Replies to Columbia Exception No. 5, I&E submits that the Company’s argument fails to consider that the Commission’s decision to annualize labor costs to end‑of‑year conditions in the *UGI Electric* base rate case does not ensure that Columbia has proven its claim for an annualization adjustment in this proceeding. I&E contends that the Company has failed to prove this adjustment is in the public interest. Further, I&E takes the position that the ALJ correctly determined that Columbia’s annualization adjustment request should be denied as it would result in an unfair and unreasonable burden on ratepayers by establishing an expense recovery in its revenue requirement that is not reflective of actual FPFTY expenses and therefore would not be in the public interest. I&E R. Exc. at 4-5.

#### Columbia Exception No. 6 and Replies

In its Exception No. 6, Columbia provided that the Recommended Decision adopts the OCA’s proposed adjustment of $1,144,000 to labor expense but did not include an overtime offset. Columbia stated that it included an offsetting reduction of $1.3 million in overtime costs based on a full complement of employees. CG Exc. at 13. Columbia explained that its budget process reduced its overtime payroll for the FPFTY due to the Company’s assumption that there will be full-time employees available to complete the Work Plan. Columbia avers that if full-time positions are unfilled, Columbia’s overtime costs will increase. Columbia contended that, over the three-year period from 2017-2019, its actual labor expense exceeded the budget amount, even though there were full-time employee vacancies each year. *Id*. at 13 (citing CG M.B. at 40-42; R.B. at 22-23).

In Replies, the OCA provided that the ALJ did not err in reducing the FPFTY O&M expense by $1,144,000, based on adjustment to new employee headcounts and benefits expense, because the Company has not properly supported the need for its overstated employee complement, or overtime costs in replacement of such positions, given its actual hiring experience. OCA R. Exc. at 9 (citing OCA R.B. at 19).

### Disposition

The basis for I&E’s adjustment to Columbia’s annualization of FPFTY payroll has been directly addressed and rejected by the Commission in *UGI Electric*. In *UGI Electric*, the Commission approved UGI’s end-of-year methodology providing for an annualization adjustment to recoup costs over the course of the FPFTY. The Commission was persuaded by UGI’s argument that the FPFTY should reflect end-of-the-year conditions. *UGI Electric* at 61-62. We are also persuaded by Columbia’s argument that annualization of expenses is proper to conform to the accepted “matching” principle that revenues, expenses, and rate base should all reflect the same test year end conditions. CG R.B. at 20 (citing *Pa. PUC. v. Philadelphia Suburban Water Co.*, 1988 Pa. PUC LEXIS 433, \*96). Columbia stated that it has annualized revenues to reflect a full year’s worth of revenues for the test year, has reflected FPFTY end plant balances in rate base, and has calculated depreciation expense on test year ending plant balances. CG R.B. at 20-21 (citing CG Exh. 103, Sch. 4; CG Exh. 108 at 3; CG Exh. 109, Att. B at 7‑9). We find that it would be inconsistent and contrary to the matching principle to disallow annualization of the labor expense.

Therefore, we shall modify the alternative Recommended Decision, allow Columbia’s claim of $546,602 for the annualization adjustment of FPFTY labor expense, and grant Columbia’s Exception No. 5.

Conversely, with regard to the Employee Complement Expense, we find the ALJ’s recommendation reasonable to reject Columbia’s proposal to add 59 employees in the FTY of 2020. We agree with the ALJ’s recommendation to reflect an employee complement of 782, because that figure was the actual high recorded by the Company during 2020. We note that as of August 2020, the Company had added only nineteen employees rather than the projected fifty-nine. The ALJ recommended that the Commission reduce the FPFTY O&M expenses by $1,144,000 based on adjustments proposed by the OCA to new employee headcounts and benefits expense. The total adjustment includes $773,000 for Employee Complement + $371,000 for Employee Benefits = $1,144,000. R.D. at 106. Regarding the $1.3 million overtime offset that Columbia avers it included in its budget assuming there was a full complement of employees, we are persuaded by the OCA that Columbia has not provided sufficient support for the need for the overtime costs in replacement of full-time positions, given its actual hiring experience. Accordingly, Columbia’s Exception No. 6 is denied.

## Other Employee Benefits

### Positions of the Parties

Columbia provided that I&E proposed an adjustment of $500,968 to Other Employee Benefits, associated with its proposed vacancy adjustment to labor expense. The OCA proposed an adjustment of $371,000 to Other Employee Benefits. Columbia explained that both adjustments should be rejected because in developing the FPFTY budget, the Company removed $1.3 million in overtime assuming all full-time positions were filled. Columbia averred that the adjustments should also be rejected because they assume a direct correlation between Other Employee Benefits and payroll. Columbia noted that some expenses are not related to employee headcount. CG M.B. at 42 (citing I&E St. 1-SR at 12-14; OCA St. 2-S, Sch. C-1.1).

### Recommended Decision

The ALJ recommended a reduction to the Other Employee Benefits expense to reflect a complement of 782. This recommendation is included in the reduction of $1,144,000 for Employee Complement and Benefits as recommended by the OCA. The total includes $773,000 for Employee Complement + $371,000 for Employee Benefits = $1,144,000. R.D. at 106-107.

### Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJ’s recommendation to reduce Other Employee Benefits expense to reflect a complement of 782, as recommended by the OCA and as discussed in the Employee Complement section, *supra.*

## Incentive Compensation and Stock Rewards

### Positions of the Parties

#### Incentive Compensation

Columbia made a claim of $2,267,000 for Incentive Compensation. CG M.B. at 43 (citing CG Exh. 104, Sch. 1 at 4). Columbia noted that I&E proposed an adjustment of $784,686 and the OCA proposed an adjustment of $775,000. CG M.B. at 43 (citing I&S St. 1-SR at 18; OCA St. 2 at 11). Columbia provided that both adjustments reflect a ratio of HTY Incentive Compensation to labor expense, applied to FPFTY labor expense. Columbia explained that the amount of Incentive Compensation paid is dependent upon achievement of specified goals, including earnings, customer care measures, customer satisfaction measures and safety. While I&E and the OCA used a single year’s ratio to calculate their adjustments, Columbia averred that an average of payout ratios over a period of years is more appropriate. CG M.B. at 44 (citing CG Exh. 104, Sch. 1 at 4).

#### Stock Rewards

Columbia provided that the OCA proposed to disallow 100% of the Company’s FPFTY stock awards, in the amount of $2.3 million. CG M.B. at 45 (citing OCA St. 2 at 11). Columbia noted that the OCA witness, Mr. David Effron, asserted that stock rewards are a form of Incentive Compensation whose value is based solely on the attainment of financial goals. According to Columbia, the grant of stock awards is not based solely on financial metrics such as earnings or stock prices but now includes important customer value goals in determining the level of stock awards to be granted. Columbia asserted that public utilities are entitled to recover all reasonable expenses, including incentive compensation incurred to provide service to customers. CG M.B. at 45-46 (citing *Butler Township Water Co. v. Pa. PUC*, 473 A.2d 219, 221 (Pa. Cmwlth. (1984))).

### Recommended Decision

#### Incentive Compensation

The ALJ agreed with I&E that I&E’s adjustment based on historical results does not depart from the principles of a FPFTY claim (as alleged by the Company) because, without adequate justification for a FPFTY claim, it is reasonable to rely on historical data, particularly when there is no guaranteed full payout in any given year and fluctuation from year to year can result. The ALJ reasoned that using historical data in this proceeding is more appropriate and produces a just and reasonable estimate of this expense cost. The ALJ recommended that the Commission adjust the labor expense allowance of $36,420,494 by 4.07%, which results in a reduction of $784,686 to the Company’s claim. The ALJ noted that this recommended allowance is slightly higher than the Company’s actual 2019 payout. R.D. at 107-108 (citing I&E St. 1-SR at 19).

#### Stock Rewards

The ALJ noted that the OCA proposed an elimination of the $2,300,000 stock rewards expense from the O&M expenses. The ALJ agreed with the OCA that stock rewards and the appreciation of common stock are a shareholder-oriented goal, not a customer service-oriented goal. R.D. at 109 (citing OCA St. 2 at 12). The ALJ reasoned that higher earnings for the Company will come from higher rates which will increase the value of the Company’s common stock. The ALJ agreed with the OCA’s argument that shareholders, not ratepayers, should bear the cost of any incentive program because, if the incentive program succeeds, Columbia’s earnings and common stock values will rise. *Id.* The ALJ recommended that the Commission determine that increases to common stock valuations are a shareholder benefit for which the shareholders should bear the cost. The ALJ concluded that approving the incentive program as an element of the rate base expenses would not lead to a reasonable and just rate. R.D. at 109.

### Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJ that the labor expense allowance of $36,420,494 should be adjusted by 4.07%, which results in an incentive compensation allowance equal to $1,482,314, or a reduction of $784,686 to the Company’s claim. As I&E demonstrated, the Incentive Compensation decreased significantly over the most recent historical years both in dollars and percentage of labor expense from 8.90% to 4.72% between 2017 and 2018, then to 4.07% in 2019. We are persuaded that 4.07% is a more reasonable adjustment, rather than the average proposed by Columbia. R.D. at 108 (citing I&E St. 1-SR at 18).

We also agree with the ALJ’s recommendation to disallow the $2,300,000 of stock rewards expense from the FPFTY O&M expenses. We note that Columbia has voluntarily withdrawn its claim regarding the stock compensation portion of its incentive compensation program. *See* CG Exc. at 2-3.

## PUC, the OCA, and the OSBA Fees

### Positions of the Parties

I&E recommended reducing the Company’s claim for these fees by $348,549 based on the Company’s 2019 assessment notice.

### Recommended Decision

The ALJ recommended reducing the fees by $348,549 as I&E originally proposed. R.D. at 110.

### Columbia Exception No. 7 and Replies

In its Exception No. 7, Columbia provides that prior to the close of the record, the Company received its actual 2020 Commission invoice. According to the Company, the actual invoice amount is $2,008,792. CG Exc. at 13 (citing CG Exh. NJDK-1RJ). Columbia contends that the Recommended Decision should be revised to reflect the most recent Commission invoice of $2,008,792. CG Exc. at 13-14. Columbia’s budgeted amount of $2,262,000 will be reduced by $253,208 to reflect the 2020 invoice amount ($2,262,000 - $2,008,792 = $253,208). CG M.B. at 47.

In response, I&E notes that it entered into a Stipulation with the Company to admit the 2020 invoice into the evidentiary record. I&E agrees with Columbia that it is appropriate to rely upon the 2020 invoice to determine the appropriate expense allowance. I&E R. Exc. at 5-6 (citing Stipulations Between Columba Gas of Pennsylvania, Inc. and the Bureau of Investigation and Enforcement, filed on September 21, 2020 at Docket No. R-2020-3018835).

### Disposition

We find that it is appropriate to rely upon the 2020 invoice to determine the expense allowance. The invoice amount is $2,008,792. CG Exh. NJDK-1RJ. Columbia’s budgeted amount of $2,262,000 will be reduced by $253,208 to reflect the 2020 invoice amount. Therefore, we shall grant Columbia’s Exception No. 7.

## Rate Case Expense

### Positions of the Parties

Columbia’s claim for rate case expense was $1,060,000, normalized over a one-year period. Columbia noted I&E’s argument that the rate case expense should be normalized over a twenty-month period, based upon the filing interval of Columbia’s last four base rate cases. This produced an adjustment of $424,000. CG M.B. at 48 (citing I&E St. 1 at 5-6). Columbia provided that the OCA proposed a two‑year normalization period based upon review of the same filing frequency data, resulting in an adjustment of $530,000. CG M.B. at 48 (citing OCA St. 2 at 15). Columbia averred that both proposals should be rejected. Columbia explained that it used a twelve-month normalization period because it anticipates the need to file annual rate cases for the foreseeable future. CG M.B. at 48 (citing CG St. 4-R at 8).

According to Columbia, its need for annual rate relief will be driven by the capital requirements of its main replacement program. In this regard, Columbia represented that its LTIIP expenditures in 2020 will be near $300 million.[[35]](#footnote-36) CG M.B. at 48. Columbia reasoned that the DSIC, capped at 5% of non-gas revenues, is insufficient to allow Columbia to extend rate filings. CG M.B at 48 (citing Columbia St. 9-R at 5-6). Columbia further submitted that this driver of annual rate filings does not even consider other non-DSIC eligible capital spending, and other increases in O&M spending due to safety initiatives and normal wage and inflation increases.

### Recommended Decision

The ALJ agreed with I&E that, based upon Columbia’s actual filing history, the appropriate length of time for normalization for its rate case expense is twenty months, using an average calculated from the filing dates for the last four base rate filings for Columbia over the last five years. The ALJ noted that the Company did not dispute that the average time between filing of its last three rate cases was twenty months but asserted that it would file annual base rate requests moving forward. According to the ALJ, the historic data shows that Columbia waited two years between its last two filings. The ALJ recommended using twenty months as the normalization period, finding that it more closely aligns with what the Company has done than what it proposes it will do in the future. R.D. at 111.

### Disposition

None of the Parties filed Exceptions on this issue. We agree with the ALJ’s recommendation and find merit in the ALJ’s reasoning that the normalization period should align with the historic data rather than the Company’s assertion that it is likely to file its next rate case within one year. R.D. at 111.

Our examination of the record in this proceeding indicates that historic frequency supports the twenty-month period adopted in the Recommended Decision. While the Company asserts that it will need to file annual rate base requests in the future because of the DSIC cap, we note that since 2016, Columbia has not been filing rate cases on an annual basis. Rather, the average time between the filing of its last three rate cases was twenty months. *See* I&E M.B. at 28-29.

Based on the forgoing, we shall approve Columbia’s total rate case expense claim of $1,060,000 to be normalized over twenty months, consistent with its historic frequency of base rate proceedings. This would result in a normalized claim of $636,000, which is a reduction of $424,000 to the Company’s claim. *See* I&E M.B. at 29.

## Outside Services

### Positions of the Parties

Columbia noted that the OCA proposed a $1,757,000 reduction to Columbia’s FPFTY outside services expense. Columbia explained that the OCA derived its adjustment by accepting approximately $1.8 million in HTY ratemaking adjustments and FTY budgeted expense reductions, while rejecting approximately $2.3 million in FPFTY budgeted expense increases. CG M.B. at 49 (citing OCA St. 2 at 14, CG Exh. 104, Sch. 11). Columbia averred that the OCA’s adjustment, if adopted, would reduce outside services expense to a level that is approximately $450,000 less than the Company’s normalized HTY outside services expense. CG M.B. at 49 (citing CG St. 9-R at 14). According to Columbia, the OCA criticizes the Company for not having specific calculations to support its budget projection. Columbia stated that there is no requirement that a FPFTY be a strict build up from historic data. Columbia contended that its budget process is an accurate and conservative projection of actual spending. Columbia M.B. at 50.

### Recommended Decision

The ALJ concluded that Columbia did not provide sufficient evidence to justify or verify why its proposed expense allowance for outside services is $1,301,928 over the HTY. The ALJ agreed with the OCA’s suggestions that the Commission should remove an expense of $464,212, for “all other variances” in the FTY in its transition of outside services from the HTY to the FPFTY. R.D. at 112 (citing OCA St. 2 at 14; CG Exh. 104, Sch. 11 at 1). The ALJ recommended that the Commission eliminate the $2,221,225 of FPFTY expense increase and $464,000 of FPFTY expense reductions as shown in OCA St. 2-S, Schedule C-1 for a net effect of $1,757,000. The ALJ reasoned that by making these adjustments, the resulting change to the base rate expense will be in the public interest because ratepayers will not have to pay for the increased expenses that have not been proven by the Company. R.D. at 112.

### Columbia Exception No. 8 and Replies

In its Exception No. 8, Columbia argues that the ALJ failed to consider the Company’s detailed and accurate budget process and the important new gas safety projects that are the drivers of the increased FPFTY outside services expense. Columbia avers that the ALJ’s rejection of Columbia’s proposed outside services expense would deny the Company the financial resources to undertake important safety initiatives included in the FPFTY budget that are not included in the 2020 FTY budget. These include tasks required by the Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations that became effective in 2020, corrosion remediation, improvements to GPS locating programs, increased leak repair contractor costs, and increased line location costs. CG Exc. at 14-15.

In the OCA’s Replies to Columbia’s Exception No. 8, the OCA provides that the ALJ correctly disallowed certain outside services expenses. According to the OCA, the ALJ properly concluded that the Company failed to provide documentary evidence sufficient to explain or support the Company’s assertion that its Outside Services Expense would increase by $1,301,928 over the HTY. The OCA contends that the Company cannot prove the reasonableness of its outside services expense without any documentation. OCA R. Exc. at 9.

### Disposition

Columbia proposed an allowance of $24,052,000 for Outside Services expense in the FPFTY. In projecting Outside Services expense from the FTY to the FPFTY, Columbia made a $2,221,000 budget adjustment related to various activities, which are summarized on page 2 of Columbia Exhibit 104, Schedule 11. Columbia was asked by the OCA to provide workpapers to support the adjustment for $2,221,000. The Company responded that, “There are no additional worksheets to provide beyond the information present on Schedule No. 11. The budget adjustments from the HTY to the FTY were identified as expenses not expected to recur and therefore not included in the development of the FTY budget. The budget adjustments from the FTY to the FPFTY represent anticipated increases in the cost and levels of particular workstreams in PA field operations.” OCA St. 2 at 13-14. The OCA proposed to eliminate this amount from FPFTY expenses. In addition, the OCA recommended elimination of and expense reduction of $464,000 for “all other variances” in the FTY. The OCA provided that the Company did not provide support for this item. The OCA proposed, and the ALJ agreed to, a reduction of $1,757,000 to FPFTY Outside Services expense ($2,221,000 - $464,000 = $1,757,000). OCA St. 2 at 14. Although the Company has in its Exceptions provided a narrative description of the activities for which the $2,221,000 expense increase was proposed to cover, the Company has not provided cost information we can associate with each activity. We are persuaded by the OCA’s argument that the Company has failed to justify the $2,221,000 expense increase associated with “anticipated increases in the cost and levels of particular workstreams in PA field operations.” For this reason, we shall deny Columbia’s Exception No. 8 and shall reduce the Company’s claim for Outside Services expense by $1,757,000.

## Other Adjustments for Safety Initiatives and Compensation

Columbia stated that it is accelerating implementation of a Safety Management System (SMS) that focuses on identifying and mitigating potential risks and improving procedures to keep employees, customers, contractors and the public safe. CG St. 1 at 8. As part of this increased focus on safety, Columbia identified and proposed five incremental safety initiatives that were not included in its FPFTY budget. These five initiatives include: (1) accelerating its cross bore identification program to reduce the current completion timeframe from 68 to 31 years; (2) adding two gas qualification specialists to improve training of its future workforce; (3) adding seven full-time employees to speed up the process to update its legacy service line records; (4) increasing its field-assembled riser replacement budget to include amounts dedicated to replacing customer-owned field-assembled risers; and (5) employing a new Picarro leak detection platform system, which will dispatch two vehicles with enhanced leak detection sensors and analytics. The total cost of these five initiatives is $3,895,910. *See* CG Exh. 104, Sch. 2 at 18; CG St. 7 at 21-26.

The OCA challenged the inclusion of these five gas safety initiatives in Columbia’s FPFTY claim, stating that these expenses had not yet been incurred and, therefore, were speculative in nature. OCA St. 15-18; OCA M.B. at 41-42. However, in its rebuttal testimony, the OCA withdrew its opposition to the $120,000 included for the Picarro leak detection platform system, resulting in a revised proposed downward adjustment of $3,776,000 that should be disallowed for these safety initiatives. As discussed below, Columbia argued in its Exception Nos. 9-12 that the OCA’s proposed disallowance for these other four initiatives is without merit and should be denied.

Because there are no objections to the fifth safety initiative relating to employing a new Picarro leak detection platform system and the ALJ did not otherwise address it in her Recommended Decision, we shall grant approval of this safety-related expense in the amount of $120,000 as both reasonable and just, and, therefore, in the public interest.

### Cross Bore Identification

#### Positions of the Parties

Columbia sought an increase in spending of $1.4 million on Cross Bore Identification in order to cut by more than half the time to complete the program from 68 years to 31 years.[[36]](#footnote-37) Columbia proposed to accelerate this program because, to date, it has identified nearly 300 cross bores in its facilities, which it has classified as high risk in its DIMP. CG M.B. at 52. Columbia stated that when it began the program in 2013, it had only identified cross bores as a potential risk as opposed to a high risk. CG St. 7 at 21. Columbia explained that the purpose of the DIMP is to identify risks, develop action plans and then implement such plans to reduce identified risks. The Company argued that its proposal to double its cross-bore expenditures in order to reduce by over 50% the time to address this high-risk issue is reasonable and in the public interest.

The OCA contended that Columbia’s supporting documentation was insufficient to show that this program will be implemented in 2021 with some reasonable degree of certainty, and, therefore, should be rejected as too speculative in nature. OCA St. 2 at 18. The OCA also contended that Columbia has actually reduced its spending commitments on Cross Bore Identification in the past two years as further proof that it should not be granted an increase for 2021. OCA M.B. at 43.

#### Recommended Decision

The ALJ recommended that the Commission reject, in its entirety, Columbia’s request of $1.4 million on its cross-bore program for 2021, finding that Columbia did not sufficiently clarify why its spending level must more than double from 2020 to 2021. The ALJ particularly found troubling the fact that the Company’s spending levels on its cross-bore program in 2019 and 2020 were lower than its spending levels from 2015 to 2018. The ALJ concluded that it is not in the public interest to approve a base rate which includes a significant increase for cross-bore expenditures without sufficient justification from the Company for this expense or its need. R.D. at 113.

Alternatively, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the ALJ recommended that the Commission should still eliminate the $1.4 million request to accelerate its cross-bore program in 2021. *Id*.

#### Columbia Exception No. 9 and Replies

In its Exception No. 9, Columbia asserts that the ALJ improperly rejected the Company’s proposal to accelerate its Cross Bore Identification Safety Program, arguing that the ALJ relied solely on the Company’s past budgets for the program to find that the Company did not sufficiently justify the expense or its need. In Columbia’s view, this approach ignores the Company’s request to accelerate the program after identifying cross bores as a high risk in its DIMP in order to remediate the risk much faster as a safety initiative. Columbia argues that there should be no adverse inference drawn from the fact it has not substantially increased cross bore spending in prior years, because the planned acceleration is only now scheduled to begin in 2021. CG Exc. at 16.

Columbia asserts that there is no requirement that a utility may only recover an increased level of spending if, in fact, it has proven that it has already increased the pace of spending for the item in question. Columbia takes the position that “such a requirement would eviscerate the FPFTY process,” and in effect return ratemaking back to a period when a utility could only rely upon an historic test period. Columbia argues that under this scenario, a utility would always have to bear the cost of an increase in expense before it could make a claim for the increase in a rate proceeding. CG Exc. at 17.

In its Reply, the OCA submits that ALJ Dunderdale was correct to reject Columbia’s FPFTY Cross Bore Identification program in its entirety because the Company provided no evidence to justify the significant increase. The OCA submits that ALJ Dunderdale properly rejected this expense as “[i]t is not in the public interest to approve a base rate which includes a significant increase in this expense without sufficient justification from the Company to explain the expense and the need for the expense.” OCA R. Exc. at 10 (citing R.D. at 113).

#### Disposition

We disagree with the ALJ’s conclusion that the increased expenditure of $1.4 million for Columbia’s FPFTY Cross Bore Identification program is not a reasonable and just expense for 2021. Columbia’s goal of reducing by more than 50% the time necessary to complete this safety program, thus eliminating this DIMP-identified high risk issue, is a worthy safety initiative that should not be discouraged by this Commission. Therefore, we shall grant Columbia’s Exception No. 9, and approve the Company’s $1.4 million expense request for its Cross Bore Identification program.

However, because we are approving estimated projected expenses that will be included in the Company’s base rates, we find that it is in the public interest that the Company’s future actual expenditures related to the allowed expense be monitored to ensure the accuracy of projected expenses. Because Columbia’s claim for projected Cross Bore Identification program expenses is factored into Columbia’s calculation of rates using the FPFTY, we shall require Columbia to file annual reports with the Secretary’s Bureau and the Commission’s Fixed Utility Financial Analyst Supervisor in I&E by December 1 following the end of each fiscal year for the next five years, or until the implementation of new base rates in a subsequent rate case within this same time frame. The annual reports shall delineate the actual annual expenses incurred by the Company for cross bore identification.

### Gas Qualification Specialists

#### Positions of the Parties

Columbia proposed an expenditure of $185,000 to hire two incremental gas qualification specialists as specialized instructors to train new employees on the ever-increasing requirements for maintaining a safe system in the 21st Century. Columbia argued that this workforce transition safety initiative is needed because, like many utilities around the country, it faces an employee retirement challenge. As such, Columbia submitted that because many long-time current employees are reaching retirement age, and the Company cannot rely upon its existing workforce to provide the 21st Century training needed for the new hires being brought on as replacements. Columbia elaborated that the current workforce is needed to execute the Company’s work plan while the two incremental gas qualification specialists are needed for the specialized training needed to maintain a safe system, including, but not limited to, conducting hands-on skill performance evaluations and overseeing knowledge exams as needed for these new employees. CG St. 7 at 22-23; CG M.B. at 54-55.

The OCA contended that Columbia’s workforce transition safety expense should be denied in its entirety because as of September 2020, the Company had not hired the training specialists related to the workforce transition, and the Company did not provide evidence that it had even started the process to fill these positions. OCA St. 2-S at 11; OCA St. 2-S, Sch. C-1, line 6 and Table II.

#### Recommended Decision

The ALJ recommended that the Commission reject, in its entirety, Columbia’s claim of $185,000 to cover the hiring of two gas qualification specialists. According to the ALJ “[i]t is not reasonable and just for Columbia to expect ratepayers to pay for workforce transition training if there are no new employees in those positions and the Company is not actively hiring for those positions.” R.D. at 114.

Alternatively, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the ALJ recommended that the Commission should still eliminate the $185,000 requested to cover this workforce transition safety initiative from the total requested expense amount for safety initiatives. *Id*.

#### Columbia Exception No. 10 and Replies

In its Exception No. 10, Columbia claims that the ALJ improperly rejected the cost to add two new gas qualification training specialists solely on the basis that they have not been hired yet. Columbia underscores its position that it is developing new training techniques to educate a new generation of employees who are accustomed to learning in a different way. Columbia restates that while the existing workforce is needed to execute Columbia’s Work Plan, the two new gas qualification training specialists are needed to support this training initiative. Columbia argues that the fact that these 2021 employee additions have not yet been hired should not be a basis to reject this FPFTY expense. In Columbia’s view, the use of projections is inherent in the FPFTY process and should not be a basis for rejecting this alleged critical gas safety initiative. CG Exc. at 17-18.

In its Reply, the OCA submits that the ALJ correctly disallowed Columbia’s FPFTY gas qualification training specialist expense in its entirety because the Company provided no evidence to show any active steps towards hiring for these two positions. The OCA submits that this expense was properly rejected as not being reasonable and just and, therefore, not in the public interest. OCA R. Exc. at 10-11 (citing R.D. at 114).

#### Disposition

We agree with the ALJ’s conclusion that the $185,000 expenditure for Columbia’s two gas qualification training specialists is not a reasonable and just expense for 2021. Unlike the Cross Bore Identification safety program, which is an existing safety program that is being accelerated to eliminate a high risk issue, we believe the expense associated with the gas qualification specialists’ safety initiative is too speculative in nature to approve, given that Columbia has not taken any active steps to hire anyone for these positions. Columbia always has the ability to include such a safety expense in a subsequent ratemaking filing if, and when, it has hired these specialists or at least has taken active steps to do so. Therefore, we shall deny Columbia’s Exception No. 10, and adopt the ALJ’s alternative recommendation to disallow Columbia’s $185,000 claim for hiring two gas qualification training specialists.

### Legacy Service Line Records

#### Positions of the Parties

Columbia proposed increasing spending by $491,000 on its legacy service line enhancement program. CG St. 7 at 21-26. This program, which involves the review and correction of legacy service line records, was implemented in January 2019. The Company asserted accurate legacy service line records are critically important to maintaining a safe system. *Id.* at 23. Columbia stated it currently uses temporary employees to conduct this work. As such, the Company proposed adding seven new permanent employees, supplemented with temporary employees, to perform this work, at a cost of $491,000. Columbia asserted that it can accelerate the work with permanent employees and minimize the challenges of turnover and training that occurs more frequently with temporary employees. CG M.B. at 55. As further support for this expense, Columbia stated that I&E’s Pipeline Safety witness has endorsed this project to update its maps and legacy records if this expense is approved as a safety initiative. *Id.*at 56 (citing I&E St. 5-SR at 12).

The OCA opposed this proposed cost on the same basis as its opposition to Columbia’s gas qualification specialists – that the Company has not yet hired these employees; and, therefore, this increase should be eliminated to reflect the Company’s actual hiring experience in 2020. OCA St. 2-S at 11; OCA St. 2-S, Sch. C-1, line 6 and Table II.

#### Recommended Decision

Agreeing with the OCA, the ALJ recommended rejecting in its entirety Columbia’s request of $491,000 to cover hiring these seven permanent employees for the Company’s legacy service line enhancement program on the same basis that the ALJ rejected the expenses proposed for Columbia’s gas qualification specialists. R.D. 114‑15.

Alternatively, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the ALJ recommended that the Commission should still deny the $491,000 requested to cover this legacy service line enhancement program safety initiative from the Company’s total requested expense amount for safety initiatives. *Id*. at 115.

#### Columbia Exception No. 11 and Replies

In its Exception No. 11, Columbia submits that the ALJ erred in rejecting its request to hire additional permanent employees to accelerate the updating of its legacy service line records. Columbia argues that this cost has not been incurred as of the close of the record because it is a new expense that will begin in 2021. CG Exc. at 18. Further, Columbia states that the Recommended Decision is internally inconsistent on this issue as it directs Columbia to update its maps and records “as quickly as possible.” *Id.* (citing R.D. at 249). In Columbia’s view, the Commission should not direct it to accelerate a safety initiative but deny rate relief for the cost to accelerate. CG Exc. at 18.

In its Reply, the OCA asserts that the ALJ properly denied this expense because similar to the gas qualification specialists, Columbia has not shown through its 2020 hiring experience that these new, proposed positions will actually be filled. OCA R. Exc. at 11.

#### Disposition

Based on our review of the record, we shall grant, in part, and deny, in part, Columbia’s Exception No. 11, and approve $245,000 of Columbia’s $491,000 claim for hiring new permanent employees in order to accelerate the review and correction of legacy service line records as a safety initiative.

Although Columbia has not yet taken any active steps to hire new permanent employees for its legacy service line records enhancement program, the Company has been using temporary employees on a regular basis to update these legacy records. Further, there is agreement among the ALJ and at least some of the Parties, including I&E and even OCA, that updating these records is an important safety initiative.

We are of the opinion that it is reasonable and just to include half of the expenses requested by Columbia for this purpose, with the further understanding that Columbia may be able to obtain additional funding from the reduction in temporary staff needed to complete this safety initiative as it brings more permanent employees online in the future.

However, because we are approving estimated projected expenses that will be included in the Company’s base rates, we find that it is in the public interest that the Company’s future actual expenditures related to the allowed expense be monitored to ensure the accuracy of projected expenses. Because Columbia’s claim for its projected legacy service line enhancement program expenses is factored into Columbia’s calculation of rates using the FPFTY, we shall require Columbia to file annual reports with the Secretary’s Bureau and the Commission’s Fixed Utility Financial Analyst Supervisor in I&E by December 1 following the end of each fiscal year for the next five years, or until the implementation of new base rates in a subsequent rate case within this same time frame. The annual reports shall delineate the actual annual expenses incurred by the Company for its legacy service line enhancement program.

### Customer-owned Field-Assembled Riser Replacement

#### Positions of the Parties

Columbia sought an increase in spending of $1.7 million on its customer-owned field assembled riser replacement program, because it projects to replace 2,712 customer-owned field assembled risers in the FPFTY budget at a cost of $625 per riser.[[37]](#footnote-38) CG St. 7 at 24-25. Previously, Columbia identified field-assembled risers as a high risk of failure in the Company’s DIMP. Columbia first received Commission approval to replace customer-owned field assembled risers in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc*., Docket No. R-2018-2647577 (Order entered December 6, 2018). However, Columbia’s 2019, 2020 and 2021 budgets included no funding for replacement of customer-owned field-assembled risers. CG St. 7 at 24. The Company did replace 1,279 customer-owned assembled risers in the HTY using funds from other programs in the Company’s prior budget. CG St. 9-R at 16. However, Columbia maintained that its FPFTY claim is not a build up from the HTY but “a grass roots budget.” CG M.B. at 57. As such, Columbia explained that replacing some customer-owned field-assembled risers in the past does not alter the fact that it is including an incremental $1.7 million for customer-owned field-assembled risers because no amount is included in its FPFTY budget. *Id*.

The OCA contended that the Company’s proposed $1.7 million increase is not necessary because the COVID-19 pandemic temporarily impacted Columbia’s ability to replace the customer-owned field-assembled risers. As a result, the OCA averred that Columbia had not shown that the replacement of these risers in the FPFTY will be any greater than it was in the HTY. The OCA asserted that Columbia did not present any evidence that replacement of these customer-owned risers in the FPFTY will be any greater than the customer-owned risers replaced in the HTY. Instead, even if the FPFTY budget does not include any incremental funding for customer-owned field-assembled riser replacement, the OCA argued that there must be some amount for that expense implicitly included in the O&M expenses for the FPFTY. Without further evidence to support the $1.7 million increase to the customer-owned field-assembled risers replacement program, the OCA recommended that it be removed from the FPFTY expenses for safety initiatives as shown in OCA St. 2-S, Sch. C-1, line 6 and Table II. OCA M.B.at 45-46.

#### Recommended Decision

The ALJ agreed with the OCA that there must be some amount for this expense implicitly included in the O&M expenses for the FPFTY “even if the FPFTY budget does not include incremental funding for replacement of customer-owned field assembled risers.” R.D. at 115. The ALJ, therefore, also agreed with the OCA’s recommendation that Columbia’s request of $1.7 million on its customer-owned field-assembled riser replacement program should be rejected completely because, without an explanation for the increase, the resulting rates will not be reasonable and just, nor in the public interest. *Id.* at 116.

Alternatively, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the ALJ recommended that the Commission should still eliminate the $1.7 million requested for the customer-owned field-assembled riser replacement program from the total requested expense amount for safety initiatives. *Id*.

#### Columbia Exception No. 12 and Replies

In its Exception No. 12, Columbia asserts that the ALJ improperly denied any additional recovery for incremental replacement of customer-owned field-assembled risers in 2021. Columbia submits that even if its FPFTY budget is assumed incorrectly to reflect the expense of the 1,279 customer-owned risers replaced in the HTY, the ALJ should have still allowed recovery of 1,433 additional risers to be replaced in the FPFTY over the HTY level. Columbia reasons that at an average replacement cost of $625 per riser, the ALJ should have allowed recovery of at least 1,433 risers at an approximate cost of $900,000. CG Exc. at 19. Further, Columbia claims that I&E testimony supports the replacement of all field-assembled risers on Columbia’s system. *Id*. at 20 (citing I&E St. 5 at 12). Columbia stresses its position that the Commission should support the accelerated replacement of all customer-owned field-assembled risers in its system as they have been identified as a high risk in the Company’s DIMP. CG Exc. at 19.

In its Reply, the OCA submits that ALJ Dunderdale was correct to deny Columbia’s entire request of $1.7 million for the Company’s customer-owned field-assembled riser replacement program in 2021 because the Company failed to provide any explanation for the requested increase other than the explanation that “the FPFTY expense is not incremental to the HTY expense, but rather to the FPFTY budget.” OCA R. Exc. at 11. The OCA also dismisses Columbia’s alternative argument that the ALJ should have allowed $900,000 for the recovery of 1,433 additional field-assembled risers to be replaced in the FPFTY over the HTY level, stating that Columbia has still failed to prove with any evidence the extent to which this riser replacement expense in the FPFTY will be greater than the expense in the HTY. OCA R. Exc. 11-12.

#### Disposition

We agree, in part, and disagree, in part, with the ALJ’s alternative conclusion that the increased expenditure of $1.7 million for Columbia’s FPFTY customer-owned field-assembled riser replacement program is not a reasonable and just expense for 2021. Based on our review of the record, we find that Columbia’s goal of completing this safety program, thus eliminating this DIMP-identified high risk issue, is a worthy safety initiative that should not be discouraged by this Commission. However, we believe that the cost recovery should be limited to replacing the number of risers over 1,279, the number replaced in the HTY. Therefore, we shall grant Columbia’s Exception No. 12, in part, and approve the Company’s alternative request of $900,000 as a reasonable and just expense for its customer-owned field-assembled riser replacement program.

However, because we are approving estimated projected expenses that will be included in the Company’s base rates, we find that it is in the public interest that the Company’s future actual expenditures related to the allowed expense be monitored to ensure the accuracy of projected expenses. Because Columbia’s claim for projected customer-owned field-assembled riser replacement program expenses is factored into Columbia’s calculation of rates using the FPFTY, we shall require Columbia to file annual reports with the Secretary’s Bureau and the Commission’s Fixed Utility Financial Analyst Supervisor in I&E by December 1 following the end of each fiscal year for the next five years, or until the implementation of new base rates in a subsequent rate case within this same time frame. The annual reports shall delineate the actual annual expenses incurred by the Company for customer-owned field-assembled riser replacement.

### Compensation Adjustment

#### Positions of the Parties

Columbia proposed a payroll adjustment in the FPFTY of $432,000, based on the Company’s aim to raise the salary of 54 of its field operations leaders to market rates and offer salaried field leaders overtime pay for emergency call outs. Columbia proposed to rectify this situation by increasing these employees’ pay in 2021. Namely, Columbia proposed to increase the pay to leadership positions to enhance Columbia’s ability to promote and retain qualified individuals. CG M.B. at 57-58.

The OCA took the position that Columbia’s proposed employee compensation adjustment is speculative. According to the OCA, Columbia has not presented any evidence that this compensation adjustment is in the process of being implemented or that such implementation is imminent. Therefore, the OCA submitted that the Commission should deny the Company’s claim in its entirety. OCA M.B. at 46‑47.

#### Recommended Decision

The ALJ recommended rejection of this expense on the basis that certain speculative future expenses should be disallowed, citing *P**a. PUC v. Pa. Power & Light Co.*, 85 Pa. P.U.C. 306 (1995) (*Pa. PUC v. Pa. Power & Light Co.*). R.D. at 116.

#### Columbia Exception No. 13 and Replies

In its Exception No. 13, Columbia asserts that the ALJ’s recommendation with respect to FPFTY compensation adjustments for certain field leaders should be rejected. Columbia maintains that it was reversible error for the ALJ to recommend disallowance of such costs where Columbia had fully substantiated the projected future compensation expense. Columbia asserts that, consistent with *Pa. PUC v. Pa. Power & Light Co*., substantiated future expenses must be allowed. CG Exc. at 20-21.

In its Replies to Exceptions, the OCA asserts that the ALJ properly concluded that the Company’s FPFTY proposed compensation adjustments are speculative and thereby should be precluded from the Company’s *pro forma* FPFTY operation and maintenance expense. The OCA remains of the opinion that such costs are speculative, and that the Company did not present evidence showing it is in the process of implementing the compensation adjustments or that such implementation is imminent. OCA R. Exc. at 12.

#### Disposition

Based on the record in this proceeding, we find that the ALJ properly excluded certain speculative future expenses from the rate base for purposes of calculating the FPFTY operation and maintenance expense. We found persuasive the OCA witness Mr. Effron’s testimony that the Company did not present evidence to show that the compensation adjustments are in the process of implementation or that “implementation is imminent.” OCA St. 2-S at 16. Accordingly, we agree with the OCA and shall deny Columbia’s Exception No. 13 on this issue and adopt the ALJ’s alternative recommendation to disallow the Company’s FPFTY proposed compensation adjustments from the Company’s *pro forma* FPFTY operation and maintenance expense.

## Depreciation Expense

### Positions of the Parties

Columbia asserted its FPFTY depreciation expense claim, including the amortization of net salvage, is $98,832,789. CG Exh KKM-1R at 1. The Company claimed the calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission. CG St. 5 at 3-4.

The OCA recommended an adjustment to the Company’s claimed FPFTY depreciation expense of $1.958 million, consistent with its FPFTY plant in service adjustment. OCA St. 1-S, Sch. B-1 and C-2.

### Recommended Decision

Consistent with her recommendation that Columbia’s claimed plant in service included in the FPFTY rate base be reduced by $76.783 million, the ALJ recommended that the Commission adopt the OCA’s associated adjustment for depreciation expense. R.D. at 117.

### Columbia Exception No. 14 and Replies

In its Exception No. 14, Columbia contends that the Commission should approve a FPFTY depreciation expense claim, including the amortization of net salvage, of $98,832.789. For the reasons argued, *supra*., in its Exception No. 3, Columbia asserts the Commission should reject the ALJ’s recommended downward adjustment to depreciation expense, as it relies upon an erroneous reduction to FPFTY. CG Exc. at 21.

The OCA’s Replies maintain that the ALJ properly recommended a downward adjustment to Columbia’s depreciation expense claim, where the ALJ had properly reduced the FPFTY. OCA R. Exc. at 12-13.

### Disposition

For the reasons set forth in our disposition of the issue pertaining to the OCA’s recommended adjustment to rate base, reflective of our approval of the plant adjustment by utilizing a three-year spending average from 2018 to 2020 to project FPFTY plant additions, we find that the ALJ properly reduced the Company’s claimed FPFTY plant in service by $76.783 million. Accordingly, we shall deny Columbia’s Exception No. 14 and adopt the OCA’s adjustment to annual depreciation expense for the FPFTY in the amount of $1.958 million.

# Taxes

## Taxes Other Than Income Taxes

### Positions of the Parties

Columbia stated its FPFTY Taxes Other Than Income Taxes are $3,825,546. The Company noted the only proposed adjustments to Taxes Other Than Income Taxes are to payroll taxes associated with proposed payroll adjustments. Columbia argued the adjustments to payroll should be denied and the proposed payroll tax adjustments also should be denied. CG M.B. at 59-60; CG R.B. at 35.

The OCA claimed non-income payroll taxes should be adjusted by $111,000, consistent with its FPFTY labor expense adjustment and incentive compensation adjustment. OCA M.B at 47-48, OCA St. 2 at 20 and Schedule C-3.

I&E recommended a reduction of $275,672 to Columbia’s claim of $3,001,823 for Federal Insurance Contributions Act (FICA) tax expense. I&E’s $275,672 reduction corresponds to recommended adjustments to labor expense and incentive compensation. I&E calculated the FICA tax expense by multiplying the total reduction of labor expense and incentive compensation by the Company’s historic test year FICA experienced rate of 7.1823%. I&E M.B. at 30-31; I&E R.B. at 11; I&E St. 1 at 18-19.

### Recommended Decision

In accordance with the ALJ’s recommended adjustments to payroll and employee compliment, the ALJ recommended adjustments to the payroll tax. The ALJ recommended the Commission disallow $151,119 of Columbia’s claim for FPFTY Taxes Other Than Income Taxes, consistent with the payroll and employee complement adjustments. R.D. at 120-121.

### Exceptions and Replies

In its Exception No. 15, Columbia avers that the ALJ erred in recommending a reduction of $151,119 to the Company’s FPFTY Taxes Other Than Income Taxes. The Company states the recommended payroll tax disallowances are associated with the payroll annualization adjustment ($40,119) and the employee complement adjustment ($111,000). Columbia avers that consistent with its position that the corresponding payroll expense adjustments should be rejected, the payroll tax adjustments should also be rejected. CG Exc. at 21.

In its Replies to Exceptions, the OCA avers that the ALJ properly reduced the payroll tax adjustment to reflect adjustments to payroll annualization and employee complement and, therefore, the payroll tax annualization adjustment should be accepted. OCA R. Exc. at 13.

### Disposition

At the outset, we note that the various positions we have adopted in other sections of this Opinion and Order have a flow-through impact on Columbia’s FPFTY Taxes Other Than Income Taxes. Consistent with our finding, *supra,* that Columbia’s Exception No. 5 should be granted, we shall modify the Recommended Decision and disallow the ALJ’s payroll tax annualization adjustment of $40,119. Conversely, as we denied Columbia’s Exception No. 6, we shall make an employee complement tax adjustment of $55,501. Accordingly, Columbia’s Exception No. 15 is granted, in part, and denied, in part. Additionally, as we have adopted the ALJ’s alternative recommendation, *supra,* to reduce the Company’s incentive compensation allowance, we shall make an adjustment of $56,359 to the incentive compensation taxes. This will result in a total reduction of $111,860 to Columbia’s FPFTY Taxes Other Than Income Taxes.

## Income Taxes

### Positions of the Parties

Columbia noted that no Party proposed a disallowance of Income Tax expense, other than as related to their respective other adjustments to rate base, expenses, and return. The Company acknowledged the OCA offered an alternative method to calculate the Pennsylvania Corporate Net Income Tax (CNIT or state income tax) expense. Columbia observed the OCA’s alternative method does not produce a different result from the Company’s method. Therefore, Columbia argued there is no reason to adopt the alternative method.

The OCA proposed to modify Columbia’s method of calculating the CNIT to be included in the calculation of *pro forma* operating income under present rates and the revenue deficiency. While the OCA conceded that its calculation does not produce a result different from that of the Company, the OCA averred that it is a simpler method that avoids the necessity of having to recalculate a new “State Income Tax Effect Tax Rate” and a new Revenue Conversion Factor for changes in the revenue requirement. In the OCA’s method, a CNIT of 5.994% is used in the calculation of the Revenue Conversion Factor to reflect the statutory CNIT rate of 9.999% and the Net Operating Loss Deduction which decreases the effective CNIT tax rate. OCA St. 2-S at 16-17. As a result, the OCA calculated an adjusted state income tax expense of $988,000 and a Revenue Conversion Factor of 1.3620. *I**d.* at Schedules A and C-4. The OCA contended the Commission should adopt its method of calculating the CNIT along with the adjusted state income tax expense for the FPFTY. OCA M.B. at 48; OCA St. 2 at 21-23.

### Recommended Decision

The ALJ remarked that no Party proposed a disallowance of Income Tax expense, other than as related to their respective other adjustments to rate base, expenses, and return. Noting the OCA’s alternate method of calculating CNIT and adjusted state income tax expense for the FPFTY, the ALJ pointed out the results of the OCA’s alternate method were essentially the same as Columbia’s calculations. The ALJ mentioned the expense, as requested by Columbia, is a necessary cost and it is reasonable and just to include it in the base rates. R.D. at 120-121.

### Disposition

No Exceptions were filed objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it using Columbia’s calculation method.

# Fair Rate of Return

## A. Proxy Groups

To estimate a utility’s cost of equity,[[38]](#footnote-39) a proxy (or barometer) group of similar companies is used. A proxy group is generally preferred over the use of data exclusively from any one company, because it has the effect of smoothing out potential anomalies associated with a similar company and is therefore a more reliable measure. I&E M.B. at 60.

### Positions of the Parties

Columbia used a proxy group of nine gas companies, which it referred to as the “Gas Group.” Columbia began with the group of ten gas companies contained in The Value Line Investment Survey (*Value Line*). The Company excluded UGI Corporation (UGI) from the initial list, due to its diversified businesses that include natural gas, propane, two international liquid propane gas (LPG) segments, electric generation and distribution and energy services. Columbia explained that it used the same nine companies the Commission used as its barometer group for the DSIC in its Quarterly Earnings Reports. *See Bureau of Technical Utility Services (TUS) Report on the Quarterly Earnings of Jurisdictional Companies for the Year ended March 31, 2020*, Docket No. M‑2020‑3020940, Attachment G (August 6, 2020) (Quarterly Earnings Report). CG M.B. at 72‑73.

I&E’s proxy group consisted of seven companies. To select a proxy group that resembles the natural gas utility industry, I&E applied the following criteria:

1. Fifty percent or more of the company’s revenue were generated from the regulated natural gas industry;
2. The company’s stock was publicly traded;
3. Investment information for the company was available from more than one source, including *Value Line*;
4. The company must not be currently involved in an announced merger or the target of an announced acquisition;
5. The company must have four consecutive years of historic earnings data; and
6. The company must be operating in a state that has a deregulated gas utility market.

I&E M.B. at 60. I&E stated that it designed its proxy group to select companies that are most like the gas distribution company subject in this proceeding. *Id.* at 38.

I&E noted that Columbia did not provide a list of criteria used to determine its Gas Group other than that the Gas Group is made up of the companies that TUS uses to calculate the cost of equity in its Quarterly Earnings Report. I&E also submitted that Columbia’s proxy group is flawed. In this regard, I&E explained that while both its own proxy group and the Company’s Gas Group contain seven of the same companies, Columbia’s Gas Group includes two companies that I&E does not use. More specifically, I&E excluded New Jersey Resources Corp. (New Jersey Resources) and Southwest Gas Holdings, Inc. (Southwest Gas Holdings), because neither met I&E’s criterion that fifty percent or more of the company’s revenues must be generated from the regulated gas utility industry. According to I&E, if fewer than fifty percent of revenues come from the regulated gas business sector, a company is not comparable to the subject utility as it does not provide a similar level of regulated business. I&E M.B. at 38; I&E R.B. at 13.

The OCA’s proxy group included each of the companies in Columbia’s proxy group, with two differences. First, while Columbia excluded UGI from its Gas Group, the OCA included this company. The OCA noted that both it and the Company included Chesapeake Utilities in their respective proxy groups. According to the OCA, Chesapeake Utilities operates a diverse set of businesses that include natural gas distribution, natural gas transmission, electric distribution operations, propane distribution and other lines of business. The OCA stated that UGI operates a similarly diverse set of businesses. According to the OCA, it is not appropriate to exclude one diversified company from consideration in a proxy group, while including another. OCA M.B. at 82‑83.

Second, the OCA explained that while both Columbia and the OCA included Columbia’s parent company, NiSource, among the companies covered by their discounted cash flow (DCF) and capital asset pricing model (CAPM) cost analyses, discussed, *infra,* the OCA’s proxy group is comprised of the nine companies other than NiSource, as followed by *Value Line*. The OCA continued that it performed a stand-alone cost of equity analysis directly on NiSource to avoid the problem of circularity, given that Columbia is owned by NiSource. The OCA submitted that the cost of equity of a utility’s subsidiary is often closely linked to the cost of equity for the parent company. OCA M.B. at 83.

The OCA also explained that it disagreed with I&E’s proxy group. According to the OCA, removing certain companies within a proxy group of similar companies, as I&E has done, is inherently subjective. In addition, the OCA argued that removing companies from a group that is already small can result in data integrity issues. Therefore, the OCA took the position that unless a company is currently going through bankruptcy or a merger/acquisition transaction, it should be included within a proxy group for transparency purposes. OCA St. 3-R at 7.

In response to I&E’s criticism of its Gas Group, Columbia argued that excluding companies based on the percentage of regulated revenues is not an appropriate screen to eliminate companies from a proxy group because the margins on other business segments within proxy group companies are generally dissimilar to the utility business. Additionally, in response to the OCA’s criticism of its Gas Group, Columbia asserted that UGI should not be included in a gas proxy group because it is not a comparable gas utility. Columbia pointed out that Non-utility operations comprise 73% of UGI’s assets, 82% of its revenues and 48% of its net income. Columbia also asserted that no weight should be given to the OCA’s separate analysis of NiSource because a single company is not a proxy group. CG M.B. at 73-74.

The following table is a summary of the companies each party utilized in their respective proxy groups:

|  |  |  |
| --- | --- | --- |
| **Columbia** | **OCA** | **I&E** |
| Atmos Energy Corp. | Atmos Energy Corp. | Atmos Energy Corp. |
| Chesapeake Utilities Corp. | Chesapeake Utilities Corp. | Chesapeake Utilities Corp. |
| New Jersey Resources Corp. | New Jersey Resources Corp. | NiSource, Inc. |
| NiSource, Inc. | NiSource, Inc.[[39]](#footnote-40) | Northwest Natural Gas |
| Northwest Natural Gas | Northwest Natural Gas | One Gas, Inc. |
| One Gas, Inc. | One Gas, Inc. | South Jersey Industries, Inc. |
| South Jersey Industries, Inc. | South Jersey Industries, Inc. | Spire, Inc. |
| Southwest Gas Corp. | Southwest Gas Corp. |  |
| Spire, Inc. | Spire, Inc. |  |
|  | UGI Corp. |  |

CG St. 8-R at 16; I&E M.B. at 61; OCA St. 3 at 21.

### Recommended Decision

The ALJ recommended that the Commission use I&E’s proxy group in setting the appropriate cost of equity for the Company. The ALJ found I&E’s proxy group to be the most comparable to Columbia. The ALJ agreed with I&E’s usage of the percentage of revenue as a criterion and echoed I&E that if fewer than fifty percent of a company’s revenues come from the regulated gas business, the company is not comparable to the subject utility because it does not provide a similar level of regulated business. R.D. at 183-84.

### OCA Exception No. 3A and Replies

In its Exception No. 3A, the OCA objects to the ALJ’s recommendation that I&E’s proxy group of seven companies should be adopted. The OCA argues that its witness Mr. Kevin O’Donnell evaluated a larger group of companies than either the Company or I&E, providing more data points and a more robust analysis to support the OCA cost of equity recommendation of 8.50% for Columbia, *infra*. According to the OCA, the number of gas utilities needed to develop a reasonably reliable comparable group is important given that in recent years, this number has diminished due to acquisitions and mergers. Therefore, the OCA explains that it used the full group of gas utilities compiled and followed by *Value Line*. The OCA restates that it conducted a separate evaluation of NiSource because NiSource represents the most direct link to Columbia. The OCA argues that while it is not possible to conduct a cost of equity evaluation of Columbia directly, it is possible to do so for NiSource as a publicly traded company followed by *Value Line* and others. The OCA opines that an analysis performed specifically on NiSource provides the Commission with a large body of knowledge of investor estimations specific to Columbia’s corporate parent. OCA Exc. at 14-15.

In contrast, the OCA contends that the different proxy groups evaluated and proffered by the Company and I&E contributed to overstated cost of equity estimates of 10.95% and 9.86%, respectively, and provide the Commission with a less informative base of information. The OCA insists that the Company’s and I&E’s decision to exclude consideration of UGI, but include Chesapeake Utilities, was not reasonable. The OCA restates its position that because both companies operate a diverse portfolio of businesses, which include natural gas utility service, both should be included in the proxy group for consistency. Additionally, although the OCA acknowledges the criteria that I&E used in selecting the companies for its proxy group, excluding New Jersey Resources, Southwest Gas Holdings, and UGI, the OCA maintains that evaluating a smaller proxy group can lead to data integrity issues. Finally, the OCA submits that Columbia and I&E’s decision not to separately evaluate NiSource is erroneous. First, the OCA reasons that the inclusion of NiSource directly in the proxy group dilutes consideration of information most connected to Columbia. Second, the OCA restates that analyzing NiSource separately avoids the problem of circularity that is inherent in the Company’s and I&E’s respective proxy groups. OCA Exc. at 14, 16-17.

Based on the above, the OCA asserts that if the Commission adopts the ALJ’s alternative recommendation, then it should adopt the OCA’s proxy group, based on evaluation of data for the ten companies included in the *Value Line* Gas Group, as opposed to I&E’s proxy group of seven companies. OCA Exc. at 17.

In its Replies to Exceptions, Columbia explains that the Company did not except to the ALJ’s recommendation that I&E’s proxy group be adopted, given that the resulting DCF returns on common equity are not dramatically different based upon the choice between Columbia’s and I&E’s proxy group. On the other hand, Columbia submits that the OCA’s proposed proxy group is flawed and should be rejected. Columbia reinforces its argument that UGI should not be included in the proxy group because it is not a comparable gas utility. According to Columbia, both the Company and I&E correctly excluded UGI from their respective proxy groups because non-utility operations predominate. Columbia points out that UGI also is not included in the Commission’s group of gas companies used for DSIC purposes because utility assets for UGI are less than 50%. Columbia also submits that the OCA’s attempt to compare UGI to Chesapeake Utilities is without merit. Namely, Columbia asserts that while many utilities have non-utility affiliate operations, the issue, for proxy group purposes, is whether those non-utility operations predominate over the utility operations. Columbia stresses that Chesapeake Utilities’ natural gas operations represent the bulk of its operations and Chesapeake Utilities is included in I&E’s barometer group, because it satisfies the criteria of I&E’s witness Mr. Christopher Keller’s revenue screen of 50% or more utility revenues. CG R Exc. at 3-4.

Further, Columbia contends that the ALJ properly gave no weight to the OCA’s stand-alone analysis of NiSource. Columbia restates its position that a single company is not a proxy group, and thus provides no balanced analysis of the cost of equity for gas utilities. Accordingly, Columbia submits that the OCA’s Exception No. 3A should be denied. Columbia R. Exc. at 4-5.

### Disposition

On consideration of the record evidence in this proceeding, we shall adopt ALJ Dunderdale’s recommendation that I&E’s proxy group should be utilized in setting the appropriate rate of return for Columbia. We find no merit in the arguments of the OCA that by excluding three of the *Value Line* companies from its analysis, I&E’s proxy group provides the Commission with a less informative base of information, or that it leads to an overstated cost of equity. Rather, we find that I&E’s proxy group of companies is the proxy group proffered in this proceeding that most closely resembles Columbia.

First, as I&E and the ALJ pointed out, a company’s revenues represent the percentage of cash flow the company receives from each business line related to providing a good or service. Therefore, if less than fifty percent of revenues come from the regulated gas sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business. *See* I&E St. 2 at 10. For this reason, we concur with I&E’s reasoning for excluding both New Jersey Resources and Southwest Gas Holdings from its proxy group. In our view, both companies are too dissimilar to Columbia.

Next, we are not persuaded by the OCA’s argument that both UGI and Chesapeake Utilities should be included in the proxy group for consistency. Although the OCA correctly notes that both companies have diverse business operations, we agree with Columbia that the OCA has misstated the basis for why I&E and the Company excluded UGI from their respective proxy groups. Namely, the record indicates that non‑utility operations dominate UGI’s overall business landscape. In this regard, the record indicates that non-utility operations comprise 87% of UGI’s revenues, 48% of its income, and 73% of its assets. As a result, UGI’s operations make it a greater risk and cause it to be too dissimilar to Columbia to be properly included in its proxy group. *See* Columbia St. 8-R at 15.

On the other hand, we find that while the OCA generally outlined the reportable business segments for Chesapeake Utilities, it failed to offer any evidence as to whether the non-utility operations of Chesapeake Utilities are more dominant than its utility operations. Instead, we concur with Columbia that because I&E included Chesapeake Utilities as its proxy group, it satisfied I&E’s revenue threshold of 50% or more of utility revenues. Further, Columbia provided evidence to indicate that Chesapeake Utilities has 79% of its assets in utility operations, and 84% of its income in utility operations. *See* Columbia St. 8-R at 15-16. Accordingly, we find that Chesapeake Utilities is properly included in the proxy group, while UGI is properly excluded.

Additionally, we find that a stand-alone analysis of the cost of equity for NiSource, as proffered by the OCA, is inappropriate and unnecessary. Traditionally, this Commission has focused primarily on using a proxy group analysis to set a utility’s return on equity when the utility’s stock is not traded. This approach produces a return that is available on other enterprises of comparable risk. We find that the OCA has not provided any persuasive argument for deviating from this approach. Thus, as Columbia observed, a separate analysis of a single company is not a proxy group and does not provide a balanced analysis of the cost of equity for gas utilities. *See* Columbia St. 8-R at 15.

For all of the above reasons, the OCA’s Exception No. 3A is denied.

## Capital Structure Ratios

A utility’s capital structure represents how the company has financed its rate base with different sources of funds. The primary funding sources are long-term debt and common equity. A capital structure may also include preferred stock and/or short-term debt. I&E St. 1 at 10-11. Determining the appropriate capital structure is crucial in developing the weighted cost of capital, which, in turn, determines the overall rate of return in the revenue requirement equation.

### Positions of the Parties

Columbia proposed a capital structure of 54.19% common equity, 42.22% long-term debt, and 3.59% short-term debt. Columbia submitted that capital structure ratios are not merely a set of percentages applied to common equity, long-term debt, and short-term debt, but are, instead, percentages derived from real world investments in capital. In this regard, the Company explained that its FPFTY capital structure is based upon its actual capital structure as of November 30, 2019, updated for changes during the FTY and FPFTY. CG M.B. at 65-66.

According to the Company, the Commission has determined that a utility’s actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered. Columbia continued that in determining whether the claimed capital structure is atypical, the Commission has looked to see whether the capital structure used by the utility is outside the range of that employed by the proxy group of companies considered in the rate of return analysis and has concluded that if a utility’s capital structure is within a reasonable range of similar risk proxy group companies, the utility’s actual capital structure should be used, as opposed to a hypothetical capital structure. CG M.B. at 66-67; CG R.B. at 39 (citing *Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at \*17; *Pa. PUC v. City of Bethlehem*, 84 Pa. P.U.C. 275, 304 (1995); *Carnegie Natural Gas Co. v. Pa. PUC*,433 A.2d 938, 940 (Pa. Cmwlth. 1981); *Pa. PUC. v. PPL Electric Utilities Corporation*,Docket No. R-2012-2290597, *et al*. (Order entered December 28, 2012) (*2012 PPL Order*)). Columbia submitted that because its actual common equity ratio clearly lies within the range of common equity ratios of comparable gas utilities, it is not possible to define the Company’s common equity ratio as “atypical.” CG M.B. at 65-66; CG R.B. at 40-41.

I&E accepted Columbia’s proposed capital structure. I&E reasoned that Columbia’s proposed debt and equity ratios fall within the range of its proxy group capital structures. Namely, I&E stated that this range contains long-term debt ratios ranging from 33.18% to 53.48% and equity ratios ranging from 32.78% to 59.01%, with a five-year average of 40.29% for long-term debt and 47.60% for common equity. I&E argued that although the Company’s short-term debt is below the 2019 range of 4.77% to 19.65%, it is within the range for the five-year period 2015-2019 for short-term debt of 0.41% to 26.85%. I&E M.B. at 33-34.

The OCA sought to utilize a hypothetical capital structure of 50% common equity and 50% total debt to set rates for Columbia. The OCA explained that this capital structure is based upon consideration of the average equity ratios for the OCA’s proxy group and the average annual common equity ratio presented by state regulators in past years. According to the OCA, the Company has not provided substantial evidence to support its position that it will add capital investment tied to FPFTY plant additions to arrive at the estimated end of FPFTY capital structure ratios, including a 54.19% common equity ratio. The OCA submitted that the cases Columbia cited to, *supra*,did not involve the setting of rates based upon a FPFTY, subject to the provisions of Section 315(e) of the Code, and did not involve the extraordinary circumstances of a pandemic, statewide disaster proclamation, and a period of a Commission-imposed moratorium on disconnections to protect the public. In the OCA’s view, the Commission should consider what capital structure is appropriate to set just and reasonable rates, specific to current economic conditions, including the low cost of debt, as well as the extensive adverse economic impact of the COVID-19 pandemic on Columbia’s customer base. The OCA took the position that under the current economic conditions, the Company’s proposed 54.19% common equity ratio is overstated and will cost consumers more, if adopted by the Commission, in part because revenues to pay equity must be grossed up for taxes. OCA MB at 55-61; OCA R.B. at 31-37.

### Recommended Decision

The ALJ agreed with the OCA that Columbia’s projected actual capital structure should be rejected. According to the ALJ, the Company’s capital structure contains too much equity and is unfair to consumers. The ALJ recommended that in the event the Commission grants the Company’s request to consider all the elements in its base rate increase request, then it should reject the Company’s capital structure and use the OCA’s hypothetical capital structure of 50% debt and 50% common equity. In the ALJ’s view, the OCA demonstrated that under a traditional ratemaking approach, this capital structure would lead to just and reasonable rates. R.D. at 181.

### Columbia Exception No. 16 and Replies

In its Exception No. 16, Columbia finds fault with the ALJ’s recommendation that the OCA’s proposed hypothetical capital structure of 50% total debt and 50% common equity should be adopted. According to Columbia, the ALJ’s only reasoning for adopting this hypothetical capital structure is that “it contains too much equity and is unfair to consumers.” CG Exc. at 22 (citing R.D. at 181). Columbia submits that such a finding disregards established Commission precedent on the use of actual vs. hypothetical capital structure ratios. Namely, Columbia restates that the precedent set forth in the *2012 PPL Order* and other Commission proceedings it cited, *supra,* for deciding whether to use a hypothetical capital structure in setting rates is that if a utility’s actual capital structure is within the range of a similarly situated proxy group of companies, rates are set based on the utility’s actual capital structure. Columbia reiterates its argument that only if the capital structure is atypical, outside of the range of the proxy group, should a hypothetical capital structure be used to set rates for a utility. CG Exc. at 22-23.

Columbia argues that its capital structure contains more equity than the OCA’s proposed 50% because it needs this equity to support its infrastructure replacement program, consistent with its Commission-approved LTIIP. Columbia insists that its actual common equity ratio clearly lies within the range of common equity ratios of comparable gas utilities. More specifically, the Company notes that Table 4 of the Direct Testimony of the OCA’s Witness Mr. Kevin O’Donnell shows nine companies in the OCA’s proxy group with common equity ratios ranging from 39.80% to 62%, including four proxy group companies with common equity ratios ranging from 55% to 62%. According to Columbia, the Company’s projected actual capital structure falls right in the middle. CG Exc. at 23 (citing OCA St. 3 at 30). Therefore, Columbia stresses its position that it is not possible to define the Company’s common equity ratio as “atypical.” CG Exc. at 23.

In its Replies to Exceptions, the OCA counters that in recommending the adoption of the OCA’s proposed capital structure, Judge Dunderdale considered and balanced both the needs of the Company and the interests of Columbia’s consumers who will be paying any increase in rates during a time when residential and business customers face economic challenges resulting from the COVID-19 pandemic crisis. The OCA asserts that the Company prepared its end of the FPFTY capital structure forecast in 2019, before the pandemic. The OCA remains of the opinion that Columbia failed to provide any information in its rate filing to demonstrate that the Company’s projected capital structure will be realized or that its planned capital spending and plant additions in the FPFTY will be unaffected by the pandemic. Therefore, the OCA maintains that adopting the Company’s projected capital structure ratio would be unfair to consumers because dollars for equity require more revenue than an equivalent amount of debt. OCA R. Exc. at 13-14.

### Disposition

Based upon our review of the record established in this proceeding, we shall decline to adopt the ALJ’s recommendation and shall grant Columbia’s Exception on this issue. At the outset, we note that the actual capital structure represents the Company’s decision, in which it has full discretion, on how to capitalize its rate base. This actual capitalization forms the basis upon which Columbia attracts capital. For example, Columbia’s proposed long-term debt cost rate of 4.73%, *infra,* fully reflects the capitalization determined by the Company to be appropriate. As Columbia noted, the Commission has determined in previous base rate cases that the legal standard in Pennsylvania for deciding whether to use a party’s proposed hypothetical capital structure in setting rates is that if a utility’s actual capital structure is within the range of a similarly situated barometer group of companies, rates are set based on the utility’s actual capital structure. We reaffirmed this standard in our *2012 PPL Order*, when we stated as follows:

Absent a finding by the Commission that a utility’s actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure.

*2012 PPL Order* at 68 (citations omitted).

In the instant proceeding, we are not persuaded by the OCA’s arguments in favor of the use of a hypothetical capital structure. As Columbia highlighted in its Exceptions, the OCA provided the following table to illustrate the 2019 common equity ratios in the proxy group it submitted on the record in this proceeding:

|  |  |
| --- | --- |
| **Company** | **2019 Ratio** |
| Atmos | 62.00% |
| Chesapeake | 56.10% |
| New Jersey Res | 50.20% |
| NWNG | 51.80% |
| ONE Gas | 62.30% |
| South Jersey | 40.80% |
| Southwest Gas | 52.10% |
| Spire | 55.00% |
| UGI Corp | 39.80% |
| **Average** | **52.23%** |
|  |  |
| Nisource | 36.90% |

*See* OCA St. 3 at 30, Table 4. Although the OCA submitted this table for the basis of supporting its argument that Columbia’s proposed common equity ratio is higher than the average of equity ratios for a similar group of natural gas companies, we find persuasive Columbia’s argument that its proposed common equity ratio of 54.19% is below that of four of the companies in the OCA’s group (*i.e.* Atmos, Chesapeake, OneGas and Spire), whose common equity ratios range from 55.00% to 62.30%. Additionally, the Company’s proposed common equity ratio falls right in the middle of the range of equity ratios in the above table.

Moreover, as noted above, we have determined that the proxy group of seven companies proffered by I&E is the appropriate proxy group to use for establishing a return on common equity for Columbia in this proceeding. We likewise find that I&E’s proxy group lends further support for a finding that Columbia’s proposed actual capital structure is not atypical and is within the range of reasonableness. More specifically, the record indicates that Columbia’s claimed capital structure falls within the range of the 2019 capital structures for the companies in I&E’s proxy group, which we have determined to be the most like Columbia. The 2019 range consists of long-term debt ratios ranging from 33.18% to 53.48% and equity ratios ranging from 32.78% to 59.01%, with a five-year average of 40.29% for long-term debt and 47.60% for common equity. Additionally, Columbia’s proposed short-term debt ratio is within the range for the five‑year period 2015-2019 for short-term debt for I&E’s proxy group companies of 0.41% to 26.85%. *See* I&E St. 2 at Exh. 2, Sch. 2; I&E St. 2‑SR at 9-10.

Based on the forgoing, we find that Columbia’s proposed actual capital structure is not atypical and is within a range of reasonableness. Therefore, we find no reason to deviate from the established Commission precedent, *supra,* or to impose the OCA’s hypothetical capital structure on the Company. Accordingly, we shall grant Columbia’s Exception No. 16, reverse the ALJ’s alternative recommendation on this issue, and utilize Columbia’s proposed capital structure of 54.19% common equity, 42.22% long‑term debt, and 3.59% short‑term debt.

## Cost of Debt

### Positions of the Parties

Columbia and I&E agreed that the Company’s cost of long-term debt should be set at a rate of 4.73% and that its cost of short-term debt should be set at a rate of 2.06%. CG M.B. at 69, Appendix B: Table I(A); I&E M.B. at 34-35.

The OCA did not oppose the Company’s cost of long-term debt. However, based upon its proposed capital structure, *supra,* the OCA recommended a blended rate of short and long-term debt equal to 4.52%. OCA M.B. at 44.

### Recommended Decision

The ALJ recommended that the Commission adopt Columbia’s claimed cost rate of long-term debt of 4.73%. The ALJ concluded that this cost rate is reasonable, representative of the industry, and falls within the proxy group’s implied long-term debt cost range of 3.14% to 5.82% with an average implied long-term debt cost of 4.91%. The ALJ also recommended that the Commission accept Columbia’s claimed cost rate of short-term debt of 2.06%. The ALJ reasoned that the Company’s three-month average forecasted London Interbank Offered Rate (LIBOR) rate relies upon the most recent information available. R.D. at 182-83.

The ALJ stated that alternatively, in the event the Commission grants the Company’s request to consider all the elements in its base rate increase request, then it should accept the Company’s claimed cost rate of long-term debt and the claimed cost rate of short-term debt. However, the ALJ stated that because she recommended the Commission use the OCA’s proposed hypothetical capital structure, she also recommended the use of the OCA’s blended rate of long term and short-term debt costs, equal to 4.52%, which blends the effect of the costs. R.D. at 183.

### Disposition

No Party filed exceptions directly to the ALJ’s recommendation on this issue. Nonetheless, we shall modify this recommendation consistent with the following discussion. As noted above, although the ALJ recommended that the Commission adopt Columbia’s individual cost rates for long-term debt and short-term debt, she ultimately recommended that the Commission adopt the OCA’s blended debt cost rate of 4.52%, consistent with her finding that the Commission should employ the OCA’s proposed hypothetical capital structure. However, in light of our finding, *supra,* that Columbia’s proposed actual capital structure ratio should be used, and not the hypothetical capital structure proffered by the OCA, we shall reject this blended debt cost rate and instead adopt a long-term debt cost rate for Columbia of 4.73% and a short-term debt cost rate of 2.06%.

## D. Cost of Common Equity

In the instant proceeding, Columbia, I&E, the OCA, and the OSBA each presented a position on a reasonable rate of return on equity (ROE). The Parties’ positions were generally developed through comparison groups’ market data, costing models, reflection or rejection of risk and leverage adjustments and a management performance adjustment, as will be further addressed, *infra*. The following table summarizes the cost of common equity claims made and the methodologies[[40]](#footnote-41) used by the Parties in this proceeding:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Party** | **DCF** | **CAPM** | **RP** | **CE** | **ROE** |
| **Columbia** | 12.92% | 12.49% | 10.10% | 12.70% | 10.95% |
| **I&E** | 9.86% | 8.72% |  |  | 9.86% |
| **OCA** | 7.50%-9.50% | 5.50%-7.50% |  | 9.25%-10.25% | 8.50% |
| **OSBA** |  |  |  |  | 7.63% |

### Methods for Determining the Cost of Common Equity

#### Discounted Cash Flow Method (DCF)

The DCF method applied to a proxy group of similar utilities, has historically been the primary determinant utilized by the Commission in determining the cost of common equity. *Pa. PUC v. City of Lancaster – Bureau of Water*, Docket No. R‑2010-2179103 (Order entered July 14, 2011) at 56; *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-00049255 (Order entered December 22, 2004) (*2004 PPL Order*) at 59. The DCF model assumes that the market price of a stock is the present value of the future benefits of holding that stock. These benefits are the future cash flows of holding the stock, *i.e.*, the dividends paid and the proceeds from the ultimate sale of the stock. Because dollars received in the future are worth less than dollars received today, the cash flow must be “discounted” back to the present value at the investor’s rate of return.

##### Positions of the Parties

Columbia’s DCF model consists of a dividend yield plus a growth rate plus a leverage adjustment. Columbia proposed a cost of common equity under the DCF method of 12.92%, which is calculated as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dividend + | Growth + | Leverage = | DCF Cost Rate |
|  |  |  |  |  |
| Original | 2.69% | 7.50% | 1.72% | **11.91%** |
|  |  |  |  |  |
| Updated | 3.39% | 7.50% | 2.03% | **12.92%** |

The Company’s original dividend yield calculation used the six-month average dividend yields for the Gas Group and adjusted those yields for expected growth in the dividend to produce the dividend yield of 2.69%. Columbia St. 8 at 20. Columbia’s updated calculation used data for the three-month period May – July 2020 to calculate a dividend yield following the market reaction to the COVID-19 pandemic. This data showed that if updated information were used, the adjusted dividend yield would rise to 3.39%. CG St. 8-R at 8; CG Ex. 400 (Updated) at 14.

Columbia principally relied upon five-year forecasts of earnings per share growth, as earnings growth appropriately measures the growth in price over time. The Company used four separate sources of projected earnings growth: (1) I&E’s First Call, (2) *Zacks*, (3) *Morningstar* and (4) *Value Line*. CG Exh. 400 at 16. From this data, and applying judgment, Columbia recommended a growth rate of 7.50%. CG M.B. at 74.

The Company also argued that a leverage adjustment should be added to its DCF cost rate. Columbia explained that a leverage adjustment is designed to adjust the DCF cost rate for the different percentage of debt in the capital structure calculated at market values of equity and long-term debt (the values used by investors) as compared to the percentage of debt in the capital structure at book value (the values used in the ratemaking process) to account for the greater financial risk created by a higher debt ratio when that cost rate is applied to a book value capitalization in utility proceedings. According to Columbia, the Commission has applied the leverage adjustment in cases where it believes market conditions have resulted in an understated DCF cost rate. *See, e.g., 2004 PPL Order*. The Company submitted that such conditions exist in this case. Columbia pointed out that the DCF cost rate for its Gas Group without a leverage adjustment is 10.19% (*i.e.*, a 2.69% dividend yield plus a 7.50% growth rate). The Company argued that an unadjusted DCF greatly understates the cost of common equity because the proportion of market value common equity in the Gas Group’s capitalization was significantly higher than its proportion measure at book value. Furthermore, Columbia points out the Commission has accepted the leverage adjustment in a number of cases, including *Pa. PUC v. PPL Gas Utilities Corp*., Docket No. R-00061398 (Order dated Feb. 8, 2007), approving 70 basis point adjustment. Accordingly, Columbia proposed to add a leverage adjustment of 172 basis points (*i.e.*,1.72%) to its DCF cost of common equity calculation. CG M.B. at 75-80.

At the outset, I&E claimed the DCF method is in accordance with the Commission’s historical use of the DCF as the primary methodology to determine a utility’s cost of equity. Through the methodologies outlined in its testimony, I&E calculated that the DCF methodology produces a cost of common equity of 9.86%. I&E employed the standard DCF model, k = D1/P0 + g, where k is the cost of common equity, D1 is the dividend expected during the year, P0 is the current price of the stock, and g is the expected growth rate of dividends. I&E M.B. at 61-62.

I&E argued that a representative dividend yield must be calculated over a time frame that avoids problems of both short-term anomalies and stale data. I&E’s dividend yield calculation placed equal emphasis on the most recent spot and the 52-week average dividend yields, resulting in an average dividend yield of 3.34%. I&E St. 2 at 22-23.

I&E used earnings growth forecasts to calculate its expected growth rate. I&E’s earnings forecasts are developed from projected growth rates using 5-year estimates from established forecasting entities for its proxy group of companies, yielding an average 5-year growth forecast of 6.52%. I&E St. 2 at 23-25.

I&E submitted that Columbia’s proposed leverage adjustment should be rejected because investors base their decisions on book value debt and equity ratios for regulated utilities, and not on market values, rendering any adjustment unnecessary. I&E also submitted that recent Commission precedent supports rejecting a utility’s request for a leverage adjustment. I&E St. 2 at 42-43.

The OCA proposed a DCF cost of equity range of between 7.50% and 9.50%. The OCA utilized a DCF analysis and employed the formula k=D/P + g, where “k,” “D,” “P,” and “g” are as defined in I&E’s DCF analysis, *supra*. OCA M.B. at 80-85; OCA St. 3 at 43-44.

The OCA calculated the dividend yield by averaging the dividend yield expected to be paid over the next twelve months for each comparable company, as reported by *Value Line*. The OCA provided that an appropriate dividend yield must be developed utilizing forecasted annualized dividend yields based on three separate time periods (*i.e.*, 13-weeks, 4-weeks, and 1-week) provided by *Value Line*. The OCA obtained an average dividend yield for the proxy group for each of the three time periods: 3.3%, 3.5%, and 3.5%, respectively. OCA M.B. at 86; OCA St. 3 at 45.

The OCA stated it used two methods to identify a measure of the growth in dividends that investors expect. The first method is referred to as the plowback ratio method. Under this approach, if a company is earning a rate of return, or “r,” on the company’s common equity, and it retains a percentage of these earnings, or “b,” then each year of the earnings per share (EPS) are expected to grow by b x r. OCA St. 3 at 46. The second method the OCA used to estimate the expected growth rate was to analyze the historical 10-year and 5-year historical compound annual rates of change for earnings per share (EPS), dividends per share (DPS), and book value per share (BPS) as reported by *Value Line* for each of the relevant corporations. OCA M.B. at 86-88; OCA St. 3 at 46‑51.

Like I&E, the OCA submitted that Columbia’s proposed leverage adjustment should be rejected. The OCA reasoned that leverage adjustments distort the natural market dynamic between a regulated utility’s stock price and its allowed rate of return. OCA M.B. at 64-65.

#### Capital Asset Pricing Model (CAPM)

The CAPM uses the yield on a risk-free interest-bearing obligation (such as those issued by the U.S. Treasury) plus a rate of return premium that is proportional to the systematic risk of an investment. To compute the cost of equity with the CAPM, three components are necessary: (1) a risk-free rate of return (Rf), (2) the beta measure of systematic risk (β), and (3) the market risk premium (Rm-Rf) derived from the total return on the market of equities reduced by the risk-free rate of return. The CAPM specifically accounts for differences in systematic risk (*i.e.*, market risk as measured by the beta) between an individual firm or group of firms and the entire market of equities.

Columbia, the OCA, and I&E each used the following standard CAPM formula:

k = Rf + β(Rm – Rf)

Where: k= the cost of equity and the remaining terms are as defined above.

##### Positions of the Parties

Columbia determined the CAPM cost of equity as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Rf + | β + | (Rm – Rf)+ | Size= | CAPM Cost Rate |
|  |  |  |  |  |  |
| Original | 2.75% | 0.83 | 7.745% | 1.02% | **10.19%** |
|  |  |  |  |  |  |
| Updated | 1.75% | 1.05 | 9.26% | 1.02% | **12.49%** |

Columbia initially determined the risk-free rate to be 2.75% based on current and forecasted long-term Treasury Bond yields. In the Company’s update, based on revised projections, the risk-free rate was reduced to 1.75%. Columbia also calculated a 7.74% premium for the risk/market premium component of the CAPM analysis, based upon the average historical data and forecasted returns. Columbia updated the risk premium, increasing it to 9.26%. The Company used a leverage adjusted beta of 0.83, to reflect the financial risk associated with the rate setting capital structure that is measured at book value. In Columbia’s update, there was an increase in the leverage adjusted beta to 1.05. Additionally, Columbia included a 1.02% size adjustment to its CAPM analysis. Therefore, Columbia calculated a CAPM cost of common equity of 12.49% for its gas group. CG M.B. at 82-84; CG St. 8 at 35-40; CG St. 8-R at 9, 28-29.

In calculating the CAPM cost of common equity, I&E chose the risk-free rate of return (Rf) of 1.22% from the projected yield on 10-year Treasury bonds as the most stable risk-free measure. I&E explained that its decision to use 10-year Treasury bonds balanced out issues related to the use of long-term bonds and short-term T-Bills. I&E used the average of the betas from the Value Line Investment Survey of 0.82. To arrive at a representative expected return on the overall stock market, I&E stated that it reviewed *Value Line’s* 1700 stocks and the S&P 500. I&E explained that the result of the overall stock market returns based on its CAPM analysis is 10.35%, which yields a cost of equity result of 8.72%. According to I&E, its 8.72% CAPM analysis confirms the reasonableness of its proposed 9.86% DCF cost of capital. I&E M.B. at 63-64; I&E St. 2 at 25-28.

In response to Columbia’s CAPM analysis, I&E submitted that the Company used the same leverage adjustment for inflating its CAPM betas from 0.66 to 0.83 that was used for its DCF calculation. I&E asserted that such enhancements are unwarranted for beta in a CAPM analysis for the same reasons that enhancements are unwarranted for DCF results. In addition, I&E disagreed with Columbia’s 102-basis point size adjustment applied to its CAPM analysis. I&E M.B at 57-59.

The OCA performed a CAPM analyses to provide the Commission with additional information. However, the OCA expressed its reservations regarding the usefulness of the CAPM approach. Specifically, the OCA asserted that the application of the CAPM in an erroneous manner, such as when forecasted risk premiums or forecasted interest rates are employed, can lead to erroneous results. In its CAPM analyses, the OCA used a one-year historical period of 30-year Treasury Bond yields to calculate a risk-free rate of 1.89%, a beta of 0.85, and an equity risk premium range from 4.0% to 6.0%. Using this data, the OCA concluded the proper CAPM return on equity is in the range of 5.50% to 7.50%. OCA M.B. 91-93; OCA St. 3R at 9-10.

#### Risk Premium (RP) Model and Comparable Earnings (CE) Model

The RP method is based upon the fundamental principle that an equity investor in a given company has a greater risk than a bond holder in the same company because interest on bonds is paid before any return is received by the equity investor, and the bond holder receives a return of its capital before an equity investor receives any return of capital in the event of bankruptcy or the dissolution of the subject company. The RP method determines the cost of equity by summing the expected public utility bond yield and the return of equities over bond returns (i.e. the “equity premium”) over a historical period, as adjusted to reflect lower risk of utilities compared to the common equity of all corporations. CG M.B. at 80.

The CE method estimates a fair return on equity by comparing returns realized by non-regulated companies to the returns that a public utility with similar risk characteristics would need to realize in order to compete for capital. According to Columbia, because regulation is a substitute for competitively determined prices, the returns realized by non-regulated firms with comparable risks to a public utility provide useful insight into investor expectations for public utility returns. The firms selected for the CE method should be companies whose prices are not subject to cost-based price ceilings (*i.e.*, non‑regulated firms) so that circularity is avoided. The CE method utilizes the concept of opportunity cost, wherein investors will likely dedicate their capital to the investment offering the highest return with similar risk to alternative investments. CG St. 8 at 43-44.

##### Positions of the Parties

The Company determined the RP cost of common equity to be 10.50%, updated to 10.10%, as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Interest Rate + | Risk Premium = | RP Cost Rate |
|  |  |  |  |
| Original | 4.00% | 6.50% | **10.50%** |
|  |  |  |  |
| Updated | 3.35% | 6.75% | **10.10%** |

Columbia explained that the interest rate in its calculation is an estimated interest rate for A‑rated public utility bonds, while the risk premium in its calculation is the average of historical risk premiums over long-term corporate bonds.

Columbia also performed a comparable earnings analysis based on the principle set forth by the United States Supreme Court that a utility should be afforded an opportunity to earn a return on its property equal to that being earned on investments in other businesses with corresponding risks and uncertainties. *Bluefield*. The Company’s analysis identified non-regulated companies with comparable risk and produced a cost rate of 12.75% (updated to 12.70%). CG St. 8 at 43-44; Columbia Exh. 400 (Updated) at 2.

I&E submitted that neither the RP method nor the CE method should be used in determining an appropriate cost of equity in a base rate proceeding. I&E pointed out that the RP method is a simplified version of the CAPM model. However, I&E noted that while the CAPM directly measures the systematic risk of the company through the use of beta, the RP method does not measure the specific risk of the company. As to the CE method, I&E charged that it is not market-based and relies upon historic accounting data. Further, I&E contended that under the CE method, the most problematic issue is determining what constitutes comparable companies. I&E St. 2 at 20.

The OCA conducted two different CE analyses. The first examines returns on book value equity for the comparable group. The second examines allowed natural gas utility returns over an extended period of time to evaluate the trend in returns for companies of similar risk. However, the OCA stated the Comparable Earnings Analysis is inferior to the DCF model and should be given much less weight in the determination of the ROE recommended in this case. The OCA used historic and forecasted earned returns on book value equity resulting in average earned returns on equity ranging from 8.9% to 10.5%. The OCA’s second Comparable Earnings Analysis takes the average authorized return on equity for natural gas utilities by state regulators across the United States from 2005 to 2019. The OCA averred the average allowed return on equity over this period is 9.95%. OCA M.B. at 93-94; OCA St. 3 at 57-58.

The OCA claimed that the Commission should give little, if any, weight to Columbia’s RP and CAPM analyses. The OCA argued that Columbia’s RP and CAPM analyses are flawed by the Company’s choice of inputs and inclusion of a size adjustment. Further, the OCA noted the RP and CAPM are both essentially risk premium models, with CAPM more company specific due to its use of beta to measure systemic risk. The OCA averred that the Company’s CE analysis did not address the cost of equity for Columbia and focused on companies that are not public utility companies. OCA M.B. at 72-77.

Therefore, I&E and the OCA recommended using the DCF method as the primary method to determine the cost of common equity and using the CAPM method as a comparison to the DCF results. Both I&E and the OCA pointed out that the DCF method has historically been the Commission’s preferred method of setting common equity cost rates. I&E M.B. at 39-41; OCA M.B. at 73.

##### Recommended Decision

The ALJ agreed with I&E’s proposal to calculate the recommended return on equity pursuant to the DCF methodology, using I&E’s barometer group, and use the CAPM as an alternate means to verify the reasonableness of the return on equity. The ALJ recommended the Commission approve the use of the DCF method as the primary method to determine the cost of common equity and to use the results of the CAPM as a comparison to the DCF results, consistent with the methodology commonly endorsed by the Commission in base rate proceedings. R.D. at 184.

##### Exceptions

In its Exceptions, Columbia stated that it does not except to calculating the return on common equity by relying principally upon the DCF methodology, consistent with recent Commission decisions. However, the Company stressed that it continues to support the use of multiple methods to account for problems inherent in all methods used to calculate returns on common equity. CG Exc. at 24.

##### Disposition

Upon our consideration of the record evidence, we agree with the finding of the ALJ that the Company’s cost of equity in this proceeding should primarily be based upon the use of the DCF methodology and that the results of the CAPM analysis should be used as a comparison to the DCF results. We note that where evidence based on other cost of equity methods indicates that the DCF-only results may understate the utility’s current cost of equity capital, we will consider those other methods, to some degree, in evaluating the appropriate range of reasonableness for our equity return determination.

In light of the above, we shall adopt the position of I&E and shall base our determination of the appropriate cost of equity on the results of the DCF method and shall use the CAPM results as a comparison thereto. As I&E noted, the use of the DCF model has historically been our preferred methodology and was recently affirmed in *UGI Electric*. Like the ALJ, we find no reason to deviate from the use of this method in the instant case.

### Management Effectiveness Adjustment

#### Positions of the Parties

Columbia included a twenty-basis point management effectiveness upward adjustment to its ROE claim. CG M.B. at 92-97.

I&E, the OCA, and the OSBA each opposed any allowance for management effectiveness. I&E M.B. at 66-70; OCA M.B. at 95-111; OCA R.B. at 45‑50; OSBA M.B. at 9-10.

Columbia submitted that, in accordance with Section 523 of the Code, 66 Pa. C.S. § 523, the Commission is required to consider management effectiveness in setting a utility’s rates. According to Columbia, it has demonstrated strong performance in the area of management effectiveness. Columbia claimed that this has been demonstrated through, *inter alia*, its enhanced safety measures, its accelerated infrastructure replacement plan, superior results in PUC Management Performance Audit and PUC Utility Consumer Report and Evaluation (UCARE) reports, its Payment Arrangement Request (PAR) rate, its Quality of Service Performance report, and its result in the 2019 J.D. Power Residential Customer Satisfaction Survey. CG M.B. at 92‑97.

I&E argued that the Company’s proposal is inappropriate and is not supported by the record in this proceeding. I&E took the position that no utility should reap additional rewards for programs funded by ratepayers for meeting the Company’s statutory obligation under Section 1501 of the Code, 66 Pa. C.S. § 1501, to provide safe and reliable service. I&E emphasized that if the Company’s twenty-basis points for management effectiveness was awarded, the total impact to ratepayers would be $2,602,667. According to I&E, ensuring that cost saving measures flow to ratepayers is especially important now as many have recently experienced reduced household income as a result of job loss or reduction in hours due to the global pandemic. Therefore, I&E stated that the Company’s management effectiveness adjustment should be disallowed. I&E M.B. at 66-70.

The OCA echoed the position of I&E and asserted that the record evidence in this proceeding does not support Columbia’s request for a management effectiveness adjustment. The OCA also argued that the *Management and Operations Audit of Columbia Gas of Pennsylvania Management Audit, Pennsylvania Public Utility Commission Bureau of Audits*, Docket No. D-2019-3011582 (June 2020) (Columbia 2020 Management Audit) rebuts the Company’s exemplary management claim. The OCA pointed to collections data which, it asserted, demonstrated that while Columbia is not among the worst performing natural gas utilities in Pennsylvania on collections from residential customers, it also does not reflect exemplary management. Further, the OCA submitted that in its testimony, the Company failed to address a July 31, 2019 gas explosion in Columbia’s service territory which resulted in the destruction of a home, injuries, and damage to approximately sixty other homes. According to the OCA, although the Company accepted responsibility for the event, the Commission should recognize that this event weighs against Columbia’s position that it has demonstrated exemplary management, in general, and in the area of gas safety and pipeline replacement efforts, specifically. OCA M.B. at 95-111; OCA R.B. at 45‑50.

The OSBA took the position that demanding a premium from ratepayers during a pandemic is grossly inequitable given the high level of unemployment experienced by residential customers and the detrimental effect the pandemic has had on small businesses. In addition, the OSBA argued that recent management failures at Columbia’s affiliates indicate that management is undeserving of a reward for exemplary performance. The OSBA specifically pointed to the management failure and criminal negligence of Columbia Gas of Massachusetts in September of 2018, which led to one fatality and: (1) massive disruptions to the lives of residents and businesses of several towns in the Merrimack Valley in Massachusetts; (2) the required divestiture of that local distribution company by NiSource; and (3) the diversion of resources away from planned investments at Columbia in Pennsylvania. In the OSBA’s view, not only should the Commission reject any upward adjustment in ROE for Columbia’s management’s performance, but the Commission should also consider assigning a penalty to Columbia’s ROE in this proceeding. OSBA M.B. at 9-10.

#### Recommended Decision

The ALJ stated that she agreed with I&E, the OCA, and the OSBA that Columbia failed to provide sufficient evidence to support its proposal for an additional twenty-basis points for “strong management performance.” The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia’s proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company’s cost of equity. R.D. at 182, 184-85.

#### Exceptions

In its Exceptions, Columbia explained that it has decided to withdraw its request for an upward adjustment to its cost of equity for management performance, in recognition of the effects of the pandemic and the time in which vaccine distribution is anticipated to be administered. Columbia Exc. at 24.

#### Disposition

As noted above, no Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### Rate of Return on Common Equity

#### Positions of the Parties

As noted above, four methods of determining the cost of equity were presented for inclusion in the record in this proceeding: (1) DCF; (2) CAPM; (3) RP; and (4) CE. Columbia relied on each of these methodologies in presenting its recommended rate of return on common equity of 10.95%. This figure is inclusive of the 0.20% management effectiveness upward adjustment that Columbia requested. CG M.B. at 62, Appendix B Table I(A). However, as noted, *supra,* Columbia did not oppose the ALJ’s recommendation to calculate the return on common equity in this case by relying principally upon the DCF methodology, consistent with recent Commission decisions, and has withdrawn its request for a management effectiveness upward adjustment.[[41]](#footnote-42)

As previously discussed, both I&E and the OCA took issue with the Company’s analysis in arriving at the proposed cost of equity and argued that equal weight should not be given to the four different methodologies as Columbia did in its evaluation. Additionally, both I&E and the OCA submitted that the Commission has indicated a preference for using the DCF method to establish reasonable common equity costs.

As a result of its DCF analysis, I&E recommended a cost of common equity of 9.86%. I&E M.B. at 62.

The OCA recommended a cost of common equity of 8.50% under a traditional ratemaking approach, primarily based on the DCF model. OCA M.B. at 49, 52, 54-55.[[42]](#footnote-43)

The OSBA noted that in Columbia’s previous base rate case in 2018, the Company requested an ROE of 10.95% during a time period when the 10 Year Treasury Note (T-Note) was in the 2.8% to 3.0% range. The OSBA also noted that in the instant proceeding, the Company requests this same ROE when the 10 Year T-Note ranges from 0.50 to 0.75%. OSBA M.B. at 7. In addition, the OSBA pointed out that in *UGI Electric,* the Commission awarded UGI an ROE of 9.85% in October of 2018 when the 10 Year T-Note was slightly below 3%. *Id.* (citing *UGI Electric* at 119). According to the OSBA, this implies that the Commission awarded UGI a 6.9% (*i.e*., 690 basis point) risk premium over the 10-year T‑Note rate. Therefore, the OSBA submitted that although the COVID-19 Pandemic was not in existence during October of 2018, using that 690-basis award as precedent, and using the 10 Year T-Note rate at the time of this proceeding, would imply that Columbia should receive an ROE in the 7.63% range. OSBA M.B. at 7.

#### Recommended Decision

The ALJ rejected Columbia’s proposed rate of return on common equity of 10.95% as overstated and based upon flawed approaches. Namely, the ALJ agreed with I&E’s reasoning that the Company’s calculated return on equity is flawed in the following ways: (1) the weights given to the results of the Company’s CAPM, RP, and CE analyses; (2) certain aspects of Columbia’s discussion of risk; (3) Columbia’s application of the DCF including the forecasted growth rate and leverage adjustment used; (4) Columbia’s inclusion of a size adjustment, reliance on the 30-year Treasury Bond for the risk-free rate, and the use of a double-adjusted beta in the CAPM analysis; and (5) the Company’s request for an additional twenty-basis points for ‘strong management performance’ is unjustified. Additionally, the ALJ pointed to the OSBA’s argument that Commission precedent implies Columbia should receive a ROE in the 7.63% range. R.D. at 184-185.

Alternatively, the ALJ recommended that in the event the Commission grants the Company’s request to consider all the elements in its base rate increase request, then I&E’s proposed DCF methodology and proxy group should be used in setting a cost of common equity for the Company. According to the ALJ, I&E’s analysis is consistent with the methodology commonly endorsed by the Commission in base rate proceedings, will produce rates that are just and reasonable, and will maintain a balance between the needs of ratepayers and the needs of the Company and its investors. R.D. at 185. However, the ALJ did not identify specific DCF inputs or explicitly recommend a specific cost of equity to replace the Company’s requested 10.95%.

#### Exceptions and Replies

##### Columbia Exception No. 17 and Replies

In its Exception No. 17, Columbia explains that based on the fact that it does not oppose the ALJ’s recommendation to rely principally on the DCF in this proceeding and that it has decided to withdraw its request for an upward adjustment for strong management performance, it would support a return on common equity of 9.86%, as recommended by I&E. However, Columbia submits that because the ALJ did not include any rate tables with her Recommended Decision, it is unclear whether the ALJ explicitly recommended the adoption of I&E’s proposed ROE. Therefore, Columbia excepts to the ALJ’s conclusions with respect to any return on equity allowance that would be below 9.86%. Namely, Columbia submits that the ALJ erred by highlighting the position of the OSBA that Commission precedent implies that Columbia should receive a return on common equity of 7.63%. Columbia reasons that the OSBA’s recommendation is not based upon any data for a proxy group, or any real analysis of current or projected market data. Rather, Columbia argues that the OSBA relied on data that was several years old to claim that the Commission implicitly awarded a 6.9% risk premium over the asserted yield on 10-year treasury notes at the time the Commission issued its order in *UGI Electric.*  According to Columbia, because risk premiums move inversely to interest rates, any calculation of a risk premium from several years ago, when interest rates were higher, is not relevant to current circumstances because the risk premium would be higher at today’s lower interest rates. In addition, Columbia argues that the OSBA’s analysis disregards the industry-specific risks and differences between allowed returns for gas and electric utilities. CG Exc. at 24-27.

Columbia further argues that the DSIC authorized return is a relevant factor in assessing the reasonableness of the cost rate for common equity in a base rate proceeding. Columbia explains that although it recognizes that the data considered in a base rate case is more detailed than that considered in the DSIC context, the DSIC return uses that same proxy group of companies and uses the DCF methodology. Therefore, Columbia submits that it is not rational to provide the Company with a return on equity that is below the range of other gas companies who are currently earning 10.15% on DSIC investments. Accordingly, Columbia submits that it should be awarded an ROE of no less than 9.86%. C.G. Exc. at 28.

In its Replies to Exceptions, the OCA rebuts that the lower cost of equity of 9.86% that Columbia requested in its Exceptions is still overstated. The OCA highlights that although the Company agreed to rely principally on the DCF methodology for calculating an ROE and withdrew its request for an upward adjustment for management effectiveness, it did not, *inter alia,* explicitly withdraw its request for a leverage adjustment in its DCF analysis of a size adjustment in its CAPM analysis. Therefore, the OCA posits that the Commission should adopt the ALJ’s finding that the Company’s cost of equity claim is based on a flawed DCF analysis and that the Company’s CAPM analysis should be dismissed. However, the OCA also argues that given the flaws in Columbia’s cost of equity analyses, there is no evidentiary support for a cost of equity as proposed by either the Company or I&E. Rather, the OCA asserts that its own recommended ROE is supported by a proper DCF analysis and consideration of current economic conditions which include very low costs of borrowing and consider the hardships faced by Columbia’s customers. Therefore, the OCA submits that Columbia’s Exception No. 17 should be denied and that its own Exception No. 3B, *infra,* should be granted. OCA R. Exc. at 14-16.

##### OCA Exception No. 3B and Replies

In its Exception No. 3B, the OCA notes that it concurs with the ALJ that the Company’s proposed cost of equity of 10.95% is overstated, flawed, and should not be adopted. However, the OCA is of the opinion that certain aspects of the ALJ’s conclusions as to the rate of return on common equity, if adopted, could still result in the grant of an overstated cost of equity for Columbia. Namely, according to the OCA, a cost of common equity of 9.86%, as proffered by I&E is not reflective of current market conditions and will allow Columbia to over-earn in a market reflective of much lower capital costs. In contrast, the OCA insists that its own proposed cost of common equity of 8.50% is soundly based and reflects an appropriate ROE for Columbia. The OCA notes that apart from the difference in the proxy group, the OCA’s proposed cost of equity recommendation is based upon I&E’s DCF analyses and a CAPM used as a check on the reasonableness of the DCF results. The OCA stresses that its recommendation considered the impact of the COVID-19 pandemic on the economy, interest rates, growth prospects for the economy and utility industry, as well as the interest of Columbia’s ratepayers. Accordingly, the OCA reinforces its position that in the event the Commission grants a rate increase, it should adopt a cost of equity of no more than 8.50%. OCA Exc. at 17-23.

In response to the OCA’s Exceptions, Columbia asserts that the OCA’s proposed cost of equity should be rejected. According to Columbia, the growth rate portion of the OCA’s DCF analysis is flawed. More specifically, Columbia states there are three principal flaws in OCA’s analysis of growth. First, Columbia maintains that the use of historic growth rates is flawed since investors’ projections of earnings are informed by historic experience and this information is considered in projected growth rates. Second, the Company claims using retained earnings growth is not proper in developing a DCF growth rate and has been rejected by the Commission. *See UGI Electric* at 90, 92. Third, Columbia disagrees with the OCA’s inclusion of dividend and book value growth rates, in addition to earnings per share growth rates, in its DCF analysis. Further the Company claims the OCA’s CAPM analysis fails to reflect the expectational nature of rate of return calculations by using only historic bond yields. For these reasons, Columbia declares the OCA’s recommended growth rate range of 4% to 6% is flawed and should be rejected. CG R. Exc. at 5-9.

#### d. Disposition

We have previously determined above that, consistent with Commission precedent, we shall use the DCF method as the primary method in establishing Columbia’s cost of common equity. Therefore, we have adopted the ALJ’s recommendation to use I&E’s DCF methodology utilizing I&E’s dividend yield of 3.34% and growth rate of 6.52%. As noted above, the ALJ did not specify a recommended cost of equity for Columbia in her Recommended Decision. However, we note that I&E’s methodology results in an ROE of 9.86%. In our view, this is an appropriate cost of equity for Columbia given the record developed in this proceeding. Accordingly, we shall grant Columbia’s Exception No. 17 and shall deny the OCA’s Exception No. 3B.

## Overall Rate of Return

### Positions of the Parties

In this proceeding, Columbia claimed that it should be permitted to earn an 8.00% overall rate of return. Columbia’s proposed overall rate of return is comprised of a weighted average of a 4.73% rate of return on long-term debt, a 2.06% rate of return on short-term debt, and a 10.95% rate of return on common equity. This is, in turn, based off a capital structure of 54.19% common equity, 42.22% long-term debt, and 3.59% short-term debt. CG M.B. at 64, Appendix B: Table I(A). However, as noted above, in its Exception No. 17, Columbia stated that it will accept a rate of return on common equity of 9.86%. We note that applying the above capital structure and cost of debt would result in a revised overall claimed rate of return for the Company of 7.41%.

I&E recommended that Columbia should be afforded the opportunity to earn an overall rate of return of 7.41%. This recommended overall rate of return is comprised of a weighted average of a 4.73% rate of return on long-term debt, a 2.05% rate of return on short-term debt, and a 9.86% rate of return on common equity, and is based off of Columbia’s proposed capital structure. I&E M.B. at Appendix A: Page 2.

The OCA proffered that the Commission should allow Columbia the opportunity to earn a 6.51% overall rate of return on its rate base. The OCA’s recommendation is comprised of a weighted average of a 4.52% blended rate of return on debt and an 8.50% rate of return on equity and is based off of a capital structure of 50% common equity and 50% debt. OCA M.B. at 50.

Although the OSBA proposed a rate of return on common equity “in the 7.63% range,” the OSBA did not provide tables specifying what it proposed as an overall rate of return. OSBA M.B. at 7.

### Recommended Decision

In her Recommended Decision, ALJ Dunderdale did not set forth a specific recommended overall rate of return for Columbia. However, as noted above, the ALJ recommended: (1) approving the OCA’s proposed capital structure of 50% common equity and 50% debt; (2) approving Columbia’s claimed cost rate of 4.73% for long‑term debt and 2.06% short-term debt while applying the OCA’s blended cost of debt of 4.52%; and (3) utilizing I&E’s methodology for determining a rate of return on common equity. R.D. at 181-85.

### Exceptions and Replies

Only Columbia and the OCA filed exceptions to the ALJ’s recommendations on a fair rate of return for the Company. Columbia and the OCA’s Exceptions and Replies to Exceptions on the overall rate of return are based on their respective Exceptions and Replies to Exceptions regarding the ALJ’s recommended capital structure, proxy group, and the cost of common equity, *supra.*

### Disposition

For the reasons discussed above, we have modified the ALJ’s alternate recommendation as to the appropriate capital structure, cost of debt, and cost of common equity for Columbia. The following table summarizes our final determinations regarding Columbia’s capital structure, cost of debt, and cost of common equity, as well as the resulting weighted costs. As this table indicates, we shall set an authorized overall rate of return for Columbia of 7.41%.[[43]](#footnote-44)

|  |  |  |  |
| --- | --- | --- | --- |
| **Capital Type** | **Ratio** | **Cost Rate** | **Weighted Cost** |
| **Long-Term Debt** | 42.22% | 4.73% | 2.00% |
| **Short-Term Debt** | 3.59% | 2.06% | 0.07% |
| **Equity** | 54.19% | 9.86% | 5.34% |
| **Total** | 100.00% |  | 7.41% |

# Miscellaneous Issues

## Low-Income Customer Issues

### Customer Assistance Program

#### Positions of the Parties

The OCA argued that Columbia’s collection policy for Customer Assistance Program (CAP) customers may be inconsistent with *Amendments to Policy Statement on Customer Assistance Program, Final Policy Statement Order*, Docket No. M-2019-3012599 (Order entered November 5, 2019) (*Final CAP Policy Statement Order*) and, accordingly, recommended that Columbia submit to its Universal Service Advisory Committee (USAC), within six months of this Opinion and Order, the question of how customer payments on CAP bills can be pursued through a reasonable process. OCA M.B. at 112 (citing OCA St. 5 at 11). The OCA was concerned that the Company engage in timely collections to CAP customers so that low-income customers will be more likely to get caught up on missed payments or find available resources to assist in paying those missed payments. OCA M.B. at 113.

The OCA stated that it examined the Company’s collections policy and the results of the Company’s collections activity, and there was a significant gap between the number of CAP bills tendered and the number of CAP full payments received. The OCA noted that the Company’s data is set forth in Schedule RDC-1 and shows that while Columbia tendered on average between 22,000 and 23,000 CAP bills each month for the years 2018 through 2019, the Company received between roughly 12,000 and 13,000 full payments. The OCA also noted that in dollar terms, Columbia received CAP payments equal to only 71.8% of the CAP bills it issued in 2017 (payments of $9,050,991 against bills of $12,598,585); Columbia received payments equal to only 73.4% of its CAP bills in 2018 ($10,262,398 in CAP payments against $13,972,031 in CAP bills); and Columbia received CAP payments equal to 77.0% of CAP bills in 2019 ($11,066,661 in CAP payments against $14,229,197 in CAP bills). The OCA stated that in each year, Columbia fell between 25% and 30% in fully collecting its CAP bills. OCA M.B. at 114 (citing OCA St. 5 at 7, Sch. RDC-1).

In response, Columbia averred that it complies with its CAP collections policy as set forth in its Commission-approved Universal Service and Energy Conservation Plan (USECP), which provides that Columbia will pursue collections after two missed payments. CG M.B. at 99-100 (citing CG St. 13-R at 2). The Company’s USECP provides the following:

Columbia will issue a termination notice no sooner than 10 days after a customer fails to pay two missed CAP budget payments by the due date. If a CAP customer does not make up all missed CAP payments within 10 days of the date of the termination notice, Columbia will attempt to terminate service for non-payment of the CAP budget bill. Columbia, in its sole discretion, may delay termination in the event of extenuating circumstances.

Columbia St. 13-R at 2.

Columbia also averred that its CAP Collections Policy is consistent with the *Final CAP Policy Statement Order*. CG M.B. at 100. Columbia asserted that its exemplary collection efforts are demonstrated by the percentage of CAP bills paid, calculated by dividing the total annual CAP payments by the total annual CAP amount billed, and stated that the percentage was the third highest of all Pennsylvania gas utilities. Columbia argued that the percentage of CAP bills paid, as reported in the Commission’s 2018 Universal Service Programs and Collections Performance Report, is a more accurate assessment of the Company’s collection efforts than the OCA’s flawed comparison, which Columbia contended, omits crucial Low Income Energy Assistance Program (LIHEAP) funds and Hardship Funds. CG M.B. at 101 (citing Pennsylvania Public Utility Commission Report on 2018 Universal Service Programs and Collections Performance (published December 2019)).

#### Recommended Decision

The ALJ agreed with the OCA that Columbia’s collections policy is a concern and may not be consistent with the Commission’s *Final CAP Policy Statement Order*. The ALJ noted that the Commission recommended utilities initiate collection activity no later than after the customer misses two CAP payments. R.D. at 237 (citing *Final CAP Policy Statement Order* at 72-73; 52 Pa. Code § 69.265(11)). However, the ALJ stated that Columbia received only between 12,000 and 13,000 full payments after it tendered between 22,000 and 23,000 CAP bills each month for 2018 through 2019. The ALJ observed that the OCA showed that in dollar terms, Columbia received CAP payments equal to 71.8% of the CAP bills in 2017 (payments of $9,050,991 against bills of $12,598,585); 73.4% of its CAP bills in 2018 ($10,262,398 in CAP payments against $13,972,031 of CAP bills); and 77.0% of CAP bills in 2019 ($11,066,661 in CAP payments against $14,229,197 in CAP bills). R.D. at 237. In each of the last three years, the Company fell short between 25% and 30% in fully collecting its CAP bills. *Id*. (citing OCA St. 5 at 7, Sch. RDC-1).

The ALJ reasoned that despite the significant gap between the number of CAP bills tendered and the number of payments received, Columbia argued there were no collections issues. R.D. at 237. The ALJ noted that the Commission indicated the purpose of pursuing timely collection is because “a low-income CAP participant is more likely to be able to pay a catch-up amount if the utility pursues collections in a prompt manner.” *Id*. (citing *Final CAP Policy Statement Order* at 73). The ALJ stated that non-CAP customers also benefit because the more CAP customers that pay their monthly bills, the less cost that is passed on to non-CAP customers to pay for unpaid natural gas service. Lastly, by pursuing the unpaid CAP payments quickly, the utility can seek termination of service when the unpaid balance is low, making repayment and, ultimately, reconnection of service easier for the CAP customer. R.D. at 237.

The ALJ suggested that Columbia direct greater attention to ensuring its CAP customers pay the affordable bills that Columbia delivers to them and that the Company determine, with the help of its advisory committee, how customer payments on CAP bills can be pursued through a reasonable process. *Id*. at 238. Specifically, the ALJ found that if the Commission grants Columbia’s request to consider all of the elements in its base rate increase request, the Commission should require Columbia to improve its collections policy and, within six months from the entry of this Opinion and Order, to submit to the USAC a reasonable process or plan on how the Company will pursue and improve collections, especially after the pandemic. *Id*. at 239.

#### Columbia Exception No. 22 and Replies

In its Exception No. 22, Columbia disagrees with the ALJ’s conclusion that Columbia’s CAP collections policy may not comply with the Commission’s *F**inal CAP Policy Statement Order.* CG Exc. at 39. Columbia notes that the Commission’s *Final CAP Policy Statement Order* states that “utilities should initiate collection activity for CAP accounts when a customer has no more than two in-program payments in arrears.” *Id*. (citing *Final CAP Policy Statement Order* at 7, 70; 52 Pa. Code § 69.265). Columbia explains that it follows its CAP collections policy set forth in the Company’s Commission-approved USECP, which provides that the Company will pursue collections on CAP bills after two missed payments. CG Exc. at 39-40. Therefore, Columbia avers that its CAP collections policy is consistent with the Commission’s *Final CAP Policy Statement Order*. CG Exc. at 40.

In its Replies to Exceptions, the OCA states that the ALJ correctly found that Columbia’s collections policy may not comply with the *Final CAP Policy Statement Order*. OCA R. Exc. at 21. The OCA avers that Columbia’s Exception ignores the collections problems identified by the OCA’s witness Mr. Roger D. Colton. *Id*. at 22. The OCA submits that Mr. Colton’s conclusions are based on Columbia’s lack of a satisfactory explanation for the significant gap between the number of CAP bills issued and the number of full CAP payments received each month. *Id*. (citing OCA M.B. at 112-116; OCA R.B. at 51-54; OCA St. 5 at 7, Sch. RDC-1; OCA St. 5-S at 14-15). The OCA explains that Mr. Colton performed a detailed analysis of Columbia’s collections data, and the data showed that from October 2018 through December 2019, while Columbia has, on average, issued roughly 22,800 CAP bills each month, it has received, on average, fewer than 12,723 on-time payments. In other words, more than 10,000 customers receiving a CAP bill each month do not make an on-time payment. OCA R. Exc. at 22 (citing OCA St. 5 at 7, Sch. RDC-1; OCA St. 5-S at 14-15). The OCA asserts that as the ALJ found, Columbia was unable to explain adequately this significant gap in the number of bills rendered and the number of bills collected, and the Company must address this problem.

#### Disposition

Based on our review of the record, we conclude that the manner in which Columbia conducts collection activity for CAP accounts presents some concerns and that Columbia should submit to its USAC, within six months of the entry of this Opinion and Order, the question of how customer payments on CAP bills can be pursued through a reasonable collections process, consistent with the OCA’s recommendation. *See* OCA St. 5 at 4. In the *Final CAP Policy Statement Order*, we emphasized the importance of timely collection for CAP participants as follows:

The rationale for timely collection for CAP participants is that a low-income CAP participant is more likely to be able to pay a catch-up amount if the utility pursues collections in a prompt manner. For a utility to allow more than two CAP payments in arrears without taking any collection action is counterproductive and inconsistent with the General Assembly’s declaration of policy that utilities are to increase timely collections. When a utility fails to take timely collection action, it increases the likelihood that a low-income customer will accrue a balance it cannot pay back or satisfy through available energy assistance grants or donations.

*Final CAP Policy Statement Order* at 73.

In this proceeding, the OCA presented evidence showing that there was a significant gap between the number of CAP bills Columbia tendered and the number of CAP full payments Columbia received. The OCA’s witness Mr. Colton testified that the data for Columbia in this proceeding provides reason for concern when contrasted with Columbia’s statement that its collection activity is consistent with the CAP Policy Statement. OCA St. 5 at 7; OCA Schedule RDC-1. The data shows that while Columbia tendered, on average, between 22,000 and 23,000 CAP bills each month for the years 2018 through 2019, the Company received only between roughly 12,000 and 13,000 full payments. Schedule RDC-1 shows the following:

* In 2017, Columbia issued an average of 22,005 CAP bills per month and received an average of 11,694 full CAP payments (46.4%).
* In 2018, Columbia issued an average of 23,420 CAP bills per month and received an average of 11,817 full CAP payments (50.5%).
* In 2019, Columbia issued an average of 22,899 CAP bills per month and received an average of 13,043 full CAP payments (57.0%).

Mr. Colton explained that, in dollar terms, in 2017, Columbia received CAP payments equal to only 71.8% of the CAP bills it issued (payments of $9,050,991 against bills of $12,598,585); in 2018, Columbia received CAP payments equal to only 73.4% of its CAP bills ($10,262,398 in CAP payments against $13,972,031 in CAP bills); and in 2019, Columbia received CAP payments equal to 77.0% of CAP bills ($11,006,661 in CAP payments against $14,229,197 in CAP bills). In other words, each year, Columbia fell between roughly 25% and 30% further behind in fully collecting its CAP bills. *Id*.

In response, the Company asserted that it is complying with the *Final CAP Policy Statement Order*. The Company noted that its USECP provides the following:

Columbia will issue a termination notice no sooner than 10 days after a customer fails to pay two missed CAP budget payments by the due date. If a CAP customer does not make up all missed CAP payments within 10 days of the date of the termination notice, Columbia will attempt to terminate service for non-payment of the CAP budget bill. Columbia, in its sole discretion, may delay termination in the event of extenuating circumstances.

Columbia St. 13-R at 2.

Additionally, Columbia contended there were flaws in the OCA’s analysis. Columbia’s witness Ms. Deborah Davis explained that any assumption regarding collections that is based on the OCA’s data is inaccurate because LIHEAP grant credits are not included in the full, on-time payment data Mr. Colton referenced. Ms. Davis noted the importance of recognizing that LIHEAP funds supplement past, current, and future customer payments, so that a customer may be current on their CAP bill but have not paid twelve, on time, in full payments in a year due to LIHEAP grant credits. CG St. 13-R at 2. Ms. Davis also testified that there are other reasons why a CAP customer’s service may not be terminated for nonpayment, including when a customer has a pending dispute before the Commission, when a customer has a critical health condition supported by a medical certificate, or when the winter moratorium is effective from December 1 through March 31. *Id.* at 3. Ms. Davis further testified that as reflected in the 2018 Universal Service Programs and Collections Performance Report, the Company’s percentage of CAP bills paid in 2018 was the third highest of all Pennsylvania gas utilities. *Id*. at 4.

The OCA provided evidence sufficient to rebut that of Columbia. In Surrebuttal Testimony, Mr. Colton created Table 2S, which compared the number of accounts for which a LIHEAP credit was applied to the bill compared to the number of CAP accounts not receiving a LIHEAP grant with bill credit. OCA St. 5-S at 13, Table 2S. The data in Table 2S demonstrates that LIHEAP grants would not be sufficient to bridge the gap between the number of CAP bills issued, the number of full payments received, and the number of CAP accounts with bill credits received. OCA St. 5-S at 13. Additionally, Mr. Colton testified that the presence of disputes, the existence of medical certificates, and the presence of winter shutoff restrictions do not explain the significant difference between the number of CAP bills rendered each month and the number of timely payments received. Mr. Colton stated that “[o]n average, there is a difference of more than 10,000 CAP accounts receiving a bill and CAP accounts making a timely payment. While there is some seasonal variation, that seasonal variation does not explain the extensive differences that exist.” OCA St. 5-S at 15.

Based on the substantial record evidence, we find troubling the pattern over recent years of a significant gap between the number of CAP bills Columbia tendered and the number of CAP full payments Columbia received, a pattern which Columbia was not able to explain sufficiently. While Columbia’s collection policy set forth in its USECP indicates that Columbia will issue a termination notice after a customer fails to pay two missed CAP budget payments by the due date, this is not a new policy for Columbia, as this policy was part of its prior USECP. *See* *Columbia Gas of Pennsylvania Inc. Universal Service and Energy Conservation Plan for 2015-2018 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2014-2424462 (Order entered July 8, 2015), at 11 (indicating Columbia initiates termination procedures for CAP customers after two missed payments); *see also* *Final CAP Policy Statement Order* at 71.

Under the circumstances, based on the OCA’s data in this proceeding, which covers dates during which Columbia already had a written policy of pursuing termination after two missed payments, it is not clear that Columbia’s written collection policy alone will be sufficient to help improve the Company’s collection practices. Accordingly, we shall deny Columbia’s Exception No. 22 and direct that Columbia submit to its USAC, within six months of the entry date of this Opinion and Order, the question of how customer payments on CAP bills can be pursued through a reasonable collections process. We further direct that Columbia be fully prepared to address this CAP collection policy issue in its next USECP.

# Energy Burdens

## Positions of the Parties

CAUSE-PA averred that Columbia should be required to reduce its CAP Percentage of Income Payment (PIP) rates to meet the maximum CAP energy burden standards in the Commission’s CAP Policy Statement to offset categorical unaffordability at current and proposed rates. CAUSE-PA M.B. at 11. CAUSE-PA noted that the average CAP energy burdens for Columbia’s PIP customers range from 7.4% to 8.02%, much higher than the Commission’s guidelines of 4% and 6%. *Id*. at 16 (citing CAUSE-PA St. 1 at 16). CAUSE-PA pointed out that, in 2020, nearly every Pennsylvania natural gas utility, except Columbia, petitioned the Commission to voluntarily adjust their CAP rates to comply with the Commission’s CAP Policy Statement, 52 Pa. Code §§ 69.261‑69.267. CAUSE-PA M.B. at 13 (citing *Peoples Natural Gas Company LLC Addendum to Universal Service and Energy Conservation Plan*, Docket No. M‑2018‑3003177; *Petition of UGI Utilities, Inc. to Amend its Universal Service and Energy Conservation Plan*, Docket Nos. M-2019-3014966, P-2020-3019196; *Petition for Expedited Approval of PGW’s Letter Request to Amend its Universal Service and Energy Conservation Plan Pursuant to the 2019 Amendments to the Policy Statement*, Docket Nos. M-2019-3012599, P-2020-3018867).

CAUSE-PA asserted that Columbia’s low-income consumers cannot afford to wait nearly five years for Columbia to correct currentunaffordable CAP rates. As the Commission extended the USECP filing schedule, Columbia’s next USECP filing was pushed out to April 1, 2024, which CAUSE-PA contended is far beyond the time period contemplated by the Parties at the time of the settlement in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2018-2647577 (Order entered December 6, 2018) (2018 Settlement). CAUSE-PA argued that the combination of the existing need identified in the Energy Affordability Study, which was issued in January 2019, compounded by the COVID-19 pandemic and Columbia’s proposed rate increase, calls for immediate action. CAUSE-PA M.B. at 15.

In response, Columbia averred that CAUSE-PA’s recommendation to modify the energy burden for the PIP Plan customers would not be in the customers’ best interests at this time, because Columbia is implementing costly programming changes related to its recently approved USECP and changing program guidelines before the program is fully implemented is not cost effective. Columbia argued that a decision to change a part of its CAP based on energy burdens should be addressed in its USECP proceeding and not in a base rate proceeding. According to Columbia, the energy burdens of customers on PIP Plans should not be considered separately from other parts of the Company’s CAP and universal service programs but, rather, should be considered as part of the Company’s entire universal service plan, including the need for changes and associated costs. CG M.B. at 107. The Company further noted that other forms of energy assistance are available to help customers afford their utility bills, without changing the current CAP requirements, and other CAP payment plans are available that would reduce a customer’s energy burden. CG M.B. at 106 (citing CG St. 13-R at 16-17). Moreover, in response to CAUSE-PA’s argument that Columbia failed to comply with the commitments made in the 2018 Settlement, Columbia stated that the Energy Burden Study[[44]](#footnote-45) did not direct an earlier filing than Columbia’s next USECP filing and Columbia has not yet filed a USECP following the Commission’s Energy Burden Study. CG M.B. at 107.

## Recommended Decision

The ALJ determined that the energy burdens for Columbia’s CAP program should not be changed in this base rate proceeding. R.D. at 238. The ALJ found that the Commission anticipated utilities would address the energy burdens in their USECPs and not in their base rate proceedings. *Id*. (citing *Final CAP Policy Statement Order* at 2). As such, the ALJ agreed with Columbia that the appropriate level of the percentage of income burden should be determined in the Company’s USECP proceeding and not in this proceeding. R.D. at 238 (citing Columbia St. 13-R at 15-16).

Nevertheless, the ALJ noted that Columbia’s behavior regarding the energy burden levels is disturbing. The ALJ pointed out that CAUSE-PA stated that Columbia’s most recent USECP was approved in January 2020, and the Company asserted that additional changes should wait until the Company’s next USECP filing. R.D. at 238 (citing CAUSE-PA M.B. at 107; OCA M.B. at 119-122). Yet, in the 2018 Settlement, the Company agreed to adjust its CAP energy burdens to comply with the recommended maximum CAP energy burdens once the Energy Affordability Study was released and to make the Commission’s recommended changes by its next USECP proceeding “or earlier date dictated by the Commission’s Energy Burden Study (whichever is sooner).”R.D. at 238-39 (citing CAUSE-PA St. 1 at 13) (quoting 2018 Settlement, ¶ 57) (emphasis added).

The ALJ observed that as a result of the Energy Burden Study, the Commission reduced the applicable energy burdens and standards and required each utility to make a filing indicating the extent to which each utility intended to comply with the new standards. R.D. at 239. The ALJ stated that CAUSE-PA pointed out that every natural gas company voluntarily complied, except for Columbia, even though Columbia settled its last base rate proceeding agreeing to do the same thing. *Id*. (citing CAUSE-PA M.B. at 14). The ALJ recommended that if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should require Columbia to present evidence in its next USECP proceeding explaining why its energy burden exceeded the Commission’s guidance of 4% and to present a plan or process for reducing the energy burden. *Id*. at 239-240.

## CAUSE-PA Exception No. 1 and Replies

In CAUSE-PA’s Exception No. 1, CAUSE-PA states that the ALJ erred as a matter of law and established Commission policy by failing to direct Columbia to comply with the terms of its 2018 Settlement in which the Company agreed to adopt the Commission’s recommended CAP energy burdens. CAUSE-PA Exc. at 4. CAUSE-PA asserts that as a matter of law and established Commission policy, it would be unjust and unreasonable to approve Columbia’s CAP rates without adjusting Columbia’s applicable energy burden standards in compliance with the Commission’s revised energy burden standards. *Id*. (citing *Popowsky I*, 665 A.2d at 811; 66 Pa. C.S. § 1301; *Final CAP Policy Statement Order*). CAUSE-PA explains that Columbia already agreed to implement the Commission’s recommended maximum CAP energy burdens as part of a comprehensive settlement in its last rate case, which was approved by the Commission,and now refuses to comply. CAUSE-PA asserts that this is egregious, because Columbia is seeking a $100 million per year rate increase during the worst economic crisis in recent history yet refuses to address longstanding unaffordability within its CAP to ensure that low-income customers can reasonably afford to heat their home. CAUSE-PA believes that Columbia should be ordered to comply with its agreement and accordingly to adjust its energy burden standards. CAUSE-PA Exc. at 5.

CAUSE-PA also explains that the Commission’s current maximum CAP energy burdens are the result of a multi-year investigation, which determined that the Commission’s former maximum CAP energy burden standards, currently in effect for Columbia’s CAP customers, are unaffordable. *Id*. CAUSE-PA notes that in adopting its revised standards, the Commission stated that its previous standards “do not reflect reasonable or affordable payments for many low-income customers.” *Id*. (citing *Final CAP Policy Statement Order* at 27). CAUSE-PA argues that if Columbia’s CAP rates are not reasonable, as the Commission has declared in its *Final CAP Policy Statement Order*, then the rates cannot be approved as just and reasonable in this proceeding. CAUSE-PA Exc. at 5-6 (citing *Popowsky I* at 811).

CAUSE-PA continues that in addition to concluding that the Commission’s prior energy burden standards are not affordable or reasonable, the Commission has also concluded that the prior energy burden standards “fail to satisfy the statutory objectives of universal service and continue to lead to disproportionate termination numbers.” CAUSE-PA Exc. at 6 (citing *Final CAP Policy Statement Order* at 30-31). CAUSE-PA notes some of the testimony of its witness, Mr. Mitchell Miller, who explained that low-income customers, including CAP customers, have higher termination rates than average residential customers and carry a disproportionate level of debt, which has been exacerbated by the ongoing economic crisis. CAUSE-PA Exc. at 6. In testimony, Mr. Miller explained that, even with financial assistance, many low-income households are forced to forego other necessities or keep their home at unsafe temperatures. *Id*. (citing CAUSE-PA St. 1 at 25.). Mr. Miller also explained the effects of energy insecurity and, consequently the importance of providing affordable bills to low-income customers, as follows:

The overwhelming energy burden on low-income households makes it difficult to pay for other basic necessities such as housing, food, and medicine; threatens stable and continued employment and education; has substantial and long-term impacts on mental and physical health; creates serious risks to the household and the larger community; and negatively impacts the greater economy.

CAUSE-PA Exc. at 6 (citing CAUSE-PA St. 1 at 16-17). As Mr. Miller testified, helping low-income customers better afford service will ensure they are able to have heat and hot water to wash properly, sanitize, and remain in their homes to help avoid the spread of COVID-19. CAUSE-PA Exc. at 7 (citing CAUSE-PA St. 1 at 40-41). Accordingly, CAUSE-PA asserts that allowing Columbia to charge CAP rates that violate the statutory objectives of universal service and lead to disproportionate terminations is not an acceptable outcome. CAUSE-PA Exc. at 7.

CAUSE-PA finds it significant that the undisputed evidence in this proceeding shows that the cost of adopting the Commission’s maximum energy burden standards would amount to just 22 cents per month or $2.67 per year for other residential customers. CAUSE-PA Exc. at 7 (citing CAUSE-PA St. 1 at 26-27). CAUSE-PA asserts that this is a small price to pay for the potentially vast resulting benefit of ensuring that economically vulnerable households can reasonably afford to maintain critical natural gas services to their home and will not impose an insurmountable burden on non-low-income households. CAUSE-PA Exc. at 7. CAUSE-PA emphasizes that the Commission has already agreed that the cost to reduce CAP energy burden standards “will not significantly increase CAP costs for most utilities.” *Id*. (citing *Final CAP Policy Statement Order* at 29).

In its Replies to Exceptions, Columbia states that any modification to the Company’s existing energy burdens should be addressed in a USECP proceeding, not in a base rate proceeding. Columbia avers that energy burdens should not be considered separately from other components of the Company’s CAP and universal service offerings but, rather, should be considered as part of the Company’s entire universal service plan. Columbia notes that as it stated in its Briefs, there are many other forms of assistance available to low-income customers that can work in conjunction with CAP to reduce the customer’s overall energy burden. For instance, a LIHEAP grant would reduce the average energy burden for customers on the PIP Plan to 4.18%, which is consistent with the Commission’s *Final CAP Policy Statement Order*. CG R. Exc. at 17.

Columbia continues that should the Commission determine that it is proper to address the Company’s current energy burdens in this proceeding, then the evidence in this proceeding supports a finding that a reduction of the energy burden for customers on the PIP Plan is not necessary. Columbia explains that only 4% of customers on the existing PIP plan are removed from service for not paying their CAP payment. Additionally, if a customer’s energy burden under the PIP Plan becomes unaffordable, Columbia offers other CAP payment plans with lower energy burdens, and customers can switch to these more affordable plans. *Id*.

In response to CAUSE-PA’s argument that the ALJ erred by failing to direct Columbia to comply with the terms of the Company’s 2018 Settlement, Columbia avers that is has fully complied with the 2018 Settlement. According to Columbia, the 2018 Settlement does not require Columbia to change its energy burdens as part of this base rate filing. CG R. Exc. at 18. Columbia notes that it committed to the following in the 2018 Settlement:

By no later than its next Universal Service and Energy Conservation Plan (“USECP”) filing following the issuance of the Energy Burden Study or earlier date dictated by the Commission’s Energy Burden Study (whichever is sooner), Columbia will make such filings as required by the Energy Burden Study to modify or change its CAP rate selection.

*Id*. (citing 2018 Settlement at ¶ 57). Columbia states that the Energy Burden Study does not direct utilities to modify their energy burdens, and Columbia has yet to file a USECP following the issuance of the Commission’s Energy Burden Study. Columbia explains that on February 20, 2020, it submitted a letter indicating that it will be prepared to address the new energy burdens set forth in the Commission’s *Final CAP Policy Statement Order* no later than the Company’s next USECP filing. Columbia submitted this letter in accordance with the directive in the *Final CAP Policy Statement Order* at 106.CG R. Exc. at 18.

Further, in response to CAUSE-PA’s arguments that Columbia’s existing energy burdens result in unreasonable CAP rates, Columbia will be prepared to address this question in its next USECP filing, where all aspects of Columbia’s low-income programs, including energy burdens, can be considered together, as was done with respect to the Company’s most-recently approved USECP. *Id*. at 18-19. Columbia states that the Commission has observed that utilities are not required to adopt the exact energy burdens in the Commission’s *Final CAP Policy Statement Order*. *Id*. at 19. The Commission stated:

We remind stakeholders that the maximum energy burden percentages in the Annex to the November 5 Order are recommendations, not iron-clad limits on what a utility can charge a CAP household. Issues related to a specific utility burdens are still subject to strict scrutiny in that utility’s USECP proceedings.

*Id. (citing Petition of Office of Consumer Advocate for Reconsideration/Clarification of the November 5, 2019 Final CAP Policy Statement Order at Docket No. M‑2019‑3012599*, Docket No. P-2020-3016885 (Order entered February 6, 2020), at 10‑11 (*February 2020 Reconsideration Order*)).

In its Replies to Exceptions, the OCA states that the ALJ was correct in denying CAUSE-PA’s proposal to change Columbia’s CAP Energy Burdens in the instant proceeding. The OCA submits that the ALJ correctly deferred the issues CAUSE- PA identified to be resolved as part of Columbia’s USECP, as the *February 2020 Reconsideration Order* stated that changes to energy burdens should be considered as part of a utility-specific USECP. OCA R. Exc. at 22-23 (citing *February 2020 Reconsideration Order* at 10-11).

## Disposition

Based on our review of the record and the applicable law, we find that issues related to Columbia’s energy burden levels are more properly considered in the context of the Company’s next USECP filing. We agree with Columbia and the OCA that the energy burdens of customers on PIP Plans should not be considered separately from other parts of the Company’s CAP and universal service programs but should be considered as part of the Company’s entire universal service plan, including the need for changes and associated costs. As the OCA’s witness Mr. Colton aptly testified, an evaluation of whether additional cost controls, such as minimum payment terms, consumption limits, high usage treatments, and maximum CAP credits, should also be evaluated within a USECP proceeding. OCA St. 5 at 20. Our determination on this issue is consistent with our prior statements in the *February 2020 Reconsideration Order* that issues related to a specific utility’s energy burdens will be subject to strict scrutiny in that utility’s USECP proceeding. *February 2020 Reconsideration Order* at 10-11.

There is no evidence in this proceeding that Columbia has not complied with the 2018 Settlement or the *Final CAP Policy Statement Order* or the CAP Policy Statement. Columbia filed its most recent USECP in February 2018, prior to the date that the Commission released the Energy Burden Study. The Commission approved Columbia’s USECP, which included its CAP PIP Plan, in January 2020. *Columbia Gas of Pennsylvania, Inc.’s 2019-2021 Universal Service and Energy Conservation Plan*, Docket No. M-2018-2645401 (Order entered January 16, 2020). Columbia is scheduled to file its next USECP in April 2023. *See Universal Service and Energy Conservation Plan Filing Schedule and Independent Evaluation Filing Schedule*, Docket No. M‑2019‑3012601 (Order entered October 3, 2019).

Neither the Energy Burden Study nor the *Final CAP Policy Statement Order* direct an earlier USECP filing than Columbia’s next USECP filing date. The *Final CAP Policy Statement Order* indicated that utilities could implement the CAP Policy changes through voluntary compliance with the amended CAP Policy Statement or could address the matters in utility-specific proceedings. *Final CAP Policy Statement Order* at 13. We also find compelling the OCA’s testimony that, because Columbia’s USECP was recently approved in January 2020, an aspect of that USECP that is as fundamental as the appropriate burden to use to define “affordability” for purposes of the percentage of income CAP program component should not be revisited so quickly or prior to the Company’s next USECP filing. OCA St. 5-S at 19. For these reasons, we shall direct Columbia to address the CAP Policy Statement amendments pertaining to energy burdens in its next USECP filing. We also deny CAUSE-PA’s Exceptions on this issue.

### Low-Income Customer Outreach

#### Positions of the Parties

The OCA stated that the Commission’s 2019 Focused Management and Operations Audit of Columbia (Management Audit) released in June 2020 identified low-income payment difficulties as an issue of concern that needed improvement. OCA St. 5 at 12. The Management Audit recommended that the Company should increase its universal service programs’ participation rates, particularly through its CAP, as the best way to improve the Company’s low-income payment difficulties. *Id*. In particular, the Management Audit recommended Columbia needed to develop strategies that will reduce arrearage levels by increasing CAP enrollment levels. *Id.*; Management Audit at 5, 8, 59. The OCA stated that in Columbia’s 2020 Implementation Plan in response to the Management Audit, the Company accepted this recommendation and advised that the steps to implement this recommendation were “in progress.” OCA St. 5 at 12; *Focused Management and Operations Audit of Columbia Gas of Pennsylvania, Inc.,* Docket No. D-2019-3011582, June 29, 2020 Implementation Plan (*June 29, 2020 Implementation Plan*) at 17. Specifically, Columbia advised that these steps included the development and documentation of a customer outreach strategy and communication plan to increase enrollment in its universal service programs with input from the Company’s USAC. OCA St. 5 at 12.

In addressing this need to address low-income payment difficulties through improved customer outreach, the OCA stated that the Company’s current outreach efforts are not inclusive enough because when asked how it identifies who is low-income, the Company responded that it identifies customers as low-income based on who receives LIHEAP or Hardship Fund grants, who enrolls in CAP, or who self-declares their low income status to Columbia. OCA St. 5 at 19. In other words, the OCA argued that Columbia customers mainly get identified as low-income when they seek assistance or when they contact the Company. *Id*.

To rectify this alleged deficiency in Columbia’s customer outreach, the OCA witness Colton recommended that the Company’s outreach plan should: (1) use the community as a means of identifying such customers rather than rely on call center contacts; (2) focus on relationship-building; (3) go to where the customers, live, work, shop, play, and pray rather than rely on the customers initiating contacts; and (4) rely on grassroots “trusted messengers” from within the community. OCA St. 5 at 26-27.

The OCA witness Mr. Colton also recommended that Columbia’s customer outreach be expressly rolled into the Company’s collections performance in four ways: (1) whenever a confirmed low-income customer is offered a payment arrangement, the customer should be offered the option of enrolling in CAP; (2) prior to an involuntary disconnection of service due to non-payment, the confirmed low income customer should be offered the option of enrolling in CAP; (3) once service to a confirmed low-income customer has been disconnected for nonpayment, the customer should be given the option of reconnection by agreeing to enroll in CAP; and (4) whenever a confirmed low-income customer is contacted by Columbia as part of the Company’s annual Cold Weather Survey and is found to either be using a potentially unsafe heating source or is without service, the customer should be offered the option of enrolling in CAP. OCA St. 5 at 27‑28. The OCA argued that the goal of these recommendations is to provide more opportunities to reach otherwise hard-to-reach low-income customers who may not be aware that they are entitled to enroll in CAP. *Id*.

CAUSE-PA similarly contended that Columbia must increase its customer outreach to reach more low-income customers. CAUSE-PA witness Miller examined various low-income statistics to support his contention that there are a substantial number of low-income customers that have not yet been confirmed by Columbia as such. CAUSE-PA St. 1 at 21-25; CAUSE M.B. at 21-22. Further, Mr. Miller used this analysis to argue that “Columbia’s CAP participation rate has shown no measurable improvement in the last decade.” CAUSE-PA St. 1 at 23. Equally troubling was the fact that two months into the statewide shutdown caused by the COVID-19 pandemic, Mr. Miller found that “Columbia’s CAP participation rate has remained relatively unaffected” by the shutdown. CAUSE-PA St. 1 at 24.

To remedy this alleged shortfall in CAP enrollment, CAUSE-PA asserted that Columbia should be required to increase its CAP participation rate to 50% by the year 2025. CAUSE-PA St. 1 at 24-25; CAUSE-PA M.B. at 20-24. To accomplish this goal, CAUSE-PA asserted that this goal alone is not enough with measurable benchmarking in place to ensure improvement in Columbia’s CAP enrollment numbers. CAUSE-PA St. 1 at 24-25. CAUSE-PA witness Miller explained that Columbia’s plan to achieve a 50% CAP enrollment rate should include a range of tactics, including: (1) increased outreach and education; (2) improved incentive structures with its program administrators; (3) streamlined CAP application requirements; (4) improved recertification processes; and/or (5) increased coordination with its CAP enrollment. *Id*.

Additionally, CAUSE-PA recommended that Columbia be required to work more closely with stakeholders to identify “workable solutions” to achieve measurable improvements in CAP enrollment. *Id.* at 25. CAUSE-PA also recommended that Columbia should be required to report its progress annually to the Commission to help ensure it is on track to meet its enrollment target, and that Columbia’s success for failure to meet its enrollment goals should be a factor to be affirmatively considered in future rate cases. *Id.*

In response, Columbia asserted that its customer outreach efforts are highly inclusive and that these efforts already incorporate the four principles articulated by the OCA’s witness. Columbia stressed that it utilizes a variety of venues and methods to reach customers outside of the Company’s call center. The Company stated, for example, that it uses community meetings, CAP screening agencies, web site updates, targeted mail solicitations, paid social media advertisements, advertisements on its own website, and different types of paid advertising on radio, television, billboards, and busses to expand outreach. The Company affirmed that it accepts applications in the community from churches, unemployment offices, banks, senior centers, Salvation Army offices, and other similar businesses and offices, and that it partners with housing authorities, veterans’ groups, career training centers, and other local community-based agencies as well. CG M.B. at 108 (citing CG St. 13-R at 5-8). Finally, Columbia also asserted that it has already rolled the four specific outreach mechanisms recommended by the OCA into the Company’s collections performance efforts. *Id.* at 109.

#### Recommended Decision

In her Recommended Decision, the ALJ did not make a specific recommendation for what the Commission should do about Columbia’s CAP outreach if the Company’s rate proposal is denied as recommended. R.D. at 240-41. However, the ALJ found that if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, there is no need to change Columbia’s outreach initiatives at this time. *Id.* at 241.

#### OCA Exception No. 2 and CAUSE-PA Exception No. 3 and Replies

In its Exception No. 2, the OCA avers that the ALJ erred in finding that Columbia should not expand its outreach efforts. The OCA states that while the ALJ correctly concluded that the Company’s low-income collection efforts should be improved, the ALJ did not specifically recognize that the customer outreach efforts were also needed and could aid in collection efforts. OCA Exc. at 11. The OCA explains that the purpose of its outreach recommendation was to address the “payment difficulties that exist within [Columbia’s] confirmed low-income customer population” that were found in Columbia’s Management Audit. *Id*. (citing OCA St. 5 at 12). The OCA submits that additional outreach efforts should be combined with the collection efforts recommended by the USAC. OCA Exc. at 11.

The OCA also explains that its CAP collection policy recommendations and outreach recommendations were proposed to work together to address increasing arrearages for confirmed low-income customers. OCA Exc. at 11 (citing OCA St. 5 at 6‑28). The OCA states that the ALJ correctly found that the Company’s current CAP collections policies are not adequate and adopted the OCA witness Mr. Colton’s recommendation that Columbia address the issue by submitting to the Company’s USAC the question of how customer payments on CAP bills can be pursued through a reasonable collections process. OCA Exc. at 11-12 (citing R.D. at 238, 240-241; OCA St. 5 at 11). The OCA pointed out that Mr. Colton also testified that a significant number of confirmed low-income customers are in arrears and that the Company’s CAP outreach does not appear to be reaching a significant segment of the confirmed low-income population that could benefit from CAP, particularly those customers at or below 50% of the Federal Poverty Level (FPL). OCA Exc. at 12 (citing OCA M.B. at 122; OCA St. 5 at 13-14, Table 3). Accordingly, the OCA states that Mr. Colton recommended additional steps the Company should take to improve its community-based, grass-roots outreach to better reach low-income customers in its communities and to address the confirmed low-income customer arrearages. OCA Exc. at 12 (citing OCA St. 5 at 28). The OCA believes that this is particularly critical for customers with incomes between 0-50% of FPL. OCA Exc. at 12.

In addition to improvements to the Company’s collection efforts, the OCA submits that Columbia should be directed to improve its low-income customer outreach in order to help improve its collection efforts. The OCA notes its witness Colton’s recommendations that are designed to leverage trusted resources in the community to reach otherwise hard-to-reach low-income customer populations. *Id*. The OCA witness Colton recommended that the “Outreach and Communication Plan” incorporate the following principles: (1) rather than relying primarily on call center contacts, use the community as a means of identifying and engaging the hard-to-reach population; (2) rather than relying primarily on staff contacts as the means of identifying low-income customers, focus on relationship-building; (3) rather than relying primarily on customers initiating contacts (whether to apply for assistance, or to be in contact with a “self-declaration”), go to the community (reaching them “where they live, work, shop, play and pray”) rather than making the community come to you; and (4) rather than relying primarily on Columbia communications to its customers, rely on grassroots “trusted messengers” from within the community. *Id*. at 12-13 (citing OCA St. 5 at 26-27; OCA M.B. at 123). The OCA asserts that the additional outreach efforts will help to increase enrollment in the Company’s CAP and will reduce its residential arrears. OCA Exc. at 13.

In its Reply to the OCA’s Exception No. 2, Columbia states that it agrees with the fundamental principles the OCA suggests and has developed its outreach efforts consistent with those principles. Columbia asserts that its outreach efforts are already strong and effective in reaching customers in need, and there is no need to change the Company’s outreach initiatives at this time. CG R. Exc. at 9. Specifically, Columbia states that the four outreach principles the OCA suggested are already embodied in the Company’s existing outreach efforts.

First, Columbia explains that it uses many different venues and methods to reach customers outside of its call center. Columbia uses community meetings, CAP screening agencies, web site updates, targeted mail solicitations, paid social media advertisements, advertisements on the Company website, television and radio advertisements, and advertisements on busses and billboards to educate customers regarding the availability of low-income assistance programs. The Company continues that it develops an annual strategy for outreach that includes an advertising component and at least one Company-sponsored community engagement opportunity. Each year, the Company also identifies a new audience to specifically target, such as the elderly, veterans, or the working poor. The Company further states that it works with its USAC members, which include representatives from the community, to review outreach efforts for effectiveness and to develop new approaches. *Id*. at 10.

Second, Columbia explains that it focuses on relationship building as opposed to relying on staff contacts. *Id*. Each year, the Company participates in fifteen to twenty legislative and/or senior events and three “Be Utility Wise” events to promote programs to individuals, community advocates, and caseworkers and to build relationships in the community. *Id*. at 10-11.

Third, Columbia explains that it actively engages in outreach activities within the community, including accepting CAP applications in the community. For example, Columbia has accepted CAP applications at worship sites, unemployment offices, banks, stores, community action agencies, senior centers, Salvation Army offices, and in customer homes when necessary.

Fourth, Columbia explains that it relies on trusted messengers from within the community by using resources in the community to promote assistance programs. The Company has partnered with various community resources, including housing authorities, veterans’ groups, career training centers, medical clinics, the state Department of Human Services, and other local community-based agencies to help reach low-income customers. *Id*. at 11.

Further, the Company notes that in response to the challenges many customers are facing as a result of the COVID-19 pandemic, Columbia has instituted enhanced programs that will enable customers to maintain service through targeted relief efforts, such as a waiver of late fees and penalties and an expansion of customer assistance efforts. *Id*. Columbia is using several different resources to educate customers regarding the Company’s current collection practices and available assistance programs, including social media posts on Facebook and Twitter, targeted outbound calls for the LIHEAP recovery CRISIS program, e-mails to customers who may be eligible for the LIHEAP recovery CRISIS program, e-mails to customers regarding current collection practices, updated information on the Company website regarding terminations for non-payment, bill inserts, and customer newsletters. *Id*. at 11-12.

Columbia states that as part of its proactive outreach measures, the Company also decided to reverse calls from its customer care call center. Rather than waiting for customers to contact Columbia, Columbia’s customer service representatives made outbound calls to customers who were previously eligible for LIHEAP assistance but did not appear to be currently seeking LIHEAP assistance in order to obtain permission from eligible customers to apply for LIHEAP on their behalf. The Company represents that it has assisted 1,376 customers in receiving $405,142 in LIHEAP Recovery CRISIS assistance, primarily as a result of outreach efforts made by Company representatives to customers. *Id*. at 12.

Moreover, Columbia argues that the OCA’s recommendations are not necessary to address the issue of residential customer arrears because the Company is addressing this issue in Columbia’s *June 29, 2020 Implementation Plan* submitted in response to the Management Audit. Columbia’s *June 29, 2020 Implementation Plan* consists of three action steps:

1. Create a multi-departmental focus group to identify process changes to improve the management of customer accounts and collection performance to reduce account arrearages.
2. Review all internal arrearage reports to define the content and promote consistency among data elements for better analysis and reporting.
3. Develop and document an “Outreach Strategy and Communication” plan to increase enrollment in universal service programs, including CAP, with input from its USAC.

CG R. Exc. at 12-13 (citing *June 29, 2020 Implementation Plan* at 16-17). Columbia submits that it is currently in the process of executing the action items identified above, including the development of an Outreach Strategy and Communication plan. According to Columbia, its USAC members conducted a detailed review of the Outreach Plan in April 2020, and Columbia revised the Outreach Plan based on feedback from the USAC. CG R. Exc. at 13.

In its Exception No. 3, CAUSE-PA argues that the ALJ erred in recommending that there is no need to change Columbia’s outreach initiatives at this time. CAUSE-PA Exc. at 12. CAUSE-PA avers that the Commission should follow its recommendation and order Columbia to develop a plan to reach 50% CAP participation by 2025. *Id*. at 13 (citing CAUSE-PA M.B. at 20-24). CAUSE-PA states that the ALJ does not provide a reason for denying CAUSE-PA’s recommendation. CAUSE-PA notes that improved outreach is critically important regardless of whether a rate increase is approved, but it is even more important if rates are increased. CAUSE-PA Exc. at 13.

In support of its position, CAUSE-PA notes that its witness Mr. Miller testified that Columbia’s CAP serves roughly one in three confirmed low-income customers in its service territory, which is just a fraction of those estimated to be eligible for the program. *Id*. (citing CAUSE-PA St. 1 at 23). Mr. Miller also testified that Columbia’s CAP participation rate has remained stagnant over the last decade and throughout 2020, despite the pandemic and unprecedented economic crisis. CAUSE-PA Exc. at 13 (citing CAUSE-PA St. 1 at 23-25.) Further, Mr. Miller explained that improving CAP participation will help the Company reduce its disproportionately high number of payment troubled low-income customers, and the amount of debt that they carry. CAUSE-PA Exc. at 13-14 (citing CAUSE-PA St. 1 at 23-25).

In response, Columbia states that its existing outreach and enrollment levels are successful. Columbia states that there is no limit on the number of eligible customers who may enroll in the Company’s CAP. Columbia asserts that it engages in extensive outreach to its low-income customers through social media, targeted outbound calls and e-mails to customers, bill inserts and customer newsletters, and that it promotes CAP enrollment through everyday customer interaction, including community-based outreach efforts as explained above. Columbia avers that whenever it is in contact with a customer regarding payment difficulties, CAP is explored as an option, and the Company’s call center scripting states that CAP is the best option for low-income customers. Columbia submits that all identified low-income customers who need assistance with their gas bill are offered CAP. CG R. Exc. at 14 (citing CG M.B. at 102-04; CG R.B. at 64-66).

According to Columbia, its extensive outreach efforts have resulted in the Company outperforming other gas utilities in Pennsylvania in CAP participation. Columbia states that in 2017 and 2018, Columbia’s CAP participation rate was the second highest according to the Commission’s 2018 Universal Service Programs & Collections Performance Report. Columbia submits that only one gas utility has reached 50% of confirmed low-income customer participation in the last three years and, unlike Columbia, that utility only counts customers as confirmed low-income if there is a documented income verification on file. *Id*.[[45]](#footnote-46)

Further, Columbia argues that CAUSE-PA suggests an inappropriate metric for measuring CAP enrollment. Columbia states that CAP enrollment should not be evaluated based on the total number of enrolled CAP customers compared to the total number of confirmed low-income customers, because the confirmed low-income count is not a true reflection of customers eligible for CAP as not all self-declared low-income customers qualify for CAP based on documented income. Columbia avers that the reported number of “confirmed” low-income customers includes customers who self-declare their income, and it is not uncommon for a customer to report their income but refuse CAP participation when they are required to provide income verification. Columbia explains that the self-declared income the customer provided remains “confirmed” low income even though the customer has refused to provide supporting documentation and is not enrolled in CAP. Columbia continues that many confirmed low-income customers are able to afford their bill through other assistance programs, such as LIHEAP, and CAP is not necessary. For these reasons, Columbia believes that an evaluation of the Company’s outreach efforts should be based on the activities that work toward the result of increased CAP participation, not the end result of enrollment. Columbia also points out that the Commission recently addressed the Company’s projected CAP enrollment levels as part of its review of Columbia’s current USECP proceeding and determined that Columbia’s projected CAP enrollment levels were reasonable.[[46]](#footnote-47) *Id.* at 15.

#### Disposition

Upon review, we agree with the recommendation of the ALJ that there is no need to change Columbia’s outreach initiatives at this time. Accordingly, we shall deny the Exceptions of the OCA and CAUSE-PA on this issue.

However, we do want to reconfirm that Columbia is developing and implementing all reasonable strategies to both increase its customer outreach efforts and CAP participation levels in order to reduce arrearage levels as recommended in the Company’s most recent Management Audit. We take notice of Columbia’s statements in this matter that it has already put into practice all of the OCA’s recommendations to increase outreach and expand CAP enrollment and commend the Company for these efforts. But in acknowledging these efforts, consistent with the Management Audit recommendations, we expect the Company to continue working with its USAC on its Outreach Strategy and Communication Plan going forward. These continuing efforts should include examining current outreach strategies for effectiveness and developing new outreach efforts to improve CAP participation levels even more, which, in turn, will likely reduce future arrearage levels. Further, the Company needs to determine whether it has exhausted all grassroots community-based avenues to identify new low-income customers. For example, besides the community-based organizations Columbia already is working with, are there other local organizations it can partner with, such as food banks, schools, Head Start or other preschool programs to implement more fully its outreach strategies? We expect Columbia will address these additional outreach efforts and corresponding results in its upcoming annual Management Audit Progress Reports due in 2021 and 2022.

### Health and Safety Pilot

#### Positions of the Parties

CAUSE-PA recommended Columbia extend the timeframe and increase the budget for its Low Income Usage Reduction Program (LIURP) Health and Safety Pilot, which helps high usage, low-income customers, who would not otherwise be able to access LIURP services due to health and safety issues, to reduce their usage and their bill over the longer term. CAUSE-PA M.B. at 24 (citing CAUSE-PA St. 1 at 29-32). CAUSE-PA noted Columbia was willing to extend the pilot into 2023 to allow for a full two years of implementation (CAUSE-PA St. 13-R at 19), but also noted that while extending the program to make up for time lost to COVID-19 would certainly be beneficial, additional funding is necessary to the success of the Pilot to ensure that it is adequately budgeted to serve the identified need and help more high usage, low-income households achieve long-term bill reduction. CAUSE-PA M.B. at 25.

Columbia responded that the Health and Safety Pilot was designed as a pilot program to test whether the program is beneficial, and the pilot is in its first year. Columbia averred that funding for the pilot should not be changed until the effectiveness of the program can be evaluated. CG M.B. at 110-11; CG St. 13-R at 19.

#### Recommended Decision

The ALJ found reasonable Columbia’s explanation that funding for the pilot should not be changed until the effectiveness of the program can be evaluated. The ALJ determined that if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should not make any changes to Columbia’s Health and Safety Pilot program at this time. R.D. at 241.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### LIURP

#### Positions of the Parties

CAAP recommended that, should the Commission grant a rate increase, the number of customers Columbia serves annually should be increased from the targeted 540 to 600. In addition, with an average LIURP cost of approximately $7,000, CAAP recommended an additional annual LIURP funding of $420,000, beginning in the 2022 program year. CAAP M.B. at 8; CAAP St. 1 at 5.

CAUSE-PA agreed with CAAP that the Commission should require Columbia to increase its LIURP budget and, if this increase causes additional rollover, Columbia should make efforts to ramp up the program to ensure the program is meeting the identified need for services. CAUSE-PA M.B. at 27.

Columbia stated that it does not dispute the importance of LIURP but argues against CAAP’s suggestion to increase the LIURP budget by $420,000 annually, contending that LIURP is over-funded. Columbia cites to its testimony concerning the LIURP carry-over funding from year to year. CG M.B. at 111; CG St. 13-R at 21-22.

#### Recommended Decision

The ALJ determined that if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should not make any changes to Columbia’s LIURP program at this time. R.D. at 242.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### Hardship Fund

#### Positions of the Parties

CAAP proposed the Company’s Hardship Fund be increased from $675,000 to $800,000 annually, with the Company contributing what is necessary to reach that funding level after customer contributions. CAAP also recommended hardship funding be distributed in accordance with the percentage of low-income customers in the counties the Company serves. CAAP M.B. at 8.

CAUSE-PA agreed with CAAP and recommended the Commission require Columbia to increase its Hardship Fund to $800,000 annually, with the Company contributing any amount necessary after customer contributions. CAUSE-PA M.B. at 27. CAUSE-PA reasoned that increased Hardship Funds will help low-income customers avoid terminations, which will be vital once the current COVID-19 termination moratorium expires. *Id*. (citing CAUSE-PA St. 1 at 17-18).

Columbia discussed all of the resources used to provide Hardship Fund funding, including shareholder contributions, customer and Company sponsored fundraising, and pipeline penalty credits and refund proceeds, and explained it currently has a surplus in its Hardship Fund balance of more than $700,000. Columbia noted that CAAP did not dispute that existing funding levels are more than sufficient, and Columbia suggested CAAP’s proposal should be rejected. The Company argued that the Hardship Fund is adequately funded and capable of serving the customers who qualify for Hardship Fund grants under the existing guidelines. CG M.B. at 112-13; CG St. 13-R at 22-23.

#### Recommended Decision

The ALJ found that if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should not make any changes to the Hardship Fund at this time. The ALJ also directed Columbia to explain in its next base rate proceeding what efforts it has taken to serve as many low-income customers as possible. R.D. at 243-244.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We shall adopt the ALJ’s recommendation, finding that the recommendation is supported by ample record evidence and is just and reasonable. As the evidence indicates that Columbia has a surplus in its Hardship Fund, we agree that the Company should conduct outreach efforts to ensure as many eligible, low-income customers as possible receive this funding, which is intended to provide cash assistance to customers to reduce arrears, reconnect service, or stay a termination of service. *See* CG St. 13 at 2. Accordingly, we direct Columbia to explain in its next base rate proceeding the efforts it has taken to provide Hardship Funds to as many eligible, low-income customers as possible.

## Pipeline Replacement Issues

### Distribution Integrity Management Program

#### Positions of the Parties

I&E recommended that Columbia amend its DIMP to explain its method of using two inputs to generate one DIMP risk score and present proof of the update to I&E’s Pipeline Safety at the conclusion of this proceeding. I&E M.B. at 71; I&E St. 5‑SR at 5. I&E additionally recommended that Columbia update Section 7.1.2.2 of its DIMP to reflect the inclusion of all historical data including leakage history, third-party damages, external corrosion, over pressure, cast iron, cross bores and field assembled risers in the evaluation of its risks and present the revision to I&E’s Pipeline Safety at the conclusion of this proceeding. I&E M.B. at 72-73.

The Company did not oppose I&E’s proposal to amend its DIMP to explain the process of using quantitative risk scores and its Subject Matter Experts’ (SME) input to derive a quantitative risk evaluation that is used to determine the High-Medium-Low risk level for each asset-threat combination published in the DIMP. Columbia pointed out its quantitative data is calculated numerically from leakage rates, damage data, and other sources. CG St. 7-R at 3-4. The SMEs further review the asset-threat combinations and develop probability and consequence scores using a numerical risk matrix. CG St. 7‑R at 6, CG Exh. MJD-2R. These scores ultimately establish the published risk level. However, Columbia did not propose to change the DIMP to show risk scores, but instead will continue to show the High-Medium-Low characterizations of risk to impress upon all SMEs the importance of treating all High risks as urgent items. Additionally, Columbia asserted the pre-2016 leakage data was not reliable for trending purposes as a result of changes to data collection and quality assurance processes. Thus, Columbia contended that DIMP evaluations should not be distorted by data uncertainty, and Columbia opposed the recommendation to use “all available historical data” including pre-2016 leakage history. CG M.B. at 116.

#### Recommended Decision

The ALJ agreed with I&E that Columbia needs to clarify how it uses two different mechanisms (DIMP and its newly implemented SMS) and present proof of the update to I&E’s Pipeline Safety at the conclusion of this proceeding. R.D. at 244. The ALJ stated that the Company made several process changes in 2016 regarding the collection of leakage data and the leakage data quality assurance/quality control processes. The ALJ also stated that the process changes the Company made in 2016 cover leakage data only, however, in addition to leakage, high risks to Columbia’s system include third-party damages, external corrosion, over pressure, cast iron, cross bores and field assembled risers. R.D. at 245.

The ALJ determined that if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should require Columbia to update Section 7.1.2.2 of its DIMP to reflect the inclusion of all historical data in the evaluation of risks. The ALJ reasoned that the use of all available historical data prior to 2016 will give Columbia and the Commission an opportunity to better evaluate trends and changes in risks to its system. The ALJ also recommended the Commission require Columbia to amend its DIMP to explain the process of using quantitative risk scores and SME input to derive a quantitative risk evaluation. *Id*.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We shall adopt the ALJ’s recommendation, finding that the recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall direct that Columbia: (1) amend Section 7.1.2.2 of its DIMP to reflect the inclusion of all historical data in the evaluation of risks; (2) amend its DIMP to explain its method of using two inputs to generate one DIMP risk score; and (3) present proof of these amendments to I&E’s Pipeline Safety within thirty days of the entry of this Opinion and Order.

### Pipeline Replacement

#### Positions of the Parties

I&E proposed that Columbia increase its pipe replacement so that the 2029 priority pipe replacement goal, as stated in the Company’s most recent LTIIP, will be met. I&E M.B. at 73; I&E St. 4-SR at 10. I&E disagreed with the Company’s argument that these issues are better addressed in an LTIIP proceeding. I&E averred that it represents the public interest in rate proceedings and its Pipeline Safety’s goal through intervention in rate cases is to bring to light safety impacts with the interconnection and related effects between risk calculations, assets replacement and mitigation, costs, LTIIPs and risk factor indicators, such as incidents and leaks. Increase in risk leads to further examination of all available information. According to I&E, this information can include a company’s DIMP, annual reports filed with the Pipeline and Hazardous Materials Safety Administration, the company’s LTIIP, and information gained during the course of a base rate proceeding. All information is analyzed, and appropriate recommendations can be made in a base rate proceeding. I&E M.B. at 75-76; I&E St. 4-SR at 5.

The Company contended a generic order to increase pipeline replacement efforts in this proceeding should not be issued to modify the specific pipeline replacement goals established through its LTIIP. Columbia stated that I&E failed to provide any explanation regarding why a generic declaration in a base rate proceeding is better than the approval of specific plans in an LTIIP proceeding. Columbia also stated that nothing prevents I&E from presenting objections, concerns, and information in the open mid-term LTIIP review process and making recommendations to change the LTIIP. Further, Columbia asserted that its currently approved LTIIP already provides for increasing footage of main replacement. CG M.B. at 119.

#### Recommended Decision

The ALJ noted that, after the hearing record closed in this proceeding, the Commission finished its periodic review of Columbia’s LTIIP. The ALJ explained that the Commission determined that Columbia’s infrastructure replacements substantially met the Company’s original goals and, while Columbia’s service line replacements are slightly behind its planned schedule, a revision to the Company’s plan was not required. R.D. at 246 (citing *Periodic Review of Columbia Gas of Pennsylvania, Inc.’s Long-Term Infrastructure Improvement Plan*,Docket No. M-2020-3019723 (Order entered November 19, 2020)). The ALJ, therefore, concluded that, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should not make changes to the Company’s current LTIIP, as Columbia appears to be on track to meet its current LTIIP and long-term goals in a cost-effective manner. R.D. at 246.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### Pipeline Replacement Costs

#### Positions of the Parties

I&E recommended that Columbia draft a cost reduction plan to be submitted to I&E’s Pipeline Safety Division within sixty days of the entry of this Opinion and Order. I&E indicated that plan should outline Columbia’s proposed cost containment measures and those reduction measures should be reflected in an update to the Company’s LTIIP. I&E stated that Columbia must make an effort to negotiate better contracts and coordinate projects with other utility companies and local governments to keep costs down and to itemize expenses on pipeline replacement projects. I&E M.B. at 77; I&E St. 4 at 18-19. I&E noted that the Company is implementing I&E’s recommendations as part of the Company’s existing process to plan and execute pipeline replacement projects and that the Company is already working to reduce restoration costs by carrying out I&E’s recommendations. I&E stated it recognized the Company is making efforts to reduce replacement costs but remains concerned that those costs are increasing. Accordingly, I&E proposed, until the conclusion of the Company’s next base rate proceeding, Columbia and I&E’s Pipeline Safety Division meet annually for a status update of those efforts when I&E’s Pipeline Safety would like to discuss replacement cost reduction strategies and best practices the Company is using to reduce all costs. I&E M.B. at 79; I&E St. 4-SR at 10.

Columbia did not oppose I&E’s revised recommendation that Columbia meet annually with I&E’s Pipeline Safety Division for a status update on cost control efforts. CG M.B. at 122-123; CG St. 14-R at 9-10.

#### Recommended Decision

The ALJ noted that after the hearing record closed in this proceeding, the Commission finished its periodic review of Columbia’s LTIIP and found that the Company’s “level of spending is 8.3% ($42 million) less than the levels projected in Columbia’s LTIIP. Columbia replaced nearly the amount of main planned, while spending approximately 8% less than planned, based on original estimates.” R.D. at 247 (citing *Periodic Review of Columbia Gas of Pennsylvania, Inc.’s Long-Term Infrastructure Improvement Plan*, Docket No. M-2020-3019723, at 6 (Order entered November 19, 2020)). Accordingly, the ALJ concluded that, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, then there is no need for a revision in this proceeding but, based on the agreement of Columbia and I&E, Columbia will meet annually with I&E’s Pipeline Safety Division to provide a status update on cost control efforts. R.D. at 247.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Therefore, consistent with the agreement between I&E and Columbia, Columbia will meet annually with I&E’s Pipeline Safety Division to provide a status update on pipeline replacement cost control efforts.

### Risk Reduction

#### Positions of the Parties

I&E agreed that Columbia tracks the progress of its risk reduction program by gauging several key risk factors, including Open Grade 2 leaks and the inventory of bare steel and cast-iron pipes in its system. I&E Exh. 5, Sch. 9 at 1. I&E stated that Columbia reduced its open grade 2 leaks by 64.14% from 2015 to 2019, when the Company had 937 open grade 2 leaks in 2015 and 336 open grade 2 leaks in 2019. However, I&E contended that from 2017 to 2019, other risk indicators have risen, thus outweighing Columbia’s risk reduction efforts. According to I&E, these risk indicators include the number of newly found leaks, excavation damages per thousand tickets, poor record-related damages, non-reportable incidents due to poor records, and failures of field-assembled risers on Columbia-owned service lines. I&E M.B. at 80; I&E St. 5 at 6. As a result, I&E recommended that Columbia perform a root cause analysis due to the increase in other risk indicators and determine why the number of leaks found does not correlate with the amount of pipeline replacement for the past four years. I&E M.B. at 80-81; I&E St. 5-SR at 8. I&E also recommended that Columbia present the results of this analysis to I&E’s Pipeline Safety, which should include any corrective actions the Company takes, no later than September 30, 2021. Further, I&E recommended the Company continue its leakage reduction program. I&E M.B. at 81; I&E St. 5 at 12-13.

Additionally, due to the increase in failed field-assembled risers, I&E recommended the Company complete updating its records, which would allow Columbia to identify the locations of all field-assembled risers including those on customer-owned service lines. I&E also recommended Columbia complete the inspection of all field-assembled risers in the Company’s system as soon as possible and develop a plan to replace all of the field-assembled risers in its system, including those on customer-owned service lines. I&E St. 5-SR at 11. Further, to reduce risks involving excavation damages, which include mapping errors, poor records, unmarked facilities, I&E recommended the Company finish updating its maps and records. I&E St. 5-SR at 12.

Columbia opposed as premature I&E’s recommendation that it undertake a formal root cause analysis to determine why total leaks found have increased by 8.5% from 2017-2019, in the context of ongoing replacement of at-risk pipe. Columbia argued that a formal root cause analysis was premature because: (1) leaks found have decreased 15.6% from 2015-2019; (2) leaks do not reduce in lock step with pipe replacement, as remaining pipe ages and becomes more susceptible to leaking; (3) Columbia increased pipes surveyed annually by 13.8% from 2017 through 2019, which can contribute to discovery of the 8.5% higher leaks found during that period of time; and (4) additional data can determine if this is a potential problem or a short-term phenomenon. CG M.B. at 123-24.

Columbia agreed with I&E’s recommendations to identify and develop a plan to replace field-assembled risers. Columbia also agreed to continue and complete updating maps and records as quickly as possible. Columbia stated it will keep I&E apprised of its progress. CG St. 7-R at 15.

#### Recommended Decision

The ALJ agreed that a root cause analysis will help the Company to determine whether it targets the right segments during replacement projects. The ALJ observed that Columbia has already performed its own risk assessment in accordance with its DIMP, but a root cause analysis is generally accepted in the industry and provides the amount of detail necessary to pinpoint the exact cause or causes of leakage increases. R.D. at 248 (citing I&E St. 5-SR at 9-10). The root cause analysis would be helpful for the Company, as would updating its records on and completing inspections on all field-assembled risers. The ALJ agreed with I&E that the Company should know the location and condition of these field-assembled risers, including those on customer-owned service lines. R.D. at 248. The ALJ noted that I&E made these suggestions, and Columbia agreed to identify and develop a plan to replace field-assembled risers, to complete updating of maps and records as quickly as possible, and to keep I&E’s Pipeline Safety apprised of its progress.

The ALJ determined that, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the Commission should require Columbia to present the results of its root cause analysis to I&E’s Pipeline Safety, which should include any corrective actions the Company takes, no later than September 30, 2021. In addition, the ALJ recommended that Columbia update its records on and complete inspections on all field-assembled risers, including those on customer-owned service lines, develop a plan to replace field-assembled risers, complete updating its maps and records as quickly as possible, and keep I&E’s Pipeline Safety apprised of its progress. R.D. at 249.

#### Disposition

No Party filed Exceptions objecting to the ALJ’s recommendation on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we direct that Columbia: (1) perform a root cause analysis to determine why the number of leaks found does not correlate with the amount of pipeline replacement for the past four years; and (2) present to I&E’s Pipeline Safety the results of the root cause analysis, including any corrective actions the Company takes, no later than September 30, 2021. We additionally direct that Columbia: (1) update its records on and complete inspections on all field-assembled risers, including those on customer-owned service lines; (2) develop a plan to replace all field-assembled risers in its system; (3) complete updating its maps and records as quickly as possible; and (4) keep I&E’s Pipeline Safety apprised of its progress on these items.

# Rate Structure

This section of the Opinion and Order addresses the ALJ’s contested recommendations pertaining to cost of service, revenue allocation, and rate design. When a utility files for a rate increase and the proposed increase exceeds $1 million, the utility must include with its filing an allocated class cost-of-service study (ACCOSS or ACCOS Study) in which it assigns to each customer class a rate, based upon operating costs that it incurred in providing that service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC*,904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Cost allocation studies require a considerable amount of judgment and are described as more of an accounting/engineering art rather than a science. *Application of Metropolitan Edison Co.,* R-00974008 (Order dated June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.,* 55 PUR 4th 185 (Order dated Aug. 19, 1983). Public utility rates should enable the utility to recover its cost of service and should allocate this cost among its customers. These rates are required by statute to be just and reasonable and non-discriminatory. 66 Pa. C.S. §§ 1301, 1304.

In this proceeding, there are seven different rate classes to which Columbia would assign costs:

* Residential Sales Service and Residential Distribution Service (RSS/RDS);
* Low-volume Small General Sales Service, Small Commercial Distribution Service, Small General Distribution Service (SGSS1/SCD1/SGDS1);
* High-volume Small General Sales Service, Small Commercial Distribution Service, and Small General Distribution Service (SGSS2/SCD2/SGDS2);
* Small Distribution Service and low-volume Large General Sales Service (SDS/LGSS);
* Large Distribution Service and high-volume Large General Sales Service (LDS/LGSS);
* Main Line Sales Service and Main Line Distribution Service (MLS/MLDS);[[47]](#footnote-48) and
* Flexible Rate Provisions and Negotiated Contract Service (Flex).

## Allocated Class Cost of Service Study (ACCOSS)

An ACCOSS is a benchmark for evaluating customer class cost responsibility with the fundamental purpose of aiding in the accurate and reasonable design of rates by identifying all the capital and operating costs incurred by the utility in serving its customers, and then directly assigning or allocating these costs to each individual rate class based on established principles of cost-causation.

Columbia prepared and presented three ACCOSSs in its filing sponsored by Columbia witness Mr. Chad Notestone, as he described on page 3 of Columbia Statement No. 11. A brief description of each of the three studies is discussed below:

1. Customer-Demand Study (Customer-Demand ACCOSS): The Customer-Demand Study weights the allocation of mains using a factor based on the number of customers (“Customer”) and the Company’s peak day design (“Demand”). This method recognizes the customer number component of mains.,[[48]](#footnote-49)

2. Peak & Average Study (P&A ACCOSS): The Peak & Average Study assigns the allocation of mains using a weighting factor of 50% to the Company’s peak design day (“Peak”) and 50% to the Company’s throughput (“Average”).[[49]](#footnote-50)

3. Average Study (Average ACCOSS): The Average Study is an average of the Customer-Demand Study and the Peak & Average Study and gives equal weight (50%/50%) to both methods.[[50]](#footnote-51)

Columbia Exhibits CEN-1 through CEN-3, attached to Columbia Statement No. 11, show the development of the allocation factors used in performing the functionalization, classification, and class allocation procedures within each of its ACCOSSs. Utilizing its preferred study, its Average ACCOSS, Columbia quantified the revenue deficiency based on operating costs and revenues, as adjusted for the FPFTY. CG Exh. 111, Sch. 3 at 1-2, 6. Despite having updated its overall rate of return, budget billing modification costs, labor expense, and the 2020 Merit Increase Program claims in rebuttal testimony, as previously indicated, the Company’s ACCOSSs reflect its as-filed overall rate of return of 7.98%, as well as its as-filed expense claims. The Company’s revised revenue increase request of $100,366,797 reflected its revisions, as well as the resulting updated amounts for uncollectible expense on additional revenue requirement, late payment fees, taxes other than income (related to Columbia’s labor adjustments) and income taxes. CG St. 4-R at 6. However, Columbia has not revised its ACCOSSs (CG Exh. 111, Schs. 1-3), proposed revenue allocation (CG Exh. 103, Sch. 8), or requested rates (CG Exh. 103, Sch. 7) to be reflective of its revised revenue increase request.

Nevertheless, the Company’s three ACCOSSs provided class revenues at proposed rates based upon the Company’s attempt to move all classes toward an equalized rate of return (all classes’ revenue produce the proposed overall rate of return (7.98%), which can be used as a rough target for apportioning class revenue increases. CG Exh. 111, Sch. 1, p. 1, line 13; CG Exh. 111, Sch. 2, p. 1, line 13; CG Exh. 111, Sch. 3, p. 1, line 13. The results of such studies can be utilized to determine the relative cost of service for each class and help determine the individual class revenue requirements and, to the extent a particular class is above or below the system average rate of return, show the additional revenues each class is to receive or conversely the additional revenues that each class is to contribute to the Company’s overall revenues. In addition to the relative provision of revenues, relative rates of return are also provided which shows how the rate of return for each class compares to the system average rate of return, indicating if each class is either under-paying or over-paying its allocated cost of service. CG Exh. 111, Sch. 1, p. 1-2, line 14; CG Exh. 111, Sch. 2, p. 1-2, line 14; CG Exh. 111, Sch. 3, p. 1-2, line 14. This information is then used to determine the manner in which the proposed revenue increase should be allocated among the various rate classes with the goal of moving each rate class to towards the system average rate of return. The results at equalized rates of return do not necessarily dictate the exact levels of class revenues proposed. As the ALJ indicated, the proposed class revenues may depart from the equalized rates of return in order to recognize a number of factors, including such things as gradualism, to provide for the total revenue requirement, public acceptability and feasibility of application, and fairly apportion the total cost of service among the various customer classes. R.D. at 395. However, as the ALJ noted throughout her discussion and analysis, several of the parties point to *Lloyd*, wherein the Commonwealth Court determined that cost of service is the “polestar” of ratemaking. R.D. at 359, 371, 384-385, 387, 390.

### Positions of the Parties

As previously indicated, Mr. Notestone testified on behalf of Columbia regarding the Company’s ACCOSSs, arguing that its Average ACCOSS with an equal weighting of the Customer-Demand and the P&A ACCOSSs provides the most appropriate basis upon which to allocate revenue. CG St. 11 at 3. The results of Columbia’s three ACCOSSs are included in Appendix “A” to its Main Brief. CG M.B., Appendix A.

According to the Company, since the cost of mains represents the majority of plant costs for a gas utility, mains allocation has a critical effect on the assignment of costs of service to the customer classes. CG St. 11 at 13-14. Before allocating mains to the rate classes in its ACCOSS, Columbia first identified and directly assigned the actual inventory of distribution mains for the MLS/MLDS rate class, as these customers are served directly from or in close proximity to an interstate pipeline. CG St. 11 at 8, 13. Columbia separated low-pressure and two-inch mains and allocated those mains only to the Residential and SGS/SGDS class since the remaining rate classes are not physically served from and do not benefit from those systems. CG St. 11 at 7. Columbia performed a detailed analysis of its intermediate-pressure, medium-pressure and high-pressure systems in order to allocate the cost of those systems to the customers who use them. Columbia then allocated each of the non-transmission categories using the Customer-Demand method and a P&A method. CG St. 11 at 8.

As I&E explained, Columbia’s two cost of service studies (Customer-Demand and P&A ACCOSSs) differ in that each study utilizes a different approach to the allocation of distribution mains investment. In the Customer-Demand study, distribution mains investment is allocated based partially on the design day demands of each of the customer classes served by Columbia, and partially on the number of customers in each class. The P&A study, however, allocates distribution mains investment to classes based partially on contributions to peak day demand and partially on annual, or average daily, demands. I&E M.B. at 87. Columbia argued that a single ACCOSS should not form the basis of a rate design and contended that it is a combination of the cost to extend a distribution main (customer component) and the cost of the diameter of the pipe to serve customers at design day temperatures (demand component) that determines the causation of the cost of the main, and not the service received by its customers during all other times of the year (throughput). Therefore, Columbia asserted that to simply choose an allocation method that either fully ignores annual throughput or completely ignores the customer component should not be seriously considered as fair and reasonable. CG M.B. at 129-136; CG R.B. at 81-87. As such, Columbia is of the opinion that the Average ACCOSS, which gives equal weight to its Customer-Demand and P&A ACCOSSs, provides a set of returns fairer than either of the first two studies and that can be used as an appropriate benchmark in revenue allocation. CG St. 11 at 3.

With the exception of PSU, which agreed with Columbia that the Company’s Average ACCOSS most fairly balances the interests of all customers, the remaining Parties had differing views on the ACCOSS that should be adopted in this matter.[[51]](#footnote-52) PSU M.B. at 5. I&E recommended that the Commission rely on the Company’s P&A ACCOSS, without modification because it believes the Company’s Customer-Demand ACCOSS is flawed in that it violates Commission precedent by allocating a percentage of the distribution mains as a customer cost rather than allocating the mains investment costs using both annual and peak demands. I&E St. 3 at 14, 17; I&E M.B. at 85-95.

I&E Witness Mr. Ethan Cline disagreed with Columbia’s Customer-Demand ACCOSS,[[52]](#footnote-53) which classifies distributions mains as partially customer-related and partially demand-related, because the customer portion of mains is allocated to the various customer classes based on the total number of customers, while the demand portions of mains is allocated to classes based on peak day contributions or demand. I&E cited to prior Commission Orders, one in National Fuel Gas Distribution Company’s 1994 base rate proceeding,[[53]](#footnote-54) and another in Philadelphia Gas Works rate proceeding at Docket No. R‑00061931[[54]](#footnote-55) where the Commission has rejected the Customer-Demand methodology because it allocated a percentage of the distribution mains as a customer cost rather than allocating the mains investment costs using both annual and peak demands. I&E St. 3 at 14, 17.

However, I&E views Columbia’s P&A ACCOSS more favorably than the Customer-Demand ACCOSS and recommended its adoption in this proceeding. In support of its position, I&E stated that the Commission accepted similar P&A ACCOSSs in previous cases because it allocates distribution mains to classes partially on contributions to peak day demand and partially on annual consumption (average demand). I&E St. 3 at 14, 16; CG St. 11 at 12. In this regard, I&E cited to the National Fuel Gas Distribution Company 1994 base proceeding[[55]](#footnote-56) in which the Commission recognized that distribution mains are built on the basis of year-round demands as well as peak demands and that “[t]he Peak and Average method that allocates mains equally is a sound and reasonable method of cost allocation and should remain intact.”[[56]](#footnote-57)

The OCA and CAUSE-PA agreed with I&E that neither Columbia’s Customer-Demand ACCOSS nor the Average ACCOSS should be used to guide revenue allocation in this proceeding. [[57]](#footnote-58) The OCA advocated that its modified version of the Company’s P&A ACCOSS should be used. OCA M.B. at 133.

In regard to the Customer-Demand ACCOSS, OCA Witness Mr. Jerome Mierzwa submitted testimony in which he argued that the Customer-Demand ACCOSS should be rejected on the premise that distribution mains exist to deliver annual requirements and are sized to provide for peak requirements.[[58]](#footnote-59) Mr. Mierzwa also cited *NFGD* as precedent as to why the Customer-Demand ACCOSS is not relevant here. OCA St. 4 at 25. In addition, Mr. Mierzwa added:

[I]t is incorrect to consider distribution mains as being customer related. This is because mains investment is undertaken when annual gas consumption is high enough to warrant the investment, and mains are sized to meet expected demand levels, independent of the number of customers. In addition, CPA’s [Columbia’s] allocation of 50 percent of its distribution mains cost on the basis of number of customers, combined with its failure to consider the demands that can be met with that investment when it allocates the remainder of its mains costs on a demand basis, is improper.

OCA St. 4 at 16.

Next, Mr. Mierzwa addressed the Company’s P&A ACCOSS. Mr. Mierzwa opined that since distribution mains exist to deliver annual requirements and are sized to provide for peak requirements, it is proper to allocate distribution mains costs on the basis of peak and average demands, consistent with established Commission precedent.[[59]](#footnote-60) However, Mr. Mierzwa argued that the Company’s separation of mains investment by operating pressure should be removed, primarily due to its use of original cost instead of net investment in the development of its allocation factors for each of the distribution mains categories. More specifically, Mr. Mierzwa challenged the Company’s separation of mains by pressure group in the study because the allocation uses original cost and not net investment. Mr. Mierzwa asserted that the separation of pressure groups based on gross plant investment does not take into account the age of the pipe, and low-pressure pipe is generally older and, therefore, more depreciated than regulated pressure pipe. Mr. Mierzwa contended that because 53% of the low-pressure system is constructed of steel, and because steel pipe is generally older and, therefore, more depreciated than plastic pipe, customers served off low pressure pipe should be assigned less net investment than regulated pressure customers.[[60]](#footnote-61)

In order to correct the above-stated flaws, Mr. Mierzwa proffered a modified version of the Company’s P&A ACCOSS as follows:

Schedule JDM-1 [attached to OCA St. 4] presents the results of the OCA’s Peak & Average ACOS Study that eliminates the separate assignment of distribution mains to categories and assigns the costs associated with major account representatives to the appropriate classes. This study provides a reasonable indication of the cost of service for each rate class. Table 5 [on p. 30 of OCA St. 4] provides a summary of the OCA’s Peak & Average Study at present rates.

OCA St. 4 at 29-30; OCA M.B. at 153.

The OSBA argued for a modified version of Columbia’s Average ACCOSS, where instead of an equal (50%/50%) weighting of the Company’s Customer-Demand and P&A ACCOSSs, the OSBA recommended a 75% weighting be assigned to the P&A ACCOSS and a 25% weighting be assigned to the Customer-Demand study. OSBA M.B. at 14. The OSBA asserted that Columbia’s proposed revenue allocation under the Average ACCOSS is not fully consistent with its own proposed cost of service methodology, particularly where small and medium businesses are concerned. OSBA Witness Mr. Knecht created Table IEc-2 to demonstrate that the Company’s decision to use a 50%/50% average of its ACCOSSs is arbitrary based on how widely the results vary across Columbia’s ACCOSSs.[[61]](#footnote-62) He further contended that the Company was unclear with regard to a cost allocation methodology and failed to offer a revenue allocation consistent with its own ACCOSSs.[[62]](#footnote-63) For these reasons, Mr. Knecht developed a 75%/25% weighting of the Company’s P&A and Customer-Demand ACCOSSs.[[63]](#footnote-64)

CII supported the Company’s Customer-Demand study, and in the alternative, Columbia’s Average ACCOSS. CII M.B. at 10. CII advocated that the most appropriate study for revenue allocation guidance in this proceeding is one in which mains are allocated based on the number of customers because there is a clear and direct relationship between the number of customers and the need for more pipeline extensions. CII M.B. at 10-15. Additionally, CII opined that the exclusive use of Columbia’s P&A ACCOSS has not been demonstrated to be just and reasonable or consistent with Commission precedent. According to CII, the exclusive use of the P&A ACCOSS (and its omission of the direct relationship between the number of customers and pipeline usage) would unfairly discriminate against higher load customers. For those same reasons, CII contends that any request to provide greater weight to the P&A ACCOSS should be rejected. Conversely, CII believes the Customer-Demand ACCOSS accurately captures cost of service components and could be utilized on its own merits or provided greater weight in comparison to the P&A ACCOSS. Alternatively, if the Commission has concerns with either the P&A or Customer-Demand ACCOSSs then the Commission should accept Columbia’s Average ACCOSS, without modification, as just and reasonable. CII M.B. at 14-15; R.D. at 381-382.

### Recommended Decision

The ALJ recommended that the OCA’s P&A ACCOSS[[64]](#footnote-65) be used for the allocation of the revenue increase in this base rate proceeding.[[65]](#footnote-66) In support of her recommendation, the ALJ stated:

The ALJ accepts the OCA’s Peak & Average ACOSS (seen in its Table 5 attached to Schedule JDM-1) as the most reasonable of the COSS alternatives provided by Columbia Gas and the parties. Especially noteworthy is that the Peak & Average method, when using the Company’s or using OCA’s COSS, shows that currently the Residential class overpays for its cost of service. In addition to supporting its COSS, OCA also created a separate COSS (in order to verify the strength of the Peak & Average COSS) which used an ACOS allocating mains investment using the Proportional Responsibility (PR) method. The PR method allocates distribution mains investments based on a recognition that capacity has some value each month, although that value diminishes over the summer with its lower demands.34 The results from the separate COSS were very similar to OCA’s Peak & Average COSS and verify the results are more reasonable and appropriate than the COSSs used by Columbia Gas.

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34 OCA St. 4 at 30-31. OCA noted Columbia’s sister company, Columbia Gas of Massachusetts, used the same PR method in its ACOS study in that utility’s most recent base rate proceeding.

R.D. at 394-395. Thus, the ALJ opined that the OCA’s P&A ACCOSS should be adopted because: (1) the OCA presented the most persuasive arguments and depth of evidence in support of its study compared to others; (2) the OCA’s P&A ACCOSS corrects the errors in the Company’s ACCOSS; and (3) the OCA’s P&A ACCOSS provides a useful guide to allocate distribution of the revenue increase in this proceeding consistent with precedent.[[66]](#footnote-67)

### Exceptions and Replies

#### Columbia Exceptions Nos. 18 & 19

In its Exception No. 18, Columbia argues that the ALJ erred in selecting the OCA’s P&A ACCOSS as the preferred method for allocating revenue because it claims the OCA’s P&A ACCOSS is not an accurate reflection of the Company’s cost to serve each customer class. CG Exc. at 29 (citing R.D. at 394-395).

Columbia opines that the ALJ’s decision was based on the desired result of minimizing a rate increase to the Residential customer class without evaluating whether the other ACCOSSs proposed in this proceeding accurately represent the cost to serve each class. Columbia contends that the ALJ selected the OCA’s P&A ACCOSS because it shows that the Residential class is overpaying for its cost of service and would provide less of an increase to the Residential class. CG Exc. at 29 (citing R.D. at 394). However, Columbia avers that the Recommended Decision does not acknowledge that the ACCOSS it presented demonstrates that the Residential class is under-contributing, and therefore, should be allocated a greater portion of the total revenue increase. CG Exc. at 29 (citing CG M.B. at 183).

Columbia submits that it addressed the many problems with the OCA’s P&A ACCOSS on pages 131 through 136 of its Main Brief, but the ALJ appears to have overlooked Columbia’s concerns. CG Exc. at 29. Columbia addresses several of its concerns that it believes the ALJ either ignored or did not adequately consider in the Recommended Decision. They include: (1) the absence of a customer component to mains in the OCA’s P&A ACCOSS;[[67]](#footnote-68) (2) recent precedent in which the Commission has determined that a proper ACCOSS should recognize both a customer component and a peak demand component of distribution plant;[[68]](#footnote-69) (3) the absence of the assignment of distribution mains into separate categories by pressure group in the OCA’s P&A ACCOSS;[[69]](#footnote-70) and (4) the accuracy of the finding that the Proportional Responsibility method confirms the reasonableness of the OCA’s P&A ACCOSS.[[70]](#footnote-71)

With regard to Columbia’s first concern, Columbia submits that the absence of a customer component in the OCA’s study excludes a major driver of distribution mains investment (*i.e.*, the cost to extend a distribution main to a new customer) and therefore, is not as reflective of the Company’s actual cost of service. CG Exc. at 29 (citing CG M.B. at 131-36).

With regard to Columbia’s second concern, Columbia submits that recent Commission precedent, which was ignored by the ALJ, has determined that a proper ACCOSS should recognize both a customer component and a peak demand component of distribution plant.[[71]](#footnote-72) Columbia avers that the ALJ’s selection of the OCA’s P&A ACCOSS is not supported by Commission precedent because the customer component is missing from the OCA’s P&A ACCOSS. CG Exc. at 29-30 (citing CG M.B. at 131-36).

With regard to Columbia’s third concern, Columbia submits that (1) the OCA’s P&A ACCOSS does not assign distribution mains into separate categories by pressure group; and (2) the OCA was the only Party that challenged Columbia’s proposed separation of mains by pressure group. I&E, CII, the OSBA, and PSU supported Columbia’s assignment of mains to separate pressure groups because doing so more accurately identifies the mains being used to serve specific customers. Additionally, using pressure groups more accurately assigns mains when determining revenue responsibility for each rate class. Columbia states that the ALJ did not address why she recommended adoption of the OCA’s preference not to separate mains by pressure group over the positions of all the other Parties. CG Exc. at 30 (citing I&E M.B. at 92; CII M.B. at 12-13; PSU M.B. at 7; OSBA St. 1 at 15).

With regard to Columbia’s fourth concern, Columbia claims that the ALJ’s recommendation to select the OCA’s P&A ACCOSS for revenue allocation is based on the erroneous finding that the Proportional Responsibility method confirms the reasonableness of the OCA’s P&A ACCOSS. CG Exc. at 30 (citing R.D. at 394-395). Columbia refers to pages 83-84 of its Reply Brief, in which it explains that the Proportional Responsibility method does not independently verify the results of the OCA’s P&A ACCOSS because both methods are based on the same incomplete metrics, *i.e.*,average throughput and design day usage (Peak & Average) and monthly throughput weighted to account for design day usage (Proportional Responsibility method). Finally, Columbia notes that the Proportional Responsibility method is an allocation methodology unique to Massachusetts and has never been adopted in Pennsylvania. CG Exc. at 30; R.D. at 394-395; CG R.B. at 86-84.

In its Exception No. 19, which is closely intertwined with its Exception No. 18, Columbia argues that the ALJ incorrectly rejected the Company’s Average ACCOS Study. CG Exc. at 31 (citing R.D. at 394). Columbia opines that in reaching her conclusion on which ACCOSS should be approved, the ALJ stated, “Columbia Gas’ Customer/Demand ACCOSS would be the preferred method, but it contains serious flaws that skews its reliability and makes it unsuitable for use **at this time and with this NGDC.**” CG Exc. at 31 (citing R.D. at 394) (emphasis added by Columbia). Columbia maintains that rather than selecting the ACCOSS that most accurately reflects the cost to serve each class, the ALJ improperly based her recommendation on achieving an outcome to shift cost recovery to commercial and industrial customers that she perceived as appropriate given the timing of the Company’s requested revenue increase during the COVID-19 Pandemic. CG Exc. at 31.

Columbia disagrees with the ALJ’s reasoning and contends that, without conducting any analysis of the Company’s study, the ALJ merely accepted the OCA’s argument that the Average ACCOSS is flawed. Columbia asserts that its proposed Average ACCOSS is not unreasonable because it most fairly and accurately represents Columbia’s cost to serve the customer classes and balances the two most often used cost allocation methods – Peak & Average and Customer-Demand. CG Exc. at 31 (citing CG M.B. at 127-31).

In light of the above and for the reasons set forth in its Main Brief and Reply Brief, Columbia requests that the Commission reject the ALJ’s conclusion that its Average ACCOSS is unreasonable and adopt the Average ACCOSS as the basis for allocating the approved revenue increase. CG Exc. at 32 (citing CG M.B. at 127-136; CG R.B. at 79-87).

#### OSBA Exception No. 1

The OSBA filed its Exception No. 1 in this matter because it also disagrees with the OCA’s P&A ACCOSS proposal in that its adoption is not without consequences. OSBA Exc. at 2 (citing R.D. at 394-395). For the reasons that follow, the OSBA submits that the Commission should reject the ALJ’s recommendation to use the OCA’s method and adopt the OSBA’s recommended ACCOSS with the conditions set forth in its Main and Reply Briefs because the OCA’s P&A ACCOSS is “simply too favorable to the small customer classes at the expense of Columbia’s larger customer classes.” OSBA Exc. at 5 (citing OSBA M.B. at 11-15; OSBA R.B. at 9-22).

The OSBA explains that the ALJ’s reasoning for selecting the OCA’s P&A ACCOSS was based on the following three factors: (1) Columbia’s Customer-Demand ACCOSS contained serious flaws that the OCA’s P&A ACCOSS corrected; (2) the P&A ACCOSS, whether following the Company’s or the OCA’s methodology, consistently demonstrated that the Company’s residential customer class was overpaying for its cost of service; and (3) the OCA created a Proportional Responsibility ACCOSS that verified the results of the OCA’s P&A ACCOSS. OSBA Exc. at 2.

The OSBA notes that the ALJ acknowledged, and the OSBA agrees, that the P&A ACCOSS is most favorable to Columbia’s smallest customer classes. As such, the OSBA opines that the ALJ appears to have decided that the best cost allocation method is one which produces the best result for the residential customer class. It is unclear to the OSBA as to why the study most beneficial to the residential customer class would justify the ALJ’s choice, especially in consideration of past practice and Commission precedent that where the appropriate cost allocation methodology is the one that best reflects how costs are actually caused on the distribution system. The OSBA asserts that this has been addressed in detail in the OSBA’s and other Parties’ briefs, but it appears to have been disregarded by the ALJ. OSBA Exc. at 3.

The OSBA avers that if the Commission adopts the OCA’s P&A ACCOSS, the customer classes with larger customers, including both medium commercial and large industrial customers, will face sustained large increases. According to the OSBA’s witness, Mr. Knecht, the LDS/LGSS rate class would require a 108.8 percent rate increase to move rates into line with allocated costs under the Company’s P&A allocation method. OSBA Exc. at 3 (citing OSBA St. 1 at 21, Table IEc-2). The OSBA asserts that the OCA’s P&A ACCOSS approach would assign even *more* costs to that class. In support of this statement, the OSBA references Columbia’s exhibits where the LDS/LGSS class’ rate of return, at current rates, is 0.404% in the Company’s P&A ACCOSS at Exhibit 111, Schedule 2, page 2, and is -0.803% in the OCA’s P&A ACCOSS at Schedule JDM‑3. The OSBA is concerned that the small and medium businesses will suffer the most in future years if the OCA’s approach is adopted because residential increases will be based on lower rates and the Company’s industrial customers will flex their political muscle to obtain negotiated rates. OSBA Exc. at 4.

Next, the OSBA notes that its witness, Mr. Knecht, submitted testimony, in which he cited two Commission Orders from 2007 to show that the most recent Commission precedent supports the use of an Average & Excess (A&E) ACCOSS[[72]](#footnote-73) and not the P&A ACCOSS. [[73]](#footnote-74) OSBA Exc. at 4-5. Thus, the OSBA cautions that the ALJ and the Commission cannot automatically conclude that using a Peak & Average method in this proceeding is consistent with the recent precedent for an A&E approach. *Id*. at 5 (citing OSBA R.B, at 14, n.13).

The OSBA also submits that the Proportional Responsibility method used by the OCA in this proceeding is misplaced. The OSBA notes that the Proportional Responsibility method is not used by any gas distribution utility in Pennsylvania, and it was advanced by the OCA only because a former Columbia affiliate in Massachusetts uses that method, per the requirement of the Massachusetts regulator. The OSBA avers that it is another method “which tries to hide the fact that gas distribution systems need to be constructed to meet design day peak demand as well as to interconnect all of the customers, while trying to pretend that average demand has some influence on the overall size and length of the mains.” OSBA Exc. at 5 (citing CG St. 11-R at 26-27).

In concluding its Exceptions, the OSBA requests that the Commission make a determination that the OCA’s Peak & Average (P&A) ACCOSS is not just and reasonable. In its place, the OSBA recommends that the Commission adopt its Witness Mr. Knecht’s 75/25 ACCOSS based on 75% of the Company’s P&A method and 25% of the Company’s Customer-Demand method because this provides a closer approximation to present precedential A&E approach and that the Company’s 50/50 Average ACCOSS and the 75/25 weighting methods then be used to develop the revenue allocation recommendations. [[74]](#footnote-75) OSBA Exc. at 6 (citing OSBA M.B. at 14-15). In the alternative, if the Company’s ACCOSS methodology is approved, the OSBA recommends the Commission adopt the OSBA’s revenue allocation proposal based on a 50/50 ACCOSS weighting.[[75]](#footnote-76)

#### PSU Exception No. 1

PSU filed Exceptions objecting to the ALJ’s recommendation to adopt the OCA’s P&A ACCOSS because it is an unbalanced approach that subsidizes the residential class. PSU Exc. at 2-8. PSU submits that the evidence in this case shows that Columbia’s averaging of both of its P&A ACCOSS and Customer-Demand ACCOSS methods was the most balanced and fair approach to the allocation of costs, whereas the OCA’s P&A ACCOSS is biased in favor of the residential class and leads to substantial subsidization of residential main costs in violation of *Lloyd. Id*. at 2.

PSU asserts that the ALJ incorrectly found that the OCA’s P&A ACCOSS allocated the costs of mains in the most appropriate, sound, and reasonable method for cost allocation in adopting a 50 percent distribution main system costs allocation on the basis of peak demands and the remaining 50 percent of the Company’s distribution main costs allocated on annual, or average, demands. PSU Exc. at 2 (citing R.D. at 394-395).

PSU opines that the OCA’s P&A ACCOSS significantly subsidizes the rates of the residential class because it does not reasonably allocate the cost of distribution mains in that it ignores the fact that distribution main costs are customer-driven expenses thereby failing to take into account the number of customers for which a main must be sized to meet their demands. Furthermore, PSU contends that the ALJ’s recommendation ignores the evidentiary record discussing characteristics of Columbia’s suburban and rural service territory. PSU Exc. at 1 (citing PSU St. 1-R at 7:4-9:9).

PSU cites to Table 8 of the Recommended Decision to illustrate its argument that the resulting lop-sided rate structure would heavily subsidize the residential class at the expense of other rate classes. PSU Exc. at 1 (citing CG St. 11 at 3). PSU explains that Table 8 of the Recommended Decision illustrates that the increase to the residential classes (RSS/RDS) is 21.4%, while the increase to the small and large industrial classes (SDS/LGSS and LDS/LGSS) is 36.0%. PSU submits that the approximately 15% disparity in the proposed revenue distribution is extreme and demonstrates the flaws in adopting the OCA’s P&A ACCOSS. PSU Exc. at 3. PSU believes the resulting residential subsidization from the OCA’s proposal violates the principles of *Lloyd*, which held that cross subsidies in existence from commercial and industrial classes may not be increased but should decrease over time. PSU Exc. at 4. PSU maintains that rather than considering adopting the Company’s Average ACCOSS, which would result in a revenue allocation proposal that is a balanced approach and fairly weighs the interests of residential customers and industrial class customers such as PSU, the ALJ adopted the OCA’s P&A methodology which results in the residential rate class not paying for their fair share of mains and increasing cross-class subsidization.

PSU further asserts that the ALJ’s recommendation to adopt the OCA’s P&A ACCOSS is flawed because she failed to address pertinent issues raised by PSU witness Mr. J. Crist on why the costs of mains must be allocated based on the number of customers served and whether piping should be designed to meet average demand rather than peak demand. PSU Exc. at 4 (citing PSU M.B. at 7-10; PSU St. 1-R at 7-10). Nor did the recommendation address the gross over-allocation evidence on mains costs by Columbia’s Witness Mr. Notestone who testified that the OCA’s P&A ACCOSS ***grossly over allocates mains costs*** by assigning over 68 miles of pipe on average to nine of the ten largest customers. PSU Exc. at 5 (citing CG St. 11-R at 9-10).

In support of its position on why the Commission should adopt Columbia’s Average ACCOSS, PSU opines that the Company’s Average ACCOSS is a balanced and fair cost of service study on which to base revenue allocation because it equally weighs the Company’s Customer-Demand ACCOSS, which generally favors industrial class customers, and the Company’s P&A ACCOSS, which generally favors the residential class. PSU Exc. at 5 (citing CG St. 11 at 3-11). Despite testimony dismissing the Customer-Demand ACCOSS, PSU contends that it is a valid, National Association of Regulatory Utility Commissioners (NARUC) recognized methodology and cannot be dismissed or ignored. PSU Exc. at 5 (citing PSU St. 1-R at 6-9). PSU asserts that in rejecting the Customer-Demand ACCOSS, the ALJ “incorrectly found that the Company’s studies contained flaws, appearing to adopt the OCA’s position regarding the allocations of mains based on average throughput and entirely disregarding the customer component related costs in distribution mains allocation that the OCA incorrectly alleges skew the results of the Company’s Average Study.” PSU Exc. at 5 (citing R.D. at 309). Accordingly, PSU claims the ALJ ignored the long-standing basis under *Lloyd* for balancing the interest of all rate classes under established rate making principles. PSU Exc. at 5-6.

PSU also opines that the ALJ’s choice of the OCA’s P&A ACCOSS is not relevant to how Columbia incurs cost to provide service. PSU provides an elucidation of the paramount underlying disagreement concerning the various cost of service studies and methodologies in this proceeding:

The core issue driving the dispute between cost of service methodologies is the treatment of main costs. Mains and services account for approximately 87% of the Company’s gross plan investment and approximately 56% of O&M expenses. Thus, allocation of these items significantly influences the outcome of the cost of service studies. “With all three studies, the allocation of costs is essentially the same, with the exception of the allocation of mains.” The dispute centers on whether the costs of these mains should be allocated based on the number of customers and the peak day demand or the peak day design and the average throughput or a mix of the two.

PSU Exc. at 6 (citing CG St. 11 at 13; CG St. 11-R at 30). PSU then quotes from Columbia Witness Mr. Notestone’s Rebuttal Testimony on weighting factors used in the Company’s Customer-Demand ACCOSS and P&A ACCOSS:

The Customer/Demand Study weights the allocation of mains using a factor based on the number of customers (Customer) and the company’s peak day design (Demand). This method recognizes the customer number component of mains.

In the Peak & Average Study, the allocation of mains uses a factor weighting 50% to the Company’s peak day design (Peak), and 50% to the Company’s throughput (Average).

As stated above, the Average Study gives equal weight to the Customer/Demand and the Peak & Average methods.

PSU Exc. at 7 (citing CG St. 11-R at 3). Since 50% of mains costs in the P&A ACCOSS is based on throughput, PSU maintains that the results of the ALJ’s recommendation are not reflective of how Columbia incurs costs to provide service. PSU Exc. at 7 (citing CG St. 11-R at 19).

In light of the above, PSU concludes that the evidentiary record clearly shows the benefits of the Company’s Average ACCOSS in that it provides equal weight to the industry class which favors the Customer-Demand ACCOSS and the residential class which favors the P&A ACCOSS. Accordingly, PSU submits that the result produces the most appropriate and reasonable cost allocation without creating additional cross-class subsidization in violation of *Lloyd* and without forcing one rate class to pay rates at higher than balanced cost-of-service principles. PSU Exc. at 8. Therefore, PSU requests that the Commission reject the OCA’s P&A ACCOSS that was recommended by the ALJ and adopt Columbia’s Average ACCOSS for the revenue allocation purposes in this proceeding. PSU Exc. at 9.

#### Replies to Exceptions

The OCA, I&E and PSU each filed Replies to Exceptions in this proceeding, regarding this matter.[[76]](#footnote-77)

In its Replies, the OCA notes that Columbia, the OSBA, and PSU all argued that the Company’s Average ACCOSS, in some fashion, should be used to arrive at the ACCOSS that the Commission should approve here. However, the OCA asserts that the Company’s Average ACCOSS employs a method that previously has been rejected by the Commission because it contains a 50% weighting from the Company’s Customer-Demand ACCOSS, which allocates a portion of mains costs based on the number of customers.[[77]](#footnote-78) Conversely, the OCA argues that, as noted by ALJ Dunderdale in her Recommended Decision in footnote 656 on page 394, the Peak & Average method consistently has been accepted by the Commission for the allocation of distribution mains costs for NGDCs. Therefore, the OCA asserts that any ACCOSS method or argument proffered in this proceeding that includes a customer component for mains is unsupported by Commission precedent and must be rejected. OCA R. Exc. at 18-19.

I&E also filed Replies to the Exceptions filed by Columbia, the OSBA, and PSU, all of whom supported the Company’s Average ACCOSS and rejected the OCA’s P&A ACCOSS. I&E R. Exc. at 4-6. I&E submits that the ALJ appropriately adopted the OCA’s P&A ACCOSS because it is consistent with Commission precedent because it properly assigns mains investment by the throughput and not by customers. I&E R. Exc. at 5-6 (citing I&E M.B. at 92). Accordingly, I&E also submits that the ALJ properly rejected Columbia’s Average ACCOSS because it classifies distribution mains as partially customer related and partially demand related. I&E R. Exc. at 4.

In response to the OSBA’s Exception, in which it argued that the *2007 PPL Gas Order* serves as precedent for the Commission to adopt the Company’s Average ACCOSS because it is most like the A&E ACCOSS adopted in the *2007 PPL Gas Order*, I&E replies that the A&E ACCOSS in that case is not at issue here and should not be considered. I&E submits that as pointed out in its Main Brief, there is Commission precedent for the adoption of the Peak & Average method in the 1994 NFG base rate case.[[78]](#footnote-79) Accordingly, I&E is of the opinion that since the OSBA failed to support its position with Commission precedent, the Company’s Average ACCOSS should be rejected and the OCA’s P&A ACCOSS should be adopted because it is supported by Commission precedent.[[79]](#footnote-80) I&E R. Exc. at 5.

Next, I&E addresses PSU’s assertion in its Exceptions that the Company’s Average ACCOSS is a more balanced and fair cost of service study than the OCA’s P&A ACCOSS because it equally weighs both the Company’s P&A and Customer-Demand ACCOSSs among the residential class and industrial class customers compared to the OCA’s P&A ACCOSS, which PSU characterizes as a “lop-sided” rate structure that heavily subsidizes the residential class at the expense of other classes. I&E R. Exc. at 5 (citing PSU Exc. at 3; CG St. 11 at 3). I&E replies that it disagrees with PSU and asserts that it is reasonable for the Commission to examine alternative methods for cost allocation but, based on I&E’s analysis of the three allocated cost of service studies provided by the Company, I&E believed it was within the public interest to recommend the P&A ACCOSS. I&E R. Exc. at 5. While the Company, the OSBA, and PSU disagreed with the use of the P&A ACCOSS, I&E notes that it pointed out in its Main Brief that it is reasonable for the Commission to examine alternative methods for cost allocation, and that based on the studies proffered in this case, I&E remains of the opinion that, in general, any system must be designed to handle peak usage and year-long usage, and although mains serve customers, the type of an investment is properly determined by the throughput. I&E R. Exc. at 4-6 (citing I&E M.B. at 91-92). Therefore, I&E believes it is in the public interest that the Commission adopt the ALJ’s recommendation to use the OCA’s P&A ACCOSS to allocate the final revenue increases among different customer classes. I&E R. Exc. at 6.

### Disposition

Upon our review of the record in this proceeding and the Exceptions and Replies to Exceptions, we are not persuaded to reverse the ALJ’s Recommended Decision that adopted the OCA’s P&A ACCOSS and methodology in this proceeding. R.D. at 394-395.

PSU provided an accurate description on the crux of the dispute in selecting the appropriate ACCOSS in this proceeding:

The dispute centers on whether the costs of these mains should be allocated based on ***the number of customers and the peak day demand*** or ***the peak day design and the average throughput*** or ***a mix of the two***.

The Customer/Demand Study weights the allocation of mains using a factor based on the number of customers (Customer) and the company’s peak day design (Demand). This method recognizes the customer number component of mains.

In the Peak & Average Study, the allocation of mains uses a factor weighting 50% to the Company’s peak day design (Peak), and 50% to the Company’s throughput (Average).

As stated above, the Average Study gives equal weight to the Customer/Demand and the Peak & Average methods. 14 [Footnote omitted]

PSU M.B. at 6-7 (emphasis added).

In their Exceptions, Columbia, the OSBA, and PSU each support the adoption of ACCOSSs based on a weighting of the Company’s P&A ACCOSS and Customer-Demand ACCOSS.[[80]](#footnote-81) On the other hand, I&E and the OCA each supported the OCA’s P&A ACCOSS.[[81]](#footnote-82) Importantly, the weightings of the 50%/50% Average ACCOSS and the OSBA’s 75%/25% Study rely, in part, on the Customer-Demand ACCOSS. The Customer-Demand ACCOSS is the actual point of conflict here because it allocates distribution mains investments partially based on the number of customers and partially based on design day demands. *See* OCA St. 4 at 3-4. The other underlying study, the P&A ACCOSS, allocates mains investments based on 50% of the design day demands and 50% of annual, or average daily, demands of the customers in each class that are served by each of the categories of distribution mains. *See* OCA St. 4 at 6-7. For ease of reference, hereinafter, in this Opinion and Order, we shall designate those studies that incorporate some fashion of customer costs in their design as the “Contested Studies.” Thus, the Contested Studies at issue here are: (1) the Company’s Customer-Demand ACCOSS; (2) the Company’s 50%/50% Average ACCOSS; and (3) the OSBA’s 75%/25% ACCOSS.

We have thoroughly reviewed the respective advocates’ arguments in support of each of the studies before us. Based on our prior determinations on our preferred ACCOSS in natural gas proceedings, we believe that the P&A ACCOSS is best suited in this proceeding. In addressing the Parties’ Exceptions, we have reviewed the prior Commission Orders that have been submitted by the Parties in support of their views of Commission precedent in the discussion that follows.

In its Exceptions, Columbia cited to two PPL base rate proceedings in which it averred that the Commission determined that a proper ACCOSS should recognize both a customer component and a peak demand component of distribution plant.[[82]](#footnote-83) CG Exc. at 29. The OSBA cites to two gas cases involving PPL Gas and Philadelphia Gas Works from 2007 in which it argued that the present Commission precedent uses the Average & Excess ACCOSS.[[83]](#footnote-84) OSBA Exc. at 4.

On the other hand, in their replies to the Company’s and the OSBA’s Exceptions, I&E and the OCA argued that the Commission’s precedent does not support the inclusion of a customer cost component in ACCOS Studies. I&E R. Exc. at 5; OCA R. Exc. at 18. I&E and the OCA both cite to a 1994 rate proceeding involving National Fuel Gas Distribution Company (*NFGD 1994*) in which the Commission previously adopted the Peak & Average method.[[84]](#footnote-85) We also note that the ALJ based her recommendation on the *NFGD 1994* case. [[85]](#footnote-86) In addition, in its Main Brief, I&E cites to the *2007 PGW Order* in which we ruled that the allocation of distribution mains investment costs should be done using both annual and peak demands.[[86]](#footnote-87)

Based on our review of the Orders proffered by the Parties, regarding the OSBA’s position, we find that the Average & Excess is of no significance here in that none of the Parties have submitted this type of methodology for our consideration. Next, we reviewed the *2012 PPL Order* and the *2010 PPL Order* that were proffered by the Company in conjunction with *NFGD 1994.*  Although it is true that we approved an ACCOSS in these PPL Electric proceedings that included both a customer component and a peak demand component of distribution plant, we are not persuaded that it is appropriate in this natural gas proceeding. As the OCA noted in its Main Brief, comparing an electric distribution company (EDC) with a natural gas distribution company (NGDC) “is an apples-to-oranges comparison, [because] cost causation for EDCs and NGDCs are different.”[[87]](#footnote-88)

Based on our review of the record, and as noted by the ALJ, we have consistently used the Peak & Average methodology for the allocation costs for NGDCs. 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.

We are persuaded by the arguments presented by the OCA’s witness, Mr. Mierzwa, on pages 6-7 of the OCA’s Statement No. 4, and in the OCA’s Main Brief on pages 139-145, which we adopt herein, by reference, where he describes the faults of adopting the Customer-Demand ACCOSS. In the OCA’s Statement No. 4, Mr. Mierzwa explained that under the Customer-Demand method, “the distribution mains investment assigned to each category is allocated to rate class **partially based on the number of customers** and partially based on the design day demands of the customers in each rate class that are served by each of the categories of distribution mains ….” OCA St. 4 at 6-7 (emphasis added). In the OCA’s Main Brief, Mr. Mierzwa pointed out that the Customer-Demand ACCOSS uses “a minimum system approach where the entire distribution mains system is hypothetically comprised of only 2-inch pipe.” Mr. Mierzwa continued that, “[t]he goal of such a study is to attempt to assign costs based on merely connecting customers to the system, as opposed to supplying gas to customers – which is how the distribution system actually works on a day-to-day basis.” OCA M.B. at 140.

We note that this is virtually the same OCA argument we relied upon in *NFGD 1994*, where we rejected NFGD’s minimum system approach in that proceeding. In *NFGD 1994*, the OCA argued that NFGD’s preferred study is based on present engineering design with regard to the physical movement of gas, and thus, ignores the fact that distribution systems are an integrated network created over time to serve present and future loads.

In support of our decision in this proceeding, we believe it is worth repeating an excerpt from our Opinion and Order in *NFGD 1994* where we relied upon the OCA’s arguments as our premise to reject the Company’s proposed minimum system study that allocated a portion of mains costs based on the number of customers:

The OCA opposes NFG’s separated mains cost of service study for essentially the same reasons as does OTS [Office of Trial Staff]. OCA contends that NFG’s preferred study is based on present engineering design with regard to the physical movement of gas, and thus, ignores the fact that distribution systems are created over time to serve present and future loads. [Citations omitted] Specifically, the OCA states as follows:

NFGD’s small mains adjustment should be rejected because it fails to recognize that Distribution’s system is integrated both for operating and planning purposes. As an integrated system, Distribution will continue to change over time based upon the needs and revenues of both large and small customers. Thus, allocating distribution mains on the basis of size is not reasonable because the system was developed over time to serve accumulated loads and not to serve particular customers and their needs. As Mr. Ruback testified:

Distribution systems were not built according to a master design adopted at the formation of a retail distribution company. Rather, distribution systems are a series of improvements built upon each other and projects that are not cost effective at one point in time can become cost effective if new facilities are built for loads that are cost justified.

\* \* \*

The effect of the small mains adjustment is to allocate fewer costs to large customers because their services are connected to larger mains when the larger mains would not exist but for previous improvements or facilities made possible because of the revenue from all classes. . . . It would be a complete irony for small customers to be allocated more costs when their combined load may have justified the large mains from which the large customers attach their services.

1994 Pa. PUC LEXIS 134; 83 Pa. P.U.C. 262 at 91-92 (Docket No. R-00942991).

In light of the above, we remain of the opinion that although mains serve customers, it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served. The existence of one customer, five customers, or ten customers does not determine the amount of mains investment. Mains investment is driven by the loads placed upon it, not by the number of customers served.

Furthermore, distribution mains exist and are related to both annual demands and peak demands. Both annual and peak demands must be recognized in the allocation of distribution mains cost if the allocation is to be in accord with the principle of cost-causality. It is not reasonable to allocate distribution mains investment based solely on design peak day demands as in Columbia’s Customer-Demand ACCOSS. The basic reason Columbia invests in its distribution system is to meet the annual demands for gas by customers. Additionally, a portion of the total cost of distribution service is related to installing a system with enough throughput capacity to meet design peak demands in excess of annual demands.

In this proceeding, the Company presented two customer cost analyses, one that included the cost of mains, and one that excluded the cost of mains. This was done to acknowledge the Commission’s preference that no portion of fixed costs or depreciation expense associated with mains should be allocated to the customer cost function. Therefore, the acknowledgement that mains are not customer costs in the sub-set of costs known as the customer cost analysis (presented in CG Exh.111, Sch. 1), supports the idea that the allocation of mains should not be based on the number of customers.

For all these reasons, we find that the Peak & Average allocation methodology is the most appropriate allocation methodology to use in this proceeding because it is based on the premise of load-based investment. Accordingly, we shall deny Columbia’s Exceptions Nos. 18 and 19, and the OSBA’s Exception No. 1, and PSU’s Exception No. 1 as they relate to their respective ACCOSS arguments and adopt the OCA’s P&A ACCOSS as proffered by OCA Witness Mr. Mierzwa in OCA Statement No. 4, at 5‑33, and the OCA’s Main Brief, at 150-155.

## Revenue Allocation

### 1. Proposed Revenue Allocation and Alternatives

#### Positions of the Parties

Columbia submitted that under *Lloyd, supra,* cost of service is the “polestar” of utility rates and a proposed revenue allocation will only be found to be reasonable where it moves distribution rates for each class closer to the full cost of providing service. CG M.B. at 127-128. Therefore, regarding revenue allocation, Columbia submitted that it prioritized cost of service principles, while reflecting gradualism. CG R.B. at 90. Specifically, Columbia based the reasonableness of its proposed revenue allocation on the progress made by each rate class toward the system average rate of return, with no class receiving an increase significantly higher than the system average, meeting the goals of moving each class closer toward their respective costs of service, while mitigating extreme impacts. CG St. 3 at 31-35.

As discussed above, Columbia selected its Average ACCOSS to guide its revenue allocation and rate design process. Columbia witness Melissa J. Bell explained how this ACCOSS was utilized in apportioning the requested increase among the classes with the intention of moving each rate class toward parity with the system average rate of return.[[88]](#footnote-89) The elimination of any increase for the MLS/MLDS rate class is the Company’s effort to lower the relative rate of return for this class, which, according to the Company’s ACCOSSs, is currently generating revenue that is greater than its cost to serve. Additionally, as shown below, any increase to Flex, above what would be collected through the increased customer charges to SGSS2/SCD2/SGDS2, SDS/LGSS, and LDS/LGSS customer classes, was also shifted to all other rate classes.[[89]](#footnote-90)

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| **Columbia’s Proposed Revenue Distribution** | | | | |
| **Class** | **Present Rates** | **Proposed Rates** | **Increase** | **Increase**  **Percent** |
| RSS/RDS | $292,185,976 | $366,175,904 | $73,989,928 | 25.3% |
|  |  |  |  |  |
| SGSS1/SCD1/SGDS1 | $33,641,932 | $42,257,254 | $8,615,322 | 25.6% |
|  |  |  |  |  |
| SGSS2/SCD2/SGDS2 | $38,608,596 | $48,498,186 | $9,889,590 | 25.6% |
|  |  |  |  |  |
| SDS/LGSS | $21,768,524 | $27,490,845 | $5,722,321 | 26.3% |
|  |  |  |  |  |
| LDS/LGSS | $15,319,132 | $19,486,818 | $4,167,686 | 27.2% |
|  |  |  |  |  |
| MLS/MLDS | $550,482 | $550,482 | $0 | 0.0% |
|  |  |  |  |  |
| Flex | $4,877,848 | $4,891,965 | $14,117 | 0.3% |
| **Total** | **$406,952,490** | **$509,351,454** | **$102,398,964** | **25.2%** |

*See* CG Exh. 103, Sch. 8 at 4.[[90]](#footnote-91)

Columbia averred that its proposed revenue allocation among the individual rate classes, ranging from a zero increase for the MLS/MLDS rate class to a 27.2 percent increase for the LDS/LGSS rate class, is reasonable and properly moves the rates of return for all classes closer to the overall system average rate of return, as demonstrated by the following indexed relative rates of return by customer class at present and proposed rates:

|  |  |  |
| --- | --- | --- |
| **Columbia’s Relative Rates of Return**  **(Average ACCOSS)** | | |
| **Class** | **Under**  **Present Rates** | **Under**  **Proposed Rates** |
| RSS/RDS | 0.97 | 1.00 |
| SGSS1/SCD1/SGDS1 | 1.04 | 1.03 |
| SGSS2/SCD2/SGDS2 | 1.79 | 1.55 |
| SDS/LGSS | 1.72 | 1.52 |
| LDS/LGSS | 0.83 | 0.86 |
| MLS/MLDS | 16.75 | 10.20 |
| Flex | (0.67) | (0.41) |
| **Total** | **1.00** | **1.00** |

*See* CG Exh. 111, Sch. 3 at 1-2. Columbia explained its effort to strike a balance between competing rate design goals of fairness and gradualism, contending the LDS/LGSS class remained below the system average rate of return, under the Average ACCOSS, even when allocated the highest percentage increase (27.2%) among the classes. CG St. 3 at 34-35. Additionally, Columbia explained that, to the extent the allowed increase is less than that proposed by the Company, Columbia proposes to use its revenue allocation and rate design to scale back rates proportionally. CG St. 3-R at 16.

In their respective Briefs I&E, the OCA, the OSBA, CII, and PSU each presented alternative and conflicting recommendations for how to allocate revenue to the various customer classes. I&E M.B. at 95; OCA M.B. at 155-158; OSBA M.B. at 15-19; CII M.B. at 15-17; PSU M.B. at 14. However, the OCA and the OSBA are the only Parties that presented their own proposed allocation of revenue to the rate classes.[[91]](#footnote-92) OCA St. 4 at 35; OSBA M.B. at 18.

I&E recommended that revenue be allocated in accordance with the Company’s P&A ACCOSS. I&E St. 3 at 16. However, in the event that the Commission grants less than the Company’s requested increase, I&E recommended that all customer charges and usage rates that have been proposed as an increase be scaled back proportionally based on the ACCOSS that is ultimately approved by the Commission. I&E St. 3 at 24.

The OCA contended that Columbia’s proposed revenue allocation is unreasonable because it was guided by the results of its Average ACCOSS, which merely incorporated the unreliable results of the Company’s P&A and Customer-Demand ACCOSSs due to the flaws of each identified by the OCA’s witness, Mr. Jerome D. Mierzwa. OCA St. 4 at 34. In the alternative, the OCA argued that its P&A ACCOSS should be used to allocate any revenue increase for the following reason:

First, I maintained the Company’s proposal for the distribution of the revenue increase to the MLDS and flex classes. As indicated in Table 5, the indicated rates of return at present rates for the SDS/LGSS and LDS/LGSS classes were less than the system average return. I assigned a 1.5 times system average increase to each class. For the SGSS1/SCDS1/SGDS1, and SGSS2/SCD2/SGDS2 classes, I assigned an increase which was 1.25 times the system average increase. This recognizes that at present rates the return for each of these classes is close to the system average return, and provides a contribution to offset the revenue deficiency of the SDS/LGSS and LDS/LGSS classes whose increases were capped at 1.5 times the system average increase. I assigned the remainder of CPA’s requested increase to the RSS/RDS class.

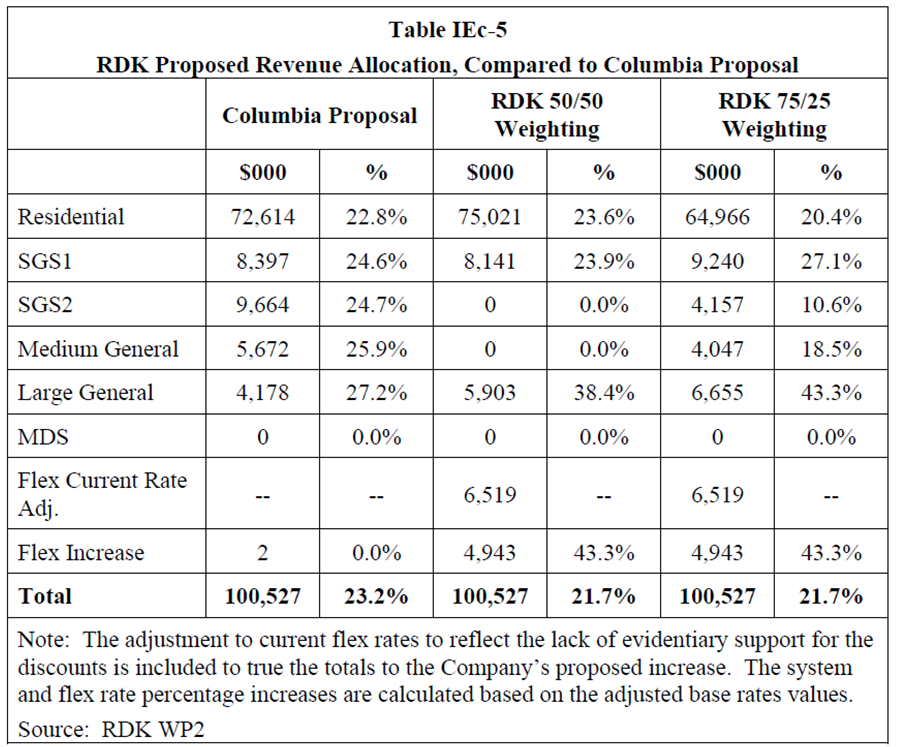
OCA St. 4 at 35-36.

In place of Columbia’s proposed revenue distribution, the OCA presented its own proposal for revenue distribution shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **OCA’s Proposed Revenue Distribution** | | | | |
| **Class** | **Present Rates** | **Proposed Rates** | **Increase** | **Increase**  **Percent** |
| RSS/RDS | $292,185,976 | $354,799,715 | $62,613,739 | 21.4% |
|  |  |  |  |  |
| SGSS1/SCD1/SGDS1 | $33,641,932 | $43,732,252 | $10,090,320 | 30.0% |
|  |  |  |  |  |
| SGSS2/SCD2/SGDS2 | $38,608,596 | $50,188,581 | $11,579,985 | 30.0% |
|  |  |  |  |  |
| SDS/LGSS | $21,768,524 | $29,603,438 | $7,834,914 | 36.0% |
|  |  |  |  |  |
| LDS/LGSS | $15,319,132 | $20,832,785 | $5,513,653 | 36.0% |
|  |  |  |  |  |
| MLS/MLDS | $550,482 | $550,482 | $0 | 0.0% |
|  |  |  |  |  |
| Flex | $4,877,848 | $4,891,965 | $14,117 | 0.3% |
| **Total** | **$406,952,490** | **$504,599,218** | **$97,646,728** | **24.0%** |

*See* OCA St. 4 at 34.[[92]](#footnote-93) Additionally, the OCA submitted that, if less than the full proposed revenue increase is granted, then a proportional scale back should be used to implement the increase for each rate class.[[93]](#footnote-94) OCA St. 4 at 36.

As discussed in the previous section, the OSBA generally agreed that Columbia’s Average ACCOSS, with some modifications, is suitable for allocating the cost of distribution mains. However, regarding revenue allocation, the OSBA argued that Columbia’s revenue allocation proposal has serious flaws and even failed to follow its own Average ACCOSS in presenting its revenue allocation proposal. OSBA M.B. at 16‑19. The OSBA offered two alternative revenue allocation proposals, particularly questioning the proposed increases to the SGSS2/SCD2/SGDS2 and SDS/LGSS classes. The OSBA’s witness, Mr. Knecht, provided the following chart, comparing Columbia’s allocation proposal using the Average ACCOSS to the OSBA’s corrected allocation using the Average ACCOSS weighted at 50/50 and the OSBA’s proposed allocation using the Average ACCOSS but weighted 75% based on the Company’s P&A ACCOSS and only 25% based on its Customer-Demand ACCOSS. OSBA M.B. at 18.



*See* OSBA St. 1 at 30.[[94]](#footnote-95) Specifically, the OSBA’s analysis: (1) included $6.5 million in Flex rate revenues the Company currently foregoes in its negotiated rates as current-rates revenue; (2) limited the increase to any rate class to be no more than 2.0 times the system average, reflecting the principle of gradualism; (3) eliminated the rate reductions implied for the SGSS2/SCD2/SGDS2 and SDS/LGSS classes (*i.e*., set the increases to zero) in the Company’s 50/50 weighted calculation;[[95]](#footnote-96) and (4) reallocated the net revenue shortfall, resulting from the aforementioned adjustments, to the remaining classes on the basis of overall allocated cost. OSBA St. 1 at 27-28. Accordingly, the OSBA recommended the Commission adopt its recommended revenue allocation based on the 75/25 weighting approach. However, if the Commission approves the Company’s approach, the OSBA submitted its revenue allocation based on the 50/50 weighting that is more consistent with the implications of the Company’s ACCOSS than the Company’s revenue allocation proposal. OSBA M.B. at 19.

#### Recommended Decision

ALJ Dunderdale concluded that “[b]ecause Columbia Gas’ proposed revenue allocation is based on the results of its Average [AC]COSS, which the ALJ recommended the Commission should determine is unreasonable, the Company’s proposed revenue allocation is likewise unreasonable and not a clear reflection of the costs to Columbia Gas for providing service to the various customer classes.” R.D. at 395. Accordingly, the ALJ recommended that the OCA’s revenue allocation should be adopted. Furthermore, the ALJ recommended the Commission order a proportional scale back of rates if less than the full increase is granted. R.D. at 396.

#### Exception and Replies

##### Columbia Exception No. 20

In its Exception No. 20, Columbia submits that the Commission should reject the ALJ’s recommended adoption of the OCA’s proposed revenue allocation, in favor of the Company’s proposed revenue allocation, because it relies upon the OCA’s flawed P&A ACCOSS. Columbia argues that a revenue allocation based on the OCA’s P&A ACCOSS would be inconsistent with *Lloyd*, as well as revenue allocations achieved through settlements of prior Columbia rate cases. Columbia points to its Exception Nos. 18 and 19, which explain its contention that the ALJ’s conclusions regarding the proposed ACCOSSs are erroneous, and therefore should not be relied upon to select a revenue allocation. CG Exc. at 32-33.

Columbia contends that under the OCA’s P&A ACCOSS, revenue allocation to the Small C&I (SGSS1/SCD1/SGDS1, SGSS2/SCD2/SGDS2, and SDS/LGSS rate classes) and Large C&I (LDS/LGSS rate class) customers is the driver behind the limited amount of revenue allocated to the residential class (RSS/RDS) because, according to the OCA’s P&A ACCOSS, Columbia’s larger customers are far below their share of revenue recovery responsibility. Thus, Columbia asserts that the ALJ’s recommended revenue allocation falls short of recovering the actual cost to serve the residential class from customers in that class and would result in an unfair shifting of costs outside of the residential class. CG Exc. at 32-33. The Company restates its position that its revenue allocation proposal appropriately reflects movement toward the class cost of service, reflected in its Average ACCOSS, while considering other factors such as fairness and gradualism. CG Exc. at 34.

Additionally, Columbia argues that the ALJ’s revenue allocation recommendation is merely an attempt to minimize a rate increase to residential customers during the COVID-19 pandemic, contending that a more appropriate solution would be to implement a phase-in of the approved revenue increased based on Columbia’s proposed revenue allocation. CG Exc. at 33-38. Columbia notes that recent base rate proceedings before the Commission have resulted in the approval of settlements that included phased-in revenue increases that are not consistent with “traditional ratemaking models.” *See* *Pa. PUC v. UGI Utilities, Inc – Gas Division*, Docket No. R-2019-3015162, *et al*. (Order entered October 8, 2020) (*UGI Gas*); *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2020-3017206, *et al*. (Order entered November 19, 2020) (*PGW*).

Specifically, Columbia states that it would be willing to accept a two-part phase-in method for implementing the full amount of the Commission-approved increase, with 50% of the approved rate increase taking effect on January 23, 2021, the statutory suspension date, (Phase 1) and the remaining 50% of the approved rate increase taking effect on July 1, 2021 (Phase 2).[[96]](#footnote-97) CG Exc. at 35. Pages 36 through 38 of Columbia’s Exceptions contain an example of how the Company’s phase in proposal might be implemented at the revenue requirement of $76.8 million, which considers the concessions set forth in its Exceptions. The Company contends that this phase-in alternative revenue program appropriately balances the Company’s need to continue funding its critical infrastructure replacement and safety work, while also considering the economic effect of COVID-19 on its customers. CG Exc. at 38.

##### OSBA Exception No. 1 and PSU Exception No. 1

In their Exceptions, the OSBA and PSU maintain their arguments regarding revenue allocation, paralleled by their Exceptions discussed above (OSBA Exc. No. 1; PSU Exc. No. 1), which take issue with the ALJ’s reasoning for recommending that the OCA’s P&A ACCOSS be used in guiding revenue allocation in this proceeding. The OSBA’s and PSU’s revenue allocation arguments, guided by their respective preferred ACCOSS, as discussed in the previous section, are substantially aligned with Columbia’s revenue allocation based on the Company’s Average ACCOSS. As previously discussed, both Parties argue that the OCA’s P&A ACCOSS is simply too favorable to the small customer classes at the expense of Columbia’s larger customer classes, contending that guiding revenue allocation based on such an uneven ACCOSS (one that heavily subsidizes the smallest customer classes) will cause Columbia’s larger customers to experience rate increases exceeding the system average, constrained only by the principles of rate gradualism and the industrial customers’ ability to demand negotiated rate discounts. As the Parties positions, as well as the ALJ’s recommendation on this issue, including the Exceptions thereto, have been extensively discussed and addressed in the previous section, they will not again be addressed here.

##### OCA’s Replies

In its Replies to Exceptions, the OCA argues that Columbia’s attempt to show that the ALJ’s recommended revenue allocation is inconsistent with *Lloyd*, based solely on a comparison of the results with its own proposed revenue allocation is without merit. The OCA maintains that Columbia’s proposed revenue allocation, based on its Average ACCOSS, which includes a customer component for mains costs, is inconsistent with Commission precedent and should be rejected, as should Columbia’s misplaced *Lloyd* argument and its attempt to compare revenue allocations included in past settlements to those presented in the instant fully-litigated proceeding. OCA R. Exc. at 19-20.

Similarly, the OCA rejects Columbia’s attempt to introduce its phase-in approach during the Exceptions stage of this matter, as it is a brand-new proposal denying the OCA and all Parties adequate notice and a meaningful opportunity to respond. OCA R. Exc. at 20. Additionally, the OCA argues that the Company’s misguided reliance on *UGI Gas* and *PGW Rate Order* should be rejected, as those matters involved broad-ranging provisions which included robust COVID-19 relief plans, low-income customer relief, stay-out provisions, and a host of other customer benefits. The OCA argues that the Company’s proposal shares none of those attributes, adding that those cases were the result of extensive settlement negotiations and compromise on all sides. OCA R. Exc. at 21.

#### Disposition

After an appropriate cost of service study has been adopted, the rate design involves two primary steps. The first step is the determination of inter-class rates, which involves the assignment of the revenue requirement between the various customer classes. The second step is the allocation of any class rate increase (or decrease) among the various intra-class rate elements. In this second step, we must examine the manner in which the class revenue requirement will be collected from customers.

Therefore, based upon our prior determination and discussion, *supra*, with respect to the rejection of the Company’s Average ACCOSS, in favor of the OCA’s P&A ACCOSS, we agree with the ALJ that the OCA’s proposed revenue allocation should be approved. As the OCA’s revenue allocation recommendation is based upon its P&A ACCOSS, which we have accepted, we conclude that its allocation proposal should similarly be accepted. As discussed in the previous section, if all customers were the same size and had identical usage characteristics, cost allocation would be simple, even unnecessary. However, in reality, a utility’s customer base is not so simple. Customers, or customer groups, tend to vary greatly in the amount of service required throughout the year such that there are small usage and large usage customers. Therefore, differences in usage should be considered. Because different groups of customers also utilize the system at varying degrees during the year, consideration should also be given to the demands placed on the system during peak usage periods.

Before us are essentially four divergent positions regarding the appropriate distribution of the Company’s requested revenue increase among its customer classes, with the actual numbers to be based on the proportionate adoption of the actual revenue requirement approved. The methods that were employed by each Party in consideration of their respective proposals are similar, in that they each utilized cost guidelines in evaluating class revenue levels.

With regard to rate class revenue levels, the rate of return results show that certain rate classes are being charged rates that recover less than their indicated costs of service. As a result, rates for other rate classes provide for recovery of more than the indicated costs of serving these other rate classes. By adjusting rates in accordance with each Parties’ preferred ACCOSS results, the Parties attempted to bring each rate class revenue level closer in line with the indicated costs of service, resulting in movement of rate class rates of return toward the system average rate of return and resulting in rates that are more in line with the cost of providing service. However, the results of an ACCOSS are not always relevant to all types of service, as is the case in the instant proceeding. In particular, this situation applies to Columbia’s Flex rate class customers, where rates are based on their competitive characteristics.

While we agree that it is acceptable to utilize a range of ACCOSS results when establishing a cost basis for setting class revenues and rates, as well as reflect non-cost considerations, such as gradualism and rate classes consisting of customers with negotiated rates, we emphasize the importance of a utility’s ACCOSS to stand on its own objective merits. Although revenue allocation among the rate classes should be based on a balancing of the cost of service and non-cost considerations, it should not relieve the Company’s responsibility to present ACCOSSs that properly reflect the cost causative characteristics of its customers. Furthermore, regarding CII’s argument that the LDS/LGSS rate class should receive no more than the system average increase based on anticipated impacts to large commercial and industrial customers as a result of the COVID-19 pandemic (CII M.B. at 15-17), we recognize the possibility of declining economic activity; however, the effects of the current pandemic on future customer usage and demand for large commercial and industrial customers have not been demonstrated in this record. Therefore, we decline at this time to reflect speculative declines in annual usage and peak demands in either the allocation of revenues by customer class or the ACCOSS by which the allocation is guided for the LDS/LGSS customer rate class.

As illustrated in the following table, we find that the OCA’s revenue allocation proposal is consistent with *Lloyd* and moves all rate classes, with the exception of rate class SGSS1/SCD1/SGDS1 (which moves from a relative rate of return of 0.98 at current rates to a relative rate of return of 1.05 at proposed rates), closer to the cost of service in a reasonable manner. This negligible amount of movement away from its cost of service is due to the assignment of an increase equal to 1.25 times the system average increase to the small commercial and industrial customers (SGSS1/SCD1/SGDS1 and SGSS2/SCD2/SGDS2 rate classes), which provides an offset to the revenue deficiency of the SCD/LGSS and LDS/LGSS classes whose increases were capped in order to reflect gradualism.

|  |  |  |
| --- | --- | --- |
| **Relative Rates of Return Under OCA’s Proposal**  **(OCA ACCOSS)** | | |
| **Class** | **Under**  **Present Rates** | **Under**  **Proposed Rates** |
| RSS/RDS | 1.34 | 1.24 |
| SGSS1/SCD1/SGDS1 | 0.98 | 1.05 |
| SGSS2/SCD2/SGDS2 | 1.11 | 1.10 |
| SDS/LGSS | 0.85 | 0.98 |
| LDS/LGSS | 0.05 | 0.33 |
| MLS/MLDS | 16.33 | 9.94 |
| Flex | (0.91) | (0.55) |
| **Total** | **1.00** | **1.00** |

*See* OCA St. 4 at 30, 35.

Additionally, we find the OCA’s revenue allocation proposal considers the principle of gradualism, and that the way gradualism is factored into the proposal results in revenue allocations to the customer classes that are consistent with the record evidence in this proceeding regarding the impact of the COVID-19 pandemic on residential customers in particular. *See* R.D. at 48; *see also* OCA St. 1-S, Schs. SJR-1 and SJR-6S; CAUSE-PA M.B. at 11-24. The record indicates that although there are no definitive rules for determining what kind of rate increase would violate the principle of gradualism, limiting the maximum average rate increase for any particular class to 1.5 to 2.0 times the system average increase is one common metric that has been used by experts in the Commonwealth. OSBA St. 1 at 28. The OCA’s proposal applies the largest percentage increase to the large commercial and industrial customer classes (SDS/LGSS and LDS/LGSS), which is capped at 1.5 times the system average increase (36% increase for the Large C&I classes over 24% for the system average). Nonetheless, we note that even with the 36% increase that the Large C&I customers will experience under the OCA’s proposal, the revenue recognition from those classes are still shown to be below their cost to serve and therefore continue to be subsidized by other rate classes. Therefore, we do not consider the OCA’s proposal to be unreasonable, especially in the midst of this pandemic. Accordingly, we shall deny Columbia’s Exception No. 20 and OSBA Exception No. 1 and PSU Exception No. 1 as they relate to their respective arguments on revenue allocation. Furthermore, since we have not granted the entirety of Columbia’s requested revenue increase, it will be necessary for the Company to proportionately scale back the increase to the various customer classes, based on the OCA’s recommended revenue allocation and ACCOSS, when filing its compliance tariff(s).

With regard to Columbia’s phase-in proposal, it is important to note, as Columbia stated in its Exceptions on pages 30-38, that this Commission is not statutorily authorized to order a phase-in of a rate increase, without the utility’s consent.[[97]](#footnote-98) As noted, the Parties were not able to achieve a settlement in this case to phase in rates as other utilities have done during the COVID-19 pandemic. Furthermore, the ALJ criticized Columbia’s rate filing for not requesting a “stepped-up” approach to implementing an increase in rates. R.D. at 47.

Accordingly, because Columbia is aware of the economic repercussions that the COVID-19 pandemic is having on many of its customers, the Company offered, *in its Exceptions*, to phase-in increases to assist customers due to COVID, *only if*the Commission determines that Columbia’s phase-in alternative revenue program is an appropriate method to the ALJ’s recommended revenue allocation.[[98]](#footnote-99) The OCA argued that Columbia’s use of its Exceptions to introduce its phased-in proposal as a new matter must be rejected because the introduction of the phase-in proposal at the Exceptions’ phase, “with only 8 days to respond, no opportunity to investigate, analyze, conduct discovery or otherwise vet this proposal denies the OCA and all Parties adequate notice and a meaningful opportunity to respond.” OCA R. Exc. at 20.

As discussed, *supra*, we are adopting the OCA’s recommendation with regard to revenue allocation in lieu of the Company’s and other Parties’ proposed allocations. Thus, the Company’s proposal to offer a phase-in of the revenue increase is null and void, and the Exception on this issue is deemed moot. This is not to say, however, that the OCA and the Company cannot meet to consider a phase-in approach. After the record in this proceeding is closed, any of the opposing Parties to this rate proceeding may meet with the Company to negotiate a phase-in of the rate increases resulting from this Opinion and Order on a going-forward basis. If the negotiations are successful and the Parties have reached a reasonable agreement, the Parties may then petition the Commission for approval of their agreement. We commend the Company for offering a phase-in approach that would lessen the rate impact on its customers during the pandemic, and we encourage the Parties to meet with the Company, outside of the context of this rate proceeding, to pursue this matter for our future consideration.

### 2. Flex Customers

The Company’s tariff currently allows it to grant discount or “flex-rates” to certain customers who can show that they have a competitive alternative to the Company’s gas supply. The flex-rate provisions are described in Supplement No. 221 to Columbia Tariff Gas - PA P.U.C. No. 9, p. 68. I&E St. 3 at 5.

#### Positions of the Parties

In this proceeding, I&E Witness Ethan H. Cline requested that Columbia provide, in its next base rate case, an update to the Competitive Alternative Analysis[[99]](#footnote-100) for any customer who has not had its alternative fuel source verified for a period of ten years or more when Columbia files its next base rate case. According to I&E, this recommendation will ensure that each customer that receives service under flex rates is doing so for appropriate reasons. I&E St. 3 at 5-7; I&E M.B. at 96-99. In support of its position, I&E submitted that it is important to periodically analyze competitive alternatives to ensure that the rates of flex-rate customers are not discounted lower than is necessary to avoid the customer choosing the alternative supply. I&E argued that providing excessive discounts to customers is not in the public interest and would be harmful to both the Company and its other customers since the other customers make up the lost revenue that results when flex-rate customers pay less than tariff rates.[[100]](#footnote-101)

Columbia argued that I&E’s recommendation is not a prudent use of resources and should be rejected because I&E fails to recognize that Columbia cannot avoid its contractual obligations without consequence if circumstances change. CG M.B. at 147. The Company is of the opinion that I&E’s request is not necessary because the terms of its flex agreements typically do not extend beyond ten years, at which time competitive alternatives are verified as part of the normal renegotiation process. CG St. 1-R Redacted at 62.

Columbia further contended that it would be poor practice if Columbia broke an agreement because it may subject itself to potential breach of contract damages, and there would be little incentive for competitive customers to enter such agreements in the future if the Company was able to choose to no longer honor the agreement at any time when new information becomes available. R.D. at 264; CG R.B. at 90-91. For these reasons, Columbia argued it should be permitted to continue its current practice of reviewing competitive alternatives when contracts are set to expire rather than under arbitrary timeframes under I&E’s proposal. R.D. at 264.

#### Recommended Decision

The ALJ discussed this issue in several related sections of her Recommended Decision. *See* R.D. at 260-261; 292-293; 397. However, her recommendation on this issue, which will be discussed in this section, below, appears on page 397 of the Recommended Decision.

The ALJ concurred with the arguments advocated by I&E that Columbia should be required to provide, in its next base rate case, an update to the competitive alternative analysis for any flex customer who has not had their alternative fuel source verified for a period of ten years or more. R.D. at 397.

In this regard, the ALJ agreed with I&E that from time to time, the utility needs to investigate and analyze competitive alternatives to verify the flex rate is not discounted lower than necessary to avoid the customer choosing the alternative supply. The ALJ explained that the public interest is not served when a customer or customers receive excessive discounts because excessive discounts harm both Columbia and Columbia’s other customers who must make up the revenue lost when flex rate customers pay less than the tariffed rate. R.D. at 292 (citing I&E St. 3 at 6).

Alternatively, if the Commission grants Columbia’s request to consider all the elements in its base rate increase request, the ALJ recommended that the Commission require Columbia to provide an update to the Competitive Alternative Analysis for any customer that has not had its alternative fuel source verified for a period of ten years or more at the point at which Columbia files its next base rate case. R.D. at 397.

#### Columbia Exception No. 21 and Replies

In its Exception No. 21, Columbia avers that the ALJ erred in recommending that the Commission require Columbia to provide an update to the Competitive Alternative Analysis for any customer whose alternative fuel source has not been verified for a period of ten years or more when Columbia files its next base rate case, as requested by I&E. CG Exc. at 38 (citing R.D. at 397).

Columbia opines that the Recommended Decision fails to recognize that Columbia currently analyzes competitive alternatives and verifies that a flex rate is justified before the Company enters or renews a flex rate agreement. CG Exc. at 39 (citing CG M.B. at 146-47). Thus, Columbia submits that it already verifies competitive alternatives for flex rate customers when the Company has the option not to renew an expiring flex rate agreement or the ability to decline entering a new flex rate agreement. CG Exc. at 39.

Columbia is of the opinion that its existing process is effective because the Company has discontinued flex rates when it determines they are no longer justified upon expiration of the flex rate contract. *Id*. (citing CG M.B. at 145; CG R.B. at 90‑91). The Company asserts that requiring it to undertake an additional Competitive Alternative Analysis during the terms of existing flex contracts that are not yet up for renegotiation would serve no useful purpose and would be an imprudent use of resources. In light of the above, and for the reasons explained in its briefs, Columbia requests that the Commission reject the ALJ’s recommendation to require Columbia to undertake and submit a Competitive Alternative Analysis of the contracts in its next base rate case.

Notwithstanding the arguments proffered by the Company in its Exceptions, I&E maintains the same position it argued in its Main and Reply Briefs that it is important to periodically analyze competitive alternatives to ensure that the rates of the flex-rate customers are not discounted lower than is necessary to avoid the customer choosing the alternative supply. I&E R. Exc. at 6. I&E also reiterates its primary argument that providing excessive discounts to customers is not within the public interest and would be harmful to both the Company and its customers since other customers would have to make up the lost revenue that results when flex-rate customers pay less than tariff rates. *Id*. (citing I&E M.B. at 96). In addition, I&E avers that this analysis is needed to ensure that flex-rate customers make the maximum contribution to fixed costs. For the above reasons, I&E contends that the ALJ appropriately recommended I&E’s request that the Company provide, in its next base rate case, an update to its Competitive Alternative Analysis for any customer whose alternative fuel source has not been verified for a period of ten years or more when Columbia files its next base rate case. I&E R. Exc. at 7.

#### Disposition

Based on our review of the record in this proceeding, we are not persuaded by the Company’s arguments to reject the ALJ’s recommendation. Rather, we agree with the ALJ and I&E that it is important to periodically analyze competitive alternatives to ensure that the rates of the flex-rate customers are not discounted lower than is necessary to avoid the customer choosing the alternative supply. As I&E witness Mr. Cline indicated, this analysis is needed to provide an accurate and up-to-date analysis of competitive alternatives to show the flex rate is necessary and reasonable and to ensure that flex-rate customers make the maximum contribution to fixed costs. I&E St. 3-SR at 5. We especially agree with the ALJ and I&E that providing excessive discounts to customers is not in the public interest and would be harmful to both the Company and its customers, since the other customers would be required to make up the lost revenues when flex-rate customers pay less than tariff rates.

As noted, Columbia expressed concern that the submission of Competitive Alternative Analyses in its next base rate case may subject it to potential breach of contract damages and that there would be little incentive for competitive customers to enter such agreements in the future if the Company was able to choose to no longer honor the agreement at any time when new information becomes available. At the same time, Columbia stated that “[e]ven if Columbia were to discover that a flex rate was no longer justified due to a change in competitive alternatives, Columbia could not violate the contract by no longer offering the flex rate.” *See* CG R.B. at 90-91.

In response to Columbia’s concern, the intent of the Competitive Alternative Analyses requested by I&E is not to be used for purposes of canceling signed flex rate contracts. Rather, the purpose for submitting the requested Competitive Alternative Analyses is to provide the Commission, as the overseer of competitive utility services in the Commonwealth and the Company’s Tariff, with insight to the current competitive fuel alternatives available in the Company’s service territory and to ensure that the Company’s flex tariffs remain compatible with the current competitive environment at the time of the requested submissions of Competitive Alternative Analyses. In addition, we are of the opinion that the submission of Competitive Alternative Analyses for the specified flex rate contracts in the context of a base rate proceeding provides an ideal opportunity for review of this information and may eliminate the need for potential separate future investigation proceedings. Accordingly, the Company’s Exception on this matter is denied.

### 3. Allocation of Universal Service Costs

#### Positions of the Parties

Columbia proposed to continue its existing practice of assigning and recovering its Universal Service Program (USP) costs from residential ratepayers using a volumetric “Rider USP” charge. For the FPFTY, the Company forecasts that it will incur $26.73 million in universal service costs, or approximately $5.56 per month for a typical residential customer. CG St. 11 at 14; OSBA St. 1-R at 3.

Based on recent changes to the CAP Policy Statement and the language in the *Final CAP Policy Statement Order*, the OCA proposed that Columbia change its allocation of universal service costs so that those costs are paid by all customer classes, not just the residential class as Columbia proposes. OCA M.B. at 159. The OCA proposed that universal service charges be allocated to all ratepayers and between customer classes on a competitively neutral basis and that the allocation of universal service costs among customer classes be based on the percentage of revenue provided by each customer class at base rates. *Id*. at 159-60.

The OCA noted that while electric and natural gas universal service costs historically have been allocated to residential customers, this historic practice is not mandated by the law. The OCA pointed out that under the Electricity Generation Customer Choice and Competition Act (Competition Act), there is no specific requirement that universal service costs be allocated to only residential customers. *Id*. at 160-61. The OCA also submitted that the allocation of universal service costs is consistent with sound ratemaking principles. The OCA averred that since a well-accepted tenet of utility ratemaking is that certain expenses incurred by a public utility are for “public goods,” the costs of Columbia’s universal service program should be considered a “public good” and allocated across all customer classes. *Id*. at 176-80.

CAUSE-PA also proposed that Columbia should spread its universal service costs equitably across all rate classes because nonresidential customers contribute to the cost of and the need for the programs and derive a benefit from the programs. CAUSE-PA M.B. at 31. CAUSE-PA averred that Columbia’s arguments based on previous decisions from the Commission and the Commonwealth Court overlook the Commission’s recent directive in the *Final CAP Policy Statement Order* and misinterpret prior court decisions that have allowed for the recovery of public service program costs through rates. *Id*. at 33-34 (citing *Final CAP Policy Statement and Order* at 90; *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1024-25 (Pa. Cmwlth. 2006) (*Lloyd*)).

CAUSE-PA stated that *Lloyd* specifically authorized the recovery of similar public purpose program costs across rate classes. CAUSE-PA contended that collecting universal service costs from non-residential ratepayers is different from abandoning cost causation principles in favor of gradualism as occurred in *Lloyd* - requiring non-residential customers to stop bypassing universal service charges and to contribute their fair share of the universal service costs is squarely in line with the court’s holding regarding other public purpose programs. *Id*. CAUSE-PA also disagreed that requiring cross class recovery of universal service costs would place Columbia at an economic disadvantage or negatively impact its business, noting that Philadelphia Gas Works currently recovers universal service costs from all customers. CAUSE-PA M.B. at 36-37.

Columbia opposed allocating USP costs outside of the residential class. Columbia argued that the Commission and the Commonwealth Court have previously determined that USP costs should not be allocated outside of the residential class. CG M.B. at 147 (citing *Met-Ed Indus. Users Group v. Pa. PUC*, 960 A.2d 189 (Pa. Cmwlth. 2008) *(Met-Ed Indus. Users Group)*). The Company asserted the residential class is the class that benefits from the reduction in arrearages and collection costs, and, accordingly, the residential class should be the customer class that bears the costs of these programs. Columbia contended its C&I customers do not cause it to incur any costs in relation to residential customer arrearages and do not receive any reduction in costs as a result of reduced customer arrearages. CG M.B. at 147 (citing Columbia St. 1-R at 25).

Additionally, Columbia averred that the OCA and CAUSE-PA’s proposals would impose an obligation on the C&I customers that is not placed on the C&I customers of other Pennsylvania utilities. CG M.B. at 148 (citing CG St. 1-R at 23). As such, Columbia argued that the OCA and CAUSE-PA’s proposals are discriminatory and violate the neutrality requirements in the Competition Act, which prohibits unreasonable discrimination against one customer class for the benefit of another. CG M.B. at 148 (citing 66 Pa. C.S. § 2203(5)). By requiring only Columbia’s large C&I customers, and not the customers of other NGDCs, to contribute to the costs of these programs could also cause these customers to bypass Columbia where they have the option to do so. CG M.B. at 148. Moreover, Columbia stated that the OCA and CAUSE-PA’s proposals fail to take into account that universal service costs are recovered pursuant to a reconciled recovery mechanism, Rider USP. *Id*. (citing Columbia St. 1-R at 24). The vast majority of these costs are either CAP discounts or pre-program arrearage forgiveness, the amounts of which are outside the Company’s control. Columbia submitted that neither the OCA nor CAUSE-PA explained how the mechanism will be modified to account for class reconciliation of amounts to be recovered. CG M.B. at 148.

The OSBA stated that the Commission should adopt the USP recovery mechanism Columbia proposed. The OSBA noted that the Commission’s *Final CAP Policy Statement Order* was entered four months before the COVID-19 pandemic, and small businesses across the Commonwealth have been devastated by the pandemic and the resulting lockdowns. As a result, the OSBA argued it would be unconscionable for any USP charges to be imposed upon Columbia’s small business customers for the foreseeable future and requested that further consideration of this issue be deferred until Columbia’s small business and industrial customers are back on their feet financially. OSBA M.B. at 21.

#### Recommended Decision

The ALJ recommended that, if the Commission decides to consider all the elements in the Company’s base rate increase request, the Commission should reject the proposal from the OCA and CAUSE-PA that USP costs be distributed among all the classes. The ALJ stated that the OCA and CAUSE-PA’s arguments carry merit and were accompanied by a breadth of evidence presented from their experts. Nevertheless, the ALJ found that “[t]o consider the societal impacts of poverty and low income are slightly outside the bailiwick of a base rate proceeding, absent a clear directive from the Commission to consider these societal and macroeconomic theories in a base rate proceeding.” R.D. at 399. The ALJ reasoned that although the *Final CAP Policy Statement Order* does not prohibit the allocation of USP costs among the rate classes, more than silence is needed before the Commission should consider a regulatory issue that carries such wide-ranging policy implications within a base rate proceeding. *Id*.

#### Exceptions and Replies

##### OCA Exception No. 1

In its Exception No. 1, the OCA argues that the ALJ erred in determining that Columbia should not allocate universal service costs to all customer classes. OCA Exc. at 3. The OCA states that the Commission provided clear direction to consider this issue in a base rate proceeding in its recently updated CAP Policy Statement, as follows:

(b)  In rate cases, parties may raise the issue of recovery of CAP costs, whether specifically or as part of universal service program costs in general, from all ratepayer classes. No rate class should be considered routinely exempt from CAP and other universal service obligations.

OCA Exc. at 3 (citing 52 Pa. Code § 69.265(b)). The OCA explains that in the *Final CAP Policy Statement Order* accompanying the adoption of this provision, the Commission stated:

This Order amends the CAP Policy Statement as indicated in Annex A to address recovery of CAP costs. Consistent with the discussion above, the Commission finds it appropriate to consider recovery of the costs of CAP from all ratepayer classes. Utilities and stakeholders are advised to be prepared to address CAP cost recovery in utility-specific rate cases consistent with the understanding that the Commission will no longer routinely exempt non-residential classes from universal service obligations.

OCA Exc. at 4 (citing *Final CAP Policy Statement Order* at 97). Accordingly, the OCA believes that the Commission intended for this issue to be addressed in a base rate proceeding with full consideration of all arguments regarding the allocation. OCA Exc. at 4.

Additionally, the OCA believes that these programs should be examined as public goods. *Id*. at 5. The OCA notes that the *Final CAP Policy Statement Order* provided that “consistent with the comments of the Low Income Advocates and OCA, the Commission concludes that the General Assembly clearly identified the public purpose of these programs in the Competition Act by requiring that their costs be ‘nonbypassable’ when a customer switches energy providers.” *Id*. (citing *Final CAP Policy Statement* at 88-98). The OCA avers that in finding that “the societal impacts of poverty and low income are slightly outside the bailiwick of a base rate proceeding,” the ALJ overlooked that the doctrine of “public goods” applies to ratemaking proceedings. OCA Exc. at 5.

The OCA states that its witness Mr. Colton explained the concept of public goods and that the doctrine of public goods is applied in a variety of settings to spread designated utility costs over customer classes. For example, fire hydrants and the basic telecommunications network have been found to be “public goods” to justify spreading network costs over all customer classes. As Mr. Colton explained, the same conclusion should be reached about universal service costs, and the costs should be spread across all customer classes. *Id*. (citing OCA St. 5 at 52). OCA witness Mr. Colton recommended that the same conclusion be reached about universal service costs and that the costs be spread across all customer classes. OCA Exc. at 6 (citing OCA St. 5 at 52-56). Mr. Colton also testified that the Commission should adopt the National Regulatory Research Institute definition of “public goods.” Mr. Colton further testified that because the public benefits of Pennsylvania’s universal service programs, such as CAP, are hard to quantify, universal service should be found to be a public good with costs allocated to all ratepayers. OCA Exc. at 6 (citing OCA St. 5 at 52-54).

Further, the OCA avers that the Commission has recognized that there is no statutory provision or appellate law that limits the recovery of universal service costs to recovery from the residential class. OCA Exc. at 8 (citing *Final CAP Policy Statement Order* at 92-93, citing *M**EIUG v. Pa. PUC (MEIUG)*, 960 A.2d. 189, 202 (Pa. Cmwlth. 2008); *L**loyd*. Accordingly, the OCA argues that the ALJ’s reasoning for denying the OCA and CAUSE-PA’s proposal to allocate universal service costs to all customers is not consistent with the Commission’s CAP Policy Statement, the *Final CAP Policy Statement Order*, or the doctrine of “public goods.” OCA Exc. at 8. The OCA also argues that the ALJ’s recommendation does not consider the wide-ranging benefits of the universal service programs that Mr. Colton discussed. *Id*. (citing OCA St. 5 at 34-57). The OCA submits that the Commission should reject the ALJ’s determination to delay this issue or to retain the current allocation and should, instead, consider this issue in the instant case and find that Columbia’s universal service costs should be allocated to all customer classes.

The OCA cites to the following evidence in support of its position:

▪ In Columbia’s service territory, 53,918 customers with income at or below 150 percent of the Federal Poverty Level (FPL) do not participate in CAP, and there are an additional 33,124 customers between 151-200% of the FPL who are ineligible for the program but pay the costs of the program. As OCA witness Colton testified, “allocating universal service costs over all customer classes would help improve the affordability of CGPA bills to these nearly 90,000 residential customers (53,918 + 33,124 = 87,042 who are reasonably viewed as income-challenged, but not participating in, or not eligible for, CGPA’s universal service programs.” OCA St. 5 at 30-33; see also, OCA M.B. at 165.

▪ Poverty is not just a residential customer class problem. Broad economic factors throughout the Columbia Gas service territory contribute to low-income customers’ inability-to-pay. These factors are not limited to residential customer class. See, OCA St. 5 at 34-39; OCA M.B. at 166‑169; OCA R.B. at 73-74.

▪ Universal service programs provide an economic benefit to businesses. OCA St. 5 at 40-51; OCA M.B. at 169‑176. Universal service programs are often provided to low wage earners. OCA St. 5 at 34-39; OCA M.B. at 174‑176.

▪ The programs help to address the financial stressors that impact overall employee productivity for these low wage earners and help to support the local economies of the Columbia service territory. OCA St. 5 at 45-51; OCA M.B. at 169-176.

▪ In addition to addressing utility payment problems, home energy affordability programs can help address trends toward housing abandonment, reductions in educational attainment, and adverse health outcomes for payment-troubled utility customers. OCA St. 5 at 42-43; OCA M.B. at 171; see also, OCA St. 5 at 44-47.

▪ Universal service programs help to control the need to provide local government services, the cost of which is largely borne by non-residential taxpayers. There is a direct connection between unaffordable home energy bills and the costs of providing public health services. OCA St. 5 at 42-43; OCA M.B. at 171; see also, OCA St. 5 at 44-47.

▪ Programs have the effect of improving business profitability by reducing business costs, including reducing absenteeism and turnover, and increasing employee productivity. OCA St. 5 at 57; see also, OCA St. 5 at 49-50; OCA M.B. at 174-176.

▪ Allocation of universal service costs is consistent with sound ratemaking principles. One well-accepted tenet of utility ratemaking is that certain expenses incurred by the public utility are for “public goods.” The costs of Columbia’s universal service program should be considered a “public good” that should be allocated across all customer classes. OCA St. 5 at 52-56; OCA M.B. at 176-182; OCA R.B. at 73‑74.

OCA Exc. at 9.

The OCA recommends that universal service charges be allocated between customer classes on a competitively neutral basis. *Id*. at 10 (citing OCA St. 5 at 58; OCA M.B. at 181-82; OCA R.B. at 66-67). Mr. Colton testified that the allocation should be based on the percentage of revenue provided by each customer class at base rates. Mr. Colton explained the cost impact on each customer class of the proposed allocation of universal service costs. OCA Exc. at 10. He testified as follows:

Given that the future expenditures on [Columbia’s] universal service programs are not now known and measurable, I estimate the cost impacts of my recommendation using the past two complete years. [Columbia] reports that it collected $32,333,857.91 in Universal Service Revenues in 2018. [Columbia] reports that it collected 9,215,919.18 in Universal Service Revenues in 2019. (OCA-IV-17). The distribution of 2018 and 2019 Universal Service Revenues, had this allocation been in effect for those two years, is presented in Schedule RDC-4. I note that it is the percentage of allocation that I recommend, not the dollar allocation. Should the dollar of revenue at base rates differ based on the decisions in the proceeding, the percentages would change accordingly.

*Id*. at 10-11 (citing OCA St. 5 at 58; OCA M.B. at 181). For all of these reasons, the OCA submits that the Commission should adopt the OCA and CAUSE-PA’s proposal to allocate the costs of universal service programs to all customers.

##### CAUSE-PA Exception No. 2

In its Exception No. 2, CAUSE-PA contends that the ALJ erred as a matter of law by not directing Columbia to equitably recover universal service costs across all rate classes. CAUSE-PA Exc. at 8. CAUSE-PA states that the Competition Act expressly states that the Commission must ensure universal service programs are “appropriately funded and available” to ensure that low-income customers can “maintain natural gas service” to their homes. *Id.* (citing 66 Pa. C.S. §§ 2202, 2203(7) and (8)). CAUSE-PA explains that, in turn, the Competition Act authorizes the recovery of public purpose program costs, including universal service program costs, through a nonbypassable rate mechanism. CAUSE-PA Exc. at 8-9 (citing 66 Pa. C.S. § 2203(6)). CAUSE-PA argues that for two decades, commercial and industrial customers have been allowed to bypass universal service program costs, and it is critical that the Commission stop the inequitable assignment of universal service program costs solely to the residential class. CAUSE-PA Exc. at 9.

Similarly to the OCA, CAUSE-PA states that the Commission provided a clear directive to consider the allocation of universal service costs in base rate proceedings. *Id*. CAUSE-PA notes that in the *Final CAP Policy Statement Order*, the Commission stated that it is “appropriate to consider recovery of the costs of CAP from all ratepayer classes” and directed that “[u]tilities should be prepared to address recovery of CAP costs (and other universal service costs) from any ratepayer classes in their individual rate case filing.” *Id*. at 9-10 (citing *Final CAP Policy Statement Order* at 80). The Commission indicated that it “will no longer routinely exempt non-residential classes from universal service obligations.” CAUSE-PA Exc. at 10 (citing *Final CAP Policy Statement Order* at 7, 97; 52 Pa. Code §§ 69.625(1), 69.266(b)). CAUSE-PA acknowledges that while the Commission did not order utilities to propose a specific allocation, it expressly indicated that individual utility rate cases are the appropriate forum to consider the recovery of CAP costs from all ratepayer classes. CAUSE-PA Exc. at 10 (citing *Final CAP Policy Statement Order* at 7, 97). CAUSE-PA observes that in doing so, the Commission stated that “poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service are not just ‘residential class’ problems.” CAUSE-PA Exc. at 10 (citing *Final CAP Policy Statement Order* at 94).

CAUSE-PA discusses the testimony of its witness Mr. Miller who explained that universal service programs and other public purpose programsare designed to prevent far-ranging societal impacts by ensuring that all Pennsylvanians have access to basic human needs like heat and hot water. Mr. Miller testified that energy poverty is a societal problem caused by a myriad of external factors and can have far-ranging consequences on all aspects of public and private life. CAUSE-PA Exc. at 10 (citing CAUSE-PA St. 1 at 39-42.). Mr. Miller also testified that the majority of universal service program participants are either employed, but not being paid a wage adequate to afford basic household needs or are retired and not receiving enough in Social Security or retirement to afford basic life necessities. Thus, according to Mr. Miller, employers at least partially contribute to the cause of energy poverty because they do not pay their employees enough to cover basic expenses. CAUSE-PA Exc. at 10 (citing CAUSE-PA St. 1 at 39-40).

Additionally, CAUSE-PA believes that non-residential customers not only contribute to the cause of energy poverty, but they also benefit from universal service programs, and, therefore, it is fair that they contribute to fund the programs. CAUSE-PA Exc. at 10-11. For example, CAUSE-PA states that low-income customers faced with energy payment issues often experience heightened levels of stress, anxiety, and depression, and must take time away from work to arrange payments, locate or apply for assistance programs, and arrange for reconnection – all of which can undermine worker productivity and attendance and increase employee turn-over. *Id*. at 11. CAUSE-PA agrees with the Commission’s observation that, “[H]elping low-income families maintain utility service and remain in their homes is also a benefit to the economic climate of a community.” *Id*. (citing *Final CAP Policy Statement Order* at 94).

Further, CAUSE-PA asserts that particularly significant to the current proceeding is the importance of universal service programming to help mitigate the economic and public health impacts of the COVID-19 pandemic and to help reduce the burden on the health system. CAUSE-PA Exc. at 11 (citing CAUSE-PA St. 1 at 17, 41‑42). CAUSE-PA states that universal service programming, such as CAP and LIURP, help provide affordable service to low-income customers, which reduces the risk that they will forego food and medicine, keep homes at unsafe temperatures, or otherwise resort to unsafe heating alternatives. These programs help low-income customers maintain natural gas service, which is necessary for hot water to wash and sanitize and for heat for working/schooling from home; both of which are vital to helping curb the spread of disease, including COVID-19. CAUSE-PA avers that universal service programs benefit all utility consumers and the economy by helping to prevent the further spread of COVID-19 in low-income and minority communities. CAUSE-PA Exc. at 12 (citing CAUSE-PA St. 1 at 41-42). For these reasons, CAUSE-PA submits that it is neither just nor reasonable for Columbia to continue to recover its universal service costs exclusively from the residential class. CAUSE-PA Exc. at 12 (citing 66 Pa. C.S. § 2203(6); 66 Pa. C.S. § 1301; *Final CAP Policy Statement Order* at 94-97).

##### Replies

In its Replies to Exceptions, Columbia states that the ALJ properly determined that the Company’s existing practice of recovering USP costs from the residential class through Rider USP should not be changed. CG R. Exc. at 19. Columbia agrees with the ALJ that the issue of USP cost allocation should not be addressed in a utility’s base rate case. Columbia avers that the allocation of USP costs outside of the Residential class has far-reaching implications. Columbia notes that most Pennsylvania utilities, including those in Western Pennsylvania where Columbia operates, recover USP costs from the residential class. Accordingly, Columbia submits that the OCA and CAUSE-PA’s proposal would impose an obligation on Columbia’s C&I customers that is not placed on the C&I customers of other Pennsylvania utilities. Columbia believes that requiring only Columbia’s C&I customers, and not the C&I customers of competing natural gas distribution companies, to contribute to the costs of these programs could result in C&I customers bypassing Columbia where they have the option to do so. With fewer C&I customers, a greater portion of the Company’s revenue requirement would be recovered from all remaining customers, including residential customers. *Id*. at 20. Columbia also states that the OCA and CAUSE-PA’s proposal fails to account for how the revenue allocation would be adjusted for C&I customers with existing flex rate contracts that could not absorb the additional charge for USP costs. As such, Columbia contends that it is inappropriate to change the allocation of USP costs for customers of a single utility in a base rate case. *Id*. at 21.

In response to the OCA’s argument that the ALJ overlooked the “public goods” doctrine, Columbia states the OCA’s public goods theory does not support its proposed USP cost allocation. Columbia states that universal service programs were created to reduce costs for residential ratepayers related to customer arrearages and collections. Columbia also states that C&I customers do not cause Columbia to incur any costs related to residential customer arrearages and collections, nor do C&I customers benefit when these costs are reduced. Columbia asserts that allocating the costs of universal service programs outside of the residential class based on the OCA’s “public goods” theory would violate the principle of cost causation set forth in *Lloyd*, 904 A.2d at 1016-21. CG R. Exc. at 21.

Columbia continues that when considered in conjunction with the OCA’s revenue allocation proposal in this proceeding, allocating USP costs outside of the residential class would result in an even greater amount of revenue being allocated to C&I customers, contrary to the principles of fairness and gradualism. Columbia avers that under the OCA’s proposed revenue allocation, C&I customers would pay more than their fair share of the revenue increase, and the OCA and CAUSE-PA’s USP cost allocation proposal would exacerbate the OCA’s already inequitable revenue allocation. *Id*.

Further, Columbia responds to the OCA and CAUSE-PA’s argument that the word “nonbypassable” in 66 Pa. C.S. § 2203(6) means that all rate classes must pay for USP costs and that no customer can avoid these costs. Columbia argues that the Competition Act provides no support for the OCA and CAUSE-PA’s argument. CG R. Exc. at 22. Columbia states that the Commission and the Commonwealth Court have rejected the OCA and CAUSE-PA’s interpretation of the word “nonbypassable.” *Id*. (citing *Met-Ed Indus. Users Group*). According to Columbia, in *Met-Ed Indus. Users Group*, the Commission stated that a “nonbypassable” charge is one that is paid by all customers in a rate class regardless of whether the customers in that rate class shop or take default service. A “nonbypassable” charge does not imply that the charge must be paid by all rate classes. CG R. Exc. at 22.

In its Replies to Exceptions, the OSBA avers that the ALJ correctly recommended against allocating universal service costs to all customer classes. The OSBA respectfully requests that the Commission defer consideration of the allocation of universal service costs until Columbia’s small business and industrial customers have financially recovered from the COVID-19 pandemic. The OSBA indicates that in making its proposal, the OCA ignores the testimony of its own witness Mr. Rubin regarding the impact of the pandemic on small businesses. OSBA R. Exc. at 4 (citing OCA St. 1 at 16-17). The OSBA asserts that Columbia’s small business ratepayers have been devastated by the pandemic and adding this cost to their bills would be unjust and unreasonable at this time. OSBA R. Exc. at 4.

The OSBA next responds to the OCA and CAUSE-PA’s arguments relying on the Commission’s recently updated CAP Policy Statement. The OSBA explains its interpretation of the Commission’s reasoning for this possible change in CAP recovery and concludes that the OCA and CAUSE-PA’s proposal fails under the Commission’s “revenue and expense impacts” test. OSBA R. Exc. at 6, 7. The OSBA’s witness Mr. Knecht explained his interpretation of the Commission’s reasoning for this possible change in CAP cost recovery, as follows:

The Commission’s primary motivation for considering a change in the cost recovery method was not based on any identifiable change in regulatory philosophy or cost causation principles. The rationale for considering a change to the policy appears to be that the low-income assistance programs have become unaffordable to those residential customers who are ineligible or who otherwise do not participate in the programs.

OSBA R. Exc. at 6 (citing OSBA St. 1-R at 3; *Final Policy Statement Order* at 93). (citations omitted).

Additionally, the OSBA points out that in the Policy Statement, the Commission instructs that it will consider revenue and expense impacts when evaluating utility CAPs for ratemaking purposes. OSBA R. Exc. at 6 (citing

52 Pa. Code § 69.266(a)). The OSBA explains that to consider the “revenue and expense impacts” Mr. Knecht performed the follow calculation:

The current rates USP charge for residential customers is approximately 68 cents per Dth, or about $4.84 per non-CAP customer per month.

\* \* \*

Under Mr. Colton’s proposal, I estimate that the test year universal service charge for residential customers would average $4.22 per month ($4.14 with Mr. Mierzwa’s revenue allocation), a savings of about 60 to 70 cents per month relative to the current rates.

OSBA R. Exc. at 7 (citing OSBA St. 1-R at 7). Accordingly, the OSBA states that compared to the Company’s originalfiled USP rates, Mr. Colton’s proposal would save the typical residential customer about $1.30 a month. The OSBA contends that an additional $1.30 per month does not impact CAP costs to such an extent that those costs must be allocated to the Company’s non-residential customer classes. OSBA R. Exc. at 7.

Further, the OSBA argues that the OCA and CAUSE-PA’s arguments fail because neither party supporting the proposed change in cost allocation has provided an evaluation of the combined impacts of the rate increase and the change in universal service cost recovery on business customers. However, the OSBA states that Mr. Knecht did so. Using the approach proposed by the OCA, Mr. Knecht demonstrated that the combined rate impact on small to medium businesses of the OCA revenue allocation, which was approved by the ALJ, andthe OCA CAP cost proposal would be 37 percent (smaller businesses) and 43 percent (larger businesses). The OSBA argues that this would not constitute “just and reasonable” rates, at least when it comes to the impacts on small business customers. OSBA R. Exc. at 8.

In response to the OCA and CAUSE-PA’s position that universal service costs are a “public good,” the OSBA notes that Mr. Knecht provided a more rational analysis of the alternative reasoning for CAP cost recovery:

There are two general philosophies: the insurance model, and the public policy tax model. The philosophy of recovering all costs from the residential class is based on the argument that *only residential customers are eligible for the benefits.* A universal service program is therefore a form of insurance, in which residential gas customers are paying premiums to the utility, so that they will be eligible for cash benefits in the event they have an unfortunate turn in their economic

circumstances. In this model, it is fair and reasonable that only gas customers should get the insurance benefits from the program, because it is only gas customers who pay for the program. It is also reasonable that these programs can be deemed to be an integral part of utility service, because the insurance relates only to utility service.

\* \* \*

The alternative model is the government policy tax model. This model, as described in some detail by both Mr. Colton and Mr. Miller, is based on the argument that there are societal benefits associated with assisting low-income residents. Under this paradigm, all customers should pay because all customers obtain the social benefits. In effect, this form of low-income programs looks like many other government programs which provide both individual and societal benefits, and the costs of which are borne by the taxpayers.

*Id*. (citing OSBA St. 1-R at 5-6 (footnote omitted)).

The OSBA stated that instead of debating what is and is not a “public good,” Mr. Knecht recommended that the Commission continue to adopt the insurance model for reasons of cost causation and equity. Mr. Knecht explained that in the insurance model, customers pay for the benefits for which they are eligible. He testified that residential customers benefit from the insurance, and residential customers pay for that insurance, whereas, non-residential customers are not eligible for that insurance, and they therefore should not pay for the insurance. OSBA R. Exc. at 9 (citing OSBA St. 1-R at 6). The OSBA submits that the OCA and CAUSE-PA’s argument is that the proper issue is whether utility universal service programs should be funded by the ratepayer or the taxpayer. The OSBA contends that this argument misses the point. According to the OSBA, residential customers are currently eligible for an “insurance policy” that allows them to get discounted rates if their economic circumstances turn for the worse. The OSBA states that while the Commission has decided to expand universal service programs, the Commission’s decision to change the terms of that “insurance policy” to provide greater coverage at greater cost does not change the underlying philosophy that residential customers should get what they pay for. In contrast, the OSBA believes that when the OCA and CAUSE-PA demand that small businesses, government offices, municipalities, hospitals, educational institutions, and larger businesses contribute to the residential-only “insurance policy,” the Commission is transitioning from being the regulator to being a taxation authority. OSBA R. Exc. at 9.

For these reasons, the OSBA submits that having Columbia’s residential customers pay for a benefit for which only they are eligible is just, reasonable, and non-discriminatory. *Id.* The OSBA avers that even under the Company’s original CAP proposal, Columbia’s typical non-CAP residential customer would be paying only about $1.30 more a month in CAP costs - a *de minimis* amount that does not support the changes to the CAP cost revenue allocation the OCA and CAUSE-PA propose. *Id*. at 9‑10.

#### Disposition

Upon review, we determine that Columbia should continue its existing practice of recovering USP costs from the residential class through its Rider USP. We have historically approved public utilities’ practices of recovering universal service costs, including CAP costs, from only residential customers based on the “narrowly tailored” nature of these programs and the potential negative economic impact on Pennsylvania’s businesses if these costs were recovered from all ratepayer classes. *Final CAP Policy Statement Order* at 90; *see also* *Met-Ed Indus. Users Group*; *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-00049255 (Order entered July 25, 2007); *Final Investigatory Order on CAPs: Funding Levels and Cost Recovery Mechanisms*, Docket No. M-00051923 (Order entered December 18, 2006); and *Pa. PUC v. Valley Energy, Inc*., Docket No. R-00049345 (Order entered April 21, 2005). However, we recently stated in the *Final CAP Policy Statement Order* that our review of Pennsylvania’s current universal service model in the *Review* and *Energy Affordability* proceedings[[101]](#footnote-102) provided reasons to reconsider this position, noting that the current cost-recovery method for universal services, including CAP costs, is placing a significant burden on residential customer bills. *Final CAP Policy Statement Order* at 90.

In the *Final CAP Policy Statement Order*, we also definitively addressed the legal issues concerning cost allocation of universal service costs and, specifically, whether universal service costs could be recovered from non-residential classes. We stated the following:

We note there is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class. Universal service funding from non-residential classes, while not mandatory, is permissible:

Thus, under *Lloyd*, there is no statutory requirement that the funding for special programs come only from those who benefit from the programs. However, the lack of such a requirement does not mean that funding for special programs must come from those who do not benefit.

*Final CAP Policy Statement Order* at 96 (citing *MEIUG*, 960 A.2d at 202; *Lloyd*).

As a result, we decided to amend the CAP Policy Statement to address the recovery of CAP costs and found it appropriate to consider recovery of CAP costs from all ratepayer classes. We advised utilities and stakeholders “to be prepared to address CAP cost recovery in utility-specific rate cases consistent with the understanding that the Commission will no longer routinely exempt non-residential classes from universal service obligations.” *Final CAP Policy Statement Order* at 97. While we stated that CAP cost recovery from all ratepayer classes should be considered in rate cases, we carefully noted that we were not making a precedential decision concerning cost recovery within the *Final CAP Policy Statement Order*. *Id*., n.150.

Accordingly, while we find it appropriate to consider universal service costs in this rate case, our decision will be based on the substantial evidence in the record and whether or not the OCA and CAUSE-PA have satisfied their burden of proving that USP costs should be distributed among all the classes. Under the circumstances in this case, we conclude that the OCA and CAUSE-PA have not satisfied this burden.

The OCA and CAUSE-PA presented a breadth of evidence regarding their positions that the costs of Columbia’s universal service program should be considered a “public good” and allocated across all customer classes and that nonresidential customers contribute to the cost of and the need for the program and derive a benefit from the program. These Parties also provided evidence regarding the financial harm that residential ratepayers, particularly lower-income customers that fall short of qualifying for assistance programs or chose not to receive assistance, are currently experiencing. *See, e.g*., OCA St. 5 at 28-57; CAUSE-PA St. 1 at 39-43. On the other hand, Columbia and the OSBA, as well as CII and PSU, presented a breadth of evidence (of at least co‑equal weight to that of the OCA and CAUSE-PA) on their positions that the principle of cost-causation supports that residential customers should fund universal service programs because that class is the only class that benefits from them. CG St. 1-R at 23‑26; OSBA St. 1-R at 3-6; PSU St. 1-R at 18.

None of the Parties in this proceeding specifically objected to or presented evidence opposing the manner in which Columbia assigns and recovers its USP costs from residential ratepayers using a volumetric “Rider USP” charge. However, the OSBA testified regarding deficiencies in the OCA and CAUSE-PA’s proposals. For example, Mr. Colton does not propose a specific recovery rate design method, and Mr. Miller does not propose a specific cost allocation method or a rate design method. OSBA St. 1-R at 4. Moreover, based on the OCA’s P&A ACCOSS, Columbia’s larger customers are far below their fair share of revenue recovery responsibility.  Even though the OCA’s proposal applies the largest percentage increase (36%) to the large C&I classes (SDS/LGSS and LDS/LGSS), which is capped at 1.5 times the system average increase, the revenue recognition from those classes is still shown to be below their cost to serve and, therefore, they continue to be subsidized by other classes.  *See* OCA St. 4 at 34, 35. In consideration of the large percentage increases to the large C&I classes, based on the Company’s full requested increase, as well as the economic impacts commercial and industrial customers are experiencing due to the COVID-19 pandemic, absent more compelling evidence to the contrary, we do not find it appropriate to change the manner in which we have traditionally permitted USP costs to be allocated under the circumstances in this case. For these reasons, we shall deny the Exceptions of the OCA and CAUSE-PA.

## Rate Design

Columbia provided that its rate design proposal is designed to recover the Company’s total cost of service. The Company pursued three objectives to establish the amount of revenue to be recovered through the customer charge. First, Columbia analyzed the percent of revenue recovery by the customer charge, as compared to base rate revenue recovery as a whole. Columbia’s goal was to align the percentage of customer charge recovery to total base rate recovery. Second, Columbia compared the currently approved customer charge to the Minimum System Customer Charge Study (CG Exh. 111, Sch. 1 at 14-18), with the goal of progressing toward a customer charge that would recover the cost of a minimum system. Third, Columbia proposed that any increase in the customer charge be gradual to avoid rate shock. CG M.B. at 148-149 (citing CG St. 3-R at 14).

### Residential Rate Design

#### Positions of the Parties

Columbia noted that its current residential rate structure includes a customer charge, a volumetric charge, and a Weather Normalization Adjustment (Rider WNA). CG M.B. at 149 (citing CG St. 3 at 15). Columbia proposed to increase the Residential customer charge, recover the remaining revenue allocated to the residential customer class through the commodity (distribution) charge, modify the currently effective Rider WNA, and implement a Revenue Normalization Adjustment (RNA). CG M.B. at 149.

##### Residential Customer Charge

Columbia proposed to increase the residential customer charge from $16.75 to $23. Columbia explained that the remaining residential revenue increase was assigned to the volumetric charge for a resulting rate of $7.3323 per Dth. CG M.B. at 149 (citing CG St. 3 at 35). Columbia explained further that the proposed customer charge is slightly below the monthly customer-based cost excluding mains and would not recover the full residential customer related costs of service. Columbia reasoned that the proposed increase represents a meaningful movement toward cost recovery. CG M.B. at 149-150.

I&E supported Columbia’s proposed increase to the residential customer charge. I&E M.B. at 101. The OCA, CAUSE-PA and CAAP opposed the Company’s proposed increase to the residential customer charge, including various concerns with respect to the impacts of the proposed customer charge on low-income customers. R.D. at 266. The OCA argued that Columbia’s proposed increase to the customer charge, a 40% increase, violates the principle of gradualism, and would increase a customer charge that is already the highest in Pennsylvania. OCA M.B. at 185. CAUSE-PA argued that increasing the residential customer charge will undermine LIURP because LIURP customers will not be as effective at lowering their bill through conservation efforts if the fixed portion of their bill increases. R.D. at 268 (citing CAUSE-PA M.B. at 38).

##### Weather Normalization Adjustment

Columbia provided that the Rider WNA adjusts residential customers’ monthly charges based on the actual temperature experienced during the month from November through May. According to Columbia, under the existing WNA, the Company and customers are protected, in part, from usage variations due to weather. Columbia explained that the existing Rider WNA includes a 3% deadband, which means that a billing adjustment occurs only if the variation of actual heating degree days is lower than 97% or higher than 103% of the normal heating degree days for an individual billing cycle. Columbia proposed to remove the 3% deadband from the WNA. Columbia explained further that the 3% deadband means that a portion of revenue variation due to weather continues to be unaddressed. CG M.B. at 153-154.

Columbia noted that I&E and the OCA oppose Columbia’s proposal to eliminate the 3% deadband. According to Columbia, I&E claimed that the WNA should apply only in extraordinary circumstances, and the OCA claimed that the WNA should not apply if a particular day is only slightly colder or warmer than normal. CG M.B. at 154 (citing I&E St. 3 at 9, OCA St. 4 at 39).

##### Revenue Normalization Adjustment

Columbia proposed a Revenue Normalization Adjustment (RNA) to provide benchmark distribution revenue levels regardless of changes in customers’ actual usage levels. Columbia explained that the Rider RNA would adjust actual non-gas distribution revenue for the non-CAP residential customer class. CG M.B. at 156.

Columbia provided that I&E, the OCA, CAAP and CAUSE-PA opposed implementation of the RNA. I&E contended that there is no demonstrated need for greater revenue stability, nor is there any guarantee that the RNA would result in fewer rate cases. CG M.B. at 160 (citing I&E St. 3 at 11). I&E argued that the RNA is contrary to conservation efforts because customers would need to use more gas to trigger a refund. CAUSE-PA and CAAP expressed similar concerns regarding low-income customers’ incentive to conserve. CG M.B. at 160 (citing CAUSE-PA St. 1 at 6).

#### Recommended Decision

The ALJ reasoned that the proposed increase to the residential customer charge violates the principle of gradualism. The ALJ noted that Columbia’s assertion that CAP will protect the low-income customers from feeling the impact of the increased customer charge is not supported by the evidence. The ALJ provided that CAP serves less than 23% of Columbia’s low-income population. Further, the ALJ determined that the proposed increase is contrary to the Commission’s goal of encouraging customers to conserve energy. The ALJ recommended that the Commission deny Columbia’s request to increase the monthly customer charge. R.D. at 400-401.

The ALJ recommended that the Commission deny Columbia’s proposal to remove the 3% deadband for the WNA. The ALJ reasoned that without an extraordinary set of circumstances, there is no need for Columbia to reconcile day-to-day temperature variations that are part of normal business. The ALJ found that the 3% deadband is a reasonable provision, because it allows for a range of what is considered “normal” weather in which the Company’s Commission-approved rates would be applied without adjustment. R.D. at 402 (citing I&E St. 3 at 9).

The ALJ recommended that the Commission deny the RNA proposal. The ALJ reasoned that Columbia failed to prove the RNA Rider is needed and reasonable, or that the RNA Rider will result in rates that are just, reasonable and in the public interest. Further, the Company did not show its current rates and systems of revenue streams will fail to provide revenue stability. R.D. at 403.

#### Disposition

No Party filed Exceptions to the ALJ’s Recommended Decision on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### Small C&I Customer Rate Design

#### Positions of the Parties

Columbia Gas provided that the customer charge studies produce a range of customer costs from $25.87 (excluding mains) to $60.16 (including mains), for Small General Service customers using less than or equal to 6,440 therms annually. CG M.B. at 164 (citing CG Exh. 111, Sch. 1 at 16, 25). Columbia’s proposed customer charge of $30.00 falls just above the bottom of the range of costs. Columbia proposed a volumetric rate of $5.4497/Dth for SGS-1/SCD-1 service and $5.3413/Dth for SGDS-1 service. CG M.B. at 164 (citing CG St. 3 at 36-37).

For Small General Service customers using between 6,440 and 64,400 therms annually, Columbia proposed a customer charge of $60.00, an increase of $12.00 to the current $48.00 customer charge. The customer charge studies produced a range of costs from $43.99 (excluding mains) to $108.42 (including mains). The Company proposed a volumetric charge of $4.7467/Dth for SGS-2/SCD-2 service and $4.6384/Dth for SGDS service. CG M.B. at 164-165.

Columbia averred that it is appropriate to include a customer component of mains in the minimum system charge study. Columbia noted that I&E recommended that the customer charges for these classes be lowered to reflect a customer charge that does not include the cost of mains. CG M.B at 165 (citing I&E St. 3 at 21-23). Columbia contended that I&E’s recommendation is inconsistent with sound ratemaking principles because I&E proposed a customer charge for SGS-2 customers ($45) that is **lower** than the current customer charges ($48). CG M.B. at 165 (citing CG Exh. MJB-2R).

Columbia provided that the OSBA witness Mr. Knecht agreed with the Company’s proposed customer charges for Small C&I customers because they are cost justified at the full revenue requirement. CG M.B. at 165 (citing OSBA St. 1 at 32-33).

#### Recommended Decision

The ALJ recommended that the Commission approve the proposed customer charges. The ALJ reasoned that Columbia’s current and proposed customer charges for these classes fall within the range of the two customer charge studies and are well below the minimum system charges shown in the customer charge study including mains. R.D. at 404-405 (citing CG Exh. 111, Sch. 1 at 16). The ALJ found that Columbia’s proposed customer charges for Small C&I customers are reasonable. The ALJ concluded that Columbia presented sufficient evidence to prove the charges are reasonable and appropriate, and no Party provided sufficient evidence to disprove the charges, and the charges will lead to just and reasonable rates. R.D. at 405.

#### Disposition

No Party filed Exceptions to the ALJ’s Recommended Decision on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### Large C&I Customer Rate Design

#### Positions of the Parties

Columbia proposed the SDS/LGSS customer charge of $290.00 for customers whose usage is between 64,400 therms and 110,000 therms. The $290.00 charge is a $60.25 increase to the current SDS/LGSS customer charge of $229.75. The proposed SDS/LGSS customer charge for customers whose usage is between 110,000 therms and 540,000 therms is $940.00, which is $182.66 more than the current SDS/LGS customer charge of $757.34. The volumetric base rate was proposed as $3.3081/Dth for SDS/LGSS customers whose usage is between 64,400 therms and 110,000 therms, and the volumetric base rate as $3.0928/Dth for SDS/LGSS for customers whose usage is between 110,000 therms and 540,000 therms. CG M.B. at 165 (citing CG St. 3 at 37-38).

Columbia Gas provided the table below to illustrate the proposed and current customer charges for the LDS/LGSS rate class:

|  |  |  |
| --- | --- | --- |
| Annual Usage Levels | Current Cust. Charge | Proposed Cust. Charge |
| > 540,000 to ≤ 1,074,000 Therms | $1,947.06 | $2,419.00 |
| > 1,074,000 to ≤ 3,400,000 Therms | $3,028.76 | $3,759.00 |
| > 3,400,000 to ≤ 7,500,000 Therms | $5,841.18 | $7,248.00 |
| > 7,500,000 Therms | $8,653.60 | $10,728.00 |

CG M.B. at 166 (citing CG St. 3 at 38).

Columbia proposed thevolumetric base rate revenue requirement be split among the LDS/LGSS annual usage groups proportionately based on revenue produced from current volumetric base rates. CG M.B. at 166 (citing CG Exh. 103, Sch. 8 at 8). Columbia provided that CII witness, Mr. Frank Plank, expressed his general view that the overall proposed increase in charges to Rate LDS customers should be limited. CG M.B. at 166 (citing CII St. 1 at 7). Columbia noted that I&E stated it is not recommending changes to the proposed customer charges for the LDS class because higher usage customers generally favor a higher fixed charge and lower usage charges. CG M.B. at 166 (citing I&E St. 3 at 23). No other Party recommended any changes to the proposed customer charges for the LDS/LGSS class.

#### Recommended Decision

The ALJ recommended the Commission approve the proposed customer charges for the Large C&I customers because Columbia presented sufficient evidence to prove the proposed charges are reasonable and appropriate, and no Party provided sufficient evidence to disprove the changes, and the changes will lead to just and reasonable rates. R.D. at 406.

#### Disposition

No Party filed Exceptions to the ALJ’s Recommended Decision on this issue. We find that the ALJ’s recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

### Gas Procurement Charge Rider

#### Positions of the Parties

Columbia Gas proposed a Gas Procurement Charge (GPC) of $0.00102 per therm and showed the calculations of the proposed GPC in Columbia Exhibit No. MJB-3. No Party challenged the Company’s proposed GPC. R.D. at 406.

#### Recommended Decision

The ALJ recommended that the Commission approve the GPC of $0.00102 per therm because Columbia presented sufficient evidence to prove the proposed Rider is reasonable and appropriate.

#### Disposition

No Party filed Exceptions to the ALJ’s Recommended Decision on this issue. We find that the ALJs’ recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall adopt it without further comment.

## Bill Impacts

### Positions of the Parties

Columbia was the only party that addressed this issue. The Company indicated its intention was to apply the new Commission-approved rates to the usage noted between January 23, 2021 and the date of the Commission’s Final Order. The back billing amount would become the difference between the amount calculated at the new rates and amounts actually billed previously at old rates. Columbia did not propose a special rate mechanism to accomplish its proposed recovery method. Once new base rates are approved and entered in Columbia’s billing system, customer-specific billing adjustments will be calculated and added to each customer’s bill. The individual billing adjustments will be computed using each customer’s consumption for the appropriate period. Columbia noted that, if the Commission were to approve new rates as originally proposed by Columbia, a typical residential customer using 10 therms in a winter month would owe an additional $7.59. Columbia St. 3-R at 38. No Party objected to Columbia’s proposed method of recovery.

### Recommended Decision

The ALJ recommended that the Commission approve Columbia’s proposed method of recovery.

### Disposition

No Party filed Exceptions to the ALJ’s Recommended Decision on this issue. Accordingly, we agree with the ALJ’s recommendation that adopts Columbia’s proposed method of recovery.

# Conclusion

Based on our review of the record in this proceeding, we shall: (1) reverse the ALJ’s recommendation to completely deny Columbia’s requested rate relief due to the pandemic;[[102]](#footnote-103) (2) grant, in part, and deny, in part, the Exceptions filed by Columbia and I&E; (3) deny the Exceptions filed by the OCA, the OSBA, CAUSE-PA, and PSU; and (4) approve an annual revenue increase of $63,548,905 to the Company’s pro forma revenue at present rates of $572,769,574, or approximately 11.10%; **THEREFORE,**

**IT IS ORDERED:**

1. That the Exceptions filed by Columbia Gas of Pennsylvania, Inc. on December 22, 2020, are granted, in part, and denied, in part, consistent with this Opinion and Order.
2. That the Exceptions filed by the Commission’s Bureau of Investigation and Enforcement on December 22, 2020, are granted, in part, and denied, in part, consistent with this Opinion and Order.
3. That the Exceptions filed by the Office of Consumer Advocate on December 22, 2020, are denied, consistent with this Opinion and Order.
4. That the Exceptions filed by the Office of Small Business Advocate on December 22, 2020, are denied, consistent with this Opinion and Order.
5. That the Exceptions filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania on December 22, 2020, are denied, consistent with this Opinion and Order.
6. That the Exceptions filed by the Pennsylvania State University on December 22, 2020, are denied, consistent with this Opinion and Order.
7. That the Recommended Decision of Administrative Law Judge Katrina L. Dunderdale, issued on December 4, 2020, is reversed, consistent with this Opinion and Order.
8. That Columbia Gas of Pennsylvania, Inc. shall submit to its Universal Service Advisory Committee, within six months of the entry date of this Opinion and Order, the question of how customer payments on Customer Assistance Program bills can be pursued through a reasonable collections process. We further direct that Columbia Gas of Pennsylvania, Inc, be fully prepared to address this Customer Assistance Program collection policy issue in its next Universal Service and Energy Conservation Plan.
9. That Columbia Gas of Pennsylvania, Inc. shall address the Customer Assistance Program Policy Statement amendments pertaining to energy burdens in its next Universal Service and Energy Conservation Plan filing.
10. That Columbia Gas of Pennsylvania, Inc. shall address its Low‑Income Customer Outreach additional efforts and corresponding results in its upcoming annual Management Audit Progress Reports due in 2021 and 2022.
11. That Columbia Gas of Pennsylvania, Inc. shall explain in its next base rate proceeding the efforts it has taken to provide Hardship Funds to as many eligible, low-income customers as possible.
12. That Columbia Gas of Pennsylvania, Inc shall: (1) amend Section 7.1.2.2 of its Distribution Integrity Management Program to reflect the inclusion of all historical data in the evaluation of risks; (2) amend its Distribution Integrity Management Program to explain its method of using two inputs to generate one Distribution Integrity Management Program risk score; and (3) present proof of these amendments to the Commission’s Bureau of Investigation and Enforcement’s Pipeline Safety within thirty days of the entry of this Opinion and Order.
13. That consistent with the agreement between the Commission’s Bureau of Investigation and Enforcement and Columbia Gas of Pennsylvania, Inc., Columbia Gas of Pennsylvania, Inc will meet annually with the Commission’s Bureau of Investigation and Enforcement’s Pipeline Safety Division to provide a status update on pipeline replacement cost control efforts.
14. That Columbia Gas of Pennsylvania, Inc shall: (1) perform a root cause analysis to determine why the number of leaks found does not correlate with the amount of pipeline replacement for the past four years; and (2) present to the Commission’s Bureau of Investigation and Enforcement’s Pipeline Safety Division the results of the root cause analysis, including any corrective actions the Company takes, no later than September 30, 2021.
15. That Columbia Gas of Pennsylvania, Inc. shall: (1) update its records on and complete inspections on all field-assembled risers, including those on customer-owned service lines; (2) develop a plan to replace all field-assembled risers in its system; (3) complete updating its maps and records as quickly as possible; and (4) keep the Commission’s Bureau of Investigation and Enforcement’s Pipeline Safety Division apprised of its progress on these items.
16. That the corrections and modifications directed by this Opinion and Order reflected in the Columbia Gas of Pennsylvania, Inc., Docket No. R-2020-3018835 (Commission Tables Calculating Allowed Revenue Increase), attached hereto, are adopted as in the public interest.
17. That Columbia Gas of Pennsylvania, Inc. shall not place into effect the rates, rules, and regulations contained in Tariff Gas - Pa. P.U.C. No. 9, as filed.
18. That Columbia Gas of Pennsylvania, Inc. is authorized to file tariffs, tariff supplements and/or tariff revisions, on at least one day’s notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, *et seq.*, and 53.101, designed to produce an annual distribution rate revenue increase of approximately $63,548,905, to become effective for service rendered on and after January 23, 2021.
19. That Columbia Gas of Pennsylvania, Inc. shall file detailed calculations with its tariff filing, which shall demonstrate to the Commission’s satisfaction that the filed tariff adjustments comply with the provisions of this final Opinion and Order.
20. That Columbia Gas of Pennsylvania, Inc. shall allocate the authorized increase in operating distribution revenue to each customer class, and rate schedule within each customer class, in the manner prescribed in this Opinion and Order.
21. That Columbia Gas of Pennsylvania, Inc. is directed to file annual reports at this Docket with the Secretary’s Bureau and with the Commission’s Fixed Utility Financial Analyst Supervisor of the Bureau of Investigation and Enforcement by December 1 following the end of each fiscal year for the next five years, or until the implementation of new base rates in a subsequent rate case within this same time frame, for the following:
    1. The actual annual expenses incurred by the Company for cross bore identification.
    2. The actual annual expenses incurred by the Company for its legacy service line enhancement program.
    3. The actual annual expenses incurred by the Company for customer-owned field-assembled riser replacement.
22. That, upon acceptance and approval by the Commission of the tariff supplements filed by Columbia Gas of Pennsylvania, Inc., consistent with its Final Order, the investigation at Docket No. R-2020-3018835 be marked closed.
23. That a copy of this Opinion and Order be served on the Bureau of Consumer Services, Division of Policy; the Bureau of Audits, Management Audits Division; the Bureau of Investigation and Enforcement, Pipeline Safety Division; and the Bureau of Technical Utility Services, Finance/Tariffs Division for monitoring and compliance.
24. That the complaint filed by the Office of Consumer Advocate in this proceeding at Docket No. C-2020-3019714 be dismissed and marked closed.
25. That the complaint filed by the Office of Small Business Advocate in this proceeding at Docket No. C-2020-3019702 be dismissed and marked closed.
26. That the complaint filed by Columbia Industrial Intervenors in this proceeding at Docket No. C-2020-3020105 be dismissed and marked closed.
27. That the complaint filed by Dr. Richard Collins in this proceeding at Docket No. C-2020-3020207 be dismissed and marked closed.
28. That the complaint filed by The Pennsylvania State University in this proceeding at Docket No. C-2020-3020666 be dismissed and marked closed.

**BY THE COMMISSION,**

Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: February 18, 2021

ORDER ENTERED: February 19, 2021

# LIST OF ABBREVIATIONS

ACCOSS Allocated Class Cost of Service Study

ADIT accumulated deferred income taxes

ALJ Administrative Law Judge

BPS book value per share

C&I Commercial and Industrial

CALJ Chief Administrative Law Judge

CAP Customer Assistance Program

CAPM capital asset pricing model

CAUSE-PA Coalition for Affordable Utility Services and Energy Efficiency in PA

CE Comparable Earnings Method

CG Columbia Gas

CNIT Corporate Net Income Tax or state income tax

DCF discounted cash flow

DIMP Distribution Integrity Management Program

DPS dividends per share

DSIC Distribution System Improvement Charge

EDC electric distribution company

EPS earnings per share

FICA Federal Insurance Contributions Act

FPFTY fully projected future test year

FTY future test year

GPC Gas Procurement Charge

HTY historic test year

I&E Bureau of Investigation and Enforcement

LIHEAP Low Income Energy Assistance Program

LIURP Low Income Usage Reduction Program

LPG liquid propane gas

LTIIP Long Term Infrastructure Improvement Plan

NGDC natural gas distribution company

O&M Operations and Maintenance

OALJ Office of Administrative Law Judge

OCA Office of Consumer Advocate

OSBA Office of Small Business Advocate

PAR Payment Arrangement Request

PHMSA Pipeline and Hazardous Materials Safety Administration

PIP Percentage of Income Payment

PSU Pennsylvania State University

RNA Revenue Normalization Adjustment

ROE return on equity

RP Risk Premium Method

SME Subject Matter Experts

SMS Safety Management System

UCARE Utility Consumer Report and Evaluation

USAC Universal Service Advisory Committee

USECP Universal Service and Energy Conservation Plan

USP Universal Service Program

WNA Weather Normalization Adjustment

**Pennsylvania Public Utility Commission**

**v.**

**Columbia Gas of Pennsylvania, Inc.**

**Docket No. R-2020-3018835**

# Commission Tables Calculating Allowed Revenue Increase

**Table I Income Summary**

**Table IA Rate of Return**

**Table IB Revenue Factor**

**Table II Adjustments**

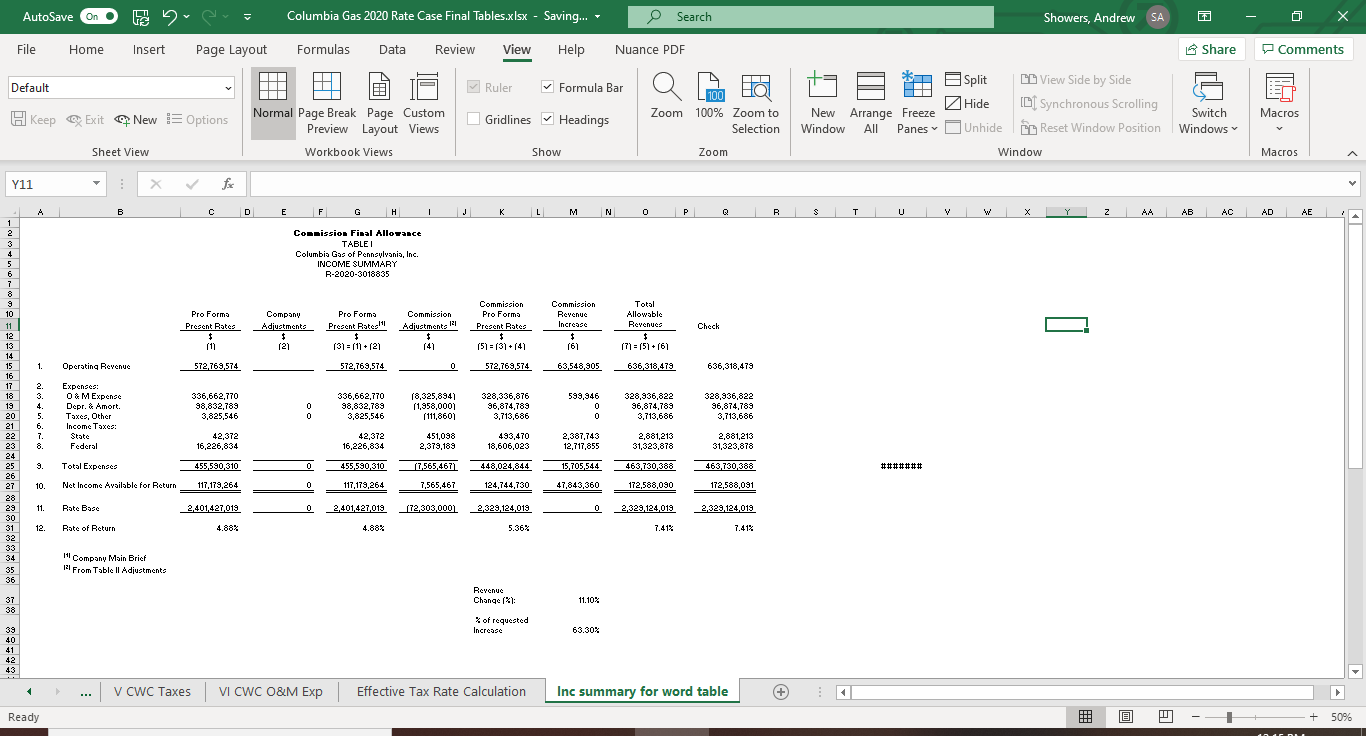
**Table III Interest Synchronization**

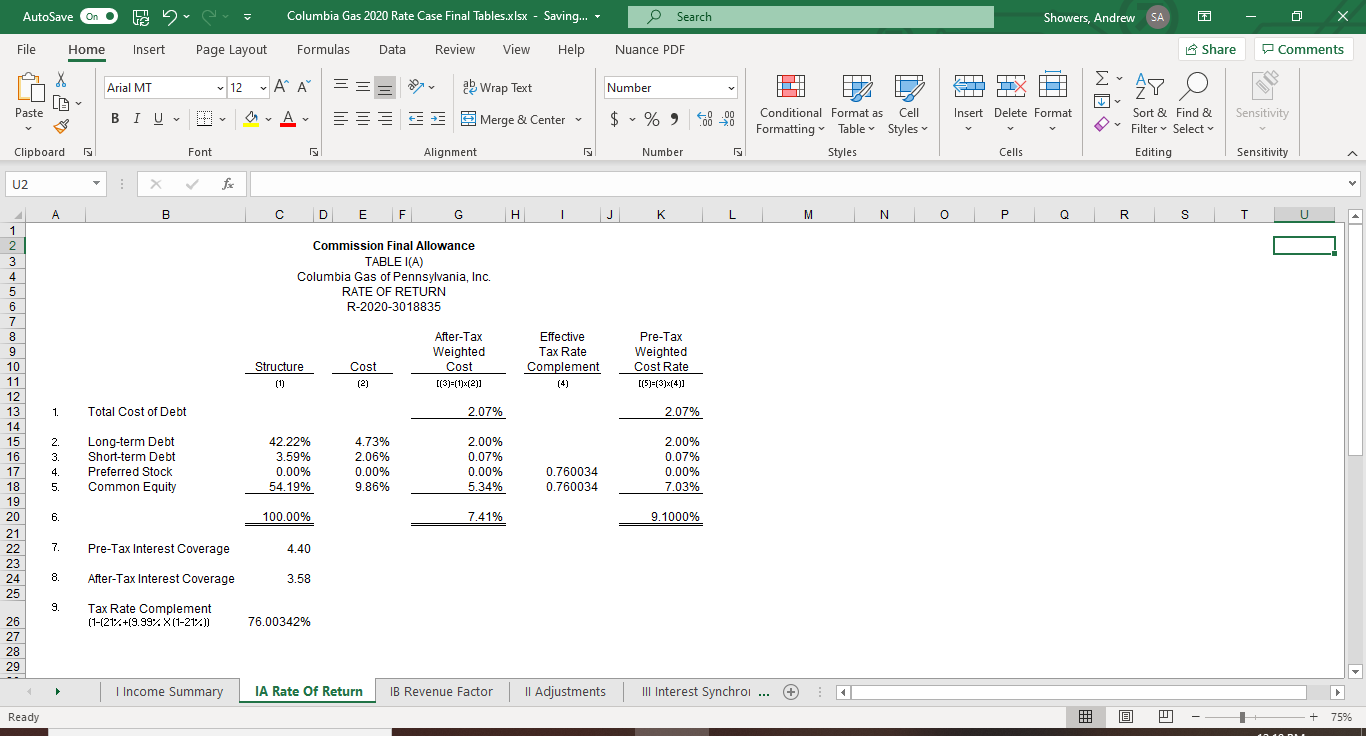
**Table IV Cash Working Capital: Interest and Dividends**

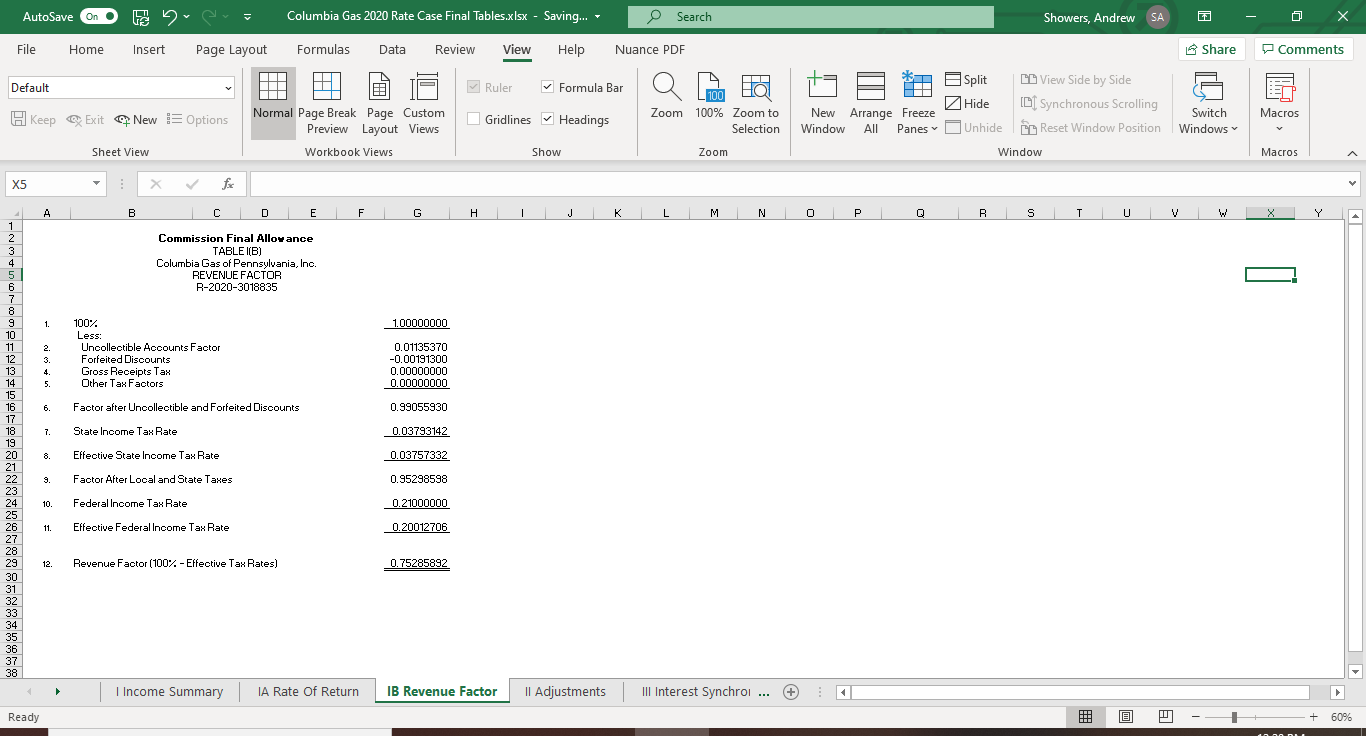
**Table V Cash Working Capital: Taxes**

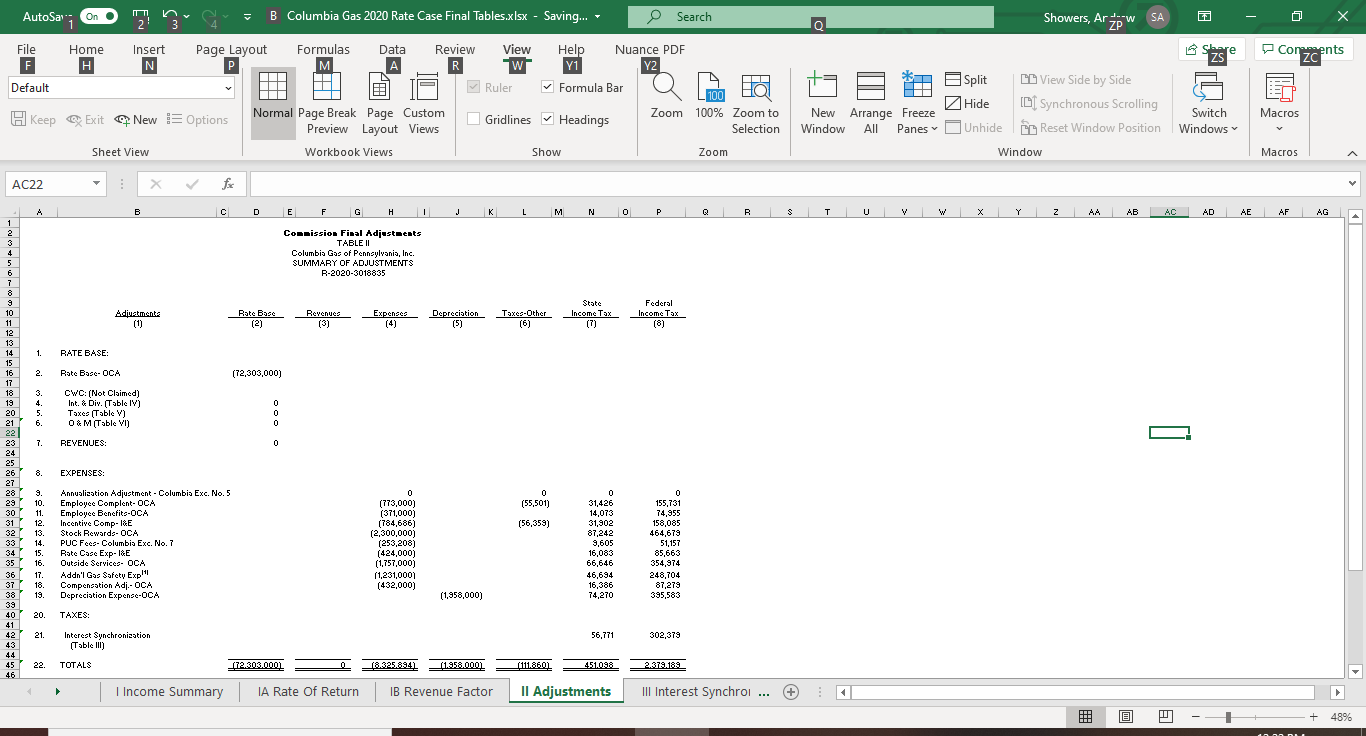
**Table VI Cash Working Capital: O&M Expense**

**Table VII Effective Tax Rate Calculation**









**Note to accompany Table II**

(1) Our downward adjustment to Columbia's Claim for Gas Safety initiatives consists of the following:

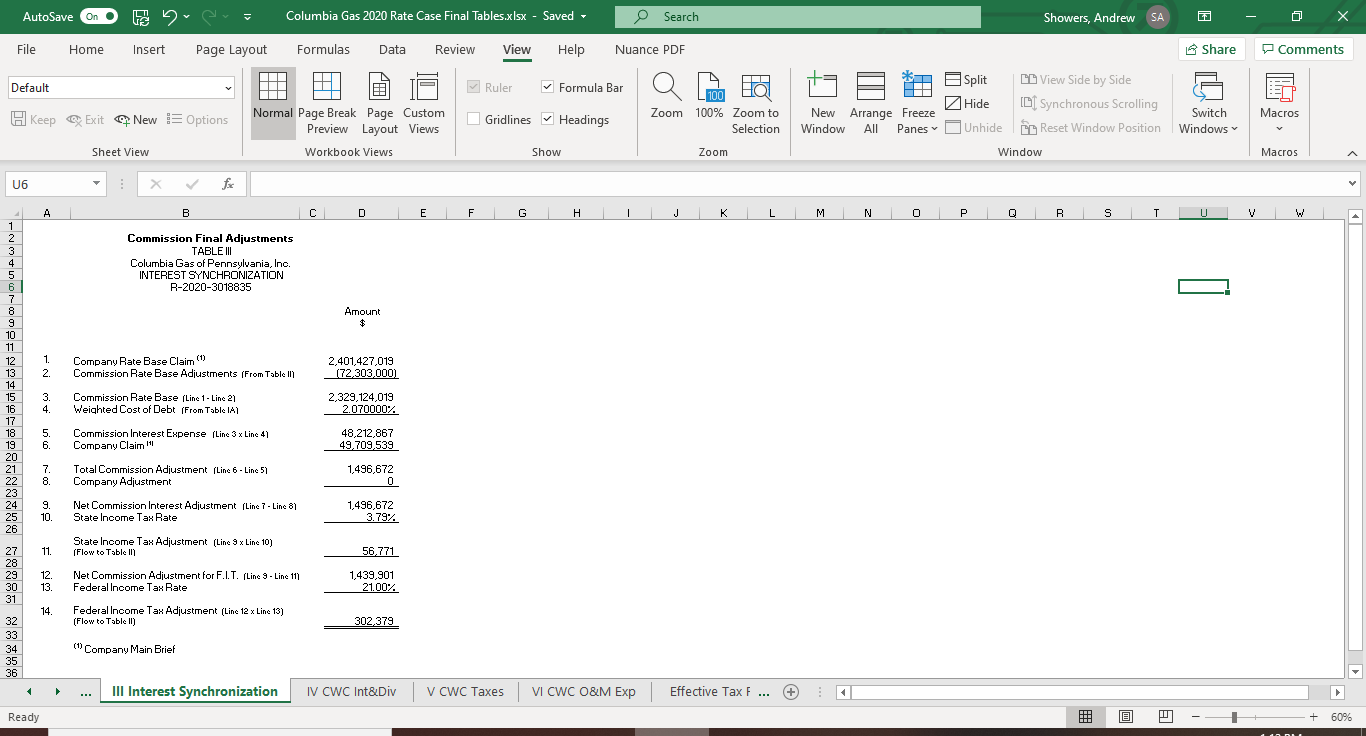
-A downward adjustment of $185,000 to Columbia's claim for Gas Qualification Specialists (as recommended by the OCA)

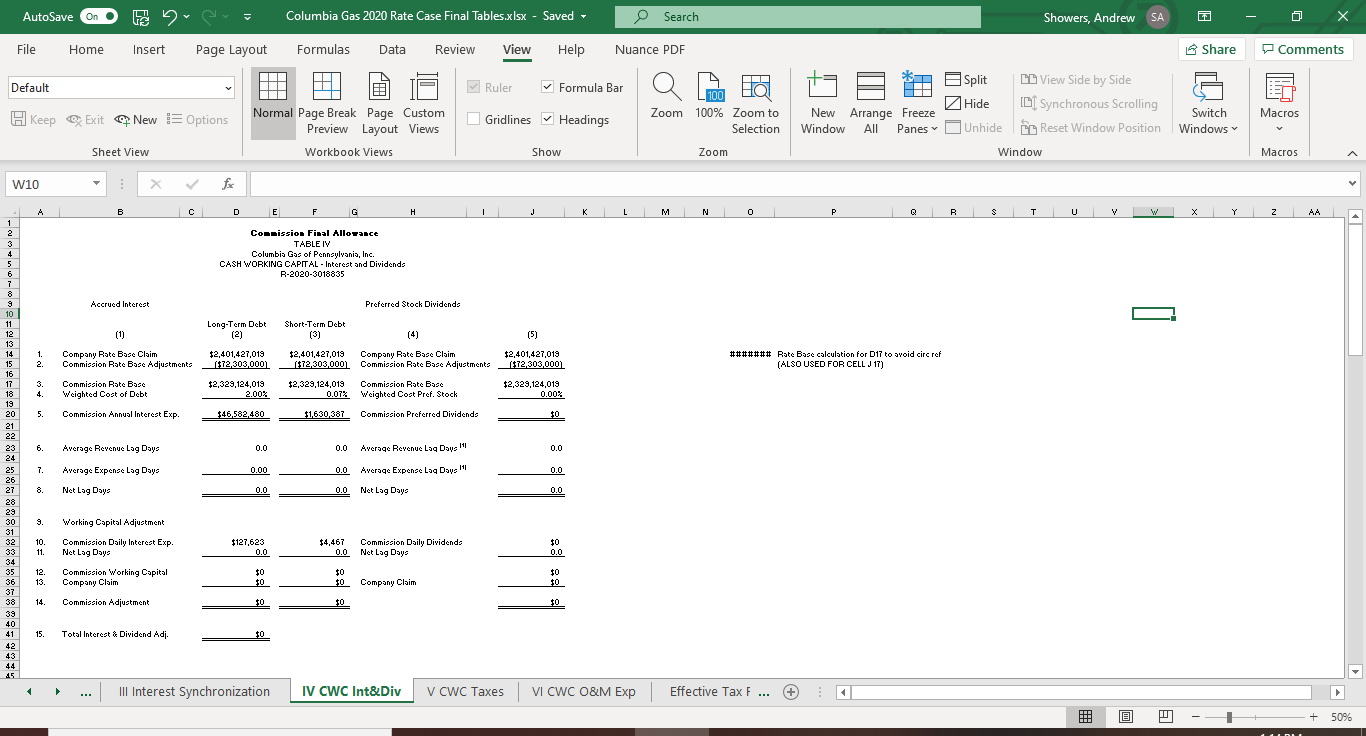
-A downward adjustment of $246,000 to Columbia's claim for Legacy Service Line Records Enhancement (granting Columbia Exc. No. 11, in part, and denying it, in part)

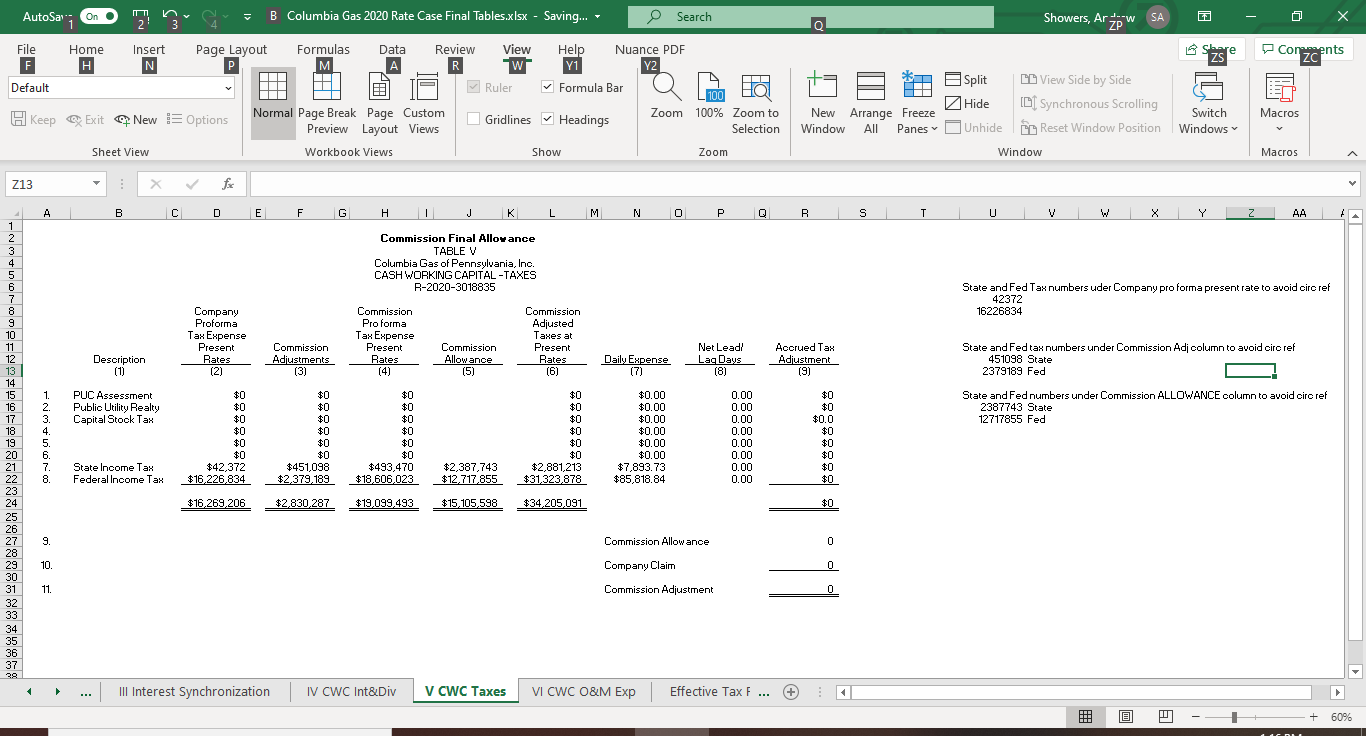
-A downward adjustment of $800,000 to Columbia's claim for Customer-owned Field Assembled Riser Replacements (granting Columbia Exc. No. 12, in part, and denying it, in part)

-We have granted Columbia's Exception No. 5. Therefore, no adjustment has been made to the Company's claim for Cross Bore Identification

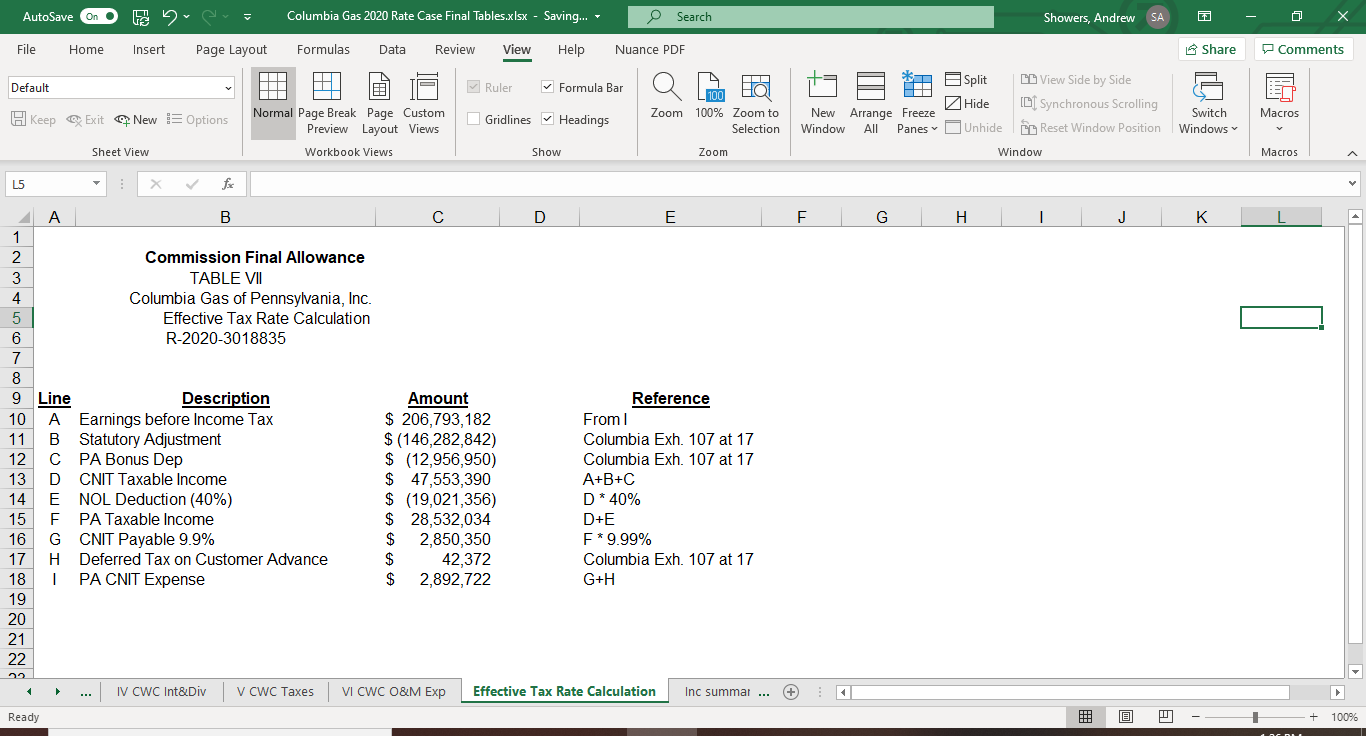
-Total Adjustment: [-($185,000 + $246,000 + $800,000)] = -$1,231,000











1. Columbia’s proposed increase of $100,437,420 in annual operating revenue is comprised of a $97,646,819 increase in base rate revenues; a $4,752,145 increase in revenue received through its Universal Service Program (USP) Rider, as a result of the reassignment of the revenue increment not assigned to Customer Assistance Program (CAP) customers; a $2,153,314 reduction in revenue received through the Gas Procurement Charge (GPC) Rider; and a projected increase in revenue from late payment fees of $191,770. *See*, CG Exh. 102, Sch. 3, p. 3. Columbia subsequently revised its proposed revenue increase to $100,366,797, reflecting changes to the actual cost of long-term debt, budget billing modification costs, labor expense, and the 2020 Merit Increase Program. Columbia St. 4-R at 2-3. [↑](#footnote-ref-2)
2. The future test year (FTY) ended November 30, 2020, and the historic test year (HTY) ended November 30, 2019. [↑](#footnote-ref-3)
3. Originally, Columbia expected to file this base rate request on or before March 20, 2020. However, beginning on March 16, 2020, pursuant to an Executive Order issued by the Pennsylvania Deputy Secretary for Human Resources and Management due to the COVID-19 disaster emergency declaration of the Governor, the Commission’s physical offices were closed. As of the entry date of this Opinion and Order, the Commission’s office buildings remain closed due to the COVID-19 disaster emergency; however, the Commission remains fully operational with its staff teleworking. All business was conducted electronically and/or telephonically. On March 25, 2020, Columbia requested to postpone the initial filing until on or before April 28, 2020. The Commission granted the Company’s request by Secretarial Letter issued on March 27, 2020. [↑](#footnote-ref-4)
4. By electronic mail on September 24, 2020, Mr. Ilie requested withdrawal of his Formal Complaint, which request was not opposed by any other Party. [↑](#footnote-ref-5)
5. We note that the ALJ makes her recommendations on these elements in the alternative, should the Commission grant Columbia’s request to consider all the elements in its base rate increase request. Accordingly, all of the ALJ’s recommendations discussed herein, with the exception of the recommendation to deny the rate increase request in its entirety, are recommendations the ALJ made “alternatively.” [↑](#footnote-ref-6)
6. Among other things, Section 1308(d) of the Code requires the Commission to render a final decision granting or denying, in whole or in part, the general rate increase requested by a public utility, within a general time frame not to exceed seven months from the proposed effective date of the utility’s proposed tariff supplement. *See* 66 Pa. C.S. § 1308(d); *see also* 52 Pa. Code § 53.31 (requiring a tariff proposing a rate increase to be effective upon sixty days’ advance notice). Unless the utility voluntarily extends the suspension period, the Commission’s non-action within this timeframe means, by operation of law, the utility’s proposed general rate increase will go into effect, as proposed, at the end of such period. *See* 66 Pa. C.S. § 1308(d). [↑](#footnote-ref-7)
7. The $100.4 million increase was initially requested prior to certain concessions set forth in Columbia’s Exceptions. After these concessions, Columbia’s proposed revenue increase is $76.8 million, reflecting an equity return of 9.86%, $20 million of which is a roll-in of current DSIC charges. *See, infra*, CG Exc. Nos. 16, 17, and 20. [↑](#footnote-ref-8)
8. The ALJ rejected Columbia’s assertion that the opposing Parties were arguing that the base rate request is unreasonable because a large number of customers cannot afford the bills. R.D. at 50. [↑](#footnote-ref-9)
9. *See* CG M.B. at 26-30. [↑](#footnote-ref-10)
10. In addition, Columbia notes that, subsequent to the close of the record in this case, the Commission approved a Columbia proposal to amend temporarily its Hardship Fund requirements to increase this income limit to assist customers impacted financially by COVID-19. Columbia secured $400,000 in additional funding to fund this expansion. CG Exc. at 6 (citing CG Exc. at 1-2). [↑](#footnote-ref-11)
11. Based upon plant investment through November 30, 2020, Columbia will reach the 5% DSIC cap with the DSIC filing effective January 1, 2021. CG Exc. at 7, n. 13. [↑](#footnote-ref-12)
12. As earlier noted, the OSBA also supports the ALJ’s recommendation to deny Columbia any revenue increase at this time. [↑](#footnote-ref-13)
13. *See* CG Exc. No. 20, *infra*. [↑](#footnote-ref-14)
14. Section 1330(b)(1)(i)-(v) of the Code provides the following:

    **(b) *Alternative rate mechanisms.*—**

    (1) Notwithstanding any other provision of law, including, but not limited to, sections 2806.1(k)(2) (relating to energy efficiency and conservation program) and 2807(f)(4) (relating to duties of electric distribution companies), the commission may approve an application by a utility in a base rate proceeding to establish alternative rates and rate mechanisms, including, but not limited to, the following mechanisms:

    (i) decoupling mechanisms;

    (ii) performance-based rates;

    (iii) formula rates;

    (iv) multiyear rate plans; or

    (v) rates based on a combination of more than one of the mechanisms in subparagraphs (i), (ii), (iii) and (iv) or other ratemaking mechanisms as provided under this chapter.

    [↑](#footnote-ref-15)
15. *Popowsky II*, 683 A.2d at 961 (“[t[he PUC has broad discretion in determining whether rates are reasonable” and “is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.”). [↑](#footnote-ref-16)
16. *See,* *e.g., Pa. PUC et al. v. PPL Electric Utilities Corporation, Docket Nos. R-2015-2469275 et al*. (Recommended Decision issued October 5, 2015) at 32-33. [↑](#footnote-ref-17)
17. The “polestar” of ratemaking concerns is the “cost of providing service.” *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006) (*Lloyd*). Inherent in this principle of ratemaking is the recognition that public utilities are natural monopolies and that the Commission’s oversight through cost-of-service ratemaking serves as a proxy for a competitive market in appropriately restraining, or exerting downward pressure on, the profit-maximizing prices a monopoly could otherwise charge in the absence of price regulation. *See, e.g*., OCA St. 1 at 4. With respect to a utility’s recovery of costs related to providing service, we have previously explained:

    It is our opinion that in 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. Thus, as the OCA contends, a quid pro quo relationship exists between the utility and its ratepayers. In return for providing safe and adequate service, the utility is entitled to recover, through rates, these enumerated costs. We find this principle to be consistent with the standards enunciated in [*Hope Natural Gas*] wherein it was stated that the “…fixing of ‘just and reasonable’ rates, involves a balancing of the investor and the consumer interests…”

    *Pa. PUC v. Pennsylvania Gas & Water Co.*,Docket No. R-850178 (Order entered April 24, 1986), 61 Pa. P.U.C. 409, 415-16, 1986 WL 1301279. [↑](#footnote-ref-18)
18. *See* 66 Pa. C.S. §§ 523, 526(a). [↑](#footnote-ref-19)
19. *See Lloyd*, 904 A.2d at1020 (explaining that gradualism is the principle under which utility rates are gradually increased in order to avoid rate shock, as part of what is overall considered a reasonable rate under the circumstances and is permitted in implementing large rate increases). [↑](#footnote-ref-20)
20. *See Pa. PUC et. al v. Twin Lakes Utilities, Inc*., Docket No. R‑2019‑3010958 (Order entered March 26, 2020) at 48, 80 (the ALJ did not err in considering evidence relating to the various quality of service and rate affordability issues in the proceeding and factoring in such evidence as part of her overall determination on which expert witnesses’ cost of equity to adopt for setting just and reasonable rates). [↑](#footnote-ref-21)
21. Categories of operating expenses may include operations, maintenance, administrative, and general. [↑](#footnote-ref-22)
22. *See UGI Electric* at 26 (explaining that Section 315(e) of the Code requires a utility to provide data after the fact to substantiate the accuracy of its FPFTY estimates). [↑](#footnote-ref-23)
23. A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pennsylvania Gas and Water Co. v. Pa. PUC*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted). [↑](#footnote-ref-24)
24. *See UGI Electric* at 26. [↑](#footnote-ref-25)
25. The Commission is granted wide discretion, because of its administrative expertise, in determining the cost of capital. *Equitable Gas Co. v. Pa. PUC*, 405 A.2d 1055, 1059 (Pa. Cmwlth. 1979) (determination of cost of capital is basically a matter of judgment which should be left to the regulatory agency and not disturbed absent an abuse of discretion). [↑](#footnote-ref-26)
26. *See* *Popowsky II*, 683 A.2d at 961 (“[t[he PUC has broad discretion in determining whether rates are reasonable” and “is vested with discretion to decide what factors it will consider in setting or evaluating a utility’s rates.”). [↑](#footnote-ref-27)
27. For example, any specific risks and uncertainties related to this pandemic affecting financial investments in similarly situated business undertakings may be considered by the experts when recommending a market-based return on equity for the utility (*e.g*., in such expert’s analysis of proxy groups, growth rates, and dividend yields). [↑](#footnote-ref-28)
28. It is well-established that a fair rate of return allows the utility the opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect. *See* *Bluefield*,292 U.S. at 692-93; *see also* *Hope Natural Gas Co.*,320 U.S. at 603. “When determining the cost of capital, the [Commission] must ‘give consideration to the utilities financial structure, credit standing, dividends, interests, risks, regulatory lag, wasting assets and any peculiar features of the utility involved.’” *West Penn Power v. Pa. PUC*, 607 A.2d 1132, 1135 (Pa. Cmwlth. 1992) (*West Penn*). [↑](#footnote-ref-29)
29. Moreover, as Columbia points out, the ALJ’s approach to this issue ignores that the General Assembly addressed concerns of overstated projections in Section 315(e) of the Code, “which authorizes a Commission audit of the FPFTY results after the fact to determine whether they were accurate and an adjustment of rates to reflect material differences.” *UGI Electric* at 26. [↑](#footnote-ref-30)
30. Columbia’s proposed revenue requirement after these concessions is $76.8 million, reflecting an equity return of 9.86%, $20 million of which is a roll-in of current DSIC charges. *See* *infra*, CG Exc. No. 20. [↑](#footnote-ref-31)
31. Prior to 2020, Columbia recorded the investment costs associated with Cloud Computing in Account 165 – Prepayments. The costs were amortized to O&M expense based on the life of the Cloud Computing arrangement. [↑](#footnote-ref-32)
32. Columbia’s depreciation expert, Mr. John Spanos, also explained that Mr. Effron oversimplified the process of computing depreciation accrual and the accrued depreciation reserve, in part because proper depreciation accounting requires a determination of plant in service and reserve at an account level, because different assets have different depreciation rates. CG St. 5-R at 2-4. [↑](#footnote-ref-33)
33. The ALJ agreed with the OCA’s recommendation to use a derivative adjustment for depreciation reserve, relating to the adjusted plant in service, as well as the proportional changes in ADIT in comparison with plant additions. R.D. at 59. [↑](#footnote-ref-34)
34. As previously noted, Columbia made certain concessions in its Exceptions, resulting in a final revised overall revenue increase of $76.8 million. This would have resulted in a final revised revenue requirement of $649,569,574. [↑](#footnote-ref-35)
35. *Petition of Columbia Gas of Pennsylvania, Inc., for Approval of a Major Modification to its Existing Long-Term Infrastructure Improvement Plan and Approval of its Second Long-Term Infrastructure Improvement Plan*, Docket No. P-2017-2602917 (Order entered September 21, 2017) at 16-17 (*Second LTIIP Order*). Columbia’s First LTIIP covered the period 2013-2017. [↑](#footnote-ref-36)
36. Cross bores can occur when existing unmarked underground facilities, such as water or sewer lines, are damaged by direct bore installation of underground facilities. [↑](#footnote-ref-37)
37. A riser is a section of pipe that connects fuel lines and meter sets outside a customer’s premises. Field-assembled risers are risers that were assembled in the field and installed. Most risers are installed and owned by customers. Columbia has identified a higher rate of failure in risers that are field-assembled versus those that are pre-assembled. Columbia ceased installing field-assembled risers in 2007 and began to target and replace these field-assembled risers when failures were identified after the 2014-2015 winter. I&E St. 5 at 11; CG St. 7 at 25; CG St. 7-R at 17­18. [↑](#footnote-ref-38)
38. The Parties’ positions regarding the cost of common equity will be discussed, in detail, in Section IX.D of this Opinion and Order, *infra.* [↑](#footnote-ref-39)
39. As discussed above, the OCA performed a separate, stand-alone analysis on NiSource, Inc. [↑](#footnote-ref-40)
40. As will be discussed below, in the following chart, DCF refers to the Discounted Cash Flow Method, CAPM refers to the Capital Asset Pricing Model, RP refers to the Risk Premium Method, and CE refers to the Comparable Earnings Method. [↑](#footnote-ref-41)
41. As noted below, Columbia stated that given these concessions, it would support a rate of return on common equity of 9.86%, under the present circumstances. Columbia Exc. at 24. [↑](#footnote-ref-42)
42. The OCA attached an appendix to its Main Brief entitled “OCA Rate Case Table: Zero Increase” in support of its primary position in this proceeding that the Company should not receive any rate increase. Table I(A) of this appendix shows that under a zero-increase scenario, the OCA proposed a rate of return on common equity of 6.53%. However, as we have determined that the Company should receive a rate increase, we will not consider this appendix in setting the appropriate cost of common equity for Columbia. [↑](#footnote-ref-43)
43. We note that there are additional rate issues pertaining to the elements in the proposed base rate increase addressed later in this Opinion and Order and not here simply because the Order follows the structure of the Recommended Decision for ease of reference by the reader. [↑](#footnote-ref-44)
44. Commission staff Report titled “Home Energy Affordability for Low-Income Customers in Pennsylvania” (Energy Burden Study), which detailed the results of a study on home energy burdens in Pennsylvania. *Energy Affordability for Low Income Customers*, Docket No. M-2017-2587711 (Order entered on January 17, 2019). [↑](#footnote-ref-45)
45. Pennsylvania Public Utility Commission Report on 2018 Universal Service Programs & Collections Performance (published December 2019), available at https://www.puc.pa.gov/General/publications\_reports/pdf/EDC\_NGDC\_UniServ\_Rpt2018.pdf. [↑](#footnote-ref-46)
46. *See Columbia Gas of Pennsylvania, Inc.’s 2019-2021 Universal Service and Energy Conservation Plan*, Docket No. M-2018-2645401 (Order entered August 8, 2019). [↑](#footnote-ref-47)
47. Rate classes MLS and MLDS were combined due to their unique characteristics of proximity to an interstate pipeline. CG St. 11 at 6. [↑](#footnote-ref-48)
48. CG Exh. 111, Sch. 1. The Company’s customer charge studies are also included as part of the Customer-Demand ACCOSS. CG Exh. 111, Sch. 1, pp. 14-30. [↑](#footnote-ref-49)
49. CG Exh. 111, Sch. 2. [↑](#footnote-ref-50)
50. CG Exh. 111, Sch. 3. [↑](#footnote-ref-51)
51. CAAP did not set forth any legal argument with regard to the ACCOSS proffered in this proceeding. CAAP M.B. at 9; R.D. at 369. [↑](#footnote-ref-52)
52. Since I&E found fault with Columbia’s Customer-Demand ACCOSS, I&E also does not support Columbia’s Average ACCOSS which is comprised of 50% of the Customer-Demand Study and 50% of the P&A Study. [↑](#footnote-ref-53)
53. *National Fuel Gas Distribution Corp.*, Docket No. R-00942991, Recommended Decision (entered Oct. 7, 1994) (*NFGD 1994*). [↑](#footnote-ref-54)
54. *Pa. PUC v. Philadelphia Gas Works*, Docket No. R‑00061931 (Order entered September 28, 2007) (“Reviewing the record, we find that the allocation of distribution mains investment costs should be done using both annual and peak demands.”). [↑](#footnote-ref-55)
55. *Pa. PUC. v. National Fuel Gas Distribution* *Co.*, 83 Pa. PUC 262 (1994) (*NFGD*). [↑](#footnote-ref-56)
56. I&E St. 3 at 16-17. [↑](#footnote-ref-57)
57. CAUSE-PA simply stated that it supports the OCA’s cost of service analysis. CAUSE-PA M.B. at 28. [↑](#footnote-ref-58)
58. OCA St. 4 at 16-17. [↑](#footnote-ref-59)
59. OCA St. 4 at 16. [↑](#footnote-ref-60)
60. OCA St. 4 at 8-9. [↑](#footnote-ref-61)
61. OSBA St. 1 at 30; OSBA M.B. at 18; R.D. at 361. [↑](#footnote-ref-62)
62. OSBA St. 1 at 24-25. [↑](#footnote-ref-63)
63. OSBA St. 1 at 24-25; OSBA M.B. at 15. The Recommended Decision provided a concise discussion about Mr. Knecht’s proposed methodologies on pages 364-366. R.D. at 364-366. The OSBA preferred the adoption of the 75/25 weighting of the Company’s two studies, but if the Commission approves the Company’s proposed approach, the OSBA submitted that its revenue allocation based on the 50/50 weighting is more consistent with the implications of the Company’s ACCOSSs than the Company’s revenue allocation proposal. [↑](#footnote-ref-64)
64. OCA St. 4, Table 5 attached to Sch. JDM-1 [↑](#footnote-ref-65)
65. R.D. at 394-395. [↑](#footnote-ref-66)
66. The ALJ cited the following two Commission Orders in support of the Commission’s precedent decisions that a gas utility’s system is an integrated distribution network created over time to serve present and future customers; accordingly, ACCOSS should be conducted using a methodology that mains cost be equally allocated to all pertinent customers classes based on throughput and peak average, rather than allocating mains costs separately by customer class. *Pa. PUC v. National Fuel Gas Distribution Co.*, 83 Pa. P.U.C. 262, 360 (1994). *See also* *Pa. PUC v. National Fuel Gas Distribution Co.*, 73 Pa. P.U.C. 552 (1990); *Pa. PUC v. Equitable Gas Co.*, 73 Pa. P.U.C. 301 (1990); and *Pa. PUC v. Columbia Gas of Pa.*, 69 Pa. P.U.C. 138 (1989). R.D. at 394. [↑](#footnote-ref-67)
67. CG Exc. at 29. [↑](#footnote-ref-68)
68. CG Exc. at 29-30; CG M.B. at 131-36; 2012 PPL Order at 113 (citing *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-2010-2161694 (Order entered December 21, 2010) (*2010 PPL Order*) at 46). [↑](#footnote-ref-69)
69. CG Exc. at 30; I&E M.B. at 92; CII M.B. at 12-13; PSU M.B. at 7; OSBA St. 1 at 15. [↑](#footnote-ref-70)
70. CG Exc. at 30; R.D. at 394-95; CG R.B. at 86-84. [↑](#footnote-ref-71)
71. *See P**a. PUC v. PPL Electric Utilities Corp*., Docket No. R-2012-2290597, p. 113 (Order entered December 28, 2012) citing *2010 PPL Order* at 36, 46. [↑](#footnote-ref-72)
72. OSBA Exc. at 5 (citing OSBA R.B. at 14, n.13): “Despite the similarity in terms, the A&E methodology and the P&A methodology are conceptually different. The A&E method uses a weighted average of average demand and ‘excess’ demand, where excess demand is peak minus average. The P&A method uses a simple average of average demand and peak demand. No expert in this proceeding offered any evaluation of the quantitative difference between those two methods.” [↑](#footnote-ref-73)
73. *See* *Pa. PUC et al. v. PPL Gas Utilities Corporation*, Docket No. R‑00061398 (Order entered February 8, 2007) (*2007 PPL Gas Order*) at 112-14. The OSBA explains that in this case the Commission approved an allocation of all mains costs using a variant on the A&E allocation method advanced by the utility expert witness. In that proceeding, the approved weighting was 40 percent to average demand and 60 percent to excess demand. This weighting was not based on system load factor. *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931 (Recommended Decision issued July 24, 2007) at 63; and *Pa. PUC v. Philadelphia Gas Works*, Docket No. R‑00061931 (Order entered September 28, 2007) (*2007 PGW Order*) at 80. The OSBA explains in this case that PGW proposed to classify some mains costs as customer-related and the balance as demand-related and proposed to allocate demand-related costs using a peak demand allocator. However, the Commission concluded that no mains costs should be classified as customer-related and that mains costs should be allocated using a variant of the A&E allocation method advanced by the then Office of Trial Staff expert. In the PGW proceeding, the approved weighting was 50 percent to average demand and 50 percent to excess demand. [↑](#footnote-ref-74)
74. OSBA noted that its witness, Mr. Knecht, developed fairly close working versions of Columbia’s model and used that replication for his proposed Customer-Demand and P&A ACCOSS models as shown in RDK WP1 and RDK WP2. OSBA St. 1 at 20, 27-28, 30. [↑](#footnote-ref-75)
75. OSBA St. 1-R at 12. [↑](#footnote-ref-76)
76. *See* OCA R. Exc. at 16-19; I&E R. Exc. at 4-5; and PSU R. Exc. at 12-13. [↑](#footnote-ref-77)
77. OCA R. Exc. at 18 (citing OCA St. 4 at 13-15; OCA M.B. at 139-150; I&E M.B. at 87). [↑](#footnote-ref-78)
78. I&E M.B. at 89; *Pa. PUC v. National Fuel Gas Distribution Co.*,83 Pa. P.U.C. 262 (1994). [↑](#footnote-ref-79)
79. I&E R. Exc. at 5 (citing I&E M.B. at 89; *Pa. PUC v. National Fuel Gas Distribution Co.*,83 Pa. P.U.C. 262 (1994). [↑](#footnote-ref-80)
80. Specifically, Columbia and PSU favor adoption of the 50%/50% Average ACCOSS proffered by the Company, without modification. The OSBA agreed with the Company’s underlying Customer-Demand and P&A ACCOSSs, but instead of using a 50%/50% average of the underlying studies that was used to craft the Average ACCOSS, the OSBA proposed a 75%/25% weighting which provides a 75% weighting to Columbia’s P&A ACCOSS, and 25% to the Company’s Customer-Demand ACCOSS. [↑](#footnote-ref-81)
81. I&E supported adoption of the Company’s P&A ACCOSS without modification, while the OCA proposed certain modifications. Nevertheless, in its Reply Exceptions, I&E stated that it is in the public interest to use the OCA’s P&A ACCOSS to allocate the final revenue increases among the different customer classes. I&E R. Exc. at 6. [↑](#footnote-ref-82)
82. *See 2012 PPL Order* at113 (citing *2010 PPL Order* at 46). [↑](#footnote-ref-83)
83. *See 2007 PPL Gas Order* at 112-14; *2007 PGW Order* at 80. [↑](#footnote-ref-84)
84. I&E M.B. at 89; *Pa. PUC v. National Fuel Gas Distribution Co.*,83 Pa. P.U.C. 262 (1994); OCA Exc. at 18 (citing OCA M.B. at 139-150; I&E M.B. at 87). [↑](#footnote-ref-85)
85. R.D. at 394; n.656. *Pa. PUC v. National Fuel Gas Distribution Co.*, 83 Pa. P.U.C. 262, 360 (1994). *See also* *Pa. PUC v. National Fuel Gas Distribution Co.*, 73 Pa. P.U.C. 552 (1990); *Pa. PUC*, 73 Pa. P.U.C. 301 (1990); and *Pa. PUC v. Columbia Gas of Pa.*, 69 Pa. P.U.C. 138 (1989). OCA St. 4 at 25. [↑](#footnote-ref-86)
86. *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931 (Order entered September 28, 2007) (“Reviewing the record, we find that the allocation of distribution mains investment costs should be done using both annual and peak demands”). [↑](#footnote-ref-87)
87. OCA R.B. at 61 (citing OCA St. 4-S at 17-18). [↑](#footnote-ref-88)
88. The increase to the residential class (RSS/RDS) was capped at the system average. CG St. 3 at 32. [↑](#footnote-ref-89)
89. The flexible rate provision of Columbia’s tariff provide that the customer charge is not eligible for adjustment. *See* Supplement No. 221 to Tariff Gas – Pa. P.U.C. No. 9, Sixth Revised Sheet No. 68. [↑](#footnote-ref-90)
90. We note the difference of $1,961,635 in the requested increase from $100,437,329 on page 1 to $102,398,964 on page 4 of Columbia’s Exhibit 103, Schedule 8 is due to the exclusion of the revenue associated with the proposed change in Other Gas Department Revenue (Late Payment Fees) and the proposed change in Gas Procurement Revenue. Additionally, the Company’s allocation of its $509,351,454 proposed revenue appears to include an increase in revenue from the Rider USP in order to reflect the revenue shortfall from CAP customers resulting from proposed rates. [↑](#footnote-ref-91)
91. CAUSE-PA did not take a position on revenue allocation, except on the allocation of universal service costs. PSU simply supported Columbia’s proposed revenue allocation based on the Average ACCOSS, opposing the alternatives proposed by the OCA, the OSBA, I&E, and CII. PSU M.B. at 14. CII did not offer a specific revenue allocation proposal but argued that the LDS/LGSS rate class should receive no more than the system average increase. CII M.B. at 17. [↑](#footnote-ref-92)
92. We note the OCA’s recommended revenue allocation included a redistribution of the Company’s base rate revenues only, as shown on Columbia Exhibit No. 103, Schedule 8, page 1, line 37. [↑](#footnote-ref-93)
93. The OCA notes that its proportional scale back approach should only be used if the Commission decides to follow a traditional ratemaking approach based on its recommended revenue allocation. OCA M.B. at 158-159. [↑](#footnote-ref-94)
94. The OSBA witness Knecht indicated that his analysis included all costs and revenues except purchased gas costs, including cost and revenues related to base distribution rates, Rider USP, Rider CC, the GPC, and the MFC. OSBA St. 1 at 23. [↑](#footnote-ref-95)
95. The OSBA asserted that, according to its analysis, the SGSS2/SCD2/SGDS2 and SDS/LGSS classes should either be assigned a zero increase (under 50/50 weighting) or an increase less than half that offered by the Company (under 75/25 weighting). [↑](#footnote-ref-96)
96. Columbia explained that it would defer the portion of the approved revenue increase not implemented in Phase 1 into a regulatory asset as an alternate revenue program and recover the regulatory asset over a 12-month period beginning January 1, 2022, and ending December 31, 2022. No interest would be applied to the revenue deferred under the alternate revenue program. The Company further explains that it would recover the deferred revenue captured in the regulatory asset through a fixed fee that will be temporarily added to the bill during the 12-month recovery period. Columbia therefore requests recognition of the phase-in as an alternate recovery program pursuant to ASC 980, which allows current account recognition of a phase-in increase. CG Exc. at 35-36. [↑](#footnote-ref-97)
97. *See* *Pa. PUC v. PGW*, Docket No. R-2020-3017206 (Order entered November 19, 2020) at 70 (“Section 1308(d) and the related caselaw cited by I&E and PGW clearly establishes that it is not within the Commission’s 1308(d) powers to mandate effective dates of rates beyond the end-of-suspension period.”). [↑](#footnote-ref-98)
98. R.D. at 36. “If the Commission determines that Columbia’s phase-in alternative revenue program is an appropriate method to the Recommended Decision’s recommended revenue allocation, the Company will adjust these amounts in accordance with the total amount of the rate increase approved by the Commission for each customer class.” [↑](#footnote-ref-99)
99. The “Competitive Alternative Analysis” is conducted prior to or at the time the Flex rate agreements are entered. As part of the settlement of Columbia’s rate case at Docket No. R-2018-2647577, Columbia agreed to provide updated competitive alternative analyses for six flex rate customers whose alternative supply had not been verified since 2008 and one flex rate customer whose alternative supply had not been verified since 2010. *See* *Pennsylvania Public Utility Commission, et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2018-2647577 *et al.* (Order entered December 6, 2018) at 29. “As a condition of settlement, Columbia agreed to make available for review, subject to an appropriate updated confidentiality agreement, competitive alternative analyses for the seven flex-rate customers identified in I&E Statement No. 3, in its next base rate case, and justify the flex rate granted to each customer.” R.D. at 85, Joint Petition at ¶ 45. [↑](#footnote-ref-100)
100. I&E St. 3 at 6. [↑](#footnote-ref-101)
101. *Energy Affordability for Low-Income Customers*,Docket No. M‑2017‑2587711*; Review of Universal Service and Energy Conservation Programs*,Docket No. M­2017­2596907*.*  [↑](#footnote-ref-102)
102. We have considered each of the ALJ’s alternative recommendations on the elements of Columbia’s base rate request and have reached conclusions herein regarding those alternative recommendations. [↑](#footnote-ref-103)