PENNSYLVANIA
PUBLIC UTILITY COMMISSION
Harrisburg, PA 17120

Public Meeting held January 18, 2024

Commissioners Present:

Stephen M. DeFrank, Chairman
Kimberly Barrow, Vice Chair
Ralph V. Yanora
Kathryn L. Zerfuss
John F. Coleman, Jr.

Pennsylvania Public Utility Commission	R-2023-3040258
Office of Consumer Advocate	C-2023-3040746
Office of Small Business Advocate	C-2023-3040567
Sandra E. Shaub	C-2023-3041197
Vincent E. Collier III	C-2023-3041198

v.

Columbia Water Company

OPINION AND ORDER

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BY THE COMMISSION:

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition are the Exceptions of Columbia Water Company (Columbia or the Company), the Commission's Bureau of Investigation and Enforcement (I&E), the Office of Consumer Advocate (OCA), and the Office of Small Business Advocate (OSBA), filed on November 2, 2023, to the Recommended Decision (R.D.) of Administrative Law Judges (ALJs) Mary D. Long and Charece Z. Collins, issued on October 23, 2023, in the above-captioned proceeding. Columbia, I&E, and the OCA filed Replies to Exceptions on November 9, 2023.

For the reasons stated, *infra*, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E; (2) deny the Exceptions filed by Columbia, the OCA, and the OSBA; and (3) adopt the ALJs' Recommended Decision, as modified, consistent with this Opinion and Order.

As discussed below, through its general rate increase request, *as revised*, Columbia proposed a base rate change that would have increased its total annual operating revenues by $999,900, or approximately 13.8%, based on a future test year

(FTY) ending December 31, 2023.[1] *See*, Columbia Exh. GDS 1-R at 1-3, 1-4. In this

[1] In its initial filing, Columbia requested an increase in *total revenue* of $999,900, which consisted of an increase in base rate revenue of $777,345, coupled with an increase in Pennsylvania Infrastructure Investment Authority (PENNVEST) surcharge revenue of $222,555. On May 17, 2023, the Company filed an Errata of its supporting data and information, removing all revenues, expenses, and rate base assets associated with the East Donegal Township Municipal Authority (EDTMA) rate district from its rate filing (May Errata). Subsequently, during the rebuttal phase of the proceeding, Columbia revised its requested increase in *base rate revenue*, from $777,345 to $999,900, or approximately 17%, to reflect the appropriate amount of PENNVEST revenue anticipated for the FTY. As shown in Table 1, below, by reflecting the appropriate amount of PENNVEST revenue, Columbia claimed approximately $7,244,926 in annual revenue for the FTY at present rates. Thus, Columbia designed its proposed rates to collect approximately $8,244,826, not including revenue from the EDTMA rate district. *See*, Columbia St. 2-R at 5-6.

Table 1: Columbia's Requested Increase

	Pro Forma Present Rate Revenue 12/31/23	Requested Increase		Pro Forma Revenues Under ProposedRates 12/31/23
As-Filed				
(Columbia Exh. GDS 1 at 1-11, 1-13)				
Base Rates	$6,405,534	$777,345	12.1%	$7,182,879
PENNVEST	$1,085,567	$222,555		$1,308,122
Other Revenue	$37,471	$0		$37,471
Total Operating Revenue	**$7,528,572**	**$999,900**	13.3%	**$8,528,472**
May Errata				
(Columbia Exh. GDS 1 at 1-12 (Revised), 1-14 (Revised))				
Base Rates	$5,891,911	$777,345	13.2%	$6,669,256
PENNVEST	$1,085,567	$222,555		$1,308,122
Other Revenue	$44,893	$0		$44,893
Total Operating Revenue	**$7,022,371**	**$999,900**	14.2%	**$8,022,271**
Rebuttal Testimony				
(Columbia Exh. GDS 1-R at 1-3, 1-4)				
Base Rates	$5,891,911	$999,900	17.0%	$6,891,811
PENNVEST	$1,308,122	$0		$1,308,122
Other Revenue	$44,893	$0		$44,893
Total Operating Revenue	**$7,244,926**	**$999,900**	13.8%	**$8,244,826**

Opinion and Order, we shall approve an annual revenue increase of $971,180 to the Company's *pro forma* revenue at present rates of $7,244,926, or approximately 13.4%.[2]

I. Introduction and Background

Columbia is a regulated public utility company, duly organized and existing under the laws of the Commonwealth.[3] As of December 31, 2022, Columbia furnished water service to approximately 12,154 customers, distributed among three rate districts: (1) Columbia 9,307; (2) Marietta 1,275; and (3) EDTMA 1,572. The Columbia rate district applies to water service provided in the Boroughs of Columbia and Mountville and in West Hempfield, Manor and portions of East Donegal and Rapho Townships, all located in Lancaster County. The Marietta rate district applies to water service provided in the Marietta Borough and portions of East Donegal Township in Lancaster County and in Hellam Township in York County. The EDTMA rate district applies to water service provided to customers in portions of East Donegal Township, Lancaster County, who were previously served by EDTMA. According to Columbia, the instant base rate increase request does not include the EDTMA rate district. *See*, Columbia St. 1 at 2-3; Columbia Exh. GDS 1-R at 1-2.

Columbia last filed for an increase in base rates in June 2017. Currently, Columbia seeks approval for a base rate change, applicable to customers of its Columbia and Marietta rate districts, that would increase the Company's total annual operating revenues by $999,900, or 13.8%, which is anticipated for the FTY ending

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2 Pursuant to 52 Pa. Code §§ 53.32 and 53.45, and as discussed in 66 Pa. C.S. § 1308(a), a utility is required to give notice of a general rate increase. That being said, the utility cannot deviate from the requested increase without good cause. This Opinion and Order approves an annual revenue increase of $971,180, which is $28,720 less than the Company's requested increase. Nonetheless, we note that we are essentially bound to grant no more of an increase than what is stated as requested in its notice to customers.

3 Columbia is not a publicly traded Company. Columbia St. 4 at 12.

December 31, 2023.[4] Columbia made various revisions and updates to its rate increase request during this proceeding. Under Columbia's conclusive revenue increase request, Columbia designed rates to produce approximately $8,244,826 in annual operating revenue, not including revenue from the EDTMA district.[5] *See*, Columbia St. 2-R at 5-6.

According to Columbia, this rate increase is driven by the need to earn a fair return on investments; to reflect capital additions that the Company has placed into service since its last base rate proceeding and the estimated $2,681,975 in capital additions that are projected to be placed in service during the FTY; to support ongoing long-term infrastructure replacement programs designed to enhance safety and reliability; to recover higher levels of operating expenses resulting from, among other things, increasing economic inflation, supply chain shortages, and general cost increases; and to recover increased costs related to employee compensation, management fees, upgrades to billing software, and customer support. *See*, Columbia Exh. GDS 1 at 1-1 (Revised).

II. History of the Proceeding

On April 28, 2023, Columbia filed Supplement No. 121 to Tariff – Water Pa. P.U.C. No. 7 (Supplement No. 121) to become effective on June 27, 2023. Supplement No. 121 contained proposed changes in rates, rules, and regulations designed to produce an increase in Columbia's total annual operating revenues of approximately

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[4] The historic test year (HTY) ended December 31, 2022.

[5] The Company adopted a "Black Box Customer Discount" in this proceeding, capping its requested increase in annual revenues at $999,900, which, according to Columbia, mitigated the potential impact to customers of the annual revenue increase of $1,293,424 that the Company claims it would be entitled to based on traditional ratemaking considerations. *See*, Columbia Exh. GDS 1-R at 1-4. Columbia explained that the Black Box Customer Discount adjustment is a placeholder and is intended to offset adjustments to the Company's rate request that may be proposed by I&E and/or other intervenors in this proceeding. Columbia St. 2 at 17.

$999,900. On May 17, 2023, the Company filed its May Errata, removing all revenues, expenses, and rate base assets associated with the EDTMA rate district from its base rate filing.

On May 9, 2023, the OSBA filed a Notice of Appearance, Formal Complaint at Docket No. C-2023-3040567, Public Statement and Verification. On May 17, 2023, the OCA filed a Notice of Appearance and Formal Complaint at Docket No. C-2023-3040746. Also on May 17, 2023, I&E filed a Notice of Appearance. On June 9, 2023, Sandra E. Shaub and Vincent E. Collier III filed Formal Complaints at Docket Nos. C-2023-3041197 and C-2023-3041198, respectively.

By Order entered June 15, 2023, the Commission suspended the implementation of Supplement No. 121 by operation of law, pursuant to 66 Pa. C.S. § 1308(d), until January 27, 2024, 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 June 20, 2023, the Company filed a tariff suspension, voluntarily suspending its proposed tariff to January 27, 2024.

On June 23, 2023, ALJs Long and Collins conducted a Prehearing Conference, as scheduled. Counsel for Columbia, I&E, the OCA, and the OSBA participated in the hearing. The Parties agreed to a schedule for the service of written testimony and exhibits, and evidentiary hearings were scheduled to take place August 28, 2023. The Parties also agreed to two public input hearings that would be held on July 12, 2023. The ALJs issued a Prehearing Order on June 23, 2023, which memorialized the litigation schedule.

By Order entered June 28, 2023, the ALJs granted Columbia's Motion for Protective Order.

On July 12, 2023, two public input hearings were also held, as scheduled. No customers testified at the public input hearings.

On July 26, 2023, the Company filed an Errata to the Direct Testimony of Mr. David Fox (July Errata). On August 4, 2023, I&E and the OCA filed their direct testimony in this proceeding. Pursuant to an agreement between the Parties, the OSBA filed its direct testimony on August 7, 2023. On August 14, 2023, the Company, the OSBA, and the OCA each filed rebuttal testimony. On August 22, 2023, I&E, the OCA, and the OSBA filed their respective surrebuttal testimony. On August 25, 2023, Columbia filed its rejoinder testimony.

On August 28, 2023, the evidentiary hearing was conducted as scheduled. At the evidentiary hearing, the written testimony and exhibits of each Party's witnesses were admitted into the record and provided to the court reporter. The OSBA cross-examined the OCA's witness, Mr. Jerome Mierzwa, and presented rebuttal testimony of the OSBA's witness, Mr. Brian Kalcic. The ALJs requested the Company's witness, Mr. Dylan D'Ascendis, to testify.

On August 30, 2023, the ALJs issued an Interim Order on Briefs and Closing of the Record memorializing briefing instructions, setting forth the due dates for briefs in the proceeding, and the closing of the record. On September 7, 2023, the ALJs issued an Interim Order Admitting OCA Statement 3SR – Errata, which corrected certain OCA testimony and exhibits.

On September 12, 2023, Columbia, I&E, the OCA, and the OSBA filed Main Briefs. All of these Parties filed Reply Briefs on September 21, 2023.

In the Recommended Decision, issued on October 23, 2023, ALJs Long and Collins recommended that Columbia's Supplement No. 121, which proposed changes in rates, rules, and regulations designed to produce an increase in Columbia's total annual operating revenues of approximately $999,900, be denied because the Company did not meet its burden of proving by a preponderance of the evidence the justness and reasonableness of every element of its requested increase. Instead, the ALJs recommended the approval of an increase in annual operating revenue in the amount of $944,893, or approximately 13% over present rates. R.D. at 3, 78.

As previously noted, Columbia, I&E, the OCA, and the OSBA filed Exceptions to the Recommended Decision on November 2, 2023.

On November 9, 2023, Columbia, I&E, and the OCA filed Replies to Exceptions.

III. 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 Pennsylvania Public Utility Code (Code), 66 Pa. C.S. § 1308(d). 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] "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*).

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

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[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).

(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 Court reiterated:

> 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*, 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); *see 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. 301, 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).

IV. Rate Base

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. Rate base is one part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding. I&E St. 2 at 4, 6.

According to Columbia, its final claimed rate base of $18,750,106 for the FTY ending December 31, 2023, reflects depreciated original cost plant in service plus additions of Materials and Supplies (M&S) and Cash Working Capital (CWC) as well as deductions of contributions in aid of construction (CIAC) and accumulated deferred income taxes (ADIT), as shown on page 1-9 of Columbia Exhibit GDS 1-R. As previously indicated, since the Company is not seeking to earn a return on the capital assets that serve the EDTMA rate district as part of this proceeding,[7] it has removed the capital assets from the calculation of the total measure of value set forth by Columbia, which is shown in Table 2, as follows:

[7] As previously indicated, the Company's claim for rate base was modified from its initial filing to exclude the plant assets associated with the former EDTMA that were acquired by Columbia in March 2022. *See*, Columbia St. 2 at 14.

Table 2: Columbia's FTY Rate Base Claim

	Utility Plant in Service	
	Columbia Division (PENNVEST Plant Not Claimed)	$45,156,565
	Marietta Division	$6,100,848
	Total Plant in Service	**$51,257,413**
Less:	Reserve for Depreciation	
	Columbia Division (PENNVEST Plant Not Claimed)	$18,191,589
	Marietta Division	$2,743,640
	Total Depreciation Reserve	**$20,935,229**
	Total Depreciated Plant in Service	**$30,322,184**
Add:	Materials and Supplies	$68,174
	Cash Working Capital	$501,510
Deduct:	CIAC (Net Accrued Depreciation)	
	Columbia Division	$6,344,283
	Marietta Division	$515,076
	Deferred Income Taxes	$5,282,403
	Columbia's Rate Base Claim	**$18,750,106**

See, Columbia Exh. GDS 1-R at 1-9.[8]

The depreciated plant in service is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as salvage value, from the original cost of the plant in service that is projected to be used and useful in the public service. The total depreciated plant in service is determined by taking a "snapshot" look at the depreciated original cost value of used and useful utility plant in service at the end of the FTY. I&E St. 2 at 4.

Further, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FTY is eligible to be reflected in rates.

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[8] As illustrated above, Columbia's booked utility plant in service funded by PENNVEST loans has not been included in this base rate filing. *See*, Columbia Exh. GDS 1 at 1-5 (Revised). As set forth in the Commission's policy statement, water and wastewater utilities have the option to recover the annual principal and interest payments on used and useful plant financed by PENNVEST loans through a surcharge on customers' bills instead of including this plant in rate base:

> Companies with outstanding PENNVEST loans not currently reflected in rates and companies that will receive PENNVEST loans in the future are encouraged to establish under 66 Pa. C.S. § 1307(a) (relating to sliding scale of rates; adjustments) and subject to Commission approval, an automatic adjustment by means of a sliding scale of rates limited solely to the recovery of PENNVEST principal and interest obligations, instead of seeking recovery of these amounts under 66 Pa. C.S. § 1308 (relating to voluntary changes in rates) base rate filing.

52 Pa. Code § 69.361.

A. Plant in Service and Depreciation Reserve

Columbia's claim for utility plant in service began with the actual HTY ending balance. For its Columbia rate district, the HTY ending balance was approximately $42,491,763. *See*, Columbia Exh. GDS 1 at 2-9 (Revised). The HTY ending balance for its Marietta rate district was approximately $6,100,848. *See*, Columbia Exh. GDS 1 at 2-16 (Revised).

The HTY figures were then adjusted to reflect $2,681,975 in construction projects anticipated to be completed during the FTY, as well as approximately $17,194 in associated retirements. *See*, Columbia Exh. GDS 1 at 1-5 (Revised).

None of the other Parties to this proceeding challenged the Company's claim for utility plant in service at the end of the FTY.

The Company's total level of accumulated depreciation in its rate case filing was approximately $20,935,229. *See*, Columbia Exh. GDS 1-R at 1-9. The Company's depreciation reserve was calculated by Company witness, Mr. Gary D. Shambaugh, and is based upon the Straight Line/Average Service Life Method and was applied to the original costs of Company plant in service at December 31, 2022 and December 31, 2023, with the PENNVEST-funded plant removed. *See*, Columbia Exh. GDS 1 at 1-5 (Revised). The Company also removed any depreciation reserve associated with its EDTMA capital assets to coincide with the removal of those assets from plant in service. Deductions were also made to the December 31, 2023 accrued depreciation amounts to reflect the depreciation attributed to CIAC. *See*, Columbia Exh. GDS 1 at 1-5 (Revised) – 1-6 (Revised).

The OCA initially recommended an adjustment to the Company's accumulated depreciation claim, but subsequently withdrew its recommendation. *See*, OCA St. 1SR at 21-22. There were no other disputes regarding the Company's claimed depreciation reserve.

There being minimal discussion on this issue, the ALJs recommended that the Company's claim for depreciated plant in service at the end of the FTY be adopted. R.D. at 18.[9] No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

B. Uncontested Additions and Deductions from Rate Base

As previously indicated, added to the Company's claim for depreciated plant in service is a claim for M&S in the amount of $68,174 based on a three-year average of the Company's M&S inventory. Columbia Exh. GDS 1 at 1-19 (Revised). Additionally, Columbia's rate base has been reduced by $6,859,359 to reflect zero cost utility plant in service, or CIAC.[10] Lastly, a deduction of $5,282,403 was made to Columbia's rate base claim to reflect the economic benefit of deferred federal income taxes. Columbia Exh. GDS 1-R at 1-9.

None of the other Parties to this proceeding disputed the Company's additions to rate base for M&S, or deductions from rate base for CIAC or accumulated deferred income taxes.

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[9] Table II of Appendix to the Recommended Decision underscores the ALJs' adoption of the Company's claim.

[10] The original cost of the CIAC, and accrued depreciation, shown by plant account, were set forth on pages 2-20 (Revised) and 2-21 (Revised) of Columbia Exhibit GDS 1.

There being minimal discussion on this issue, the ALJs recommended that the Company's claim for these uncontested rate base items be adopted. R.D. at 19.[11] No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

C. Contested Issue: Cash Working Capital (CWC) Addition to Rate Base

For ratemaking purposes, CWC is the capital needed to operate a utility between the rendition of service and the receipt of revenues in payment for services rendered. In short, CWC covers the lag between the payment of operating expenses and the receipt of revenues from ratepayers. All cash-based expenses are included in the Company's overall CWC claim; therefore, any adjustments to the Company's Operating and Maintenance (O&M) expense claims impact the CWC allowance.

1. Positions of the Parties

Based on autonomic revisions that Columbia made to its claimed O&M expenses throughout the course of this proceeding, the Company ultimately claimed an increase of $501,510 to rate base for CWC.[12] Columbia Exh. GDS 1-R at 1-9. The Company represented that its CWC allowance was derived based upon the Federal Energy Regulatory Commission's (FERC's) 1/8th (12.5% (45 days ÷ 365 days)) of O&M expense formula (also referred to as the 45-day rule). Under this approach, an average net lag of 45 days is assumed and applied to O&M expense less purchased water costs and other non-cash expenses to derive the cash working capital component of rate base. Columbia St. 2 at 13.

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[11] Table II of Appendix to the Recommended Decision underscores the ALJs' adoption of the Company's claims.

[12] The Company did not claim CWC for interest on long-term debt or taxes. *See*, Columbia M.B. at Appendix A, Tables IV and V.

While I&E and the OCA did not dispute the Company's method of calculating CWC, I&E and the OCA both recommended downward adjustments to the Company's claim because of their respective adjustments to the Company's claimed operating expenses. *See*, I&E St. 1 at 17; OCA St. 1 at 6. Specifically, I&E and the OCA recommended allowances of $495,137 and $476,009,[13] reflecting downward adjustments of $6,373 and $25,501, respectively, based on their respective expense adjustments to the Company's claims recommended during this proceeding. I&E St. 1-SR at 9; OCA St. 1SR, Sch. JLR-4.

2. Recommended Decision

Based on the ALJs' O&M recommendations, resulting in a downward adjustment of $124,112 to Columbia's O&M expenses (Table VI), the ALJs' Table II reflects a corresponding downward adjustment to CWC of $15,285, as a result of applying Columbia's CWC methodology.[14] R.D. at 20, Appendix Tables II and VI. As such, the resulting rate base recommended by the ALJs is calculated to be $18,734,821 ($18,750,106 - $15,285). R.D. at 20.

3. Columbia Exception No. 6 and Replies

In its Exception No. 6, Columbia disputes the basis for the ALJs' CWC adjustment, to the extent that the ALJs erroneously made downward adjustments to the Company's expenses. Columbia emphasizes that its dispute is not with the methodology used by the ALJs, but with the underlying adjustments made by the ALJs to the Company's claimed O&M expenses, as explained at length in Columbia's Exception

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[13] [$501,510 - $6,373 = $495,137]; [$501,510 - $25,501 = $476,009].

[14] The ALJs noted that no CWC adjustments are recommended for interest on long-term debt or taxes since the Company did not claim CWC for these expenses. R.D. at 20.

Nos. 3 through 5, *infra*. Therefore, Columbia submits that CWC must be adjusted accordingly when the Commission approves expenses the Company claimed for rate recovery greater than that which was recommended by the ALJs. Columbia Exc. at 27-28.

As discussed in its response to Columbia's Exception No. 6, the OCA submits that, since O&M expenses serve as the basis upon which the CWC is calculated, the ALJs' $15,285 calculation represents the correct CWC adjustment based on the expense recommendations of the ALJs. However, the OCA maintains that there are additional downward O&M expense adjustments that should be adopted by the Commission, and thus a concomitant adjustment to CWC to reduce rate base by $25,501 rather than the $15,285. OCA R. Exc. at 15-16 (citing OCA M.B. at Appendix A, Table II). Therefore, the OCA submits that Columbia's Exception No. 6, based on its objection to the ALJs' recommended adoption of any of the OCA's proposed adjustments, should be denied. OCA R. Exc. at 16.

4. Disposition

As noted by the ALJs, no Party opposed the 1/8th method proffered by Columbia for determining its claim for CWC. However, although the CWC calculation, known as an iteration, effectively, prevents the determination of a precise calculation until such time as all proposed adjustments to Columbia's expense claims have been considered by the Commission, Columbia and the OCA maintain that the CWC allowance should reflect their respective O&M expense adjustments.

We concur with the ALJs and the Parties that the 1/8th methodology is appropriate for calculating CWC. Further, we concur with the ALJs that applying that methodology should result in a downward adjustment of $15,285. Therefore, based on our adjustments to Columbia's expenses, *infra*, we conclude that the CWC allowance should be $486,225, which is a downward adjustment of $15,285 to Columbia's claim of $501,510.[15]

V. Revenues at Present Rates, Revenue Increase, and Revenue Requirement

A. Revenues at Present Rates

1. Positions of the Parties

Columbia's claim for *pro forma* revenue at present rates for the FTY was $7,244,926. The Company developed its claim by taking its per books revenue of $7,473,205 for the HTY and making several adjustments. First, Columbia identified: (1) revenues of approximately $19,165 from the aggregate gain and loss of customers annualized to reflect anticipated revenues for the customer changes over an entire year; and (2) additional revenues of $7,795 attributable to an additional 52 new customers. Second, Columbia removed revenues of approximately $390,243 associated with its EDTMA rate district as a concomitant adjustment to coincide with the removal of the capital assets and expenses associated with the EDTMA rate district from its claims in this rate case filing. Columbia then made an upward adjustment of $17,877 to reflect an annualized level of late fees and turn on fees. Columbia also removed approximately $105,428 in revenue associated with the Distribution System Improvement Charge (DSIC) to reflect the fact that its DSIC will be reset to 0.00% when its new base rates go into effect. Additionally, Columbia identified an error in its initial rate model that failed to accurately reflect increased PENNVEST revenues of approximately $1,308,122.

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[15] As discussed earlier, Columbia did not claim CWC for interest and dividends on long-term debt or taxes. Therefore, as set forth in Table VI: Adjustments in our Commission Tables Calculating Allowed Revenue Increase, which is attached to this Opinion and Order, the $15,285 reduction is entirely comprised of a decrease of the Company's O&M expenses.

Consequently, Columbia corrected this error and reflected an upward adjustment of $222,555[16] in additional PENNVEST revenues for the FTY. [17] Columbia M.B. at 19-20.

No Party challenged Columbia's final claim for *pro forma* revenue at present rates. I&E M.B. at 8; OCA M.B. at 11-12.

2. Recommended Decision

The ALJs recommended that Columbia's claim for *pro forma* revenue at present rates be approved without modification. R.D. at 21.

3. Disposition

No Party filed Exceptions to the ALJs' recommendation. We find that the ALJs' recommendation is reasonable and based on sound record evidence. Accordingly, we shall adopt the ALJs' recommendation that approves Columbia's claim for *pro forma* revenues at present rates.

B. Revenue Increase and Revenue Requirement

A utility's revenue requirement represents "the total revenue that the utility needs to collect through the rates charged to the public to cover its cost of service." James H. Cawley & Norman J. Kennard*, A Guide to Utility Ratemaking* at 102 (2018 ed.)

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[16] The Company listed anticipated PENNVEST revenue at present rates of $1,085,567. The Company then made an upward adjustment of $222,555 to accurately reflect its increased PENNVEST revenues. [$1,085,567 + $222,555 = $1,308,122]. *See,* Exh. GDS-1R at 1-3.

[17] [$7,473,205 + $19,165 + $7,795 – $390,243 + $17,877 – $105,428 + $222,555 = $7,244,926].

(*PUC Rate Case Handbook*). The formula to calculate the utility's revenue requirement is set forth, as follows:

$$RR=T+E+D+(RB \times ROR)$$

Where: RR=Revenue Requirement
T=Taxes
E=Operating Expense
D=Depreciation Expense
RB=Rate Base
ROR=Overall Rate of Return

I&E St. 1 at 18. The central issue in a base rate case involves identifying the appropriate cost of service, or revenue requirement, for the company, in this case Columbia.[18] *PUC Rate Case Handbook* at 102.

1. Positions of the Parties

Columbia set forth a proposed revenue requirement of approximately $8,538,350, representing a proposed revenue increase of $1,293,424 over its *pro forma* revenues at present rates of $7,244,926. Columbia Exh. GDS 1-R at 1-4. However, as previously noted, the Company voluntarily reduced its proposed revenue increase to $999,900 by implementing a Black Box Customer Discount Adjustment, reducing its proposed revenue increase by approximately $293,524, or by 23%, for the benefit of its customers.[19] Columbia St. 2 at 17; Columbia Exh. GDS 1-R at 1-4. Therefore, Columbia's final proposed revenue requirement was approximately $8,244,826.[20]

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[18] We have discussed the Company's rate base, *supra,* and will discuss the remaining components of the Company's Revenue Requirement formula in the sections that follow.

[19] [$1,293,424 – $999,900 = $293,524]; [$293,524 ÷ $1,293,424 = 22.69%]

[20] [$7,244,926 + $999,900 = $8,244,826].

I&E proposed a revenue requirement of $7,948,638 for Columbia. I&E noted that this recommended revenue requirement represented an increase of approximately $703,712 to the claimed present rate revenues of $7,244,926. I&E M.B. at 3 and Appendix A, Table I.

The OCA proposed a final revenue requirement for Columbia of $7,902.745, representing a revenue increase of approximately $657,819. OCA M.B. at 79 and Appendix A, Table I.

The OSBA did not set forth a specific proposed revenue requirement or revenue increase. However, the OSBA noted that its proposed rate design and revenue allocation, *infra,* reflected the Company's proposed revenue increase of $999,900. OSBA M.B. at 3.

2. Recommended Decision

The ALJs recommended an overall revenue requirement of $8,189,819 for Columbia based on the various adjustments they recommended be adopted in their Recommended Decision, resulting in an overall revenue increase of $944,893. R.D. at 3, 16, 78 and Appendix, Table I.

3. Disposition

Based upon our findings regarding certain inputs to Columbia's rate base, *supra,* and to Columbia's expenses, taxes, cost of common equity, and overall rate of return, discussed, *infra*, we shall approve an overall revenue requirement of $8,216,107, which will result in an overall distribution revenue increase of $971,180, on an annual basis.

VI. Expenses

Columbia proposed a claim for O&M expense of approximately $4,079,604. *See,* Columbia Exh. GDS 1-R at 1-5 – 1-8. Based upon the utility plant in service as of December 31, 2023, Columbia's claim for annual accrual depreciation expense is $1,174,375.[21] Columbia St. 2 at 11.

The remaining expense items that are disputed in this proceeding are discussed below.

A. Rate Case Expense

1. Positions of the Parties

Columbia proposed a claim for rate case expense of approximately $390,330. Columbia M.B. at 34 (citing Columbia Exh. GDS 1 at 1-16 (Revised)). Further, Columbia proposed to normalize its rate case expense over a period of 36 months, or three years, because it anticipates a three-year interval between the instant proceeding and its next base rate case. Columbia M.B. at 35 (citing Columbia St. 2-R at 17).

Columbia asserted that although the history of prior filings should be considered, it should not be the sole basis for determining revenue requirements because that would defeat the purpose of using the FTY in setting rates. Columbia M.B. at 35-36 (citing *Pa. PUC v. Emporium Water Company*, Docket No. R-2014-2402324 (Order

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[21] Columbia noted that this amount excludes annual depreciation expense of: (1) CIAC of $221,000 associated with developer-funded assets; and (2) $192,875, associated with EDTMA plant assets, which are not included in rate base as part of the instant filing. Columbia St. 2 at 11 (citing Columbia Exh. GDS 1, Supporting Schs. 4-5).

entered January 28, 2015) (*Emporium 2015*) at 48-49; *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597 (Order entered December 28, 2012) (*PPL 2012*); *Butler Township Water Co. v. Pa. PUC*, 473 A.2d 219 (Pa. Cmwlth. 1984) (*Butler Twp*)). Further, Columbia posited that a three-year normalization period is supported by the following conditions which were not present in the Company's previous rate cases: (1) the Company's agreement, through March 31, 2025, to maintain existing rates for EDTMA customers; (2) Columbia's commitment to spend $840,000 over the next three years to replace aging infrastructure through its second Long-Term Infrastructure Improvement Plan (LTIIP); (3) Columbia's Lead Service Line Replacement Program (LSLRP), which is pending before the Commission and, if approved, will result in additional expenditures; and (4) significant price increases that the Company experienced over the past few years that are likely to continue. Columbia M.B. at 36 (citing Columbia St. 2-RJ at 12; Columbia St. 2-R at 17-18; *Petition of Columbia Water Company for Approval of its Second Long-Term Infrastructure Improvement Plan*, Docket No. P-2022-3034702 (Order entered December 8, 2022) (*Columbia Petition*) at 11).

I&E submitted that the Commission has typically used the average number of months between a utility's rate case filings to determine the length of normalization. I&E M.B. at 9 (citing I&E St. 1 at 12-13; *Pa. PUC* v. *PECO Energy Company - Gas Division*, Docket No. R- 2020-3018929 (Order entered June 22, 2021) (*PECO 2021*) at 117-119; *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order entered February 19, 2021) (*Columbia Gas 2021*) at 78-79; *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150 (Order entered March 28, 2017) (*DuBois*) at 65-66; *Emporium 2015* at 50).

I&E averred that Columbia's proposed 36-month normalization period is not supported by the Company's historic filing frequency. I&E submitted that, based upon Columbia's last four base rate cases and the average number of months between each base rate filing, rate case expense should be normalized over fifty-nine (59) months. I&E M.B. at 9-10 (citing I&E St. 1 at 9-10). Further, I&E submitted that a normalization period based on actual historic filing frequency is more reliable than the future speculation or intention to file a rate case. Moreover, I&E submitted that Columbia's reliance on the time elapsed since its last rate case is limited and does not consider the Company's overall record of recent historic filings. I&E M.B. at 11 (citing I&E St. 1-SR at 6-7; I&E St. 1 at 10, 12-13).

The OCA also disagreed with Columbia's proposed three-year normalization period, contending that an anticipated three-year normalization period is speculative and inconsistent with accepted Commission practice. The OCA submitted that the normalization period for rate case expense should be based upon the Company's frequency of historical rate case filings. Accordingly, the OCA submitted that the normalization of rate case expense should be over a five-year, or 60-month, period. OCA M.B. at 12-13 (citing OCA St. 1-SR at 22; OCA St. 1 at 6-7).

The OCA averred that a five-year normalization period for rate case expense would match the average time between historical rate filings. Further, the OCA submitted that the Commission has consistently held that rate case expenses are normal operating expenses, and thus, a normalization period based on the historical frequency of rate filings should be used. OCA M.B. at 13 (citing *Pa. PUC, et al. v The Columbia Water Company,* Docket Nos. R-2008-20451576, *et al.* (Order entered June 10, 2009) (*2009 Columbia Rate Case*); *Popowsky v. Pa. PUC*, 674 A.2d 1149, 1154 (Pa. Cmwlth. Ct. 1996); *Pa. PUC v. National Fuel Gas Distribution Corporation*, 84 Pa. PUC 134, 175 (1995); *Pa. PUC v. Roaring Creek Water Company*, 73 Pa. P.U.C. 373, 400 (1990)). Moreover, the OCA noted that the Commission has found that the normalization period is determined based on the utility's actual historical rate filings, not the utility's intentions. OCA M.B. at 13 (citing *Pa. PUC v. City of Lancaster – Bureau of Water*, 2011 Pa. PUC LEXIS 1685 at *56-57; *Pa. PUC v. Metropolitan Edison Co.*, 2007

Pa. PUC LEXIS 5 (2007); *Pa. PUC v. City of Lancaster – Bureau of Water*, 2005 Pa. PUC LEXIS 44, *84 (2005)). Furthermore, the OCA asserted that if Columbia begins consistently filing rate cases every three years, then the normalization period will begin to align with this practice in future rate cases. However, the OCA posited that in this proceeding, rates must be established based on known facts which support a five-year normalization period. Accordingly, the OCA submitted that a downward adjustment to rate case expense of $52,311 is supported and should be adopted. OCA M.B. at 13 (citing OCA St. 1-SR at 22; OCA St. 1 at 6-7; OCA Sch. JLR-6 SR; App. A, Table II).

2. Recommended Decision

The ALJs found Columbia's rate case expense of $390,330 reasonable, but recommended a five-year, or 60-month, normalization period. R.D. at 23. The ALJs cited *Butler Twp* and *Emporium 2015* to note that the Commonwealth Court explained the purpose of normalizing an expense for ratemaking purposes, and as such, the Commission prefers using an actual historical filing pattern because it often presents the best evidence to anticipate a company's future behavior for a representative time period (*i.e.*, the filing of a company's next rate case). R.D. at 24-25 (citing *Emporium 2015* at 48; *Butler Twp*).

The ALJs also noted that in the proceeding for *PPL 2012*, although the Commission approved a 24-month normalization period for rate case expense based on the anticipated timing of future base rate case filings, PPL Electric Utilities Corporation (PPL) did not file its next base rate case until March 31, 2015, or thirty-six (36) months after the filing of the base rate case in that proceeding. R.D. at 25 (citing *PPL 2012* at 47-48). The ALJs further noted that in *Pa. PUC v. Wellsboro Electric Company*, Docket No. R-2019-3008208 (Order entered April 29, 2020) (*Wellsboro 2020*), Wellsboro Electric Company (Wellsboro) filed a base rate case in 2019 requesting a normalization of its rate case expense over three years due to its intent to file a base rate case within that time frame, and the Commission found that substantial evidence warranted a deviation from the traditional practice of relying on historical filing frequency. The ALJs continued that Wellsboro had not filed a base rate case, demonstrating there was no need to deviate from historic practices, and projections pertaining to when a base rate case will be filed are largely inaccurate. R.D. at 25 (citing *Wellsboro 2020* at 70-73).

The ALJs were not persuaded that Columbia's intent to file a base rate case in three years necessitates adopting a three-year normalization period. However, the ALJs were persuaded by the OCA's observation that evidence in the EDTMA acquisition proceeding suggests that a base rate filing in the near future may not be necessary. Specifically, the ALJs referred to Columbia's: (1) projection that current EDTMA rates would generate net operating income of $150,080 annually; and (2) averment that capital improvements would be funded through EDTMA net operating income and borrowed funds, which might include PENNVEST loans. R.D. at 26 (citing *Application of Columbia Water Company*, Docket No. A-2021-3027134 (Order entered February 3, 2022) (*2022 EDTMA*) at 10, 14). The ALJs continued that Columbia already has a PENNVEST surcharge mechanism in place, which can incorporate new PENNVEST loans without the need for filing a base rate case. R.D. at 26 (citing *The Columbia Water Company, Supplement No. 117 To Tariff – Water Pa. P.U.C. No. 7*, Docket R-2022-3036936 (Order entered February 9, 2023), (*Columbia Tariff*) at 4). The ALJs added that infrastructure investment, including lead service line replacement, will be recovered in this proceeding or through Columbia's DSIC. R.D. at 26.

The ALJs concluded that a departure from the Commission's preference for normalizing rate case expense based upon a utility's historic filing pattern is not justified. Accordingly, the ALJs recommended that Columbia's claimed rate case expense of $390,330 be normalized over five years, resulting in an adjustment of $52,311. R.D. at 26 (citing R.D. at Appendix, Table II).

3. Columbia Exception No. 2 and Replies

In its Exception No. 2, Columbia disagrees with the ALJs' recommendation that the Commission adopt a five-year normalization period based on the historical time interval between rate proceedings. Columbia Exc. at 19 (citing R.D. at 22-26). Columbia maintains that a utility's filing history, while helpful, should not be the sole basis for determining revenue requirements, as this would defeat the purpose of using a FTY in setting rates. Further, Columbia argues that the goal of ratemaking is to reasonably reflect future conditions when new rates are in effect. Columbia Exc. at 19 (citing *Butler Twp*; *Columba Gas v. Pa. PUC*, 613 A.2d 74, 76 (Pa. Cmwlth. 1992), *aff'd*, 636 A.2d 627 (Pa. 1994)). Moreover, Columbia argues that the Company's historical rate case filing intervals do not reflect current economic conditions because such conditions, combined with interest rates and inflation, do not reflect the same business environment as historical conditions, thereby placing more pressure on utilities to frequently raise rates. Columbia Exc. at 19-20 (citing Columbia St. 2-R at 18).

Columbia also disputes the ALJs' description of the Commission's decision in the *Wellsboro 2020* proceeding. Columbia Exc. at 20 (citing R.D. at 25). Specifically, Columbia posits that the Commission agreed that future projections must be considered and, based on the substantial evidence, accepted and granted a three-year normalization period. Columbia Exc. at 20-21 (citing *Wellsboro 2020* at 70-73) (emphasis omitted). Further, Columbia highlights the testimony of its witness, Mr. Shambaugh, to repeat that the Company: (1) has an agreement to maintain EDTMA customer rates through March 31, 2025; (2) is committed to spending approximately $840,000 over the next three years to replace aging infrastructure through its LTIIP; (3) is seeking approval of its LSLRP, which, if approved, will result in additional expenditures over the next three years; and (4) has experienced an increase in operating costs over the past few years which, even if economic inflation slows down, is likely to continue. Columbia Exc. at 21 (citing Columbia St. 2-R at 18; *Columbia Petition* at 11).

Columbia also contends that, contrary to the ALJs' finding that an increase for EDTMA customer rates would likely not be required, the record evidence demonstrates that a rate increase for EDTMA customers will be necessary in the next three years, thereby supporting a three-year normalization period for rate case expense. Columbia Exc. at 22 (citing R.D. at 26; Columbia St. 2-R at 17; *Vertis Group, Inc. v. Duquesne Light Company*, Docket No. C-00003643 (Order entered February 24, 2003), *aff'd*, 840 A.2d 390 (Pa. Cmwlth. 2003), *appeal denied*, 859 A.2d 770 (Pa. 2004)).

Columbia also opposes the ALJs': (1) recommendation that the Commission reject the Company's evidence that it intends to spend in excess of $1 million on infrastructure improvement and lead service line replacement over the next three years; and (2) reasoning that because the Company has a DSIC, a rate increase will not be necessary. Columbia Exc. at 22 (citing R.D. at 26). Columbia counters that although the DSIC mechanism assists with cost recovery for infrastructure improvements, the DSIC is capped at 5% of the amount billed to customers, which limits the DSIC from serving as a replacement for a rate case. Further, Columbia argues that the low return on equity (ROE) recommended by the ALJs means that the Company will be unable to recover as much revenue through its DSIC, which increases the likelihood of a rate case. Moreover, Columbia argues that the ALJs failed to address the Company's evidence that its costs will continue to increase, further necessitating a rate case in three years. Columbia Exc. at 22-23 (citing R.D. at 23-26; 66 Pa. C.S. § 1357(b)(2)).

In short, Columbia insists that based on substantial evidence that the Company will require a rate case approximately three years from when rates go into effect for this proceeding, the Commission should allow a three-year normalization period for rate case expense and apply this three-year normalization period for any other normalized expenses. Columbia Exc. at 23.

In its Replies, I&E contends that the Company's interpretation of *Wellsboro 2020* is incorrect. I&E R. Exc. at 7 (citing Columbia Exc. at 20). I&E explains that, in *Wellsboro 2020*, the Commission found that there was substantial evidence to deviate from its normal practice of relying on historical filing frequency. I&E R. Exc. at 7 (citing *Wellsboro 2020* at 70). I&E continues that it was not the Commission's position that future intentions to file a base rate case must be considered, but that in some instances, such future intentions would be considered where substantial evidence exists. I&E R. Exc. at 7.

I&E counters that here, the ALJs found that "the drivers" of Columbia's intent to file a base rate case in three years, including the Company's intention to address the rates of the EDTMA rate district after the agreed-upon rate freeze ends in 2025, were not persuasive enough to warrant deviation from the Commission's preference of relying on the utility's historical filing frequency. I&E R. Exc. at 7 (citing R.D. at 25-26). Further, I&E refers to the ALJs' observation of the EDTMA acquisition proceeding, capital improvements, and infrastructure investment to posit that the need for Columbia to file a base rate case is tentative at best. I&E R. Exc. at 7-8 (citing R.D. at 20).

I&E also counters that Columbia's reliance on the *Wellsboro 2020* decision is misplaced, given that it further demonstrates that a utility's stated intention to file a future base rate case is speculative and unreliable. I&E notes that although the Commission determined that Wellsboro provided substantial evidence demonstrating that it would file a base rate case within a three-year period, Wellsboro failed to do so.[22] Further, I&E contends that while predicting future expenses and filings is not an exact science, Columbia's reliance on *Wellsboro 2020* in support of its shorter normalization period is in-error, given that Wellsboro failed to file a rate case within the claimed

[22] I&E adds that Wellsboro's most recent rate case was filed on July 1, 2019, and although Wellsboro represented to the Commission a future rate case by July 2022, to date, it has not filed a subsequent rate case. I&E R. Exc. at 8.

timeframe. Moreover, I&E argues that *Wellsboro 2020* demonstrates the importance of using a utility's historical filing frequency to determine the appropriate normalization period, given the unreliable nature of a utility's ability to accurately predict its next rate case filing. I&E R. Exc. at 8.

In summary, I&E avers the ALJs correctly found that Columbia's stated intention to file a base rate case in three years is not a sufficient basis to deviate from the historic Commission practice of relying on historic filing frequency to determine the normalization period for rate case expense. Further, I&E asserts that Columbia has not demonstrated that the ALJs erred and, therefore, the Company's Exception on this matter should be rejected. I&E R. Exc. at 8.

In its Replies, the OCA similarly argues that the Company misunderstands the ALJs' discussion regarding *Wellsboro 2020*. Specifically, the OCA notes that although Wellsboro provided evidence to support its claims that it would file a base rate case within three years and, as such, was granted a three-year normalization period, Wellsboro did not and, to-date, has not filed a base rate case. OCA R. Exc. at 10 (citing Columbia Exc. at 20; R.D. at 25; I&E R.B. at 4; *Wellsboro 2020* at 70-73). The OCA asserts that the ALJs correctly concluded that an actual historic filing pattern "often presents the best evidence of a representative time period to anticipate the company's future behavior with respect to its next base rate case." OCA R. Exc. at 10 (citing R.D. at 25; *Emporium 2015*).

The OCA also disagrees with the Company's claims that proper weight was not given regarding evidence about the timing of its next rate case. Specifically, the OCA notes that the ALJs considered and were not persuaded by the testimony offered by the Company's witness that Columbia "will need to address costs and revenues associated with the EDTMA system" in the next three years. OCA R. Exc. at 10 (citing R.D. at 25-26) (emphasis omitted). The OCA counters that the ALJs were persuaded by the

OCA's evidence regarding representations previously made by the Company, namely in the EDTMA acquisition proceeding, which undercut Columbia's current claims regarding the timing of its next base rate case. OCA R. Exc. at 10-11 (citing *2022 EDTMA* at 10, 14; *Columbia Tariff* at 4).

Similarly, the OCA also addresses Columbia's claim that the ALJs found that because the Company has a DSIC, it will not need to seek a rate increase. Specifically, the OCA highlights that the Company has previously acknowledged that its DSIC has allowed it to manage infrastructure replacement costs "without the need for additional rate case filings." OCA R. Exc. at 11 (citing OCA R.B. at 8; *Columbia Petition* at 5). Further, the OCA asserts that Columbia's representations in a prior proceeding show that the Company's projections are not a reliable or reasonable measure for normalizing rate case expense and do not warrant a deviation from the Commission's practice of basing normalization periods on known and actual historic filing patterns. OCA R. Exc. at 11.

In summary, the OCA contends that because decreasing the normalization period would serve to increase rates, the Commission should adopt the ALJs' recommendation for a 60-month normalization period for rate case expense and Columbia's other normalized expenses. The OCA notes that in the event of an interval shorter than five years, that shorter interval will be factored into the actual, historic filing frequency in the next case, thereby reducing the normalization period to the Company's benefit. The OCA opines that this is a more reasonable result than increasing rates in this case and putting the customers at risk of Columbia's next rate case being more than three years later. OCA R. Exc. at 11-12 (citing OCA R.B. at 8; OCA M.B. at 13).

4. Disposition

We agree with the ALJs that, based on Columbia's historic filing frequency, a five-year, or 60-month, normalization period is appropriate for rate case expense. Further, we agree with the ALJs that the Company's reasoning for its intent to file a base rate case in the next three years is not persuasive to justify deviation from the Commission's traditional practice of relying on historical filing frequency in setting a normalization period. Although the Company avers that it will need to file a subsequent rate case within three years, we cannot rely on Columbia's assertions, as there is no guarantee that the Company will make the capital investment it projects. As the Commission found in the *Emporium 2015* case, an actual, historical filing pattern offers the best evidence for anticipating a company's future behavior, with respect to filing its next base rate case. *Emporium 2015* at 48. Further, as observed by the ALJs, the Company already has the PENNVEST and DSIC mechanisms in place, which suggests that the Company may not need to file a base rate case in the near future. For these reasons, Columbia Exception No. 2 is denied. Accordingly, we shall adopt the ALJs' recommendation to reduce the Company's claim for rate case expense by $52,311, or from $390,330 to $338,019.

B. Materials and Supplies – HTY Expense and Going-Level Adjustments

1. Positions of the Parties

Columbia proposed a materials and supplies expense claim of $432,400 for the year ended December 31, 2023, based on the Company's 2022 per books amount of $377,390. Columbia also proposed a "going-level" adjustment of $55,010, to reflect known and measurable increasing costs during a period of inflation and supply chain shortages. Columbia M.B. at 26 (citing Columbia Exh. GDS 1 at 1-15 (Revised)).

In response to the OCA's recommendation, *infra,* that the FTY level of materials and supplies expense should be adjusted based on the average of actual expenses for the most-recent three years, Columbia posited that cost data from 2018 through 2021, and particularly 2020, is no longer reliable, nor does it represent the costs to operate, given substantial price increases and general economic conditions resulting from inflation and supply chain issues. Columbia R.B. at 18 (citing Columbia St. 2-RJ at 7-9; OCA M.B. at 14). Further, Columbia provided that through August 7, 2023, materials and supplies expense is projected to exceed the Company's claimed level of materials and supplies expense in the FTY by 13%.[23] Columbia M.B. at 29 (citing Columbia St. 2-R at 15). Specifically, Mr. Shambaugh offered the following illustration:

> [F]or the period January 1, 2023 through August 7, 2023, the total expensed was $293,841. That is an average of $1,348 per day ($293,841 / 219 days = $1,342 per day). Annualized, that works out to $489,830 ($1,348 x 365 days = $489,830). The $489,830 is about $112,440 more than the HTY 2022 amount of $377,390 and $57,430 more than the FTY 2023 amount of $432,400.

Columbia St. 2-R at 15. As an alternative, Columbia offered that if the Commission were to adopt the OCA's adjustment, then it should average the years 2021, 2022, and 2023. Columbia M.B. at 30-31 (citing Columbia St. 2-RJ at 12).

Additionally, Columbia addressed the OCA's recommendation, *infra,* that $18,000 in road restoration project costs, which is reflected in the Company's proposed going-level adjustment, be normalized over five years. Mr. Shambaugh submitted that although this project may have been a one-time occurrence, normalizing such costs is inappropriate and inconsistent with the purpose of materials and supplies expense, which reflects various one-time projects and costs undertaken annually as part of maintaining service. Columbia St. 2-R at 16. Columbia noted that in 2023, the Company incurred

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23 [$57,430 ÷ $432,400 = 13.28%].

additional costs of $29,000 for a similarly-scoped pavement restoration project, which is not reflected in the Company's claim for materials and supplies expense. Columbia R.B. at 21 (citing Columbia St. 1-R at 2).

The OCA's witness, Ms. Jennifer L. Rogers, asserted that upon her review of the last five years of annual materials and supplies expense, $377,390 for the HTY 2022 is abnormally high and the expense category is highly variable. OCA St. 1 at 7-8. As such, Ms. Rogers submitted that based on the average of actual expenses for the most-recent three years, the HTY level of materials and supplies expense should be reduced by $59,017, or from $377,390 to $318,373.[24] According to Ms. Rogers, a normalized amount will recognize Columbia's actual HTY level of expense while also accounting for the variation of actual materials and supplies expense over three years. OCA M.B. at 14 (citing OCA St. 1SR at 8, 12; OCA Sch. JLR-7 SR). Ms. Rogers also addressed Columbia's assertions regarding the impact on materials and supplies expense by inflation and supply chain constraints. Specifically, Ms. Rogers noted, *inter alia*, that: (1) economic information suggests that inflation growth is slowing; (2) material shortages caused by supply chain issues are beginning to subside; (3) material costs, which had risen due to shortages, could decrease as shortages cease; and (4) Federal Reserve efforts to slow inflation would prevent new or additional inflation from negating the change in materials costs as supplies improve. OCA M.B. at 14-15 (citing OCA St. 1SR at 3-12; OCA St. 1 at 8).

Ms. Rogers also provided that, based upon her review of Columbia's supporting documentation, the Company's proposed additional $55,010 going-level adjustment to the materials and supplies expense includes road restoration project costs of $18,000. OCA M.B. at 16-17 (citing OCA St. 1 at 8-9; OCA Sch. JLR-8; Columbia Exh. DTL-1R (Columbia Response to I&E-RE-14-D)). Ms. Rogers submitted that because

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24 [$377,390 - $59,017 = $318,373].

this project does not reflect an annually recurring cost, Columbia's proposed going-level adjustment should be normalized over a five-year period (similar to the proposed five-year normalization period for rate case expense), resulting in a reduction of $14,400.[25] OCA M.B. at 17 (citing OCA St. 1 at 8-9; OCA Sch. JLR-8 SR; OCA Sch. JLR-8).

2. Recommended Decision

The ALJs agreed with Columbia that the OCA's proposed adjustment to the HTY for materials and supplies expense should not be accepted. The ALJs found the explanation offered by Mr. Shambaugh more compelling than the analysis offered by Ms. Rogers. The ALJs concluded that known and measurable evidence should not be dismissed in-favor of the OCA's view of potential future economic conditions. R.D. at 27, 30 (citing *2009 Columbia Rate Case*).

Regarding the road restoration project, the ALJs did not find Columbia's explanation persuasive. The ALJs pointed out that this project was described as an unusual roadway repair caused by a water main break. R.D. at 31 (citing Columbia Exh. DTL-1R (citing Columbia Reply to I&E-RE-14-D)). Further, the ALJs determined that Columbia's identification of a similar restoration project in 2023 does not support the Company's assertion that the road restoration project at issue here is a normal, annual expense. Accordingly, the ALJs agreed with the OCA that Columbia's going-level adjustment for the materials and supplies expense should be reduced by $14,400, based on a five-year normalization. R.D. at 27, 31 (citing R.D. at Appendix, Table II).

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25 [$18,000 * 4/5 = $14,400]. OCA M.B. at 17 (citing OCA Sch. JLR-8 SR).

3. Exceptions and Replies

a. Columbia Exception No. 3 and Replies

In its Exception No. 3. Columbia disputes the ALJs' finding that $18,000 of the going-level adjustment associated with a roadway repair is not a normal, annual expense. Columbia Exc. at 23 (citing R.D. at 31). Columbia maintains its position that materials and supplies expense should not have been normalized, or in the alternative, should be normalized over three years, not five. Columbia Exc. at 23.

Columbia disagrees with the conclusions of the ALJs and the OCA that a significant roadway repair resulting from a main break is not an annual expense. Columbia Exc. at 23 (citing R.D. at 31; Columbia Exh. DTL-1R (Columbia Reply to I&E-RE-14-D)). Columbia argues that the expense incurred, while unusual for a roadway repair, is not an annually recurring expense that will continue in the future at more significant costs. Columbia Exc. at 23-24. Further, Columbia cites the testimony of its witnesses, Mr. Shambaugh and Mr. David Lewis, to repeat that because such restoration projects recur annually and represent a normal level of expense, normalization is not necessary. Columbia Exc. at 24 (citing Columbia St. 2-R at 16; Columbia St. 1-RJ at 3). Moreover, Columbia adds that main repairs and associated roadway repairs are not "usual," except that such events occur each year for utilities located beneath public roadways. Furthermore, Columbia repeats that it provided evidence of a similarly-scoped restoration project costing $29,000, which is not reflected in the Company's claim for materials and supplies expense. Columbia Exc. at 24 (citing Columbia St. 1-R at 2). Additionally, Columbia proffers that if the roadway repair expense is normalized, then a three-year normalization period is a more appropriate alternative that will provide the Company a "fair chance" at recovering expense. Columbia Exc. at 25.

In its Replies, the OCA counters that the ALJs considered and were not persuaded by the Company's position that the event and magnitude of an $18,000 roadway repair represents a normal or annual occurrence. OCA R. Exc. at 12 (citing R.D. at 30-31). Further, the OCA asserts that if a second expense repair occurred in 2023, that would not establish that either project was a normal, annual expense. OCA R. Exc. at 12-13 (citing R.D. at 31; OCA M.B. at 18). Moreover, the OCA contends that if the $18,000 road restoration project related to a water main break was a normal event, then it would be unnecessary to include the entire $18,000 as part of the going-level adjustment. OCA R. Exc. at 13 (citing OCA St. 1SR at 13). Furthermore, the OCA maintains that recognizing the road restoration project expense at a normalized level will balance the interest of the Company and the ratepayers. OCA R. Exc. at 13 (citing R.D. at 31; OCA M.B. at 18). Accordingly, the OCA contends that the Company's Exception on this matter should be denied. OCA R. Exc. at 13

b. OCA Exception No. 1 and Replies

In its Exception No. 1, the OCA argues that the ALJs "discounted" the OCA's evidence that: (1) material costs, which rose due to shortages, could abate as shortages end; and (2) the Federal Reserve's efforts to slow inflation will prevent new or additional inflation from negating the change in materials costs as supply chain constraints lessen. OCA Exc. at 2 (citing OCA St. 1SR at 3-12).

The OCA also contends that the accuracy of Columbia's projections for 2023 material and supplies costs should not be the basis for the amount allowed for that expense. The OCA notes that materials and supplies expense can vary and change depending on yearly activity and unit costs for supplies going up or down in relation to the quantity of the supply purchased. OCA Exc. at 2. Specifically, the OCA provided a table demonstrating yearly fluctuations before and after inflation rose in 2021, which is outlined in Table 3, as follows:

Table 3: Columbia's Materials and Supplies Expense-2018 to 2022

	2018	2019	2020	2021	2022
Materials and Supplies Expense	$277,720	$319,473	$282,301	$295,427	$377,390
		Change	Change	Change	Change
		$41,753 15%	$37,172 12%	$13,126 5%	$81,963 28%

OCA Exc. at 2 (citing OCA St. 1 at 8, 10). Further, the OCA avers that a three-year normalization is appropriate to protect ratepayers from overcollection of such expenses. Moreover, the OCA repeats that using normalization provides weight to Columbia's actual HTY level of expense, while also accounting for the variation of actual materials and supplies expense experienced by Columbia over three years. OCA Exc. at 2-3 (citing OCA M.B. at 14-16; OCA St. 1SR at 12-13). Furthermore, the OCA argues that using an average of years is consistent with case law regarding the purpose of normalization: "to smooth out the effects of an expense item that occurs at regular intervals, but in irregular amounts" to make the test year representative of normal operations. OCA Exc. at 3 (citing *Pa. PUC v. Total Environmental Solutions, Inc.*, Docket Nos. R-00072493, *et al.* (Opinion and Order entered July 30, 2008) (*TESI*) at 72, 100; *PECO 2021* at 56, 59).

The OCA also notes that after the Company's proposed going-level adjustment of $55,010 is reduced by the ALJs' recommendation that the Commission adopt the OCA's proposed downward adjustment of $14,400, Columbia will still have a FTY going-level adjustment of $40,610.[26] The OCA continues that the addition of the FTY going-level adjustment of $40,610 to the OCA's recommended $318,373 for the

[26] [$55,010 - $14,400 = $40,610].

HTY means that future rates will be determined using $358,983.[27] OCA Exc. at 3 (citing OCA M.B. at App. A, Table II; OCA St. 1SR; OCA Sch. JLR-8SR).[28]

The OCA also refers to Columbia's alternate recommendation to reduce the HTY expense for materials and supplies from its original proposal of $377,390 to $368,406. OCA Exc. at 3 (citing Columbia St. 2-RJ at 12; Columbia Exh. DGS 1 at 1-15 (Revised)). Specifically, the OCA contends that while it disputes the amount proposed because, *inter alia*, it would give the level of expense weight both at the 2022 level and as the base for the projected 2023 level, the alternate recommendation supports adopting a HTY level of expense that is based on an average, rather than a single year, of a highly variable expense. OCA Exc. at 3.

In its Replies, Columbia maintains its position that cost data from 2018 through 2021 does not represent the costs to operate the Company, given substantial price increases, general economic conditions since 2020, and the effects of inflation and supply chain pressures. Columbia R. Exc. at 14 (citing Columbia St. 2-RJ at 7-9). Further, Columbia repeats that based on the evidence provided, the Company is expected to exceed HTY materials and supplies expense, as well as the claimed level of materials and supplies expense in the FTY. Columbia R. Exc. at 14-15 (citing Columbia M.B. at 29; Columbia St. 2-R at 15).

Columbia also refers to the *2009 Columbia Rate Case* to argue that "[w]here, as here, the Company has provided reasonable evidence that costs represent a normal level of cost going forward, averaging the costs from previous years is not

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[27] [$40,610 + $318,373 = $358,983].

[28] We note that the OCA refers to Columbia's FTY going-level adjustment as "$50,010." OCA Exc. at 3, fn.1 (citing OCA Sch. JLR-8SR). Given that Columbia's proposed going-level adjustment is $55,010, we consider this to be an inadvertent misstatement.

appropriate." Columbia R. Exc. at 15 (citing *2009 Columbia Rate Case*). Further, Columbia challenges the OCA's judgments about the future of the economy and Ms. Rogers' qualifications to argue that the OCA did not present any compelling evidence, including any study or analysis, to support its position. Columbia R. Exc. at 15-16 (citing Columbia M.B. at 27-28; OCA M.B. at 2-3; OCA St. 1, App. A). Moreover, Columbia counters that the OCA's suggestion that cost data, which pre-dates the worst economic effects of the COVID-19 pandemic, now represents a normal level of expense is not reasonable. Accordingly, Columbia contends that the OCA's Exception on this matter should be denied. Columbia R. Exc. at 16.

4. Disposition

We concur with the ALJs that known and measurable evidence should not be dismissed in-favor of possible economic conditions in the future. Moreover, we find compelling the testimony of Columbia's witness, Mr. Shambaugh, which addressed materials and supplies expense cost data, including the actual materials and supplies expensed by the Company through August 7, 2023, and future projections based on those actual costs. *See,* Columbia St. 2-R at 15-16.

The OCA recommended a reduction to Columbia's claim for a materials and supplies expense based on the average of actual expenses for the most-recent three-year period. Columbia has provided that cost data from 2018 through 2021 is not reliable nor representative of the actual costs to operate, given price increases, inflation, and supply chain issues which predate this timeframe. We agree with Columbia that the OCA's proposed reduction does not account for the current costs to operate. Moreover, we do not find the argument put forth by the OCA in support of its position persuasive. Accordingly, we agree with the ALJs that the OCA's adjustment to the materials and supplies expense should not be accepted. For these reasons, the OCA's Exception No. 1 is denied, and we shall adopt the ALJs' recommendation on this matter.

Regarding the one-time $18,000 road restoration project, we concur with the ALJs that the Company's explanation is unpersuasive. To the extent that Columbia argues that this roadway repair, which resulted from a water main break, is a normal expense that occurs annually, we disagree. Further, the Company's proffering of a similar restoration project, which occurred in 2023 but is not reflected in materials and supplies expense, does not support the Company's position that the $18,000 restoration project is a normal, annual expense, nor does it justify why normalization of the $18,000 project is inappropriate. Accordingly, we agree with the ALJs that Columbia's going-level adjustment should be normalized over a five-year period and, therefore, reduced by $14,400, or from $18,000 to $3,600.[29] For these reasons, Columbia's Exception No. 3 is denied, and we shall adopt the ALJs' recommendation on this matter.

C. Other–Maintenance Expense

1. Positions of the Parties

Columbia proposed a claim for its other-maintenance expense of $288,451 for the year ended December 31, 2023, based on the Company's 2022 per books amount of $263,888. Additionally, Columbia proposed a going-level adjustment of $36,902, to reflect known and measurable increasing costs during a period of inflation and supply chain shortages.[30] Columbia M.B. at 32 (citing Columbia Exh. GDS 1-R at 1-5).

In disagreement with the OCA's recommendation, *infra,* that the other-maintenance expense be adjusted based on the average of actual expenses for the most recent three-years, Columbia referred to its reasoning with regard to the Company's claim for materials and supplies expense, discussed, *supra*. Columbia M.B. at 33 (citing

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[29] [($18,000 x 4 years) ÷ 5 years = $14,400; $18,000 – $14,400 = $3,600].

[30] Columbia noted that approximately $12,339 was removed as being related to the EDTMA rate district. Columbia M.B. at 32.

OCA St. 1, Sch. JLR-9). Columbia also referred to the testimony of its witness, Mr. Shambaugh, to submit that the Company must be permitted to recover costs it has actually incurred and will incur this year, in order to provide reasonable, adequate, efficient, and safe service to its customers. Columbia M.B. at 33 (citing Columbia St. 2-RJ at 10-11). Columbia added that the Company has sufficiently demonstrated that its increased costs to the other-maintenance expense and other expenses: (1) were known and measurable changes to reasonably incurred and prudent expenses to its customers; and (2) resulted from economic inflation and supply shortages. Columbia R.B. at 24-25 (citing *Pa. PUC v. UGI Corporation*, 410 A.2d (Pa. Cmwlth. 1980) (*UGI Corp*) at 931; Columbia St. 1-R at 3; Columbia Exh. DTL-1R; *2009 Columbia Rate Case*).

In offering an alternative to the OCA's proposed adjustment to the other-maintenance expense, Columbia again referred to its discussion regarding its supplies and maintenance expense. Specifically, Columbia repeated that it has demonstrated that 2020 costs are no longer representative of the costs to operate the Company. As such, Columbia proffered that if the Commission were to adopt the OCA's below recommendation for the other-maintenance expense, then, similar to its alternative adjustment to the supplies and maintenance expense, the Commission should average the years 2021, 2022, and 2023. Columbia M.B. at 34 (citing Columbia St. 2-RJ at 9).

The OCA posited that based upon the review of its witness, Ms. Rogers, Columbia's 2022 per books expense of $263,888, which the Company chose as representing a normal level of other-maintenance expense prior to the addition of the going-level adjustment, was abnormally high. In response to Columbia's position that the 2022 increase in costs was related to inflation and material shortages, Ms. Rogers asserted that the Company has not provided any evidence and/or analysis demonstrating: (1) that material shortages will continue into the future; (2) the actual impact of inflation and supply chain issues on Columbia's increase in costs; and (3) that the level of 2022 activity was similar to prior years' activity.[31] As such, Ms. Rogers submitted that to avoid setting rates that would result in an overcollection from customers, the other-maintenance expense should be set at a normalized level prior to the addition of the going-level adjustment. Specifically, Ms. Rogers submitted that based on the average of the three most-recent years of actual other-maintenance expense, the normalization is $235,228, or a decrease of $28,660. OCA M.B. at 20-22 (citing OCA St. 1SR at 3, 6-7; OCA St. 1 at 9-11; OCA Sch. JLR-9 SR).

Additionally, the OCA submitted that Columbia's alternative level of expense proposal should not be accepted for setting rates because the Company has not provided substantial evidence to support this alternative. OCA M.B. at 23.

2. Recommended Decision

The ALJs disagreed with the OCA's recommendation for the same reason they explained regarding the OCA's recommendation for materials and supplies expense, *supra*. The ALJs found that evidence provided by the OCA in support of its argument that prices will return to 2020 and 2021 levels is neither substantial nor compelling. In contrast, the ALJs found it more compelling that to provide reasonably adequate, efficient, and safe service to its customers, Columbia must be permitted to recover costs that it has actually incurred and will continue to incur this year. R.D. at 32.

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[31] Additionally, the OCA referred to its discussion regarding materials and supplies expense and, specifically, Ms. Rogers' economic assessment that Columbia's reliance on inflation and supply chain issues as justification for higher expense levels does not reflect current developments and trends. OCA M.B. at 21-22 (citing OCA St. 1SR at 8-13; OCA St. 1 at 7-9).

3. OCA Exception No. 2 and Replies

In its Exception No. 2, the OCA disagrees with the ALJs' recommendation that the Commission adopt the reasoning that the Company "must be permitted to recover costs it has already actually incurred and will incur this year" to provide service. OCA Exc. at 4 (citing R.D. at 32; Columbia M.B. at 33). The OCA argues that such reasoning suggests a guarantee of historic expense recovery even though the purpose of the test year is to predict the level of expense "during the period for which the rates being set will function." OCA Exc. at 4 (citing *PUC Rate Case Handbook* at 85).

The OCA also disputes the ALJs' conclusion that Columbia's projected level of expense for the FTY 2023 is consistent with its actual experience and, therefore, that "unadjusted" level of expense must be used to set rates for the rating period. OCA Exc. at 4 (citing R.D. at 32). The OCA maintains that Columbia failed to: (1) demonstrate that the Company's HTY level of expense is normal; (2) provide any evidence of continuing material shortages; (3) provide any analysis to show the actual impact of inflation and supply chain issues on its increase in costs; and (4) provide evidence that the level of cost activity in 2022 was similar to prior years' cost activity. OCA Exc. at 4-5 (citing OCA St. 1SR at 6-7; OCA St. 1 at 10). Further, according to the OCA, Columbia wants the Commission to: (1) "ignore" data indicating that prices are falling; (2) rely solely on its actual experience; and (3) exclude any recognition of its actual, lower expense. OCA Exc. at 5 (citing Columbia St. 2-RJ at 8). Moreover, the OCA opposes the ALJs' recommendation that the Commission adopt Columbia's position because it puts customers at risk of future rates based on an overstated and abnormal level of expense while, conversely, the Company takes on little risk. Furthermore, the OCA avers that its adjustment to the HTY base amount is a more reasonable result because it recognizes Columbia's actual, recent experience in the prior three years, and an additional increase for the FTY. OCA Exc. at 5 (citing OCA M.B. at 20-22; OCA St. 1 at 9-11).

Additionally, the OCA notes that although it objects to the specific amount of Columbia's alternative proposals, it asserts that the alternative recommendation provides support for adopting a base level of expense that is based on an average of Columbia's experience. OCA Exc. at 5-6 (citing Columbia St. 2-RJ at 9). In short, the OCA contends that its proposal to reduce Columbia's other-maintenance expense to a normalized level of $28,600 is reasonable, necessary to protect customers, and supported in principle and on the record. OCA Exc. at 6 (citing OCA R.B. at 12-13; OCA M.B. at 20-22; OCA Sch. JLR-9SR).

In its Replies, Columbia notes that the OCA's argument here fails for the same reasons set forth in its reply to the OCA's Exception No. 1, *supra,* regarding materials and supplies adjustments. Nevertheless, Columbia challenges the OCA's argument, noting that the Company has demonstrated that its increased costs to its other-maintenance expense and its other expenses are known and measurable. Columbia R. Exc. at 16 (citing *UGI Corp* at 929, 931). Further, Columbia argues that the OCA is unable to challenge the level of expense that was incurred by the Company in the HTY. Moreover, Columbia notes that such costs are consistent with, and currently understate, what the Company is incurring to provide service to its customers in the FTY. Furthermore, Columbia asserts that although utilizing actual costs is not a guarantee of historic cost recovery, it is the most reasonable and accurate basis for the FTY. Columbia R. Exc. at 16-17.

Columbia also counters that the record demonstrates that the Company's costs have increased over the years and, although costs may fluctuate, they will continue to increase. Columbia R. Exc. at 17 (citing OCA Exc. at 5). Columbia continues that given what the actual cost data shows, there is no basis to make a historical cost-based average to set future rates. Further, Columbia maintains that the actual cost data reflects increases that are the result of systemic economic inflation and supply chain shortages. Moreover, Columbia argues that the evidence of the Company's actual costs during the

HTY, and to-date in the FTY, is consistent with Commission precedent acknowledging that evidence of actual costs is sufficient. Columbia R. Exc. at 17 (citing Columbia St. 1-R at 3; Columbia Exh. DTL-1R; *2009 Columbia Rate Case*).

4. Disposition

For the same reasons set forth in our disposition of the issue pertaining to the OCA's proposed adjustment to the Company's materials and supplies expense claim, *supra,* we similarly disagree with the OCA's proposed adjustment to Columbia's claim for the other-maintenance expense. Similar to its opposition to Columbia's materials and supplies expense, the OCA also objects to the Company's proposed other-maintenance expense based on what it deems an "abnormally high" HTY expense. However, we find that the Company has sufficiently demonstrated that its increased costs, including the other-maintenance expense costs, are known and measurable. As noted by the ALJs, Columbia must be permitted to recover costs that it actually incurred and will continue to incur. We agree. Moreover, we concur with the ALJs that the OCA's substantiation of its position that the other-maintenance expense should be adjusted to reflect the average of the most-recent three-year period is not compelling. Accordingly, we shall deny the OCA's Exception No. 2 and adopt the ALJs' recommendation on this matter.

D. Office Expenses

1. Positions of the Parties

Columbia proposed a claim for an office expense of $92,156. Additionally, Columbia proposed a going-level adjustment of $35,995, to reflect an upgrade to the Company's billing software and the cost of increased support. Columbia M.B. at 37 (citing Columbia Exh. GDS 1 at 1-15 (Revised), 1-18 (Revised)).

Columbia agreed with the OCA's position, below, that $25,995 of office expense is attributable to a one-time cost for an upgrade to the Company's billing software. However, Columbia disagreed with the OCA's proposal that the cost for the software upgrade be normalized over five years, countering that it should be normalized over a period of three years, consistent with the Company's recommended normalization period for its rate case expense claim, *supra*. Columbia M.B. at 37 (citing Columbia St. 2-R at 19). Accordingly, Columbia submitted that based on a three-year normalization, the Company's proposed going-level adjustment to office expense would be reduced by approximately $17,330.[32] Columbia St. 2-R at 19 (citing Columbia Exh. GDS 1-R at 1-8). Therefore, Columbia submitted a revised going-level adjustment of $18,665.[33] *See*, Columbia Exh. GDS 1-R at 1-8.

The OCA's witness, Ms. Rogers, provided that $25,995 of Columbia's going-level adjustment is attributable to a one-time cost for a software upgrade to the Company's billing system. As such, Ms. Rogers submitted that the one-time expense of $25,995 should be normalized over five years, to prevent rates from being set to recover costs not incurred annually, and to remain consistent with the historical average time between rate case filings.[34] OCA St. 2 at 11 (citing OCA Sch. JLR-10).

The OCA disagreed with the Company's revised proposal to normalize this one-time expense over three years. The OCA noted that Columbia's witness, Mr. Shambaugh, chose a three-year normalization to remain consistent with his rate case normalization recommendation, rather than the historical frequency of upgrading billing software. OCA M.B. at 24-25 (citing OCA St. 1SR at 23). Further, the OCA contended that regardless of Columbia's intent, rates should not be set at a higher level based on the

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32 [$25,995 - ($25,995 ÷ 3) = $17,330].

33 [$35,995 - $17,330 = $18,665].

34 As noted, *supra*, the OCA proposed a normalization period of five years for rate case expense.

Company's future plans. OCA M.B. at 25. Moreover, the OCA cited *Emporium 2015* to note that the Commission has consistently held that the normalization period should be based on a utility's historic filing frequency rather than its own projection of when it will file a rate case. OCA R.B. at 13-14 (citing *Emporium 2015* at 48-49). Accordingly, the OCA submitted that, based on a five-year normalization, the Company's revised going-level adjustment claim for its office expense should be reduced by $3,466.[35] OCA St. 1-SR at 23 (citing OCA Sch. JLR-10 SR).

2. Recommended Decision

The ALJs found that given their discussion of the appropriate normalization period for rate case expense of five years, Columbia's claim for billing software upgrade expense should, likewise, be normalized over a five-year period, resulting in a downward adjustment of $3,466 (*i.e.*, the difference between the OCA's proposed adjustment and Columbia's revised claim for office expenses). R.D. at 33 (citing R.D. at Table II).

3. Columbia Exception No. 4 and Replies

In its Exception No. 4, Columbia opposes the ALJs' recommended five-year normalization period for the office expenses related to the billing software for the same reasons that it disagrees with the ALJs' recommended five-year normalization period for rate case expense, *supra.* Accordingly, Columbia maintains its position in support of a three-year normalization period for office expense. Columbia Exc. at 25 (citing R.D. at 33).

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[35] [($25,995 ÷ 3 years) - ($25,995 ÷ 5 years) = $3,466]. *See*, OCA Sch. JLR-10 SR.

In its Replies, the OCA also refers to its discussion regarding rate case expense to repeat that a five-year normalization period is appropriate and should also apply to office expense. OCA R. Exc. at 14 (citing R.D. at 24-26, 33; OCA R.B. at 5-9, 13-14; OCA M.B. at 13, 24-25).

4. Disposition

For the same reasons set forth in our disposition, *supra*, in Section VI. A of this Opinion and Order pertaining to the issue of the appropriate normalization period for rate case expense, we similarly agree with the OCA's recommended adjustment to Columbia's claim for the office expense. Similar to its opposition to the Company's proposed normalization period for its rate case expense, the OCA also opposed the Company's proposed three-year normalization for office expense. Accordingly, the OCA proposed a five-year normalization period for office expense to remain consistent with the historical average time between rate case filings. The ALJs agreed with the OCA that Columbia's claim for billing software upgrade expense should be normalized over a five-year period, similar to their recommended five-year normalization period for rate case expense. We agree. Therefore, we find that the Company's revised going-level adjustment claim for its office expense should be reduced by $3,466, or from $18,665 to $15,199, consistent with the ALJs' recommendation. Accordingly, we shall deny Columbia's Exception No. 4 and adopt the ALJs' recommendation on this matter.

E. EDTMA Expenses

1. Positions of the Parties

As previously noted, Columbia serves customers in three rate districts: (1) Columbia; (2) Marietta; and (3) EDTMA. Subsequent to its initial rate filing, Columbia filed its May Errata which, concurrent with the removal of EDTMA rate district capital assets and revenues, also removed expenses applicable to the EDTMA rate district.[36] Columbia M.B. at 1, 22 (citing Columbia St. 2 at 10). Specifically, Columbia provided that expenses for the EDTMA rate district, which totaled approximately $153,369, were removed from the Company's claim for its O&M expense, including expenses for, *inter alia*: (1) the wages and salaries of three EDTMA rate district employees; (2) utilities; (3) chemicals; (4) rental of property; (5) engineering; (6) general liability insurance; and (7) office expenses. Columbia St. 2 at 10 (citing Columbia Exh. GDS 1, Supporting Sch. 10). Additionally, Columbia made additional EDTMA rate district adjustments, by removing: (1) employer-paid payroll taxes associated with the three EDTMA rate district employees; and (2) FTY increases directly related to the EDTMA rate district, including: (a) employees' salary increases; (b) incremental rental property expense; (c) electronic payment fees; and (d) water testing costs. Columbia St. 2 at 10-11; Columbia Exh. GDS 1 at 1-15 (Revised). The adjustments further reduced the Company's claim for its O&M expense by an additional $19,621. In short, Columbia submitted that all costs associated with providing service to the Company's EDTMA rate district were removed from the Company's rate case filing. Columbia R.B. at 14.

In opposition to the OCA's proposed adjustments to determine and remove the EDTMA-proportional share of total company expenses for all three rate districts, *infra,* Columbia noted that the OCA's adjustments are based on allocation factors to a full-year of expenses. As such, Columbia recommended that to account for the fact that the Company did not acquire the EDTMA system until three months into the HTY, the OCA reduce its proposed adjustments by approximately 25%. Columbia St. 2-R at 10-13. Notwithstanding, Columbia challenged the reliability of the OCA's proposed

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[36] As noted, *supra*, on May 17, 2023, Columbia filed its May Errata to Rate Increase Filing, to remove all assets, revenues, and expenses associated with the EDTMA rate district because, as part of the instant proceeding, Columbia is not requesting a rate increase to earn a return on and of EDTMA assets, or a rate increase for recovery of EDTMA-related operational expenses.

allocation factor adjustments, positing that the adjustments are duplicative and overstate the true cost to operate the EDTMA rate district. Columbia St. 2-RJ at 4-5.

The OCA's witness, Ms. Rogers, reviewed Columbia's claim that all directly-assigned costs related to EDTMA had been removed and determined that additional adjustments were necessary to account for overhead and costs not directly assigned. According to Ms. Rogers, Columbia's revised rate case claim only removed costs which could be directly assigned to the EDTMA rate district and, therefore, unreasonably burden Columbia and Marietta customers with the responsibility for all general operating costs. OCA M.B. at 26-27 (citing OCA St. 1 at 15). In determining Columbia's cost of service elements of expenses for which the EDTMA rate district should be responsible, Ms. Rogers developed allocation factors related to the allocation of rate base, revenues, customers, all labor, and an average allocator. OCA M.B. at 27 (citing OCA St. 1 at 16-19; OCA Sch. JLR-15). In applying these factors, Ms. Rogers noted, *inter alia*, that she did not remove potentially shared costs from expense categories where Columbia already removed directly assigned expenses (*i.e.*, employees, employee pensions and benefits, and general liability insurance). OCA M.B. at 27 (citing OCA St. 1SR at 17-18; OCA St. 1 at 16-19). Ultimately, Ms. Rogers identified sixteen (16) expense categories subject to her allocation factors, based on EDTMA's share of total Company costs. OCA R.B. at 15-16 (citing OCA St. 1SR at 15).

In response to Columbia's opposition to her proposal, Ms. Rogers reduced each EDTMA adjustment by 25%, to reflect that EDTMA was not acquired until three months into 2022. OCA M.B. at 28 (citing OCA St. 1-SR at 19-20; OCA Sch. JLR-15 at 2; CWC St. 2R at 12-13). In summary, Ms. Rogers submitted that because Columbia has not met its burden to show that allocating only direct costs to EDTMA is just and reasonable for setting rates, her proposed downward allocation adjustments to EDTMA expenses, totaling $48,987, are necessary to assure that Columbia and Marietta rate district customers are not burdened with the inclusion of indirect and general costs. OCA M.B. at 29-30 (citing OCA St. 1SR at 21; OCA Sch. JLR-15 SR at 2).

2. Recommended Decision

The ALJs agreed that it is appropriate to remove the portion of Columbia's general operating costs attributable to the cost of serving EDTMA rate district customers. The ALJs found that although Ms. Rogers was required to use data which may predate the EDTMA acquisition, any negative impact resulting from that data is: (1) minimized to the 25% reduction of Columbia's HTY expense; and (2) outweighed by the benefit to Columbia and Marietta customers, as they will not be responsible for indirect EDTMA customer costs. R.D. at 37.

The ALJs noted that Columbia did not dispute that it did not have adequate time to develop data regarding indirect costs attributable to service to EDTMA. Furthermore, the ALJs observed that Columbia had sufficient time to track the direct costs associated with EDTMA. R.D. at 37. Accordingly, the ALJs reasoned that the OCA's proposed method of allocation of indirect costs related to EDTMA is reasonable and fair. R.D. at 37. Hence, as set forth in Table 4, below, the ALJs found that given their recommendation, *supra,* that the Commission deny the OCA's proposed HTY materials and supplies expense adjustment, indirect costs of $53,936 should be allocated to the EDTMA rate district as follows:

Table 4: The ALJs' Recommended Allocation of Indirect Costs to the EDTMA Rate District

Account Description	EDTMA Allocation Percentage	OCA Revised Proposed Allocation Amount	ALJ Adjusted Allocation Amount
Officers, Directors & Majority Stockholders	4.94%	$1,359	$1,359
Materials and Supplies	8.39%	$22,193	$27,142[139]
Accounting	8.39%	$2,287	$2,287
Legal	8.39%	$2,027	$2,027
Management Fees (Bank Charges)	8.39%	$8,128	$8,128
Testing	8.39%	$1,939	$1,939
General Liability	4.94%	$1,447	$1,447
Workman's Compensation	4.94%	$73	$73
Bad Debt Expense	6.33%	$582	$582
Membership Dues	8.39%	$841	$841
Stockholders Expenses	8.39%	$117	$117
Uniforms	8.39%	$376	$376
Director's Fees & Expenses	8.39%	$7,097	$7,097
Mailing	6.33%	$257	$257
Travel	8.39%	$31	$31
Education	8.39%	$233	$233
Total		**$48,987**	**$53,936**

R.D. at 37-38 (citing R.D. at Appendix Table II).

3. Columbia Exception No. 5 and Replies

In its Exception No. 5, Columbia opposes the ALJs' recommendation that the Commission adopt the OCA's position, emphasizing that the OCA's proposed cost allocations to EDTMA, *inter alia*, duplicate and overstate the actual cost to operate the EDTMA rate district. Specifically, Columbia disputes the ALJs' recommended adoption of the OCA's proposal to allocate EDTMA rate district-related expenses by arguing that the Company has already identified and adjusted to remove: (1) insurance-related expenses; (2) mailing expense; and (3) management fees (bank charges). Columbia Exc. at 26-27 (citing Columbia St. 2-RJ at 4-5). Further, Columbia contends that the ALJs' recommended cost allocation of EDTMA-related costs is unreasonable because it: (1) duplicates adjustments already made by the Company; (2) over-allocates costs incurred to operate the Columbia and Marietta rate districts to the EDTMA rate district; and (3) uses allocation factors that do not represent the costs to serve the EDTMA rate district. Moreover, Columbia maintains that it has identified and provided evidence of the direct costs charged to the EDTMA rate district and removed such costs from the Company's filing. Columbia Exc. at 27.

In its Replies, the OCA addresses the Company's argument that the allocations are duplicative of direct costs by positing that, "[p]oint for point, the OCA provided evidence refuting those claims." OCA R. Exc. at 15 (citing OCA R.B. at 16; OCA St. 1SR at 18, 20; OCA St. 1 at 17, 19). Further, the OCA counters that because the Company failed to meet its burden to show that allocating only direct costs to EDTMA is just and reasonable for setting rates, the ALJs considered and properly rejected the Company's arguments. OCA R. Exc. at 15. Moreover, the OCA notes that the ALJs' recommendation on this issue reflects that the OCA demonstrated that its adjustments are both reasonable and conservative. OCA R. Exc. at 15 (citing R.D. at 37). Accordingly, the OCA contends that Columbia's Exception on this matter should be denied. OCA R. Exc. at 15.

4. Disposition

We agree with the OCA that although the Company's filing removed costs which could be directly associated with the EDTMA rate district, further adjustment to the Company's claims for operating expense is necessary to ensure that the Columbia and Marietta rate districts are not bearing responsibility for indirect and general costs applicable to the EDTMA rate district. While Columbia contends that the OCA's proposed cost allocations overstate EDTMA operating costs, we agree with the ALJs that the 25% reduction will minimize the impact of operating cost data which may predate the March 31, 2022 acquisition of the EDTMA system. We further agree with the ALJs that the OCA's proposed method to allocate indirect costs related to EDTMA is fair and reasonable. Indeed, as observed by the ALJs, the Company had sufficient time to develop direct costs applicable to EDTMA and did not contend that it did not have sufficient time to develop indirect EDTMA cost data.

To the extent that Columbia contends that the OCA's proposed adjustments to insurance-related expenses, mailing expenses, and management/bank fees are duplicative, we find the OCA's argument and the testimony offered by the OCA's witness, Ms. Rogers, to be more compelling. Specifically, Ms. Rogers testified that she applied the applicable allocation factor to total general liability insurance costs after first removing the direct EDTMA expenses from the FTY value. *See,* OCA St. 1SR at 19. Regarding both mailing expenses and management/bank fees, Ms. Rogers testified that the Company removed the portion of costs assigned to EDTMA from the going-level adjustment, but not from the per books value for year-end 2022. Ms. Rogers continued that to avoid duplication, she applied the EDTMA allocation percentage only to the 2022 per books value, rather than the Company-proposed FTY value. *See,* OCA St. 1SR at 20; OCA St. 1 at 17. Therefore, we conclude that Columbia's argument on this matter has no merit. Moreover, we find that the OCA's proposed allocation adjustments are reasonable and appropriate for allocating indirect operating costs associated with EDTMA expenses.

Based on the above, we shall adopt the ALJs' recommendation, which reduces the Company's expense claim by $53,936. Accordingly, Columbia's Exception No. 5 is denied.

F. Cash Working Capital

As discussed in more detail in Section IV.C of this Opinion and Order, *supra*, regarding the Company's expense claims, the CWC component of Columbia's rate base will be reduced by $15,285, which reflects our adjustment to the O&M expenses of $124,112. In making this adjustment, we have applied the same methodology utilized by Columbia and the ALJs and agreed upon by I&E and the OCA.

G. Uncontested Expenses

As shown on Columbia Exhibit GDS 1 at 1-15 (Revised), the Company included the following expense items in its claim for O&M expenses: (1) employee pensions and benefits; (2) membership dues; (3) director's fees & expenses; and (4) mailing. *See*, Columbia Exh. GDS-1 at 1-15 (Revised).

In its direct testimony, I&E disagreed with Columbia's employee pensions and benefits claim, alleging that the claim included expenses associated with the EDTMA rate district, and recommended an adjustment. In its rebuttal testimony, Columbia disagreed with I&E's recommendation, countering that the employees of the EDTMA rate district are part-time operators and, therefore, do not receive a pension or benefits. In its surrebuttal testimony, I&E accepted the Company's testimony and withdrew its recommendation. Columbia M.B. at 25-26 (citing Columbia St. 2-R at 14; I&E St. 1-SR at 8; I&E St. 1 at 15-16).

Also, in its rebuttal testimony, Columbia responded to recommendations proposed by the OCA by adjusting the Company's claim for membership dues, director's fees and expenses, and mailing. *See,* Columbia Exhibit GDS 1-R at 1-5, 1-7. In its surrebuttal testimony, the OCA accepted the Company's adjustments to membership dues, director's fees and expenses, and mailing, noting that Columbia and the OCA were in agreement. Columbia M.B. at 38-41 (citing Columbia St. 2-R at 20; OCA St. 1-R at 24; OCA St. 1 at 11).

Additionally, in its direct testimony, the OCA proposed a net negative salvage adjustment. Subsequently, in its surrebuttal testimony, the OCA withdrew its proposed adjustment. In its rejoinder testimony, Columbia acknowledged the withdrawn adjustment. OCA M.B. at 9 (citing Columbia St. 2-RJ at 1-2; OCA St. 1SR at 21-22; OCA St. 1 at 19-24; OCA Schs. JLR-1, JLR-2).

The ALJs, while noting that several expense items were either resolved in testimony or uncontested, did not directly address any of the uncontested issues. R.D. at 22. Given that no Party has filed Exceptions, and there were no disagreements with the aforementioned proposals and revisions, we shall approve these uncontested issues without further comment.

VII. Taxes

A. Income Taxes

Columbia's FTY claim for current and deferred income taxes under proposed rates is set forth in Columbia Exhibit GDS 1-R, Supporting Schedule 2.[37] Other than disallowances of state income taxes (SIT) regarding proposed adjustments to O&M expense and return on equity, the only issues raised regarding income tax were: (1) the applicable SIT rate; (2) the taxable nature of PENNVEST surcharge revenue; and (3) interest synchronization. Columbia M.B. at 43-44.

1. State Income Taxes (SIT)

a. Positions of the Parties

Columbia's filing relies on a SIT rate of 8.99%. In support, Columbia represented that 8.99% is the rate currently in effect throughout the duration of the FTY in this proceeding. Further, Columbia noted that it has complied, and will continue to comply, with the Commission's requirement that future SIT reductions be flowed-through annually via the State Tax Adjustment Surcharge (STAS). Columbia M.B. at 47-48 (citing Columbia St. 2-R at 23; *State Tax Adjustment Columbia Water Company*, Docket No. R-2023-3037555 (Secretarial Letter issued January 11, 2023) (*STAS 2023*); 52 Pa. Code § 69.52).

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[37] We note that in this proceeding, Columbia only claimed SIT and did not claim any federal income tax, as the Company has sufficient tax loss carryforwards to avoid federal tax liability for the foreseeable future. Columbia M.B. at 43 (citing Columbia Exh. GDS 1-R at 2-3).

In opposition to the Company's reliance on the SIT rate of 8.99%, the OCA observed that Columbia's current rate increase request is suspended until January 27, 2024, after which the SIT rate will be 8.49%. OCA M.B. at 30-31 (citing OCA St. 1 at 24). The OCA argued that while most costs for January 2024 must be projected, the SIT rate is known and certain, which is consistent with the ratemaking principle that data contained in the test year is designed to reflect the accurate operating condition of the utility for the period that rates will be in effect. OCA M.B. at 31 (citing *Pa. PUC v. Philadelphia Gas Works*, Docket No. R-00061931, et al. (Order entered September 28, 2007) (*2007 PGW*) at 45). As such, the OCA recommended that the calculation for state tax expense utilize the January 2024 SIT rate of 8.49%. OCA M.B. at 31 (citing OCA 1SR at 24-25; OCA Sch. JLR-16 SR, App. A; Columbia St. 2R at 23).

b. Recommended Decision

The ALJs reasoned that for ratemaking purposes, it is appropriate to use the state tax rate that is in effect during the FTY. Accordingly, the ALJs agreed with Columbia's use of the current SIT rate for the calculation of the SIT expense. R.D. at 39.

c. OCA Exception No. 3 and Replies

In its Exception No. 3, the OCA disagrees with the ALJs' recommended adoption of Columbia's proposal to set rates using the current SIT rate of 8.99%, arguing that rates can only be found just and reasonable if they are based on the actual taxes paid. OCA Exc. at 6 (citing R.D. at 38-39; *Bell Telephone Company v. Pa. PUC*, 528 A.2d 268, 273 (1987); *Barasch v. Pa. PUC*, 491 A.2d 94, 107 (1985)). Further, the OCA argues that because the 2024 SIT rate of 8.49% is known and measurable, allowing Columbia to use a higher tax rate of 8.99% "violates the actual taxes paid doctrine." OCA Exc. at 6.

The OCA also infers from the Recommended Decision that the ALJs and the Company are requesting that the Commission artificially set higher rates until a surcharge is updated to decrease rates to the appropriate level, rather than developing base rates using the known and actual SIT rate. The OCA continues that this proposal would result in an overcollection of tax revenue which, in turn, must be reduced through the STAS. OCA Exc. at 6-7 (citing R.D. at 39; Columbia M.B. at 47-48; 52 Pa. Code § 69.52). Further, the OCA argues that because Section 69.52 of the Commission's Regulations directs that the STAS should be maintained at zero unless a change in the SIT is necessary, Columbia is required to set the STAS to zero when new base rates take effect on January 27, 2024. OCA Exc. at 7 (citing 52 Pa. Code §§ 69.53, 69.55). Moreover, the OCA questions whether Columbia would apply a non-zero STAS on January 1, 2024, to reflect the SIT of 8.49%, then, rather than zero-out the STAS on January 27, 2024, as required by Commission Regulations, apply a non-zero STAS to flow-back the difference between the actual 8.49% and the 8.99% used to calculate the rates being charged to customers. OCA Exc. at 7.

In short, the OCA argues, Columbia's revenue requirement should be developed using the SIT rate of 8.49%, which will take effect in January 2024. OCA Exc. at 7 (citing OCA R.B. at 18-19; OCA M.B. at 30-31; OCA St. 1SR at 24-25; OCA Sch. JLR-16SR; OCA St. 1 at 24).

In its Replies, Columbia maintains its support for the use of a SIT rate of 8.99% because that is the rate currently in effect throughout the duration of the FTY in this proceeding. Columbia R. Exc. at 17 (citing Columbia St. 2-R at 23). Columbia also addresses the OCA's concerns by repeating that the Company has complied, and will continue to comply, with the Commission's requirement that future SIT reductions be flowed-through annually utilizing the STAS. Columbia R. Exc. at 17-18 (citing *STAS 2023*; 52 Pa. Code § 69.52). Additionally, Columbia requests that if the

Commission grants the OCA's Exception on this matter, then the Company not be required to make an adjustment for 2024 through the STAS. Columbia R. Exc. at 18.

d. Disposition

As noted, *supra*, the Company's rate filing is based on the FTY ending December 31, 2023. *See,* R.D. at 3, 7. The ALJs agreed with the Company's use of the current SIT rate (*i.e.*, 8.99%) in calculating SIT expense, noting that the state tax rate in effect during the FTY (*i.e.*, the year ending December 31, 2023) is appropriate for ratemaking purposes. We agree with the ALJs' reasoning here. Moreover, as noted by the Company and the ALJs, future SIT adjustments are flowed-through the STAS each year, as required by Commission Regulations. *See,* 52 Pa. Code § 69.52. Therefore, we find that the OCA's argument on this matter has no merit. Accordingly, we shall deny the OCA's Exception No. 3.

2. PENNVEST

a. Positions of the Parties

Columbia submitted that the PENNVEST surcharge revenue is reflected in the Company's total operating revenues for the HTY and FTY. Columbia M.B. at 44 (citing Columbia GDS Exh. 1-R at 1-1). Columbia provided that the PENNVEST surcharge allows Columbia to collect revenue from its customers to pay for plant investment that was funded by PENNVEST loans. In short, Columbia offered that the PENNVEST surcharge is simply the vehicle for collecting the revenue to pay the PENNVEST loan. Columbia M.B. at 44 (citing Columbia St. 2-R at 21-22; I&E Exh. 1 at 1). Accordingly, Columbia submitted that the Company's claim for SIT is based, in part, on revenue received from the PENNVEST surcharge. Columbia M.B. at 44.

I&E's witness, Mr. Christopher Keller, disagreed with Columbia's treatment of PENNVEST payments as "below-the-line items for income tax purposes that are not included for revenue requirement purposes." I&E St. 1 at 7. Further, Mr. Keller noted that the Company did not provide any support for its claims that: (1) the loan itself is taxable; and (2) revenue and expense associated with the PENNVEST loan should be net to zero for income tax purposes. I&E St. 1 at 7.

Notwithstanding, I&E made no specific recommendations related to adjustments to taxes, asserting that any such adjustments would be the result of the flow-through of other I&E adjustments. I&E M.B. at 12. Further, Mr. Keller stated that "[a]ll adjustments to Columbia's claims for revenues, expenses, taxes, and rate base must be continually brought together in the [ALJs'] Recommended Decision and again in the Commission's Final Order." I&E M.B. at 12 (citing I&E St. 1-SR at 9). Accordingly, I&E submitted that its recommended tax adjustments occur as a result of this principle. I&E M.B. at 12.

b. Recommended Decision

The ALJs noted that I&E's witness, Mr. Keller, did not respond to Columbia's rebuttal testimony which explained the tax treatment of the PENNVEST revenue, but continued to reflect PENNVEST revenue as non-taxable in surrebuttal testimony. R.D. at 40 (citing I&E St. 1-SR at 3). The ALJs further noted that I&E did not discuss this issue in its Main Brief or Reply Brief. Accordingly, the ALJs found that "[w]hen parties have been ordered to file briefs and fail to include all the issues they wish to have reviewed, the issues not briefed have been waived." R.D. at 40-41 (citing *Jackson v. Kassab*, 812 A.2d 1233 (Pa. Super. 2002); *Brown v. Pa. Department of Transportation*, 843 A.2d 429 (Pa. Cmwlth. 2004)).

Notwithstanding, the ALJs concluded that Columbia provided reasonable evidence to refute I&E's position. The ALJs reasoned that while the loan is not taxable income when Columbia receives it, the Company collects the PENNVEST surcharge to pay the debt service, and those revenues are treated as taxable income. The ALJs also found that to the extent that Columbia does receive a tax deduction related to PENNVEST loans to recognize interest payments, such costs have been reflected in Columbia's interest expense deduction, thereby reflecting the tax impact associated with these loans for the benefit of Columbia's ratepayers. Accordingly, the ALJs concluded that adopting I&E's position would fail to recognize the income tax expense incurred by Columbia. R.D. at 41.

c. Disposition

No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we adopt it without further comment.

3. Interest Synchronization

a. Positions of the Parties

Columbia proposed a claim for SIT expense based, in part, upon an interest expense deduction of $688,965, which includes: (1) the interest expense associated with the Company's weighted cost of debt included in the rate case; and (2) the interest expense associated with its PENNVEST loans.[38] Columbia M.B. at 45 (citing Columbia St. 2-R at 23; Columbia Exh. GDS 1-R at 2-3).

Although the OCA initially disagreed with Columbia's approach to its interest expense claim, the OCA ultimately accepted the Company's position regarding the inclusion of interest expense associated with the PENNVEST loans in the interest synchronization adjustment. OCA M.B. at 32; Columbia R.B. at 29. However, the OCA noted its disagreement on the amount of the interest synchronization adjustment. OCA R.B. at 19 (citing OCA M.B. at 31-32, 38-43).

b. Recommended Decision

The ALJs recommended that interest synchronization should be adjusted to adopt a starting point for Columbia's claimed interest expense of $688,965, to flow-through the income tax effects of the $15,285 rate base adjustment. R.D. at 42-43.

c. Disposition

No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we adopt it without further comment.

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[38] Columbia noted that interest expense associated with the EDTMA rate district was inadvertently included and subsequently removed from the rate case filing, consistent with the removal of all EDTMA costs and capital assets. Columbia M.B. at 45 (citing Columbia St. 2-R at 23).

B. Taxes Other Than Income Taxes – Regulatory Assessments/ Payroll/PURT/Property

Columbia submitted claims for the following taxes other than income taxes: (1) regulatory assessments; (2) payroll tax; (3) Pennsylvania realty tax; and (4) Pennsylvania property tax. Columbia M.B. at 41 (citing Columbia Exh. GDS 1-R at 1-4; Columbia Exh. GDS 1 at 1-14 (Revised)).

1. Positions of the Parties

Columbia's FTY claim for regulatory assessments was calculated based upon: (1) proposed revenues under proposed rates of approximately $8,244,826; and (2) applying the relevant assessment factors. Columbia M.B. at 41-42 (citing Columbia Exh. GDS 1-R at 2-4). Columbia disagreed with the OCA's regulatory assessments adjustment, insofar as it disagreed with the OCA's recommended revenue increase in this proceeding. Columbia M.B. at 42 (citing Columbia St. 2-R at 24).

Regarding payroll taxes, Columbia submitted that its 2022 per books level was a combined payroll tax total of approximately $115,921. Subsequently, Columbia removed from its filing approximately $5,424 in payroll taxes, which were associated with EDTMA system employees. Columbia also calculated the projected level of payroll taxes for the FTY, resulting in a combined total going-level adjustment of $4,590. Columbia M.B. at 42 (citing Columbia Exh. GDS 1-R at 1-4; Columbia Exh. GDS 1 at 1-14 (Revised)).

Regarding public utility realty taxes (PURT), Columbia submitted a claim of approximately $73,910, based on the Company's 2022 per books level of PURT. Columbia M.B. at 43 (citing Columbia Exh. GDS 1-R at 1-4; Columbia Exh. GDS 1 at 1-14 (Revised)).

Finally, Columbia submitted a claim for Pennsylvania property taxes of approximately $4,211, based on the Company's 2022 per books level of property tax. Columbia M.B. at 43 (citing Columbia Exh. GDS 1-R at 1-4; Columbia Exh. GDS 1 at 1-14 (Revised)).

I&E made no specific recommendations related to adjustments to taxes, asserting that any such adjustments would be the result of the flow-through of other I&E adjustments. I&E M.B. at 12.

The OCA noted that it applied a similar approach in identifying the appropriate level of adjustment to Columbia's regulatory assessment claim at different revenue levels. OCA M.B. at 25 (citing OCA St. 1SR at 24-25; OCA St. 1 at 13; Columbia St. 2R at 24). The OCA further noted that because regulatory assessments are calculated based on revenues, changes to revenues will flow-through to change the expenses. Therefore, the OCA submitted that its disagreement with Columbia regarding regulatory assessments is limited to its disagreement on revenue requirement. OCA R.B. at 15 (citing OCA M.B. at 25; Columbia M.B. at 42). Accordingly, the OCA submitted that based on its recommended revenue requirement, Columbia's regulatory assessment claim should be reduced by $1,991. OCA R.B. at 15 (citing OCA St. 1SR at 24-25).

2. Recommended Decision

The ALJs noted that there is no dispute regarding Columbia's method for calculating regulatory assessments. Accordingly, the ALJs found that based upon their determination of the total proposed revenue requirement amount, Columbia will be permitted to recover regulatory assessments of $53,835. Additionally, the ALJs noted that no party challenged the Company's claimed level of payroll taxes, PURT, or property taxes. R.D. at 43.

3. Disposition

No Party filed Exceptions on this issue. Finding the ALJs' recommendation to be reasonable and supported by substantial evidence in the record, we adopt it without further comment.

VIII. Fair Rate of Return

A. Proxy Groups

A proxy group is a group of companies that act as a benchmark for determining a utility's cost of equity.[39] 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, therefore, is a more reliable measure. A proxy group also satisfies the long-established principle of utility regulation that seeks to provide the utility with the opportunity to earn a return equal to that of enterprises of similar risk. I&E M.B. at 18-19.

1. Positions of the Parties

Columbia represented that it is not a publicly traded Company and does not have publicly traded securities. As such, the Company explained that it is necessary to develop groups of comparable, publicly traded, companies to serve as proxies for Columbia. Columbia asserted that its chosen proxy group is fundamentally risk-comparable to the Company. Namely, Columbia used a proxy group of six water

[39] The Parties' positions regarding the cost of common equity will be discussed in more detail in Section VIII.D of this Opinion and Order, *infra*.

companies, which it referred to as the "Utility Proxy Group." Columbia applied the following criteria in selecting its Utility Proxy Group:

1. The companies are each included in the Water Utility Group of Value Line's Standard Edition (January 6, 2023);

2. Each company has 60% or greater of 2021 total operating income or 60% or greater of 2021 total assets attributable to regulated water operations;

3. At the time of preparation of Columbia's direct testimony, the companies had not publicly announced that they were involved in any major merger or acquisition activity;

4. None of the companies had cut or omitted their common dividends during the five years ending 2021 or through the time of the preparation of Columbia's direct testimony;

5. Each company has *Value Line* and Bloomberg Professional Services (Bloomberg) adjusted Beta coefficients (beta);

6. Each company has a positive *Value Line* five-year dividends per share (DPS) growth rate projection;

7. Each company has *Value Line*, Zacks or Yahoo! Finance five-year earnings per share (EPS) growth rate projections.

Columbia St. 4 at 13-15.

I&E's proposed proxy group consisted of five water companies. In selecting a proxy group that resembles the water utility industry, I&E applied the following criteria:

1. Fifty percent or more of the company's revenues must be generated from the regulated water utility industry;

2. The company's stock must be publicly traded;

3. Investment information for the company must be available from more than one source, which includes *Value Line*;

4. The company must not have been currently involved in an announced merger or material acquisition at the time of I&E's analysis;

5. The company must have four consecutive years of historical earnings data.

I&E M.B. at 19.

I&E observed that each of the companies in its proxy group are included in Columbia's Utility Proxy Group. However, I&E excluded Essential Utilities Inc. (Essential Utilities) from its own proxy group because it failed to satisfy I&E's first proxy group criterion, *supra,* that 50% or more of the company's revenues must be generated from regulated water utility operations. For this reason, I&E submitted that the Commission should utilize a proxy group for Columbia that excludes Essential Utilities. I&E insisted that Essential Utilities is not comparable to Columbia because it does not provide a similar level of regulated business. I&E M.B. at 19.

The OCA's proxy group included each of the companies in Columbia's Utility Proxy Group. According to the OCA, by using the same proxy group as the Company, the OCA has removed the selection of the proxy group as a variable in analyzing the appropriate rate of return. The OCA reasoned that using the same proxy group as the Company will assist in focusing on the primary factors driving the cost of equity estimate to demonstrate the unreasonableness of Columbia's conclusions concerning rate of return. OCA M.B. at 44.

In response to I&E's criticism of its Utility Proxy Group, Columbia argued that I&E's decision to rely on revenues to determine whether a company should be included in the proxy group is flawed. Rather, Columbia submitted, the Commission should examine a water utility's income and earnings. According to Columbia, measures of income are far more likely to be considered by the financial community in making credit assessments and investment decisions than measures of revenue. Columbia highlighted that Essential Utilities' net operating income attributable to regulated water operations is 63.12%. Thus, Columbia submitted that this market data reflects that of a regulated water utility such that it would be appropriate to include Essential Utilities in a water utility proxy group. Columbia M.B. at 61.

Table 5, below, provides a summary of the companies each party proposed to be used in their respective water proxy groups:

Table 5: Summary of the Proposed Water Proxy Groups in this Proceeding

Columbia	I&E	OCA
American States Water Company	American States Water Company	American States Water Company
American Water Works Company, Inc.	American Water Works Company,	American Water Works Company, Inc.
California Water Service Group	California Water Service Group	California Water Service Group
Essential Utilities Inc.	Middlesex Water Company	Essential Utilities Inc.
Middlesex Water Company	SJW Group	Middlesex Water Company
SJW Group		SJW Group

Columbia St. 4 at 15; I&E M.B. at 19; OCA M.B. at 44.

2. Recommended Decision

The ALJs recommended that the Commission use the proxy group utilized by both Columbia and the OCA in setting the appropriate cost of equity for the Company. The ALJs concluded that contrary to I&E's arguments, it is appropriate to include Essential Utilities in the proxy group. The ALJs agreed with Columbia that measures of income are far more likely to be considered by the financial community in making credit assessments and investment decisions than measures of revenue. R.D. at 50-51.

3. I&E Exception No. 1 and Replies

In its Exception No. 1, I&E claims the ALJs erred by recommending Essential Utilities be included in the Company's Utility Proxy Group. I&E disagrees with the ALJs' finding that the financial community is more likely to rely on measures of net operating income rather than revenues when making credit assessments. I&E insists that the use of percentage of revenues is the appropriate criterion for determining whether a company should be included in a proxy group because it represents the percentage of cash flow a company receives from each business segment. Revenue, I&E contends, is the total income a business, or a business segment produces. I&E states that while net operating income is an indicator of financial performance and strength, it is a direct result of a company's business decisions and operations. For this reason, I&E argues that while two companies or segments can have the same revenue, their net operating income may vary greatly, depending on their performance and decisions. I&E submits that the purpose of a proxy group is to compile a set of companies that have similar risks to the subject utility. According to I&E, if less than 50% of revenues come from the regulated water business sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business. I&E Exc. at 2-3.

In addition, I&E claims that in making their recommendation, the ALJs ignored recent Commission precedent, wherein the Commission accepted I&E's methodology of relying on the percentage of revenues to determine whether a company should be included in a proxy group. I&E Exc. at 4 (citing *Columbia Gas 2021* at 110 and *PECO 2021* at 138). Therefore, I&E asserts that it is well settled that the appropriate criterion for inclusion in a proxy group is percentage of revenues. Accordingly, I&E

remains of the opinion that Essential Utilities should be excluded from the Company's proxy group when setting the appropriate ROE in this proceeding. I&E Exc. at 4-5.

In its replies to Exceptions, Columbia rebuts that the ALJs appropriately recommended that Essential Utilities be included in the Company's Utility Proxy Group. According to Columbia, the ALJs correctly found that measures of income are far more likely to be considered by the financial community in making credit assessments and investment decisions than measures of revenue. Columbia also submits that the Commission should disregard I&E's argument that there is a standard for determining whether a company should be included in a proxy group based upon the percentage of revenues derived from water utility operations. Columbia reasons that I&E has raised this issue for the first time in its Exceptions, such that the Commission should disregard this argument. Columbia R. Exc. at 10.

4. Disposition

Based upon our review of the record established in this proceeding, we shall decline to adopt the ALJs' recommendation and shall grant I&E's Exception No. 1, in part, and deny it, in part. In its Replies to Exceptions, Columbia submits that by citing to *Columbia Gas 2021* and *PECO 2021* in its Exceptions, I&E has argued "for the first time that the Commission has set a 'standard' for determining whether a company should be included in a proxy group based on percentage revenues from water utility operations." Columbia R. Exc. at 10. However, we note that in his surrebuttal testimony, I&E's witness, Mr. Keller, stated that "[t]here are two recent instances where the Commission has accepted I&E's methodology to use percentage of revenues in selecting a proxy group." Mr. Keller then cited to both *Columbia Gas 2021* and *PECO 2021* to support his position that Essential Utilities should be excluded from the Company's Utility Proxy Group. *See,* I&E St. 1-SR at 12-13. Although I&E did not use the term "standard" prior to the filing of its Exceptions, we nonetheless find that each of these cases can be considered in applying the appropriate proxy group in this current proceeding.

In *Columbia Gas 2021,* we stated the following regarding the proxy group at issue in that proceeding:

> 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.

Columbia Gas 2021 at 110 (citations omitted). Similarly, in *PECO 2021*, we noted, as follows:

> By extension, we also find that I&E's method of using the percentage of revenues devoted to utility operations is preferable to PECO's proposed method of using the percentage of gas utility assets to total assets in screening companies to include in a proxy group. The record indicates that assets are accounted for at the original cost minus depreciation, which means that the value of an asset depends on its age. Therefore, it is possible for the regulated utility segment of a company to predominately have assets that are depreciated. Although a utility may have assets that are significantly depreciated, it does not always indicate the level of business a company does. In addition, there are differences between businesses in the amount of capital needed. A utility with all new equipment may need a large amount of assets to produce a small level of cash flow while another business may need only a small amount of assets to produce a large level of cash flow.

PECO Gas 2021 at 137-38 (footnote omitted).

On review, we find that each of these recent rate cases lends support to a similar finding in this current proceeding. Columbia contends that because the financial community is more likely to rely on measures of income than measures of revenue when making credit assessments and investment decisions, the Commission should examine the water utility's income and earnings when deciding whether it should be included in the proxy group. Columbia R. Exc. at 10. In our view, however, while the financial community relies more on measures of income, it is more appropriate to examine the use of percentage of revenues in a base rate proceeding, because this measure represents the percentage of cash flow a company receives from each business segment. As noted by I&E, revenue is the total income a business, or a business segment, produces. On the other hand, net operating income is an indicator of financial performance and strength and is a direct result of a company's business decisions and operations. *See,* I&E Exc. at 5.

Therefore, as further noted by I&E, while two companies or segments can have the same level of revenue, their net operating income may vary greatly, depending on their performance and decisions. The purpose of a proxy group is to compile a set of companies that have similar risks to the subject utility. As such, we are of the same opinion, as in our decisions in *Columbia Gas 2021* and *PECO 2021*, that if less than 50% of a utility's revenues come from the regulated business sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business. Moreover, we note that aside from Essential Utilities, Columbia did not provide the percentage of operating income from regulated water operations for any of the other companies it included in its Utility Proxy Group. In our view, comparing the net operating income of a water utility segment to the total net operating income of a company is not an appropriate criterion to use in this proceeding. *See,* I&E St. 1-SR at 11; I&E Exc. at 5.

Based on the specific record developed in the instant case, we find that the percentage of revenues generated from regulated utility operations, in this instance regulated water utility operations, is the appropriate criterion to include when setting Columbia's proxy group. Therefore, we concur with I&E that Essential Utilities should be excluded from the proxy group that we will use in setting the authorized ROE and the resulting overall rate of return for Columbia in this proceeding. Nonetheless, as discussed below, we disagree with the ROE and the corresponding overall rate of return proffered by I&E. Therefore, I&E's Exception No. 1 is granted, in part, and denied, in part.

B. Capital Structure Ratios

A utility's capital structure represents how the utility has financed its rate base with different sources of funds. Determining the appropriate capital structure is crucial in developing the weighted average cost of capital (WACC), which, in turn, determines the overall rate of return in the revenue requirement equation, *supra*. The primary funding sources for the utility are long-term debt and common equity. Additionally, a capital structure may include preferred stock and/or short-term debt. However, the Company is financed only with long-term debt and common equity. I&E St. 1 at 26.

1. Positions of the Parties

Columbia proposed an actual capital structure of 36.66% long-term debt and 63.34% common equity. The Company argued that employing an actual capital structure is appropriate to ensure a healthy balance sheet, strong credit ratings, and a supportive regulatory environment, so that Columbia has access to capital on reasonable terms. Columbia asserted that it is both typical and important for a utility to have a significant proportion of its capital structure devoted to common equity. According to

Columbia, common equity more accurately matches the life of the utility, which is also assumed to operate in perpetuity. Columbia acknowledged that the percentage of common equity in its capital structure is slightly higher than that of its Utility Proxy Group. In recognition of this, the Company made a downward adjustment to its requested ROE, discussed in Section VIII.D, *infra.* Columbia M.B. at 51-52.

Columbia submitted that the proposals of I&E and the OCA, discussed, *infra,* to adopt a hypothetical capital structure instead of the Company's actual capital structure should be denied. Namely, Columbia argued that these proposals run contrary to longstanding Commission precedent that the choice of capital structure is within the discretion of the specific utility's management and is not to be changed absent proof that the capital structure is atypical or heavily weighted to one side. Columbia R.B. at 30-31 (citing *PPL 2012* and *Pa. PUC v Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385, (Opinion and Order entered May 16, 2022) (*Aqua 2022*)). Columbia further argued that the Commission found in two previous Columbia rate cases that the Company's capital structure was not too heavily weighted on the equity side. Columbia R.B. at 31 (citing *2009 Columbia Rate Case* and *Pa. PUC, et al. v The Columbia Water Company*, Docket Nos. R-2013-2360798, *et al.* (Final Order entered January 23, 2014) (*2014 Columbia Rate Case*)). Columbia insisted that the use of an actual capital structure is appropriate and does not impose unreasonable costs on ratepayers, and that the Company has not abused its discretion in managing its capital structure. Columbia M.B. at 52-58; Columbia R.B. at 32-36.

I&E proposed a hypothetical capital structure of 50% long-term debt and 50% common equity. In this regard, I&E explained that a utility's capital structure is generally expected to be representative of the industry norm, as outlined in the utility's proxy group. I&E continued that the five-year average capital structure of its proposed proxy group ranged from 42.44% to 58.43% long-term debt, and 41.75% to 57.18% equity with the overall five-year average being 49.16% long-term debt and 50.76%

common equity. I&E reasoned that its proposed hypothetical capital structure is far closer to the industry norm than the Company's actual capital structure, which warrants the use of a hypothetical capital structure in lieu of an actual capital structure. I&E M.B. at 15, 16.

I&E also submitted that the Commission has the authority and discretion to employ a hypothetical capital structure where the utility's capital structure is weighted too heavily on either the debt or equity side. I&E M.B. at 15 (citing *Carnegie Natural Gas Company v. Pa. PUC*, 433 A.2d 938 (Pa. Cmwlth. 1981) (*Carnegie*)). Accordingly, I&E opined that the Commission must utilize a hypothetical capital structure in this proceeding because Columbia's proposed actual capital structure is heavily equity weighted. Moreover, I&E submitted that the use of a hypothetical capital structure will lead to a significant savings in cost for Columbia's ratepayers. Namely, I&E stated that if a "50-50" capital structure is employed, it will result in savings of $279,480 for the Company's ratepayers. Based on the above, I&E insisted that its proposed hypothetical capital structure adheres to sound ratemaking principles. I&E M.B. at 16, 17-18.

Similar to I&E, the OCA argued that the use of a hypothetical capital structure is appropriate because Columbia's common equity ratio is significantly higher than the average common equity ratio of the six regulated water companies in the Company's Utility Proxy Group noted, *supra*. More specifically, the OCA proposed a hypothetical capital structure of 49.4% long-term debt and 50.6% common equity. The OCA submitted that although the Commission approved the use of the Company's proposed actual capital structure in both the *2009 Columbia Rate Case* and the *2014 Columbia Rate Case,* it is not appropriate to do so in this proceeding. According to the OCA, if the Commission permits Columbia to utilize its proposed actual capital structure, this will result in "excessively high capital costs and utility rates" because the Company's cost of equity would be much higher than its cost of debt. Namely, the OCA argued that the Company's proposal would increase its overall rate of return by 1.07%, or one-fourth of its claimed revenue requirement increase. Thus, the OCA maintained that a hypothetical capital structure will ensure that wealth is not unfairly transferred from ratepayers to shareholders. OCA M.B. at 38-43.

2. Recommended Decision

The ALJs found that although I&E and the OCA correctly stated that the Commission has the authority to impose a hypothetical capital structure under certain circumstances, the weight of Commission precedent favors the use of a utility's actual capital structure, absent evidence of an abuse of management discretion. According to the ALJs, neither I&E nor the OCA have demonstrated that Columbia's actual capital structure is the result of mismanagement or an abuse of management discretion. Additionally, the ALJs concluded that both I&E and the OCA failed to identify any change in circumstances which would distinguish the Commission's rejection of a hypothetical capital structure in the *2009 Columbia Rate Case* and the *2014 Columbia Rate Case* from this instant proceeding. Further, the ALJs noted the Company's argument that its proposed capital structure is less "equity-rich" than in either of the two above rate cases. For these reasons, the ALJs recommended that the Commission adopt the position of the Company that it be permitted to employ an actual capital structure of 36.66% long-term debt and 63.34% common equity. R.D. at 47-48.

3. I&E Exception No. 2, OCA Exception No. 4, and Replies

In its Exception No. 2, I&E insists that the ALJs erred in recommending that the Commission adopt the Company's proposed actual capital structure. I&E restates its position that both the five-year capital structure range and the five-year overall average capital structure of the regulated water companies in its own proposed proxy group demonstrate that employing a hypothetical capital structure of 50% long-term debt and 50% common equity is far closer to the industry norm than the Company's actual capital structure, such that a hypothetical capital structure should be adopted. I&E Exc. at 5-6.

I&E also asserts a hypothetical capital structure would allow for a capital structure similar to that of other investor-owned utilities (IOUs) while at the same time taking into consideration the current economic climate and the need to balance the interest of ratepayers and shareholders. I&E adds that the Commission's decisions in the two above-mentioned Columbia base rate proceedings were Company-specific and entered prior to the COVID-19 pandemic and the subsequent inflationary pressures placed on consumers. Therefore, I&E remains of the opinion that the Commission should adopt a hypothetical capital structure for Columbia in this proceeding. I&E Exc. at 6.

In its Exception No. 4, the OCA, likewise, disagrees with the ALJs' recommendation to adopt the Company's proposed actual capital structure. According to the OCA, in making this recommendation, the ALJs failed to (1) acknowledge that Columbia's capital structure ratios are outside the range of those in its Utility Proxy Group; and (2) address the "outsized impact of the Company's atypical, equity-heavy capital structure" on the Company's proposed revenue requirement. OCA Exc. at 7-8. The OCA stresses that Pennsylvania courts have upheld the use of a hypothetical capital structure where the utility's management adopts an actual capital structure that imposes an unfair cost burden on ratepayers. *Id.* at 8 (citing *Carnegie*).

Additionally, the OCA submits that in *Aqua 2022*, although the Commission approved an actual capital structure for Aqua, it also noted that the Commission has the discretion to employ a hypothetical capital structure where a company's actual capital structure is unreasonable or uneconomical. The OCA adds that in approving Aqua's actual capital structure, the Commission did so on the basis that Aqua's capital structure ratios were within the range of a similarly situated proxy group of companies. OCA Exc. at 8, 9 (citing *Aqua 2022* at 138-41). In contrast, the OCA submits that Columbia's proposed actual capital structure is atypical and is not within the range of the companies in Columbia's Utility Proxy Group. Moreover, the OCA contends that the ALJs erred in concluding that I&E and the OCA had the burden of demonstrating that the Company's selected capital structure was due to an abuse of discretion by the Company. According to the OCA, Columbia, and not I&E or the OCA, has the burden of supporting the reasonableness of the Company's proposed capital structure ratios for ratemaking. Therefore, the OCA argues that the Commission should reverse the ALJs' recommendation and adopt either its own proposed hypothetical capital structure of 49.4% long-term debt and 50.6% common equity, or I&E's proposed hypothetical capital structure of 50% long-term debt and 50% common equity. OCA Exc. at 9-10.

In its Replies to Exceptions, Columbia avers that the ALJs properly recommended that the proposals of I&E and the OCA to utilize a hypothetical capital structure should be rejected. Columbia concurs with the ALJs that I&E and the OCA's positions are contrary to Commission precedent. Columbia restates that the Commission approved the Company's use of an actual capital structure in both the *2009 Columbia Rate Case* and the *2014 Columbia Rate Case.* Additionally, Columbia reinforces its argument that in each of those base rate proceedings, the Commission found that the Company's proposed capital structure was neither unreasonable nor uneconomical. According to Columbia, the ALJs correctly found that I&E and the OCA have failed to distinguish the Commission's decisions in those prior Columbia base rate proceedings from this current proceeding. Columbia R. Exc. at 5-6.

Next, Columbia classifies as inapposite the arguments of I&E and the OCA that a hypothetical capital structure is appropriate, given the burden imposed on ratepayers as a result of the COVID-19 pandemic, along with inflationary pressures. Columbia contends that there is no record evidence that the proposed revenue increase will negatively impact consumers or that consumers have been negatively impacted by the pandemic and/or inflationary pressures such that the Company's proposed revenue increase would cause a hardship. Rather, Columbia contends, the practical impacts of utilizing a hypothetical capital structure will be detrimental to ratepayers and the Company. Columbia insists that adopting a hypothetical capital structure would be analogous to providing investors with a debt return for a portion of their investment. Columbia asserts that to satisfy the investors' expectations, the Company would then be required to provide the investor with a higher return on the equity portion of its investment, which the Company would be unable to achieve under the proposals of I&E and the OCA. Columbia posits that this would result in the Company being viewed as unattractive to investors and would require the Company to increase its financial risk by obtaining more debt financing at higher, detrimental, interest rates. In contrast, Columbia asserts that its current capital structure is a significant benefit to customers because it provides the Company with access to low-cost financing. Accordingly, Columbia submits that the Commission should deny the Exceptions of I&E and the OCA and adopt the Company's proposed actual capital structure. Columbia R. Exc. at 6-9.

4. Disposition

On consideration of the record evidence, we are persuaded by Columbia's argument that an actual capital structure should be utilized in setting an overall rate of return in this proceeding. Therefore, we shall adopt the recommendation of the ALJs on this issue, consistent with the following discussion. At the outset, we reinforce that an 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. *See, PPL 2012* at 68; *Columbia Gas 2021* at 116; *PECO 2021* at 144. For example, as discussed in Section VIII.C, *infra,* Columbia has proposed a long-term debt cost rate of 3.15%, which has not been objected to by any Party in this proceeding. This illustrates the capitalization determined by the Company to be appropriate.

It is important to note the legal standard that has been established in Pennsylvania for deciding whether to use a party's proposed hypothetical capital structure in setting rates. For example, in *PPL 2012,* we noted this standard, in pertinent part, 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.

PPL 2012 at 68. *See also, Columbia Gas 2021* at 116-17; *PECO 2021* at 144-45; and *Aqua 2022* at 139.

As discussed above, this Commission has also applied this standard in determining the appropriate capital structure in two previous fully litigated rate cases specific to the Company. Namely, in the *2009 Columbia Rate Case,* we approved the Company's use of an actual capital structure, finding that, in that proceeding, "Columbia's capital structure [was] not disproportionately weighted on the equity side [and] . . . [was] not unreasonable or uneconomical under the rational of the Carnegie decision[,]" *supra.* In that proceeding, we also found that Columbia did not abuse its managerial discretion in developing its proposed actual capital structure. *2009 Columbia Rate Case* at 72.

Similarly, in the *2014 Columbia Rate Case,* we approved the use of an actual capital structure, finding that the Company's circumstances had not changed materially since the Commission's decision in the *2009 Columbia Rate Case,* wherein we approved a nearly identical capital structure. In addition, we found that "adopting a hypothetical 50/50 capital structure, rather than the Company's actual capital structure, would be somewhat arbitrary, and would fail to recognize the benefits to ratepayers of the

Company having ready access to capital markets due to its strong capital structure." *2014 Columbia Rate Case* at 38.

We note that each opposing Party has offered arguments in this proceeding that were proffered in these prior proceedings. For example, in the *2009 Columbia Rate Case*, we considered and rejected the arguments of the OCA and I&E's predecessor, the Office of Trial Staff, that a hypothetical capital structure should be imposed on Columbia because it "avoids burdening Columbia's ratepayers with the excessive rates that would result from using Columbia's atypically high common equity ratio." *2009 Columbia Rate Case* at 67, 72; *see also* Columbia R.B. at 32. Additionally, in the *2014 Columbia Rate Case,* we considered and rejected the following arguments set forth by I&E:

> I&E reiterates that the capital structure utilized by Columbia is not in line with its historical capital structure, but is in fact more heavily weighted toward equity than the Company has been in any of the past five years. I&E also contends that Columbia's actual capital structure is not in line with the industry average, and places an unfair financial burden upon customers.

2014 Columbia Rate Case at 37, 38; *see also,* Columbia R.B. at 32.

We concur with the Company and the ALJs that neither I&E nor the OCA has offered any basis to distinguish this current base rate proceeding from either of the two Columbia base rate proceedings above. Although I&E has argued, in its Exceptions, that each of the Commission's decisions in those proceedings were specific to the Company and issued at a point prior to the COVID-19 pandemic and the subsequent inflationary pressures on consumers, we find that the record is devoid of any evidence that applying an actual capital structure in light of these developments would impose an undue hardship on Columbia's ratepayers.

We further find that the record developed in this proceeding supports the position of Columbia, and the finding of the ALJs that, as in the above Columbia rate proceedings, the Company's proposed actual capital structure in this current proceeding is neither atypical, nor heavily weighted to either the debt or the equity side. We note that Columbia stressed in this proceeding that its current proposed capital structure is less "equity rich" than either of its actual capital structures that had previously been approved by the Commission. Namely, Columbia offered the following comparison, which is reprinted in Table 6, as follows:

Table 6: Comparison of Columbia's Actual Capital Structures

Year	Debt	Common Equity
2008	35.8%	64.2%
2014	35.6%	64.4%
2023	36.66%	63.34%

Columbia M.B. at 55.

Based on the forgoing, we find that applying Columbia's actual capital structure of 36.66% debt and 63.34% common equity will result in an appropriate overall rate of return in this proceeding. Accordingly, we shall deny I&E's Exception No. 2 and the OCA's Exception No. 4.

C. Cost of Debt

1. Positions of the Parties

Columbia proposed a long-term debt cost rate of 3.15%. Columbia submitted that because no Party has challenged this debt cost rate, it should be adopted by the Commission. Columbia M.B. at 58.

I&E submitted that the Company's claimed long-term debt cost rate of 3.15% is reasonable and representative of the industry. Namely, I&E stated that it falls within I&E's proxy group's implied long-term debt cost range of 3.19% to 5.67%. According to I&E, while the Company's proposed debt cost rate is slightly below this range, it is sufficiently close to the low end of the range, and therefore is appropriate to use for this proceeding. I&E M.B. at 18.

The OCA did not oppose the Company's proposed debt cost rate. OCA M.B. at 34, 38.

2. Recommended Decision

The ALJs observed that no Party disagreed with Columbia's proposal to use its actual cost of long-term debt of 3.15%. Therefore, the ALJs recommended that the Company's proposal be adopted. R.D. at 45.

3. Disposition

No Party filed Exceptions on this issue with regard to the ALJs' recommendation. Finding the ALJs' recommendation to be reasonable, we shall adopt it without further comment. Accordingly, we shall approve a long-term debt cost rate of 3.15% for Columbia in this proceeding.

D. Cost of Common Equity

1. Methods for Determining the Cost of Common Equity

a. 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 (Opinion and Order entered July 14, 2011) at 56; *Pa. PUC v. PPL Electric Utilities Corp*., Docket No. R-00049255 (Opinion and Order entered December 2, 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.

(1) Positions of the Parties

Columbia used the following single-stage constant growth DCF model:

$$K_e = (D_0\ (1+g))/P + g$$

Where: K_e is the cost of common equity,
D_0 is the annualized dividend,
P is the current stock price, and
g is the growth rate.

The Company's dividend yield calculation used the unadjusted dividend yields of the Utility Proxy Group's dividends divided by the average of the closing market prices for the 60 trading days ending February 2, 2023. Columbia then adjusted the dividend yields upward to reflect one-half the average projected growth rate since the companies in the Utility Proxy Group increase their quarterly dividend at various times during the year. Columbia St. 4 at 21.

Columbia relied upon five-year forecasts of EPS growth, as earnings growth appropriately measures the growth in price over time. The Company used three separate sources of projected earnings growth: *Value Line*, Zacks, and Yahoo! Finance. Taking the average of the mean DCF result and median DCF result, Columbia's DCF-indicated common equity cost rate is 9.13%. Columbia St. 4 at 21-22, Sch. DWD-3 at 1.

As will be discussed in more detail below, in Section VIII.D.2, Columbia also made a business risk adjustment and financial risk adjustment to its DCF cost rate. The Company explained that an adjustment is necessary to reflect the increased business risk due to the small size of the Company relative to the Utility Proxy Group. Columbia St. 4 at 47, Sch. DWD-8. Therefore, Columbia added 1.00% to the indicated range of common equity cost rates to reflect the Company's increased business risk. Columbia St. 4 at 50-51. The Company also made a downward adjustment of 0.11% to the indicated range of common equity cost rate to reflect the financial risk of its capital structure compared to that of the Utility Proxy Group. Columbia St. 4 at 51-54, Sch. DWD-9. After applying the 1.00% size adjustment and the negative 0.11% financial risk adjustment to the indicated range of ROEs between 10.09% and 11.09%, Columbia proposed a range of common equity cost rates between 10.98% and 11.98%. Columbia St. 4 at 55.

At the outset, I&E noted the use of 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. I&E noted its recommendation is consistent with the methodology historically used by the Commission in base rate proceedings, most recently acknowledged in *Columbia Gas 2021*. I&E M.B. at 27 (citing *Columbia Gas 2021* at 127). Through the methodologies outlined in its testimony, I&E calculated that the DCF methodology produces a cost of common equity of 7.84%. I&E M.B. at 20-21.

I&E employed the standard DCF model, $k = D_1/P_0 + g$, where k is the cost of common equity, D_1 is the dividend expected during the year, P_0 is the current price of the stock, and g is the expected growth rate of dividends. 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 2.01%. I&E M.B. at 21.

I&E used earnings growth forecasts to calculate its expected growth rate. I&E's earnings forecasts were 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 5.83%. I&E M.B. at 22.

I&E opposed Columbia's proposed business risk adjustment arguing that the technical literature cited by Columbia does not support adjustments related to the size of a company specific to the utility industry. Therefore, I&E took the position that such an adjustment is not appropriate. I&E also submitted that recent Commission precedent supports rejecting a utility's request for a business risk adjustment. I&E M.B. at 33.

The OCA proposed a 9.40% DCF cost of equity, based on the following DCF model: $k = D_0 (1 + g) / P_0 + g$. However, the OCA made two separate DCF calculations with one using a sustainable growth rate and one using analysts' growth rates. OCA St. 2 at 30-33. To obtain the stock price (P_0), the OCA selected a 30-day average for each company in the proxy group. OCA St. 2 at 25-27. In calculating the dividend term, (D_0), the OCA utilized forward-looking annualized dividends published by Yahoo! Finance. OCA St. 2 at 28-29. In the sustainable growth rate DCF model, the OCA used the projected long-term Gross Domestic Product (GDP) growth rate (g) of 3.9%. For its analysts' growth rate DCF model, the OCA used projected short-term dividend growth rate estimates published by Value Line. OCA St. 2 at 33.

Like I&E, the OCA submitted that Columbia's proposed business risk adjustment should be rejected. The OCA reasoned that Columbia based the business risk adjustment on firm-specific risk factors and arbitrary data. OCA St. 2 at 51-52.

b. 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 (R_f); (2) the beta measure of systematic risk (β); and (3) the market risk premium (R_m-R_f) 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, I&E, and the OCA each used the following standard CAPM formula:

$$k = R_f + \beta(R_m - R_f)$$

Where: k = the cost of equity and the remaining terms are as defined above. Columbia St. 4 at 27; I&E St. 1 at 47; OCA St. 2 at 34.

Additionally, the Company believes the Empirical Capital Asset Pricing Model (ECAPM) is an appropriate ROE model because the standard CAPM underestimates the return required from low-beta securities, such as those of the proxy group. Columbia states the empirical Security Market Line (SML) is not as steeply sloped as the predicted SML. Accordingly, the Company states the ECAPM reflects the empirical data indicating low-beta securities have higher returns than the CAPM results. Columbia St. 4 at 37-39.

(1) Positions of the Parties

Columbia determined the CAPM cost of equity by averaging the traditional CAPM and ECAPM. Columbia determined the risk-free rate to be 3.85% based on the average of the Blue-Chip consensus forecast of the expected yields on 30-year U.S. Treasury bonds. Columbia also calculated a 10.00% premium for the market risk premium component of the CAPM analysis, based upon various sources. The Company used the average beta of its proxy group companies reported by Bloomberg and the average beta of its proxy group companies as reported by *Value Line*. By averaging the median and mean CAPM and ECAPM results, Columbia calculated an 11.76% cost of equity. Columbia St. 4 at 36-42.

In calculating the CAPM cost of common equity, I&E chose the risk-free rate of return of 3.40% 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 30-year long-term bonds and short-term T-Bills. I&E used the average of its proxy group betas from *Value Line* of 0.77. 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 13.39%, which yields a cost of equity result of 11.09%. I&E St. 1 at 43-45. According to I&E, the 11.09% cost of equity from its CAPM should only be used as a point of comparison to its 7.84% DCF cost of capital. *Id.* at 47.

In response to Columbia's CAPM analysis, I&E criticized the Company's use of the ECAPM. I&E notes ECAPM adds a factor, alpha, to correct the alleged underestimation of the cost of capital for betas lower than one. However, I&E states the use of the ECAPM in estimating the cost of capital does not increase the validity of the result but merely adds another difficult to measure factor to the CAPM. Finally, I&E claims the ECAPM attempts to correct the CAPM's inability to accurately predict the cost of capital but does so through an additional factor that corrects none of the underlying problems of the model. I&E St. 2 at 53-54.

In its CAPM analyses, the OCA used a 30-day average of 30-year Treasury Bond yields to calculate a risk-free rate of 3.90%. OCA St. 2 at 36. The OCA found an average beta of 0.84 for its proxy group. OCA St. 2 at 37. To find the equity risk premium, the OCA relied on expert surveys and an implied equity risk premium (ERP). For an expert survey, the OCA chose the Instituto de Estudios Superiores de la Empresa (IESE) Business School survey. For 2023, this survey reported an average ERP of 5.7%. The OCA calculated the implied equity risk premium by subtracting the risk-free rate from an implied expected market return. Using this data, the OCA concluded the proper CAPM return on equity is 6.4%. OCA St. 2 at 44-48.

c. Risk Premium (RP) Model

Under the RP approach, the cost of equity analysis is based upon the fundamental principle that an equity investor in a given company has a greater investment risk than a bond holder in the same company. Columbia uses two RP models. The first is a Predictive Risk Premium Model (PRPM) that is not based on equity investor behavior, but rather on the evaluation of the results of that behavior. The Company's

PRPM uses the historical returns on equity for the Utility Proxy Group, subtracting the historical monthly yield on long-term U.S. Treasuries. These inputs are used by Columbia in a statistical software program to calculate a risk premium. Finally, Columbia adds the forecasted 30-year U.S. Treasury Bond yield to the calculated risk premium to produce the PRPM return on equity. Columbia St. 4 at 24-25. Columbia also uses a total market approach RP Model. The Company's total market approach RP Model determines the cost of equity by adding the expected public utility bond yield to an average of an equity risk premium that is derived from a beta-adjusted total market equity risk premium and an equity risk premium based on the S&P Utilities Index. Columbia St. 4 at 25-26.

(1) Positions of the Parties

The Company determined the PRPM cost of common equity to be 12.52%. Columbia explained that it used a risk-free rate of 3.85%, the same as used in its CAPM calculation. To calculate the PRPM cost of equity, the Company took the average of the mean, 12.97%, and the median, 12.06%. Columbia represented that taking the average of the mean and median results is consistent with its calculation of the DCF cost of equity. Columbia St. 4 at 26. In its total market approach RPM, the Company took the average expected yield on Moody's Aaa rated corporate bonds, 4.94%, and added a 0.83% upward adjustment. Columbia made this adjustment to reflect the spread between Moody's Aaa rated corporate bonds and Moody's A2 rated public utility bonds. Additionally, the Company made an upward adjustment of 0.10% to reflect the difference in bond ratings between A2 and Baa2 rated public utility bond yields. Columbia St. 4 at 26-27.

I&E submitted that neither the PRPM method nor the RP 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, and therefore suffers the same flaws of the CAPM. Specifically arguing against the PRPM, I&E noted the PRPM is not a commonly used method and requires a specialized proprietary statistical software program to compute. I&E stressed that the PRPM cost of equity cannot be analyzed or recreated without this software. I&E St. 1 at 51-52.

The OCA criticized Columbia's use of other risk premium models as having questionable value since the Company's risk premium models rely on utility bond yields as old as 1928. Columbia's alternative risk premium analyses are, according to the OCA, unnecessary as the CAPM is itself a risk premium model. The OCA declares the Company's "risk premium models create an inappropriate link between market-based factors, such as interest rates, with awarded returns on equity." OCA St. 2 at 48-49.

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 20; OCA M.B. at 43.

2. Size and Risk Adjustment

a. Positions of the Parties

As noted above, Columbia claims two adjustments should be made to the ROE. The first adjustment is with respect to the size of the Company. Due to its small size, Columbia determined it has increased business risk because it is less able to cope with events that affect sales, revenues, and earnings. Columbia noted that the Commission has considered size when determining the ROE in *Pa. PUC, et al. v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212, *et al.* (Opinion and Order entered April 27, 2020) (*Citizens' 2020*). In the instant proceeding, the

Company determined that the size premium between the proxy group and Columbia warranted a 3.91% upward adjustment of its ROE. However, as previously noted, the Company adopted a 1.00% increase to its ROE result to reflect the business risk to Columbia. Columbia St. 4 at 47, M.B. at 69-70.

The second adjustment the Company made was an adjustment to the indicated range of ROEs to reflect the Company's financial risk relative to the Utility Proxy Group. Columbia used the Modigliani-Miller Method (M&M Method) and the Hamada Equation to determine its financial risk adjustment. The M&M Method indicated a downward adjustment of 0.13% based on the differences in financial risk between the Company and the proxy group. The Hamada Equation, which involves un-levering the proxy group's betas based on the proxy group's least financially risky actual capital structure, then re-levering the beta using Columbia Water's recommended capital structure, indicated a downward adjustment of 0.10% for the proxy group. Therefore, as noted, *supra,* Columbia made a downward adjustment of 0.11% to the indicated range of ROEs. Columbia M.B. at 74-75.

In contrast, I&E recommended that the Commission reject the Company's proposed size adjustment. According to I&E, the technical literature Columbia cited supporting adjustments related to the size of a company is not specific to the utility industry. Therefore, I&E considered the Company's testimony to be irrelevant to this proceeding. Further, I&E cited other technical literature disputing the need to adjust for the firm size of rate regulated utilities. I&E St. 1 at 58-59. Lastly, I&E submitted that in *Citizens' 2020,* the Commission denied an explicit size adjustment. Rather, I&E noted, the Commission considered the size of Citizens' when awarding a DCF based ROE. *Id.* at 59 (citing *Citizens' 2020* at 103-04).

Like I&E, the OCA rejected Columbia's size adjustment. The OCA claimed the Company's 1.00% size adjustment is arbitrary. Citing published studies and data, the OCA determined that the ROEs of small size companies do not have a size premium. OCA St. 2 at 52-55.

When analyzing Columbia's financial risk adjustment, the OCA agreed that the Company has less financial risk than the companies in its Utility Proxy Group. However, the OCA stated the Hamada Model indicates a 7.50% ROE for Columbia. Hence, the OCA opined that there should be a much more significant downward adjustment to Columbia's ROE. OCA St. 2 at 57-58.

3. Recommended Decision

At the outset, the ALJs found Columbia's ECAPM to be inappropriate. However, the ALJs found the Company's and the OCA's CAPM analyses to be valid. The ALJs recommended that the Commission reject I&E's DCF and CAPM methodology because it excluded Essential Utilities from its proxy group. Additionally, the ALJs noted that even though I&E's CAPM ROE (11.09%) was substantially higher than its DCF ROE (7.84%), I&E did not make an adjustment to its ROE recommendation. To determine their recommended ROE for Columbia, the ALJs averaged the DCF and CAPM results of the Company and the OCA, which are shown in Table 7, as follows:

Table 7: The ALJs' Recommended ROE for Columbia

	DCF	**CAPM**	**Average**
CW	9.13	11.45	**10.29**
OCA	9.40	8.20	**8.80**
Average	**9.27**	**9.83**	**9.55**

Therefore, the ALJs recommended that the Commission authorize an ROE of 9.55% for Columbia. R.D. at 63.

According to the ALJs, although this method is "less than ideal," it results in an adequate ROE and overall rate of return to provide the Company with a sufficient ability to attract capital, while also yielding reasonable rates for the Company's customers. At the same time, the ALJs recommended that the Commission refrain from adjusting the Company's ROE for size (*i.e.* business risk). The ALJs concluded that although the Company may face an increased business risk due to its small size, such risk is mitigated by the use of the actual capital structure, excluding the PENNVEST debt. Additionally, based upon their finding, *supra,* that the Company's proposed actual capital structure is appropriate, the ALJs recommended that the Commission refrain from adjusting the ROE for financial risk. R.D. at 63-64.

4. Exceptions and Replies

a. Columbia Exception No. 1 and Replies

In its Exception No. 1, Columbia contends that the ALJs erred by not considering and applying the Company's evidence and methodologies that prove the ROE should be increased over the ALJs' recommendation. The Company notes the Commission has recognized relying on one methodology without checking the validity of the results of that methodology with other cost of equity analyses does not always lend itself to responsible ratemaking. Columbia Exc. at 7 (citing *PPL 2012*). As discussed more fully, below, Columbia argues the ALJs erred by: (1) failing to consider the ECAPM, (2) finding that the result of the risk premium used in its CAPM and ECAPM analysis was overstated, (3) utilizing the OCA's "flawed" CAPM result and (4) neglecting to make an adjustment for Columbia's size as compared to the proxy group. Columbia Exc. at 9.

In its Exception No. 1.a., Columbia contends that the ALJs erred in recommending that the Commission reject the use of the ECAPM. The Company argues the use of the ECAPM is necessary because the standard CAPM underestimates the return required from low-beta securities, such as those of the proxy group. Columbia Exc. at 9.

In its Reply to Columbia's Exception No. 1.a., I&E notes the ALJs' recommendation that the use of the ECAPM should be rejected because some studies have shown it inaccurately defines the SML. Therefore, I&E states, the ALJs properly considered and rejected the necessity of an adjustment to the CAPM and that the ECAPM adds another layer of subjectivity to the CAPM. According to I&E, the ECAPM exacerbates the shortcomings of the already flawed CAPM. I&E R. Exc. at 1-2.

In its Reply to Columbia's Exception No. 1.a., the OCA directly states that the ALJs did not utilize Columbia's ECAPM as the Commission has never relied on the ECAPM results. The OCA notes the ALJs employed the OCA's and I&E's criticisms of the ECAPM in finding the ECAPM results to be inappropriate. Directly countering the Company's position regarding the ECAPM, the OCA states the ECAPM double counts upward adjustments already made to betas by Value Line. OCA R. Exc. at 3-4.

In its Exception No. 1.b., Columbia disputes the ALJs' finding that the ERP used in its CAPM and ECAPM analysis of 10.0% is overstated. The Company argues that its ECAPM and CAPM results do not overstate the ERP when compared to the OCA's CAPM results. Columbia notes that the ALJs did not discuss specific reasons why they found the Company's ERP to be overstated other than because it was substantially different from the OCA's risk premium of 5.5%. Finally, Columbia states that the ALJs recognized that the OCA's CAPM is an outlier. Therefore, the Company declares, the outlier nature of the OCA's CAPM should have led the ALJs to exclude the OCA's CAPM from informing the reasonableness of the risk premium or the ROE. Columbia Exc. at 11-13.

In its Reply to the Company's Exception No. 1.b., the OCA asserts that the ALJs properly considered Columbia's ERP to be overstated. The OCA avers the ALJs considered the CAPM results due to the CAPM being better suited to reflect changing market conditions. However, the OCA notes the Company's ERP used in its CAPM is based partly on historical averages of the difference between returns on stocks and returns on bonds from as early as 1926. Therefore, the OCA declares Columbia's ERP and CAPM results do not reflect the application of current and forward-looking risk premiums. OCA R. Exc. at 4-5.

In its Exception No. 1.c., Columbia declares it is unclear why the ALJs considered the PRPM ROE result to be overstated. The Company argues that the criticisms of I&E and the OCA did not allege the PRPM was overstated, but instead alleged it was inappropriate for various reasons. Columbia believes the PRPM was appropriately used as one of its models to determine a reasonable ROE. Columbia Exc. at 13-15.

In its Reply to Columbia's Exception No. 1.c., I&E notes the ALJs finding that the Company overstated the equity risk. For the same reasons that I&E argued against the RP method, I&E states the PRPM is an indirect measure of the cost of equity, and it uses historic data that may not represent current or future economic conditions. Additionally, I&E reinforces its argument that Columbia's PRPM cannot be evaluated without purchasing a specialized proprietary software program. Therefore, I&E believes the ALJs appropriately disregarded the PRPM in determining the ROE. I&E R. Exc. at 2-3.

In its Reply to Columbia's Exception No. 1.c., the OCA states the ALJs acknowledged the Company's PRPM and RP analysis. Also, the OCA asserts, Columbia's PRPM and RP are unnecessary when the CAPM is a legitimate risk premium model. Lastly, the OCA avers the ALJs made the informed decision to exclude these methods when deciding the ROE. OCA R. Exc. at 5-6.

In its Exception No. 1.d., Columbia maintains the ALJs erroneously recommended that the Commission reject its proposed size adjustment to the ROE. The Company insists the ALJs' reasoning is flawed. In this regard, Columbia submits that although the ALJs appropriately chose not to create a financial risk for Columbia by utilizing the Company's actual capital structure, the use of the actual capital structure does not mitigate the business risk of the Company's size. Columbia Exc. at 15-18. Columbia points out the Commission has awarded an upward ROE adjustment to smaller size companies, including Columbia. *Id.* at 18 (citing *2014 Columbia Rate Case* at 43).

In its Reply to Columbia's Exception No. 1.d., I&E affirms the ALJs did not err in recommending that the Commission deny Columbia an upward adjustment to its ROE related to its size. I&E restates its position that the Company's proposed size adjustment is unnecessary because the cited technical literature that supports investment adjustments related to the size of a company is not specific to the utility industry. I&E notes it presented technical literature demonstrating a size effect for utilities does not exist, which Columbia was unable to rebuff with sufficient evidence. Further, I&E notes that in *Pa. PUC v. UGI Utilities, Inc. – Electric Division,* Docket No. R-2017-2640058 (Opinion and Order entered October 25, 2018) (*UGI Electric 2018*) the Commission rejected the use of technical literature not specific to the regulated utility industry to support a size adjustment. I&E R. Exc. at 3-4 (citing *UGI Electric 2018* at 100).

In its Reply to Columbia's Exception No. 1.d., the OCA argues that the ALJs supported their recommended ROE on the basis that the result: (1) is higher than the DCF results of either the Company or the OCA; (2) accounts for some interest rate volatility; and (3) produces "an adequate rate of return to provide the Company with a sufficient ability to attract capital, but it also results in reasonable rates for the Company's customers." OCA R. Exc. at 6-7 (citing R.D. at 64). The OCA recognizes that the Commission has allowed size adjustments in other cases; however, it disagrees with allowing an adjustment based on the facts presented in this case. Due to Columbia's surcharge recovery of PENNVEST related debt, the OCA notes that the Company's size or leverage based upon debt is different for ratemaking purposes, than as viewed by investors. Since PENNVEST debt and interest are recovered directly from ratepayers, the OCA declares investors can look at Columbia and see a portion of its debt as "less risky." OCA R. Exc. at 7-8.

In its Exception No. 1.e., Columbia opines that its excellent quality of service deserves an upward adjustment to its ROE. Pursuant to 66 Pa. C.S. § 523, the Company asserts the record and the ALJs' finding that the Company provides excellent quality of service, discussed in Section X, *infra*, warrants that the Commission award a higher ROE. Columbia Exc. at 18-19.

In its Reply to Columbia's Exception No. 1.e., I&E disagrees with Columbia's request that the Commission grant an upward adjustment to the ROE for management performance. I&E states Columbia provided no record evidence that it has exceeded its statutory and regulatory requirements under the Code to provide safe and reliable service at just and reasonable rates. Noting that Columbia has the burden of proof in this proceeding, I&E avers the Company has failed to demonstrate that an upward adjustment to its ROE due to the Company's quality of service is reasonable. I&E R. Exc. at 5.

In its Reply to Columbia's Exception No. 1.e., the OCA declares Columbia did not identify any error by the ALJs or denial of a Company position that the Commission should overturn. The OCA claims this is a *de novo* request for an additional adjustment to the ROE, as the Company did not make this request until filing its Exceptions. Therefore, the OCA argues that Columbia's Exception 1.e. is untimely, procedurally improper, and violates the due process set forth in our Regulation at 52 Pa. Code § 5.535(a). Furthermore, the OCA opines the ALJs' below commentary about the Company's service does not reach the level of evidentiary support required by Section 523(a). OCA R. Exc. at 8-9 (citing R.D. at 85).

b. I&E Exception No. 3 and Replies

In its Exception No. 3, I&E deems that the ALJs erred by rejecting I&E's DCF and CAPM results. As discussed in I&E's Exception No.1, above, the ALJs recommended that the Commission reject I&E's DCF ROE of 7.84% as a result of I&E excluding Essential Utilities from its proxy group. I&E alleges the ALJs' recommendation is flawed due to the ALJs' reasoning that I&E did not use its CAPM as a meaningful comparison to its DCF result. I&E Exc. at 7-8. I&E notes its methodology is consistent with recent base rate proceedings where the Commission affirmed I&E's use of the DCF methodology as the primary methodology to determine the ROE with the CAPM as a comparison. *Id.* (citing *PECO 2021* at 171). Responding to the ALJs' reasoning, I&E claims it did use the CAPM as a comparison to its DCF results. However, I&E clarifies that the CAPM is a less reliable model because it measures the cost of equity indirectly and risk premiums vary depending on the debt and equity being compared. Additionally, I&E states its CAPM was criticized solely for not using the result as a meaningful comparison to its DCF, not because its CAPM indicated that the ROE was either overstated or understated. I&E Exc. at 8-10.

In its Reply to I&E's Exception No. 3, Columbia maintains the ALJs correctly rejected I&E's DCF and CAPM results. The Company states I&E incorrectly argues that the Commission primarily relies on the DCF without giving weight to other methodologies. Columbia R. Exc. at 10-11. Specifically, Columbia notes that in *Aqua 2022,* the Commission recognized that multiple methodologies of calculating return on equity are necessary for responsible ratemaking. *Id.* (citing *Aqua 2022* at 154). In addition, the Company posits, I&E's argument lacks credibility because I&E argues for lower rates due to the impacts of the COVID-19 pandemic and inflation. However, Columbia avers, I&E disregards that in *Aqua 2022*, the Commission recognized that interest rate increases and inflation volatility impact the ROE, thus requiring consideration of the CAPM. Columbia R. Exc. at 10-11.

c. OCA Exception No. 5 and Replies

In its Exception No. 5, the OCA claims the ALJs erred by recommending a 9.55% ROE. Namely, the OCA disagrees with the ALJs' use of Columbia's CAPM result in their ROE analysis. The OCA affirms the record supports the ALJs' opinion that the Company's CAPM result is unsatisfactory and may overstate the ERP. The OCA claims a current and forward-looking ERP is necessary for calculating the CAPM. Citing *Aqua 2022* in the R.D., the OCA asserts the ALJs know the Commission is receptive to a forward-looking CAPM as it better reflects changing market conditions. Since Columbia's ERP is based on historical data, the OCA deems the Company's CAPM should not be given any weight when determining the ROE. Due to the ALJs' criticism of Columbia's CAPM analysis, the OCA disagrees with the ALJs averaging the Company's and the OCA's CAPM results. OCA Exc. at 11-13.

In its Reply to the OCA's Exception No. 5, Columbia contends the OCA's argument that the ALJs erred by using the Company's ROE position is incorrect. To the contrary, Columbia explains that its testimony shows the OCA's ROE recommendation to be unreasonable. The Company asserts that the Commission should not approve an ROE that is lower than the 9.55% ROE recommended by the ALJs. Columbia Exc. at 12.

5. Disposition

Based on our above determination to grant I&E's Exception No. 1, in part, and deny it, in part, we disagree with the ALJs' recommendation to exclude I&E's DCF and CAPM results based on I&E's proxy group. Columbia used the ALJs' recommended proxy group in its DCF, CAPM, ECAPM, PRPM, and RP analyses. The OCA used the same proxy group in its DCF and CAPM analyses. Therefore, as discussed below, we will disregard the Company's and the OCA's ROE results and base our recommended ROE on the results of I&E's DCF and CAPM analyses.

a. Consideration of Columbia's Exceptions

Upon our consideration of the record evidence, we agree with the ALJs' determination that Columbia's ECAPM is inappropriate. The ALJs heavily relied on I&E's criticism of the ECAPM to justify its rejection. We agree with I&E's rationale, particularly that the ECAPM adds subjectivity to the CAPM as an attempt to refine its predicted SML. Additionally, we are persuaded by I&E's assertion that while some studies indicate that the ECAPM inaccurately defines the SML, the degree to which the CAPM requires adjustment is variable. *See*, R.D. at 62. Therefore, we shall deny Columbia's Exception No. 1.a.

Based upon the evidence of record, we agree with the ALJs' finding that the Company's ERP is overstated. We are of the same opinion as the OCA that the ERP used in a CAPM analysis should be forward looking. Here, Columbia calculates its ERP partly with historical data of returns on stocks and returns on bonds. Thus, we find that the Company's ERP is not forward-looking and that it is inappropriate to use in its CAPM analysis. Accordingly, we shall reject Columbia's Exception No. 1.b.

As to the RP methodology, the record indicates the Company's PRPM analysis, which it used as an input in developing its RP ROE, is a specialized form of the RP. Further, the RP is an indirect measure of the cost of equity because it does not recognize company-specific risk through beta. In addition, the RP relies on the use of historic data that may not accurately represent the current or future economic conditions. For these reasons, we find that Columbia has failed to demonstrate that any weight should be given to its use of the RP or PRPM in setting an appropriate cost of equity. Therefore, we shall deny Columbia's Exception No. 1.c.

Based on the record evidence demonstrating that Columbia is significantly smaller in size when compared to the EDCs in the proxy group, we find that this *may* favor awarding the Company a size adjustment. However, we agree with I&E that the technical literature presented by Columbia is not specific to the utility industry and does not definitively support a size adjustment. *See,* I&E St. 1-SR at 26. Contrary to the Company, I&E also presented technical literature demonstrating a size effect for utilities does not exist. I&E M.B. at 34. Therefore, we are not persuaded by Columbia's argument that the ALJs erred by not awarding the Company a size adjustment. For this reason, we decline to award Columbia a size adjustment by applying an explicit 100-basis point size adjustment to its ROE. Therefore, we shall deny the Company's Exception No. 1.d.

We note that Columbia has the burden of proof in this proceeding and did not request a quality of service based upward adjustment to its ROE until it filed Exceptions. The Commission has consistently held that a party may not raise new arguments or evidence at the Exception stage of the proceeding. *See, Pa. PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, *et al*. (Order entered November 9, 2023) (*2023 PGW*) at 40. Consequently, the Parties to this proceeding have not been afforded an opportunity to respond to the Company's position set forth in its Exceptions. The record has not been developed with respect to this ROE adjustment.

Although, as discussed in Section X.C, below, we have determined that Columbia has an excellent quality of service, the record has not been developed with respect to any ROE adjustment, thereto. Nevertheless, we find that even if we were to consider the Company's requested upward adjustment for quality of service, we conclude that Columbia's quality of service has not risen to the level of supporting an added premium to its ROE. We agree with the positions of I&E and the OCA that all regulated utilities are required to provide safe, adequate, reasonable, and efficient service as a matter of law under Section 1501 of the Code. Simply fulfilling this requirement does not justify an upward adjustment to the Company's ROE. I&E R. Exc. at 5; OCA R. Exc. at 8-9. Accordingly, we shall deny Columbia's Exception No. 1.e.

b. Consideration of the Exceptions of I&E and the OCA

Based on the record, we agree with the ALJs that it is appropriate to consider the CAPM results to account for economic changes such as those occurring currently, in addition to the DCF results, to determine Columbia's ROE. As the ALJs noted, the CAPM is more responsive to changes in interest rates. R.D. at 59-60. While I&E did use its CAPM as a comparison to its DCF result, I&E made no CAPM based adjustment to its final ROE recommendation. I&E M.B. at 23. Additionally, we agree with the ALJs' comparison to *Aqua 2022*, wherein we stated, as follows:

> We are persuaded by the arguments of Aqua that the ALJ erred by concluding I&E used its DCF *and* CAPM results to determine Aqua's ROE. I&E did use its CAPM as a comparison to its DCF result, however I&E made no CAPM based adjustment to its final ROE recommendation. I&E M.B. at 47. As Aqua points out, the U.S. economy is in a period of high inflation. To help control rising inflation, the Federal Open Market Committee has signaled that it is ending its policies designed to maintain low interest rates. Aqua Exc. at 9. The DCF model does not directly account for interest rates, consequently it is slow to respond to interest rate changes. However, I&E's CAPM model uses forecasted

> yields on 10-year Treasury bonds, accordingly its methodology captures forward looking changes in interest rates.

R.D. at 59-60 (citing *Aqua 2022* at 154, emphasis in original).

In *Aqua 2022*, the Commission determined the ROE by using informed judgement based on I&E's DCF and CAPM methodologies. We conclude that methodologies other than the DCF can be used as a check upon the reasonableness of the DCF derived ROE calculation. We historically have primarily relied upon the DCF methodology in arriving at ROE determinations and utilized the results of the CAPM, as a check upon the reasonableness of the DCF derived equity return. As such, where evidence based on other methods suggests that the DCF-only results may understate the utility's ROE, we will consider those other methods, to some degree, in determining the appropriate range of reasonableness for our ROE determination. Considering the above, we shall determine an appropriate ROE for Columbia using informed judgement based on I&E's DCF and CAPM methodologies. Accordingly, we shall grant I&E's Exception No. 3, in part, and deny it, in part, and we shall deny the OCA's Exception No. 5 consistent with the forgoing discussion.

c. Authorized ROE for Columbia

We have previously determined that we shall utilize I&E's DCF and CAPM methodologies. I&E's DCF and CAPM produce a range of reasonableness for the ROE in this proceeding from 7.84% to 11.09%. Based upon our informed judgment, which includes consideration of a variety of factors such as increasing inflation leading to increases in interest rates and capital costs, we determine that an ROE of 9.75% is reasonable and appropriate for Columbia. Accordingly, we shall modify the ALJs' ruling as to the ROE to award Columbia in this proceeding.

E. Overall Rate of Return

1. Positions of the Parties

Columbia submitted that the record in this proceeding supports a finding that the Company should be permitted to earn an overall rate of return of 8.28%. This is comprised of a weighted average of a 3.15% rate of return on long-term debt, and a 11.25% rate of return on common equity, inclusive of an upward adjustment of 1.0% for size risk and a downward adjustment of 0.11% for financial risk. In turn, this was based upon a proposed actual capital structure of 36.66% long-term debt and 63.34% common equity. Columbia claimed that the failure to grant the Company an adequate overall rate of return would make it more difficult for the Company to attain its dual goals of meeting its capital requirements and accessing capital markets at a reasonable cost, while also providing reliable and high-quality service for its customers. Columbia M.B. at 60, 84.

I&E proposed that the Company should be permitted the opportunity to earn an overall rate of return of 5.50%. This recommended overall rate of return is comprised of a weighted average of a 3.15% rate of return on long-term debt and a 7.84% rate of return on common equity and is based upon a hypothetical capital structure of 50% long-term debt and 50% common equity. According to I&E, this overall rate of return will permit the Company to earn a return on its investment while not unduly burdening ratepayers with a higher than necessary rate of return. I&E M.B. at 14, 35; I&E R.B. at 13-14.

The OCA submitted that the Company should be authorized an overall rate of return of 6.31%. The OCA's recommendation was comprised of a weighted average of a 3.15% rate of return on long-term debt and a 9.4% rate of return on common equity and is based on a hypothetical capital structure of 50% long-term debt and 50% common equity. Alternatively, the OCA submitted that if the Commission adopts Columbia's proposed actual capital structure, then it should authorize the Company an overall rate of return of no more than 6.73%. This alternate proposal was comprised of a weighted average of a 3.15% rate of return on long-term debt and an 8.8% rate of return on common equity using the Company's proposed capital structure, *supra*. OCA M.B. at 34, 42, 55.

2. Recommended Decision

The ALJs recommended that the Company be afforded the opportunity to earn an overall rate of return of 7.2%. This is based upon the ALJs' recommendations, *supra*: (1) approving the Company's proposed capital structure of 36.66% long-term debt and 63.34% common equity; (2) approving the Company's claimed cost rate of 3.15% for long-term debt; (3) averaging the DCF and CAPM results of the Company and the OCA to arrive at an ROE of 9.55%; and (4) denying the Company's proposed adjustments for size and financial risk. The ALJs opined that this overall rate of return will yield reasonable rates for the Company's customers. R.D. at 45, 47-48, 63-64, 78 and Appendix, Table I(A).

3. Exceptions and Replies

Columbia, I&E, and the OCA each filed Exceptions to the ALJs' recommendations on a fair rate of return for the Company. Each Party's Exceptions and Replies to Exceptions on the overall rate of return are based on their respective Exceptions and Replies to Exceptions regarding the ALJs' recommended capital structure, proxy group, and the cost of common equity, as discussed above. Additionally, the OCA filed specific Exceptions to the ALJs' recommended overall rate of return, as discussed below.

a. OCA Exception No. 6 and Replies

In its Exception No. 6, the OCA restates its opposition to the ALJs' recommended ROE of 9.55%. The OCA notes that the ALJs' recommended ROE, as applied to the Company's capital structure ratios, contributes significantly to the ALJs' overall recommendation that Columbia be permitted to increase base rates by $944,893, or approximately 95% of the Company's filed request. The OCA submits that, in turn, the ALJs' recommended overall rate of return is also excessive. Namely, the OCA contends, the ALJs' conclusion, that their recommended overall rate of return is reasonable for the Company's customers, does not properly address the ALJs' underlying recommendation as to the cost of equity that will be applied to Columbia's actual capital structure. According to the OCA, the ALJs erred by not lowering their recommended ROE in conjunction with recommending the use of an actual capital structure. The OCA stresses that the ALJs' recommended ROE of 9.55% is 75 basis points higher than the OCA's proposed ROE of 8.8% if the Company's actual capital structure is adopted. Additionally, the OCA notes that the ALJs' recommended ROE is fifteen (15) basis points higher than the OCA's proposed ROE of 9.4% if the Commission also adopts the OCA's proposed hypothetical capital structure. OCA Exc. at 16, 17-18.

The OCA insists that the ALJs' recommendation that rates be set based upon the Company's "equity-heavy" capital structure and a 9.55% ROE, which is higher than both the OCA's primary and alternative proposed ROEs, will unreasonably burden consumers with excessive rates. According to the OCA, because debt is cheaper than equity, having a higher debt ratio in the WACC calculation can reduce the overall WACC, or rate of return. Therefore, the OCA remains of the opinion that the Commission should adopt its proposed use of a hypothetical capital structure, which yields an ROE of 9.40%. Alternatively, the OCA restates its argument that if the Commission adopts the ALJs' recommendation to apply an actual capital structure, then it should set the ROE at no higher than 8.80%. OCA Exc. at 17, 18.

In its reply to the OCA's Exception No. 6, Columbia submits that its ROE should not be set any lower than the 9.55% ROE recommended by the ALJs. According to Columbia, the ALJs were correct not to recommend a downward adjustment for capital structure-based risk (*i.e.,* financial risk) because they also recommended that Columbia's proposed upward adjustment to ROE for size risk be denied. Additionally, Columbia posits that the ALJs correctly concluded that use of an actual capital structure extinguishes the need to adjust for financial risk. Columbia claims that contrary to the OCA's assertions above, there is no basis in the law or in traditional ratemaking principles that a utility's ROE should be set based upon how much the ROE impacts the overall rate increase or what percentage of the requested increase is granted. Columbia insists that there is no evidence to support the OCA's argument that a 9.55% cost of equity will unreasonably burden the Company's ratepayers. For these reasons, Columbia argues that the OCA's Exception No. 6 should be denied.

4. Disposition

a. Consideration of the OCA's Exceptions

We shall deny the OCA's Exception No. 6. As discussed above, we have determined that an actual capital structure should be utilized in setting the appropriate rate of return for Columbia. Therefore, we shall reject the OCA's primary argument that an overall rate of return of 6.31%, inclusive of an ROE of 9.40%, should be authorized for the Company using either the OCA's proposed hypothetical capital structure, or that proposed by I&E. Additionally, consistent with our finding, above, that the Company should be authorized an ROE of 9.75%, we shall also reject the OCA's alternative argument that an overall rate of return of 6.73% should be authorized for the Company, using an ROE of 8.80% and applying the Company's actual capital structure.

b. Authorized Overall Rate of Return for Columbia

For the reasons set forth above, we have adopted the ALJs' recommendation as to the appropriate capital structure and cost of debt for Columbia. Additionally, based on the use of informed judgment, we have modified the ALJs' recommendation as to the appropriate cost of common equity for the Company. The table below 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 Table 8 indicates, we shall set an authorized overall rate of return for Columbia at 7.33%.[40] In our view, this overall rate of return will result in just and reasonable rates for Columbia's ratepayers.

Table 8: Columbia Capital Structure - Authorized Overall Rate of Return

Capital Type	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	36.66%	3.15%	1.15%
Common Equity	63.34%	9.75%	6.18%
Total	100.00%		7.33%

IX. Rate Structure

This section of the Opinion and Order addresses the ALJs' recommendations pertaining to cost of service, revenue allocation, and rate design. When a utility files for a rate increase and the requested increase exceeds $1 million, the utility must include with its filing a cost-of-service study (COSS) in which it assigns to each customer class a rate based upon the operating costs that it incurred in providing that

[40] 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 included here because the Order generally follows the structure of the Recommended Decision for ease of reference by the reader.

service. 52 Pa. Code § 53.53; *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1015 (Pa. Cmwlth. 2006) (*Lloyd*). Public utility rates should enable the utility to recover its cost of service through the creation of a rate design that recovers costs from the appropriate customer class as closely as possible to the allocated cost of service. These rates are required by statute to be just, reasonable, and non-discriminatory. 66 Pa. C.S. §§ 1301, 2804(10).

Consistent with the Commission-approved settlement in Columbia's last base rate proceeding, at Docket No. R-2017-2598203,[41] utilizing the results of its COSS, the Company has proposed to consolidate the Columbia and Marietta rate districts, moving each consumption block closer towards its cost of service.[42] Columbia St. 3 at 2. Columbia's proposed rates are detailed on Columbia Exhibit DF-7RJ (8/25 Rejoinder), which indicate increases to the customer charges and adjustments to the volumetric charges, excluding the Company's PENNVEST surcharge rate. Under the Company's current tariff, the Company's Columbia and Marietta rate districts rely upon a single general metered service (GMS) rate schedule that is applicable to all residential, commercial, industrial, and public authority customers. In other words, the Company's customer and consumption charges do not vary by customer class.

Retail customers are currently assessed a (fixed) monthly customer charge, which varies by meter size, and volumetric usage charges which vary by consumption block. In the Columbia rate district, the GMS rate schedule contains a three-step, declining-block consumption charge, with the third rate block applicable to usage in excess of 250,000 gallons per month. In the Marietta rate district, the GMS rate schedule

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[41] *See*, *Pa. PUC, et al. v Columbia Water Company,* Docket Nos. R-2017-2598203, *et al.* (Opinion and Order entered March 1, 2018) (*2017 Columbia Rate Case*).

[42] As indicated previously, the Company has excluded the costs associated with serving the EDTMA rate district from its COSS.

contains a four-step declining-block usage charge, with the fourth block applicable to usage in excess of 50,000 gallons per month. Except for the consumption charge applicable to the first 1,000 gallons of usage, the Company's Marietta rate district rates for metered service are lower than the corresponding Columbia rate district GMS charges. OSBA St. 1 at 3-4.

As indicated, *supra*, Columbia has proposed to consolidate its Columbia rate district and Marietta rate district GMS rate schedules in this proceeding. Specifically, Columbia has proposed to move its water service customers in both the Columbia and Marietta rate districts under a single, three-step declining-block GSM rate schedule. Columbia St. 3 at 13.

None of the other Parties to this proceeding disputed the Company's proposal to consolidate the rates of the Columbia and Marietta rate districts. As such, the ALJs recommended the Commission approve this specific rate design proposal. R.D. at 65. No Party filed Exceptions on this issue.

Although the bill of an average customer in the Marietta rate district will experience a higher degree of impact than that of an average customer in the Columbia rate district,[43] we find that the consolidation of rates is reasonable given that customers in the Marietta rate district have been paying less for the same service as provided to customers in the Columbia rate district for over ten years. Finding the ALJs' recommendation to be reasonable, we adopt it without further comment.

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[43] See, Table 12 on page 131 of this Opinion and Order.

A. Cost of Service Methodology

1. Positions of the Parties

Since Columbia's current rates are not differentiated by customer class, the Company presented a COSS that developed cost-based customer and volumetric usage charges that would be applicable to all retail customers (residential, commercial, industrial, and public authority customers).[44, 45]

Columbia's witness, Mr. Fox, sponsored the Company's COSS (contained in Columbia Exhibits DF-1RJ through DF-11RJ) based on the widely used Base-Extra Capacity (BEC) method of cost allocation, as described in the water rates manual published by the American Water Works Association (AWWA) entitled "M1 Principles of Water Rates, Fees, and Charges" (AWWA Manual). According to the Company, the BEC method is preferred in the industry and has been accepted by the Commission on numerous occasions. Columbia M.B. at 97. The OSBA's witness, Mr. Kalcic, summarized the three major steps of the BEC methodology as follows:

> First, the utility's system-wide revenue requirement is functionalized, i.e., assigned to several functional service categories including supply, treatment, storage, transmission, distribution, meters, services, billing and fire protection. Next, the utility's functionalized costs are *classified* (or split) into cost categories, namely: 1) base costs; 2) extra capacity

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44 Columbia's COSS separately determined the cost of providing public and private fire protection service.

45 The OCA's witness, Mr. Mierzwa, explained there is some correlation between the rate blocks and classes, in that based on the demand factors the Company used in its COSS, most residential customers are in Tier 1, most commercial customers are in Tier 2, and most industrial customers are in Tier 3. *See*, Tr. at 80. As shown on pages 2, 4, and 6 of Columbia Exhibit DF-8RJ (8/25 Rejoinder), the majority of the usage in Tier 1 in the Columbia rate district is by residential customers, and the majority of usage in Tier 3 in the Columbia rate district is by industrial customers.

> costs (which consist of maximum day and maximum hour cost components); 3) customer costs; and 4) fire protection costs. Finally, each classified cost category is *allocated* to rate classes in accordance with a factor that reflects relative cost responsibility.

OSBA St. 1 at 4-5 (emphasis in original).

In support of the BEC methodology, Mr. Fox testified as follows:

> The Base-Extra Capacity method is built upon the allocation of both the utility's investment in plant and its proposed revenue requirements to the various functional cost categories of the utility. These functional cost categories include base, extra capacity, customer and direct fire protection. Base or average day capacity costs reflect items that vary based upon the amount of water used under average usage conditions. Extra capacity costs are usually divided between maximum day and maximum hour and include those costs that are designed to meet demands in excess of the average day and maximum day respectively. As the name implies, customer costs generally vary based upon the number of customers connected to the system and are usually divided between meter costs and billing costs. Finally direct fire protection includes those costs that are incurred in order to not only maintain fire hydrants within the system but also to provide for a portion of the cost recovery of the system oversizing that is required to provide sufficient flows and pressures in order to adequately address a fire event. Once the costs have been allocated to the functional categories, they are assigned to the various customer classes based upon each customer class' usage characteristics and their associated responsibility for those costs. After the cost responsibility for each customer

> class has been determined a rate structure can then be designed that appropriately recovers those costs.

Columbia St. 3 at 8-9.[46]

Mr. Fox stated that the Company did not possess daily or hourly consumption data, by customer class, necessary to perform a customer class demand study;[47] therefore, in the absence of more granular data, Mr. Fox took into account estimates for max-day and peak-hour peaking factors by rate tier when constructing the Company's COSS. Mr. Fox contended that these estimates are reasonable, in his professional opinion, and more accurately reflect the true cost of providing volumetric service to each rate tier. In addition, Mr. Fox noted that by increasing the higher volume tiers at a larger percentage increase, the Company is sending a stronger pricing signal to

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46 By way of background, the OSBA's witness, Mr. Kalcic, explained how extra-capacity costs are allocated to customer classes under the BEC methodology:

> Under the BEC methodology, the maximum day and maximum hour cost components are allocated to classes on the basis of *excess* class demand (or usage) under maximum day and maximum hours conditions, respectively. More specifically, the BEC methodology uses two types of class capacity factors to allocate such extra-capacity costs: 1) a maximum day ("max-day") factor; and 2) a maximum hour ("max-hour") factor. The max-day factor for each class is intended to reflect the ratio of the class's maximum day usage to its average day usage. Similarly, the max-hour factor for each class is intended to reflect the ratio of the class's maximum hour usage to its average hourly usage.
>
> In short, in order to allocate extra-capacity costs to customer classes, the BEC methodology requires measures of *class* maximum-day and *class* maximum hour peaking factors.

OSBA St. 1 at 6 (emphasis in original).

47 Columbia St. 4-R at 11.

customers for conservation purposes. As such, Mr. Fox argued that the COSS as presented in his rebuttal exhibits should be relied upon for calculating the Company's ultimately approved volumetric rates. Columbia St. 3-R at 11.

As further support for using the Company's cost of service analysis, Columbia's witness, Mr. Fox, noted the significant differential between Columbia's current Tier 1 and Tiers 2 and 3 volumetric usage rates, suggesting that this differential is not cost based. The Company's current and proposed volumetric usage rates for the Columbia rate district which includes approximately 90% of the customers for which Columbia is requesting rate increases in this proceeding, are noted in Table 9, as follows:

Table 9: Columbia's Existing and Proposed Volumetric Usage Rates

Tier	Usage Block	Current Rate (per 1,000 gal.)	Proposed Rate (per 1,000 gal.)	Increase
1	First 10,000 gallons	$7.20	$7.22	0.3%
2	Next 240,000 gallons	$2.77	$3.29	18.8%
3	Over 250,000 gallons	$1.95	$2.84	45.6%

See, Columbia Exh. DF-9RJ (8/25 Rejoinder). As shown above, Mr. Fox contended that the use of the Company's COSS reduces this differential; the current Tier 1 volumetric usage rate is more than 2.5 times the current Tier 2 volumetric usage rate, and 3.75 times more than the current Tier 3 volumetric usage rate in the Columbia rate district.

Although no Party challenged the Company's use of the BEC methodology in its COSS, as discussed in more detail, *infra*, I&E, the OCA, and the OSBA each noted their disagreement with the Company's functionalization of certain costs in its COSS as being customer-related. *See*, I&E M.B. at 37-38; OCA M.B. at 62-72; OSBA M.B. at 7. These issues will be addressed in the "Customer Charges" section in Section IX.C of this Opinion and Order.

Additionally, the OSBA disagreed with Columbia's COSS to the extent that the Company did not prepare a customer class demand study and had to estimate max-day and peak-hour peaking factors by rate tier. OSBA M.B. at 7. The OSBA's witness, Mr. Kalcic, took note that Columbia, like almost all water public utilities across the Commonwealth, does not possess daily or hourly consumption data, by customer class. OSBA St. 1 at 7. In Mr. Kalcic's view, the workaround for a water utility is to gather 24/7/365 usage data from a statistically valid sample of each of the utility's GMS customer classes. The OSBA noted that Columbia does not possess a customer class demand study, therefore Columbia did not perform the third step of the BEC cost methodology. Consequently, the OSBA stressed, the Company's COSS does not provide cost-based GMS class revenue targets, which, according to the OSBA would otherwise be available to guide GMS rate design in this proceeding. *Id.*

2. Recommended Decision

The ALJs noted that the Commission has repeatedly stated that COSSs are to be utilized as "guides" and are only one factor to be considered in the rate setting process. R.D. at 65 (citing *Pa. PUC, et al. v. West Penn Power Company*, Docket No. R-901609, *et al*. (Order entered December 14, 1990); *Pa. PUC, et al. v. Pa. Power & Light Company*, Docket No. R-822169, *et al*. (Order entered August 22, 1983)). However, the ALJs noted that in *Lloyd*, the Commonwealth Court determined that cost of service is the "polestar" of ratemaking. R.D. at 66.

The ALJs noted that Columbia has utilized a generally accepted COSS methodology to determine the cost to serve its customers. And, although the Company's COSS lacks a certain level of precision, the ALJs reasoned that a COSS is but one consideration in the development of a reasonable rate design. Noting that the Company, the OCA, and the OSBA were each able to recommend a revenue allocation and rate design that each Party believes results in reasonable rates, the ALJs found that for the purposes of this rate filing, the Company's COSS should be accepted as adequate. R.D. at 67.

3. OSBA Exception Nos. 1, 2, and Replies

In its Exception No. 1, the OSBA contends that the standard applied by the ALJs for evaluating cost of service methodology in the instant proceeding appears to conflict with that applied in *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2022-3031211 (Opinion and Order entered December 8, 2022) (*Columbia Gas 2022*). OSBA Exc. at 3. Specifically, the OSBA points to the following statement made by the ALJs:

> Despite its heightened importance in the ratemaking process, cost allocation remains an inexact science, and there is no single "correct" cost allocation methodology. There are, however, two fundamental principles—cost causation and consistency. Cost causation means that costs should be allocated based on what causes a cost to be incurred or what causes a cost to vary. Consistency means that once a reasonable cost allocation methodology is established, it should not be changed without a compelling reason.

OSBA Exc. at 3 (citing R.D. at 66).

The OSBA contrasts this statement with the Commission's observation in *Columbia Gas 2022* where the Commission stated the following:

> We have observed that "the inherent distinctions between utilities and rate cases may result in different methodologies to be reasonable for different reasons. *In other words, the best-suited ACCOSS may depend on the circumstances of the situation on a case-by-case basis.*

OSBA Exc. at 3 (citing *Columbia Gas 2022* at 107, fn. 30).

In reply, the OCA counters that these statements are readily reconciled if the "circumstances of the situation on a case-by-case basis" provide a "compelling reason" for changing the cost allocation methodology. OCA R. Exc. at 16. Specifically, the OCA contends that the ALJs did not accept the Company's COSS because it was "consistent." Rather, they accepted it as adequate given the data available in this case. OCA R. Exc. at 17 (citing R.D. at 67). The OCA notes the ALJs' reasoning as follows:

> Although the Company's COSS lacks a certain level of precision, a cost of service study is but one consideration in the development of a reasonable rate design. The Company, OCA and OSBA were each able to recommend a revenue allocation and rate design that each party believes results in reasonable rates. Therefore, for the purposes of this rate filing, we accept the Company's COSS as adequate.

OCA R. Exc. at 17 (citing R.D. at 67).

In its Exception No. 2, the OSBA reiterates arguments made in its testimony and briefs that Columbia did not completely execute the BEC methodology because the Company did not have the required granularity and detailed data to develop a cost-based class revenue allocation. OSBA Exc. at 4-6 (citing OSBA M.B. at 6-11).

In reply, both Columbia and the OCA contend that, based on the data that is available, the Company's methodology was a reasonable starting point for developing unified rates for the Columbia and Marietta rate districts. Therefore, Columbia and the OCA assert that the ALJs properly accepted the Company's allocation methodology as a starting point and informed by the other evidence provided by the parties – cost-based and policy-based – determined to modify the existing differentials between the volumetric usage blocks. Columbia R. Exc. at 18; OCA R. Exc. at 17-18. Columbia further argues that not only is it unnecessary for the Company to prepare a COSS that provides a customer-class demand study, but it is also unreasonable for a company of Columbia's size to incur such a significant rate case expense. Columbia R. Exc. at 18.

4. Disposition

The Commission uses the results from COSSs as a guide in developing appropriate customer rates. Nevertheless, as we have stated in past rate decisions, COSSs are tools to be used in the ultimate design of customer rates, but they are necessarily subject to the philosophies of the analysts preparing them. We therefore emphasize that appropriate judgment and discretion is required in analyzing the COSSs and using them to help set the final customer rates based on the evidentiary record. It is important to note that no COSS was performed in the *2017 Columbia Rate Case* but was required, under the settlement provisions, to be provided in conjunction with a future proposal to fully unify rates between the Marietta and Columbia rate districts. Considerations of gradualism and rate affordability are particularly relevant to the circumstances of this case, where rates are being fully unified for the Marietta and Columbia systems. That is an important distinction from the *2017 Columbia Rate Case*, which was settled.

Upon our careful consideration of the positions of the Parties in this proceeding, we shall adopt the recommendation of the ALJs on this issue that for the purposes of this proceeding, the Company's COSS should be accepted as adequate given the data available in this case.

Consistency is an important factor in cost allocation. The Company has utilized a generally accepted COSS method to determine the cost to serve its customers, and no Parties challenged Columbia's use of the BEC method but did challenge the way costs were allocated. As we acknowledged, COSSs are susceptible to the judgment and discretion of the analysts performing them. In the absence of more precise and granular data, the circumstances in this situation dictated that Columbia's witness, Mr. Fox, utilize estimates for max-day and peak-hour peaking factors, *by rate tier*, in the rate setting process, as opposed to *class* peaking factors. As such, we find that the circumstances in this situation provided a "compelling reason" for changing the cost allocation methodology.

Columbia's evidence was sufficient to prove by a preponderance of the evidence that the Company reasonably relied on reasonably accurate available data and information to calculate the tiered water rates for the consolidated GMS customer classes such that the rate for each tier reasonably reflects the Company's cost to deliver water service at the consumption level represented by each tier.

In this proceeding, the facts relating to how Columbia determined the contested tiered water rates for the consolidated GMS customer classes, alleged to violate *Lloyd* and ultimately Section 1304 of the Code, 66 Pa. C.S. § 1304, are undisputed. The question presented for resolution concerns the legal characteristics of those rates (*i.e.*, whether rates comply with Section 1304 of the Code and whether the undisputed evidence demonstrating how the Company calculated the tiered rates is sufficient to meet the Company's burden of proof).

The OSBA alleges that since Columbia's witness, Mr. Fox, did not perform the third step of the BEC cost methodology by allocating the classified costs to Columbia's residential, commercial, industrial, and public authority (or GMS) rate classes when preparing his COSS, the Company's COSS is therefore incomplete and should not be relied upon for calculating the Company's ultimately approved volumetric rates. Quoting the OSBA's witness, Mr. Kalcic's, description of the BEC cost methodology: "[E]ach classified cost category is *allocated* to rate classes in accordance with a factor that reflects relative cost responsibility…[I]n order to allocate extra-capacity costs to customer classes, the BEC methodology requires measures of *class* maximum-day and *class* maximum hour peaking factors. *See*, OSBA St. 1 at 5-6. However, the

Company indicated that such class peaking factors have not been used, but rather peaking factors by rate tier, since the Company lacks specific class by class demand study data.

Mr. Fox explained his cost-of-service calculation, regarding consumption-based charges as follows:

> I first allocated revenue requirements which were allocated to water sales to base (average use), maximum day, and peak hour demands. Once the costs were allocated to these components they were distributed to each consumption block's proportionate share of each component. For example, consumption falling into consumption blocks which produce more peak hour demands, should be distributed a greater percentage of the peak hour costs. Consumption based rates were then calculated based on the distributed costs and relative demand per consumption block.

Columbia St. 3 at 12.

Columbia's COSS considers both the average quantity of water consumed (base costs) and the peak rate at which it is consumed (peaking costs). Peaking (or extra capacity) costs are costs that are incurred during peak times of consumption, in excess of the average rate of use, or base use. There are additional costs associated with designing, constructing, operating, maintaining, repairing, and replacing facilities to meet peak demands. These peak demand costs need to be allocated to those customers whose water usage patterns generate additional costs for the utility. In other words, not all customers share the same responsibility for peaking-related costs.

In this instance, Columbia distributed the peaking costs to each rate tier using estimates for max-day and peak-hour peaking factors, in the absence of granular, more detailed data, typically available via a customer class demand study. *See*, Columbia St. 3-R at 7. We agree with Columbia that a demand study is a costly endeavor that would require the Company to install equipment at random sample customer locations and measure the daily and hourly consumption of customers from each customer class over an extended period of time.

Nothing in the Code, our Regulations, or relevant case law prohibits a water utility from using reasonable assumptions and estimates in the rate setting process. The fact that Columbia did not gather precise and granular data to set the class peaking factors does not render the Company's use of estimates for max-day and peak-hour peaking factors, by rate tier, in the rate setting process unsupported or cause the Company's tiered rates to violate *Lloyd* or Section 1304 of the Code.

After our careful consideration of this issue, we are not convinced by the OSBA's argument that the Company's COSS is unreliable because it is not predicated upon a separate demand study which evaluates the water usage characteristics of the various classes of customers served.

Moreover, as in Columbia's proof of revenue, the majority of the usage in Tier 1 in the Columbia rate district is by residential customers, and the majority of usage in Tiers 2 and 3 in the Columbia rate district is by commercial and industrial customers. This is shown in Table 10, as follows:

Table 10: Projected Usage Per Volumetric Rate Tier Based on Columbia's Adjusted Billing Determinants for the Twelve Months Ended December 31, 2023

	Residential Usage (kgal)		Commercial Usage (kgal)		Industrial Usage (kgal)	
Tier 1	343,911	91%	32,654	9%	2,052	1%
Tier 2	23,364	19%	92,569	75%	8,124	7%
Tier 3	184	0%	24,194	25%	71,926	75%

See, Columbia Exh. DF-8RJ (8/25 Rejoinder) at 2, 4, and 6. As OCA witness Mr. Mierzwa explained, there is some correlation between the rate blocks and classes, in that based on the demand factors the Company used in its COSS, most residential customers are in Tier 1, most commercial customers are in Tier 2, and most industrial customers are in Tier 3. *See*, Tr. at 80.

Accordingly, we shall deny Exception Nos. 1 and 2 of the OSBA regarding Columbia's COSS.

B. Revenue Allocation

1. Positions of the Parties

As previously mentioned, in this proceeding Columbia has proposed to consolidate the rates for its Columbia and Marietta rate districts. Columbia St. 3 at 2. Existing rates in the Marietta rate district are lower; therefore, by unifying the rates, those customers would experience a greater increase in rates than customers in the Columbia rate district.

The Company's proposed allocation of revenue is primarily driven by the cost to serve. Columbia explains that it also considered the principle of gradualism and attempted to avoid significant rate increases to certain classifications under its proposed revenue allocation. Columbia M.B. at 97. As discussed, *supra*, as a term of settlement in Columbia's last base rate proceeding where rates were moved towards consolidation, but not fully, Columbia was required to submit a COSS in conjunction with a future proposal to fully consolidate rates. Columbia St. 1 at 3, 13.

As discussed in the Parties' briefs, Columbia's customer and volumetric usage charges do not vary by customer class – the same rates and blocks apply to all GMS classes – such that development of volumetric rates implicates the allocation of revenue requirement between the classes. Columbia M.B. at 98; OCA M.B. at 59-60; OSBA M.B. at 4-5. Thus, while the development of volumetric rates is a rate design matter, it has implications for the allocation of revenue requirement between the classes and is discussed here as a revenue allocation issue.

To develop his revenue allocation, Columbia's witness, Mr. Fox, first used the COSS to allocate costs to the Company's proposed fire protection rates:

> Since costs associated with public fire hydrants should not be charged to private fire services, I first removed the costs directly related to hydrants from the total fire service allocation. Based on the relative potential demands presented on Exhibit DF-2 (Revised), I split the remaining fire service demand costs (net of hydrant expenses) to public and private fire service. In the case of the public fire service charges, I added the allocated public fire service costs to the direct hydrant expenses and divided by the total number of public fire hydrants, net of the 104 "grandfathered" hydrants, in [Columbia's] system to arrive at an annual per hydrant charge.
>
> For public fire service charges, I also allocated only 25% of these overall costs to public fire protection customers to comply with Section 1328 of the Public Utility Code. The remaining 75% was redistributed to the fixed charges, utilizing the readiness-to-serve component.

> To derive the private fire service charges, I simply determined the number of private fire service equivalents using the fire demand factors described earlier in my testimony. This cost per equivalent was then applied to the equivalency factors for each private fire service size to derive the fire service charge for each size private fire service.

Columbia St. 3 at 11 (footnotes omitted).[48]

Mr. Fox then allocated revenue requirements to the Company's customer charges. The costs were split into two components: (1) those costs related to meters and service pipes (vary by the size of the meter and service); and (2) those costs related to billing, meter reading, and collections (vary by the number of billings). Columbia St. 3 at 12.

Lastly, Mr. Fox calculated consumption-based charges by allocating revenue requirements to base (average use), maximum day, and peak hour demands. Once the costs were allocated to these components, they were distributed to each consumption block's proportionate share of each component. Specifically, consumption falling into consumption blocks which produce more peak hour demands, were distributed a greater percentage of the peak hour costs. Consumption based rates were then calculated based on the distributed costs and relative demand per consumption block. Columbia St. 3 at 12.[49]

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48 Columbia Exhibit DF-4RJ (8/25 Rejoinder) presented the Company's updated derivation of fire protection charges and Columbia Exhibit DF-7RJ (8/25 Rejoinder) presented a comparison of the Company's cost-of-service-based and proposed fire protection charges.

49 Columbia Exhibit DF-6RJ (8/25 Rejoinder) presented the Company's updated allocation of volumetric related revenue requirements and Columbia Exhibit DF-7RJ (8/25 Rejoinder) presented a comparison of the Company's cost-of-service-based and proposed consumption charges.

Based on the Company's allocation of the requested revenue requirement, as set forth in Columbia Exhibits DF-8RJ (8/25 Rejoinder) and DF-11RJ (8/25 Rejoinder), the Company produced the following relative increases for each customer classification, as shown in Table 11 below:

Table 11: Columbia's Proposed Allocation of its Requested Increase

Classification	Present Base Rate Revenue	Allocation of Requested Increase	
(Columbia and Marietta)			
Residential	$4,258,850	$677,053	15.9%
Commercial	$810,916	$155,252	19.1%
Industrial	$331,059	$139,106	42.0%
Public	$81,494	$18,575	22.8%
Private Fire Protection	$120,884	$3,459	2.9%
Public Fire Protection	$288,708	$6,924	2.4%
Total GMS	$5,891,911	$1,000,369	17.0%
		$999,900	Target
		$469	Difference

See, Columbia M.B. at 101. The Company's final proposed volumetric rates for the three tiers, on a unified basis, are set forth in Columbia Exhibit DF-9RJ (8/25 Rejoinder) and reduce the differentials that exist between Tier 1 and Tiers 2 and 3 for the Company's current rates.[50]

Table 12 compares the monthly bill impacts to the average Columbia and Marietta rate district customers under the Company's proposed rates:

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50 The Company's proposed rates set forth in Columbia Exhibit DF-9RJ (8/25 Rejoinder) reflect the Company's agreement to remove $114,935 in volumetric charges from the fixed customer charge. Columbia St. 3-R at 10.

Table 12: Monthly Bill Impact on the Average Customer Under Columbia's Proposal

		Usage (Gallons)	Current	Increase	Proposed
Columbia Rate District					
5/8" meter	Residential	3,800	$37.67	12.1%	$42.23
1" meter	Commercial	28,500	$149.07	11.7%	$166.46
4" meter	Industrial *	165,000	$769.50	16.3%	$894.98
5/8" meter	Public Authority	1,600	$21.83	20.7%	$26.34
Marietta Rate District					
5/8" meter	Residential	3,800	$32.57	29.7%	$42.23
1" meter	Commercial	28,500	$100.87	65.0%	$166.46
4" meter	Industrial *	165,000	$544.42	64.4%	$894.98
5/8" meter	Public Authority	1,600	$20.38	29.2%	$26.34

* An error in the Company's calculation of a typical Industrial customer bill has been corrected for accuracy. *See* , Columbia Exh. DF-9RJ (8/25 Rejoinder).

The OCA's witness, Mr. Mierzwa, favored the Company's witness, Mr. Fox's, approach, which would reduce the severity of the consumption block differentials, over the OSBA's proposal to assign a uniform percentage rate increase, with the result of roughly maintaining the current differentials between the volumetric rate tiers. OCA St. 3R at 4; OCA St. 3SR at 5-9. Mr. Mierzwa recognized that more granular and detailed data such as monthly usage by block rate was not available in this case, to then be used in developing volumetric rates. *See*, Tr. at 79. Mr. Mierzwa found that the ratios applied by Mr. Fox to Tier 1 (most residential customers), Tier 2 (most commercial customers), and Tier 3 (most industrials) were not unreasonable, when compared with the AWWA Manual typical maximum hour factors. *See*, Tr. at 80. Therefore, the OCA averred that it is reasonable to rely upon Columbia's cost of service analysis to determine the volumetric usage charges, with the caveat that the Company's proposed volumetric rates be adjusted to reflect the OCA's differing position on the appropriate customer charge and the resultant need to increase the revenues to be recovered through volumetric rates. *See*, OCA M.B. at 60-62.

In contrast, the OSBA opposed changing the existing rate differentials on the basis that Columbia did not provide a traditional class COSS in this case and, as such, there was "no cost justification for assigning anything other than uniform increases to such classes in this proceeding." OSBA St. 1-S at 5. According to the OSBA, Mr. Kalcic's approach to rate design and revenue allocation recognizes the lack of GMS-related record evidence in this proceeding. Consequently, the OSBA recommended that the Commission adopt a GMS rate design that provides for uniform increases to the Company's Columbia rate district GMS customer classes, to the extent feasible, while maintaining the Company's existing Columbia rate district rate structure. OSBA St. 1 at 13. The OSBA argued that there is no record evidence that provides cost justification for anything other than assigning uniform increases to the Company's Columbia rate district residential, commercial, industrial, and public authority classes at the conclusion of this base rate case. *Id*.; OSBA St. 1-S at 5.

2. Recommended Decision

In the Recommended Decision, the ALJs explained that the allocation of revenue among a utility's various rate classes, while informed by science and engineering, also involves consideration of ratemaking policy and principles of gradualism. Whether or not the classification is reasonable is an administrative question to be decided by the Commission. R.D. at 67-68 (citing *The Peoples Natural Gas Co. v. Pa. PUC*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979)).

The ALJs noted the Commission's recent explanation regarding interplay among ratemaking methodologies and the consideration of other factors to set just and reasonable rates:

> These norms, or traditional ratemaking methodologies, are used to determine a utility's cost of providing service, or its revenue requirement, and to determine appropriate rate structure, which includes, among other things, the appropriate allocation of the revenue requirement to various customer classes. However, 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.
>
> We acknowledge that there are several factors that must be considered when designing a rate recovery proposal, one of which is the concept of gradualism and affordability, which are classic small water company challenges faced by many similar-sized utilities across the nation. However, while affordability is permitted to be considered, it is but one of many factors to be considered and weighed by the Commission in determining a utility's rates. The rate increase reflects the business challenges the Company currently faces, including required investments in the repair/replacement or improvement of its distribution systems, including acquired troubled water utilities' distribution system; and the high costs associated with maintaining a distribution system necessary to provide safe and reliable water and wastewater service within the Commonwealth.

R.D. at 68 (citing *Pa. PUC, et al. v. Community Utilities of PA Inc.*, Docket No. R-2021-3025206, *et al*. (Order entered January 13, 2022) (citations omitted)).

Although the ALJs indicated that the Company's and the OSBA's proposals regarding revenue allocation are both, to some degree, arbitrary and dependent upon professional judgement,[51] the ALJs expressed their agreement with Columbia's general allocation proposal, supported by the OCA. R.D. at 71.

In support, the ALJs noted the following benefits to ratepayers of approving Columbia's approach, supported by the OCA: (1) a reduction of the severity of the existing differentials between the rate tiers; (2) a larger percentage increase to the higher volume tiers that would provide a stronger price signal, promoting conservation; and (3) such customer conservation may provide a benefit of delaying, reducing or avoiding the costs of capital improvement projects. R.D. at 71-72 (citing Columbia St. 3-R at 11; OCA St. 1 at 11).

3. OSBA Exception Nos. 3 through 5 and Replies

In its Exception No. 3, the OSBA argues that the ALJs erred by not finding that the OCA introduced evidence during a rebuttal phase (its surrebuttal testimony) that should have been included in the OCA's case-in-chief.[52] OSBA Exc. at 7-8 (citing R.D. at 70-72). The OSBA contends that there was no valid reason for Mr. Mierzwa to have waited until his surrebuttal testimony to address the Company's COSS results and class revenue allocation proposal. OSBA Exc. at 8.

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[51] The ALJs reasoned that since there is no evidence that the existing differentials among the rate tiers has any cost justification, there is not necessarily an evidentiary basis to assign uniform increases as advocated by the OSBA either. R.D. at 71.

[52] During the August 28, 2023, evidentiary hearing, the OSBA moved to strike the surrebuttal testimony of the OCA's witness, Mr. Mierzwa, as in violation of Section 5.243(e)(2). *See*, Tr. at 71-72. The ALJs denied the OSBA's motion to strike, instead agreeing with the OCA attorney's argument that Mr. Mierzwa had "reserved" the right to respond to the Company's rebuttal testimony in surrebuttal, and that's what he was doing. *See*, Tr. at 74-75.

Additionally, the OSBA argues that, "in an unheard-of violation of due process, the OCA's class rate impact analysis under its rate design and class revenue allocation proposals appears for the *first time* in Appendix B to the OCA's *Main Brief*." OSBA Exc. at 8. The OSBA submits that is unreasonably too late in the evidentiary process for Appendix B to the OCA's Main Brief to be deemed valid record evidence. *Id*.

In reply, the OCA contends that no violation of due process occurred in this matter, since the ALJs had the benefit of the OSBA's responses when they considered the evidence and rendered their recommendation on this matter.[53] Contrary to the OSBA's allegation, the OCA asserts that it was not until rebuttal that the Company presented support for using its proposed allocation versus that proposed by the OSBA. OCA R. Exc. at 19 (citing OCA St. 3SR at 7-9). Therefore, the OCA argues that the ALJs properly rejected the OSBA's argument because the OCA's witness, Mr. Mierzwa, responded in surrebuttal to testimony that the Company's witness, Mr. Fox, provided for the first time in his rebuttal testimony. OCA R. Exc. at 18 (citing Tr. at 73, Columbia St. 3-R at 11; OCA St. 3SR at 6-9). As such, the OCA contends that its first opportunity to respond to that testimony was in surrebuttal.

Additionally, the OCA explains that it prepared a class rate impact analysis (based on its own revenue requirement recommendation) with its Main Brief because it was directed to do so after the evidentiary hearing, through the Interim Order on Briefs issued on August 30, 2023. OCA R. Exc. at 19.

[53] The OCA pointed out that the OSBA responded in surrebuttal to the OCA's scale back recommendation under its primary and secondary customer charge recommendation. *See*, OSBA St. 1S at 6-7. Further the OSBA responded in its Reply Brief to the OCA's class rate impact analysis. *See*, OSBA R.B. at 10-12. Moreover, the OCA reasons that any prejudice resulting from the late development of Columbia's position was cured because the ALJs afforded the OSBA the opportunity to respond to the contested OCA surrebuttal testimony during the evidentiary hearing. OCA R. Exc. at 19 (citing Tr. at 75-83, 86-91).

In its Exception No. 4, the OSBA argues that the BEC method utilized in the AWWA Manual allocates costs to customer classes, not rate blocks and, therefore, the AWWA Manual does not support the allocation of a utility's classified costs to GMS rate blocks, as Mr. Fox has attempted to do. On this basis, the OSBA argues that the ALJs erred in relying on the OCA's reference to the AWWA Manual in recommending a class revenue allocation. OSBA Exc. at 8-9 (citing R.D. at 70-72).

In reply, the OCA contends that the OSBA's argument is a distinction without a difference. OCA R. Exc. at 20. The OCA argues that, not only was Mr. Mierzwa's testimony regarding the AWWA Manual one of many factors considered in the ALJs' recommendation to adopt the Company's proposal to reduce the existing differentials between Tier 1 and Tiers 2 and 3 volumetric rates, but as explained during Mr. Mierzwa's response to the OSBA's cross-examination, the Tier 1 rate block includes most residential customers, the Tier 2 rate block includes most commercial customers, and the Tier 3 rate block includes most industrial customers. *Id*. (citing Tr. at 80; R.D. at 70-71; *see also*, OCA M.B. at 59-60; OCA St. 3SR at 6-8). Therefore, the OCA argues that the OSBA's Exception No. 4 should be denied. OCA R. Exc. at 20.

In its Exception No. 5, the OSBA argues that the ALJs erred in their conclusion that the significant differentials currently existing among the Company's GMS rate tiers should be modified. OSBA Exc. at 10 (citing R.D. at 71-72).

The OSBA reasons that, since there is no class COSS supporting the existing GMS rate structure or the proposed GMS rate structure, absent new evidence to the contrary, the existing GMS rate structure in the Columbia rate district should be maintained because it was approved in Columbia's last base rate proceeding. OSBA Exc. at 10-11.

The OSBA further acknowledges that the existing differentials are significant but argues that they must be significant in order to accommodate customers ranging from residential to industrial. OSBA Exc. at 11-12.

In reply, the OCA points to the ALJs' reasoning that a COSS is but one consideration in the development of a reasonable rate design:

> The allocation of revenue among a utility's various rate classes, while informed by science and engineering, also involves consideration of ratemaking policy and principles of gradualism. The application of science and policy to the allocation of a revenue increase is within the Commission's discretion: "[T]here is no set formula for determining proper ratios among the rates of different customer classes. What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the Commission to decide."

OCA R. Exc. at 21 (citing R.D. at 67-68).

The OCA notes that considerations of gradualism and rate affordability are particularly relevant to the circumstances of this case, where rates are being fully unified for the Columbia and Marietta rate districts. The OCA highlights this as an important distinction from the Company's prior base rate case, which was settled, and where the existing GMS rate blocks were used for customers in the Columbia rate district but not for customers in the Marietta rate district.[54] The OCA asserts that those considerations weigh in favor of reducing the severity of the differences between the rate tiers in this proceeding. OCA R. Exc. at 21-22.

Lastly, the OCA notes that while no class-based analysis was provided by Columbia in this case, evidence was provided by reference to the AWWA Manual and the cost-based volumetric rate structures applied by other water utilities, which supported reducing the ratios between the volumetric rate blocks.[55] OCA R. Exc. at 22 (citing OCA M.B. at 61-62; OCA R.B. at 36; OCA St. 3SR at 8-9; OCA Sch. JDM-3 at 1-3).

4. Disposition

We preface our review of the OSBA's Exception No. 3 by acknowledging that this Exception appears to parallel the grounds set forth in the OSBA's oral motion to strike certain portions of the OCA's surrebuttal testimony. In that regard, we believe that it is important to note that, to the extent the OSBA wished to challenge the legality of the ALJs' ruling on the OSBA's oral motion to strike and the ALJs' Interim Order on Briefs

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[54] Currently, Columbia rate district customers have a three-rate block structure (10,000, 240,000 and above 250,000 gallons per month) and Marietta rate district customers have a four-rate block structure (1,000, 5,000 and 50,000 and more than 50,000 gallons per month). *See, Pa. PUC v. Columbia Water Company*, R-2017-2598203, Appendices A (Tariff) at 4, 6 and D (Joint Petition for Full Settlement of Rate Proceeding December 12, 2017) (Columbia 2017 Settlement) (adopted without modification by Commission Order March 1, 2018). As noted by the OSBA, the rates applied to those different rate blocks are considerably lower than the Company's Columbia rate district charges. OSBA St. 1 at 3-4.

[55] As discussed in the OCA's Reply Brief, the OSBA tried to discredit this comparison on the basis that those utilities' water rates include subsidies under Act 11. OCA R.B. at 36. As Mr. Mierzwa explained during the hearing, however, if the water rates set in the PAWC and York cases did not include Act 11 wastewater subsidies, the volumetric rates might be different without the additional revenue requirement, but he would not expect the ratios between the volumetric rate blocks to be different. Tr. at 85.

issued in this proceeding, these challenges are not appropriately made at such a late stage in exceptions. However, in light of the ALJs' reliance on portions of this contested surrebuttal testimony, we will consider the OSBA's Exception No. 3.

We begin our review of the OSBA's allegations of the ALJs' error by recognizing that under both the Code and our Regulations, our presiding officers are vested with wide authority. This includes the broad authority of the ALJs to oversee and rule on the scope and admissibility of evidence in a proceeding and to otherwise regulate the course of the proceeding. *See*, Section 331 of the Code, 66 Pa. C.S. § 331 (pertaining to authority of the presiding officer), affirmed in, *e.g.*, the following sections of our Regulations: Section 5.483 (pertaining to authority of presiding officer); Section 5.403 (pertaining to control of receipt of evidence); Section 5.103 (pertaining to authority to rule on motions); 52 Pa. Code §§ 5.483, 5.403, and 5.103. Accordingly, our disposition of this Exception is guided by our understanding that:

> [T]he admission of evidence is generally a matter within the sound discretion of the ALJ, and the ALJ's rulings thereon will not be reversed in the absence of a clear abuse of discretion or error of law.

Williamson v. Duquesne Light Company, Docket No. C-2009-2138578 (Order entered February 10, 2011).

As previously mentioned, in its Exception No. 3, the OSBA challenges the ALJs' denial of the OSBA's motion to strike certain portions of the surrebuttal testimony of the OCA's witness, Mr. Mierzwa, pursuant to 52 Pa. Code § 5.243(e)(2), which prohibits a party from introducing evidence during a rebuttal phase that should have been included in the party's case-in-chief. OSBA Exc. at 7. More specifically, at the evidentiary hearing, the OSBA orally moved to strike Mr. Mierzwa's surrebuttal testimony relating to: (1) his agreement with the cost of service analysis presented in the rebuttal testimony of Columbia's witness, Mr. Fox, subject to reduced customer charges; and (2) his comparison of the differential between Columbia's existing Tier 1 and Tiers 2 and 3 volumetric usage charges to the class cost-based differentials of Pennsylvania-American Water Company (PAWC) and The York Water Company (York). Tr. at 71-72.

As we have stated in the past, the clear purpose of 52 Pa. Code § 5.243(e) is to avoid trial by ambush, and the prevention of surprise can only be achieved if the parties are confined to the scope of their direct case. *See*, *Pennsylvania Public Utility Commission v. UGI Utilities, Inc*., 1994 Pa. PUC LEXIS 138, *85.

Preliminarily, we note that in his direct testimony, Mr. Mierzwa generally agreed with Columbia's COSS, subject to his recommended adjustments to the customer-related costs. OCA St. 3 at 3, 6. In rebuttal, the OSBA's witness, Mr. Kalcic, acknowledged Mr. Mierzwa's general agreement with Columbia's COSS. OSBA St. 1-R at 2.

Next, when questioned during rebuttal as to whether he agreed with OSBA witness Mr. Kalcic's claim that Columbia's assignment of the revenue increase is arbitrary and without cost foundation," the OCA's witness, Mr. Mierzwa, provided the following response:

> Mr. Kalcic has raised reasonable concerns and [Columbia] should be required to support its assignment of the revenue increase. I will evaluate and consider the Company's response to Mr. Kalcic's claim and respond in surrebuttal to any support provided by [Columbia] in its rebuttal.

OCA St. 3R at 4.

We further acknowledge that during Columbia's rebuttal testimony, Columbia witness Mr. Fox stated, for the first time, that the Company's existing Tiers 2 and 3 rates for the Columbia rate district are "deeply discounted" relative to Tier 1. Columbia St. 3-R at 11. In light of this rebuttal testimony, the OCA's witness, Mr. Mierzwa, stated, during surrebuttal, that the existing differential between Columbia's existing Tier 1 and Tiers 2 and 3 volumetric usage charges is not cost based and offered support for his position through his comparison to the current rate structures of York and PAWC. OCA St. 3SR at 8-9.

Consequently, we do not believe that the OSBA was "ambushed" by the contested portions of the surrebuttal testimony of the OCA's witness, Mr. Mierzwa. Mr. Mierzwa expressed general agreement with the Columbia's COSS in his direct testimony and later indicated in his rebuttal testimony that he would assess and respond in surrebuttal to "any support" provided by Columbia in its rebuttal testimony. Columbia witness Mr. Fox's comment on the "deeply discounted" Tiers 2 and 3 of the Company's current Columbia rate district tariff was not made until rebuttal and was not challenged by any of the Parties. Additionally, like Mr. Mierzwa, the OSBA's witness, Mr. Kalcic, responded in his surrebuttal testimony to the "support" provided in the rebuttal testimony of Columbia's witness, Mr. Fox. *See*, OSBA St. 1-S at 4-6.

Additionally, we note the OSBA's argument that Columbia "provided all the detail and 'support' for its cost-of-service study and subsequent class revenue allocation in its original filing and through discovery." OSBA Exc. at 8. However, the OSBA did not challenge, on the same or similar grounds, Columbia's rebuttal testimony where the Company provided further testimony on its COSS. *See*, 52 Pa. Code § 5.243(e)(2); *see also*, 52 Pa. Code § 5.243(e)(1) (prohibiting a party from introducing evidence during a rebuttal phase which is repetitive).

Moreover, we agree with the OCA that, during the evidentiary hearing, the ALJs afforded the OSBA with the opportunity to respond to the contested surrebuttal testimony of the OCA's witness, Mr. Mierzwa, by way of cross examination and recross and through the oral testimony of Mr. Kalcic. OCA R. Exc. at 19 (citing Tr. 75-83, 86-91, and 88-91).

Next, in its Exception No. 3, the OSBA argues that the OCA's proposed scale back methodology and class rate impact analysis appear for the first time in the OCA's Main Brief, which according to the OSBA, constitutes a violation of due process. OSBA Exc. at 8. In response, the OCA asserts that it presented a class rate impact analysis (based on its own revenue requirement recommendation) with its Main Brief at the directive of the Interim Order on Briefs issued by the ALJs.

The Commission is clearly bound by the due process provision of constitutional law and by the principles of common fairness. *See, Town Development Inc. v. Pa. PUC*, 411 A.2d 1317 (Pa. Cmwlth. 1980). The fundamental requirement of due process is an opportunity to be heard at a meaningful time and in a meaningful manner. *See*, *Montefiore Hospital Association of Western Pennsylvania v. Pa. PUC*, 421 A.2d 481 (Pa. Cmwlth. 1980).

Our review of the record demonstrates that the OSBA was afforded adequate due process with respect to the issues raised by the OSBA in this Exception. We note that while not illustrated in a table, the OCA presented its adjustments regarding customer charges and scale back in its rebuttal testimony. OCA St. 3R at 4-5. We further acknowledge that the OSBA responded in its surrebuttal testimony to the OCA's scale back recommendation under its primary and secondary customer charge recommendation. *See*, OSBA St. 1-S at 6-7.

Regarding the OCA's class rate impact analysis presented in Appendix B of the OCA's Main Brief, we note that Tables A through C of Appendix B illustrate the OCA's proposed adjustments to Columbia's functionalization of certain costs as being customer-related. Tables A through C illustrate the OCA's proposed (1) increase by customer class in dollars and percentage increase; (2) impact on monthly customer charges; and (3) impact on the average customer bill in dollars and percentage increase at both the Company's proposed revenue requirement and the revenue requirement proposed by the OCA. *See*, OCA M.B. at Tables A-C. We further note that these adjustments were previously proposed by the OCA in its direct and surrebuttal testimony. *See*, OCA St. 3 at 7-8; OCA Sch. JDM-1 Surrebuttal (Errata). As argued by the OCA, the ALJs' Interim Order on Briefs issued in this proceeding directed the Parties to include in their briefs "an appendix which sets forth a rate impact analysis for each rate class." Interim Order on Briefs at 2. Additionally, the OSBA responded in its Reply Brief to the OCA's class rate impact analysis. *See*, OSBA R.B. at 10-12.

Therefore, we find that the OSBA had adequate notice of the issues in this proceeding and had an opportunity to respond to those issues through testimony, at the evidentiary hearing, and in briefs. Moreover, we agree with the OCA that the ALJs had the benefit of the OSBA's responses when they considered the evidence and made their recommendation. In summary, we find that the ALJs' weighing of the evidence in this case and their manner of conducting the proceeding was consistent with their broad authority to regulate the course of the proceeding, to control the receipt of evidence and the examination of witnesses, to ensure a fully developed record, and to issue a recommended decision in this matter. *See, e.g.*, 66 Pa. C.S. §§ 331(d), 334(a); 52 Pa. Code § 5.483.

Accordingly, we find that the ALJs' denial of the OSBA's motion to strike portions of the surrebuttal testimony was not clear abuse of discretion or error of law and that there was no violation of due process with respect to the issues raised in this Exception. Therefore, the OSBA's Exception No. 3 is denied.

We now shift our focus to address the OSBA's Exception Nos. 4 and 5. Based upon our prior determination and discussion, *supra*, with respect to finding the

Company's COSS adequate given the data available in this proceeding, as well as our acknowledgement of and discussion, *infra*, with respect to our adoption of the OCA's proposed reductions to the Company's proposed customer charge increases and the corresponding shift of the resulting revenue deficiency to usage-based rates on a proportional basis, we are not persuaded to reverse the ALJs' recommendation that Columbia's general revenue allocation proposal, as supported by the OCA, should be approved. As the OSBA's proposal regarding revenue allocation, is based upon its objections to any reliance on the Company's COSS, which we have rejected, we conclude that the OSBA's proposal to assign uniform increases to the Company's Columbia rate district volumetric rate tiers should similarly be denied.

Our disposition of this matter is guided by the ratemaking principles which establish that the Commission must ensure that a public utility's rates are just and reasonable and not unduly discriminatory. *See*, 66 Pa. C.S. §§ 1301, 1304. With that said, there is not 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*, 683 A.2d at 961.

We acknowledge that there are several factors that must be considered when designing a rate recovery proposal, one of which is a COSS. As suggested above, we find persuasive the OCA's justification that the majority of the usage in Tier 1 in the Columbia rate district is by residential customers, and the majority of usage in Tiers 2 and 3 in the Columbia rate district is by commercial and industrial customers. Therefore, the rate block-based allocations reflected in the Company's BEC COSS tangentially provide for the allocation of costs to rate classes. While a COSS may be utilized as a guide in the rate setting process, as noted by the ALJs, it is but one of many factors to be considered and weighed by the Commission in determining a utility's rates.

As previously discussed, there is no price distinction between residential, commercial, industrial, and public authority usage such that all metered customers are subject to the same rates. The rate structure proposed by Columbia maintains that of the Columbia rate district, which includes approximately 90% of the customers for which Columbia is requesting rate increases. In this regard, the fully consolidated proposed rates consist of a fixed customer charge, which varies by meter size, and a declining three-block usage charge, wherein, according to Columbia, virtually all residential usage is confined to the first usage block. Therefore, in cases such as this, where rates are being fully unified for the Columbia and Marietta rate districts, ratemaking principles such as gradualism, rate shock avoidance, and basic fairness should not be abandoned.

Table 13, below, summarizes the Company's proposed increases, as presented in its rejoinder testimony, to its Columbia and Marietta rate districts, as well as on a consolidated basis. Relative revenue increases are also provided which shows how the requested revenue increase for each class compares to the system average revenue increase:

Table 13: Summary of Columbia's Revenue Allocation of its Requested Revenue Increase by Rate District

Class	Columbia Rate District Requested Increase			Marietta Rate District Requested Increase			Total Consolidated Requested Increase		
Residential	$495,648	13.6%	1.0	$181,405	29.6%	0.9	$677,053	15.9%	0.9
Commercial	$126,877	16.9%	1.2	$28,375	46.0%	1.4	$155,252	19.1%	1.1
Industrial	$76,990	36.1%	2.5	$62,116	52.8%	1.6	$139,106	42.0%	2.5
Public	$11,333	16.9%	1.2	$7,242	50.3%	1.5	$18,575	22.8%	1.3
Private Fire Protection	$960	1.1%	0.1	$2,499	8.1%	0.2	$3,459	2.9%	0.2
Public Fire Protection	$2,432	1.0%	0.1	$4,492	11.2%	0.3	$6,924	2.4%	0.1
Total GMS	$714,240	14.2%	1.0	$286,129	32.6%	1.0	$1,000,369	17.0%	1.0

See , Columbia Exhs. DF-11RJ (8/25 Rejoinder) and DF-8RJ (8/25 Rejoinder)

Utilizing the principle of cost causation in tandem with secondary considerations for gradualism and affordability, we have thoroughly reviewed the Company's and the respective advocates' arguments before us. We have previously recognized 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 rate class to 2.0 times the system average increase is one common metric that has been used by experts in the Commonwealth. Considering the allocation of the increase in base revenues set forth under the Company's proposed rates, the industrial class would experience the largest increase at 2.5 times the system average increase. Given that the Company's proposal in the instant proceeding includes the establishment of unified rates for Columbia and Marietta rate district customers, as well as recognition that the rates established in the *2017 Columbia Rate Case* were a product of a settlement between the parties, not guided by the results of any COSS, we do not consider the revenue allocation under the Company's proposal to be unreasonable.

Naturally, the OSBA is advocating on behalf of Columbia's commercial and industrial customers, as can be discerned from its position illustrated in Table 14, below:

Table 14: Summary of the OSBA's Revenue Allocation Proposal by Rate District

Class	Columbia Rate District OSBA Proposed Increase			Marietta Rate District OSBA Proposed Increase			Total Consolidated OSBA Proposed Increase		
Residential	$564,127	15.5%	1.0	$193,521	31.6%	1.1	$757,648	17.8%	1.0
Commercial	$116,193	15.5%	1.1	$25,385	41.1%	1.4	$141,578	17.5%	1.0
Industrial	$32,991	15.5%	1.0	$26,571	22.6%	0.8	$59,562	18.0%	1.1
Public	$9,950	14.8%	1.0	$5,326	37.0%	1.2	$15,276	18.7%	1.1
Private Fire Protection	$4,493	5.0%	0.3	$3,798	12.3%	0.4	$8,291	6.9%	0.4
Public Fire Protection	$11,372	4.6%	0.3	$6,232	15.5%	0.5	$17,604	6.1%	0.4
Total GMS	$739,125	14.7%	1.0	$260,832	29.7%	1.0	$999,958	17.0%	1.0

See , OSBA Sch. BK-2S

As indicated, *supra*, Columbia has proposed to consolidate its Columbia and Marietta rate district GMS rate schedules in this proceeding. Specifically, Columbia has proposed to move its water service customers in both the Columbia and Marietta rate districts under a single, three-step declining-block GSM rate schedule. As shown above, Columbia proposed to increase its total system water rates by an average of 17%; however, this meant a rate increase of approximately 32.6 % for Marietta rate district customers and an approximate increase of 14.2% for Columbia rate district customers. The OSBA's proposal does not significantly deviate from this.

However, during the course of this proceeding, there has been much discussion and concern by the OSBA as to the rate impact to the larger users of water consumption, specifically, customers falling into the second and third tier rate blocks. As the Tier 1 rate block includes most residential customers, the Tier 2 rate block includes most commercial customers, and the Tier 3 rate block includes most industrial customers,[56] we find that the Company used reasonably accurate data assumptions, estimates, and data to calculate the cost of service associated with delivering water at each tier level, and implicitly to each class.

We are sympathetic to the OSBA's concern as to the rate impact to the larger consumption users, specifically those falling into the second and third tier rate blocks. The Commission has in the past utilized a rate implementation rule that limited the overall increase in individual customer bills to no more than two times the overall revenue increase granted. In this instance, under the Company's proposed rates, the only bills that would exceed this threshold (17% x 2 = 34%) are those of a typical commercial (65% increase) and industrial (64.4% increase) customer located in the Marietta rate district. However, as previously indicated, the three-tier volumetric rate structure proposed by Columbia is applicable to approximately 90% of the customers for which

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[56] *See*, Tr. at 80; R.D. at 70-71.

Columbia is requesting rate increases. Of this 90%, commercial and industrial customers located in the Marietta rate district account for less than 1%.[57] Therefore, we find that larger increases to such a small subset of customers to not be an unreasonable outcome, given the conflicting objectives of moving towards fully consolidated rates and maintaining gradualism in customer bill impacts, especially considering the fact that customers in the Marietta rate district have been paying less for the same service as provided to customers in the Columbia rate district for over ten years. Furthermore, as shown above, based on the Company's request, the overall increase experienced by customers in the Marietta rate district is 32.6%. Based on this isolated look, the bill increases for an average commercial and industrial customer located in the Marietta rate district would not exceed the threshold.

We also find the OCA's argument compelling regarding the comparison of Columbia's existing and proposed rate differentials with the AWWA Manual typical maximum hour factors, as well as with cost-based volumetric rate structures applied by other water utilities, which support reducing the ratios between the volumetric rate blocks.

The current Tier 1 (mostly residential) volumetric usage charge is more than 2.5 times ($7.20 / $2.77) the current Tier 2 (mostly commercial) volumetric usage charge, and 3.7 times ($7.20 / $1.95) the current Tier 3 (mostly industrial) volumetric usage charge in the Columbia rate district. The OCA's witness, Mr. Mierzwa, referenced the rate differentials of other water utilities that do have class cost of service studies to support their rate design, as follows:

> Under PAWC's current rate structure, in Rate Zone 1, which is PAWC's largest rate zone, all Residential customers are assessed the same volumetric usage charge and a three-tier rate structure exists for Industrial customers. Under PAWC's

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57 [(8,781+1,149+453+86+35+2+42+8) / (86+2) = 0.8%]. *See*, Columbia Exh. DF-8RJ (8/25 Rejoinder).

> current class cost of service-based rate structure, the volumetric usage charge for Residential customers of $1.6108 per 100 gallons is less than 2.0 times the third tier usage rate of $0.8499 per 100 gallons.
>
> * * *
>
> Under York's current rate structure, all Residential customers in each system are assessed the same volumetric usage charge, and a four-tier rate structure exists for Industrial customers in each system. In the gravity system, under York's current class cost of service-based rate structure, the volumetric usage charge for Residential customers of $6.631 per 1,0000 gallons is 2.0 times the fourth tier usage rate of $3.324 per 1,000 gallons. In the repumping system, under York's current class cost of service-based rate structure, the volumetric usage charge for Residential customers of $10.210 per 1,000 gallons is 2.2 times the fourth tier usage rate of $4.600 per 1,000 gallons.

See, OCA St. 3SR at 8-9; OCA Sch. JDM-3.

Under the volumetric usage charges proposed by Columbia in its rejoinder testimony, the Tier 1 volumetric usage charge would be 2.5 times ($7.22 / $2.84) the Tier 3 volumetric usage charge and more consistent with the class cost-based differentials of PAWC and York than the existing ratios that the OSBA roughly proposes to maintain.

Accordingly, we shall adopt the recommendation of the ALJs and deny the OSBA's Exceptions on this issue.

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 as discussed, *infra*, when filing its compliance tariff(s).

C. Customer Charges

1. Positions of the Parties

As stated above, the Company has proposed to consolidate the rates paid by Columbia and Marietta rate district customers. As previously noted, I&E, the OCA, and the OSBA do not oppose this concept; however, each made recommendations regarding the appropriate customer charges for Columbia's customers, which are lower than under the Company's proposal, as summarized in Table 15, below:

Table 15: Summary of the Parties' Customer Charge Proposals

Columbia Rate District

Meter Size	Monthly Present	Columbia * Monthly Proposed	Columbia * Increase	I&E ** Monthly Proposed	I&E ** Increase	OCA *** Monthly Proposed	OCA *** Increase	OSBA **** Monthly Proposed	OSBA **** Increase
5/8"	$10.31	$14.79	43.5%	$12.19	18.2%	$12.45	20.8%	$13.88	34.6%
3/4"	$15.49	$21.00	35.6%	$17.07	10.2%	$17.80	14.9%	$19.63	26.7%
1"	$25.82	$33.42	29.4%	$26.82	3.9%	$28.51	10.4%	$31.14	20.6%
1 1/2"	$51.64	$64.46	24.8%	$51.19	-0.9%	$55.28	7.0%	$59.91	16.0%
2"	$82.62	$101.72	23.1%	$80.45	-2.6%	$87.41	5.8%	$94.44	14.3%
3"	$154.89	$201.07	29.8%	$158.46	2.3%	$173.08	11.7%	$186.51	20.4%
4"	$258.15	$312.83	21.2%	$246.20	-4.6%	$269.46	4.4%	$290.09	12.4%
6"	$516.32	$623.30	20.7%	$490.00	-5.1%	$537.19	4.0%	$577.81	11.9%
8"	$826.10	$995.86	20.5%	$782.50	-5.3%	$858.46	3.9%	$923.08	11.7%
10"	N/A	$1,430.51	N/A	N/A	N/A	$1,233.27	N/A	$1,325.89	N/A
12"	$2,219.74	$2,672.37	20.4%	$1,442.96	-35.0%	$2,304.16	3.8%	$2,476.77	11.6%

Marietta Rate District

Meter Size	Monthly Present	Columbia * Monthly Proposed	Columbia * Increase	I&E ** Monthly Proposed	I&E ** Increase	OCA *** Monthly Proposed	OCA *** Increase	OSBA **** Monthly Proposed	OSBA **** Increase
5/8"	$8.20	$14.79	80.4%	$12.19	48.7%	$12.45	51.8%	$13.88	69.3%
3/4"	$12.30	$21.00	70.7%	$17.07	38.8%	$17.80	44.7%	$19.63	59.6%
1"	$20.50	$33.42	63.0%	$26.82	30.8%	$28.51	39.1%	$31.14	51.9%
1 1/2"	$41.00	$64.46	57.2%	$51.19	24.9%	$55.28	34.8%	$59.91	46.1%
2"	$65.60	$101.72	55.1%	$80.45	22.6%	$87.41	33.2%	$94.44	44.0%
3"	$123.00	$201.07	63.5%	$158.46	28.8%	$173.08	40.7%	$186.51	51.6%
4"	$205.00	$312.83	52.6%	$246.20	20.1%	$269.46	31.4%	$290.09	41.5%
6"	$410.00	$623.30	52.0%	$490.00	19.5%	$537.19	31.0%	$577.81	40.9%
8"	$738.00	$995.86	34.9%	$782.50	6.0%	$858.46	16.3%	$923.08	25.1%
10"	$943.00	$1,430.51	51.7%	$1,123.80	19.2%	$1,233.27	30.8%	$1,325.89	40.6%
12"	N/A	$2,672.37	N/A	$1,442.96	N/A	$2,304.16	N/A	$2,476.77	N/A

* Columbia Exhibit DF-9RJ (8/25 Rejoinder)
** I&E M.B. at 40; I&E Exh. 2-SR, Sch. 2
*** OCA Sch. JDM-1 Surrebuttal (Errata)
**** OSBA Exh. BK-1S, Sch. BK-4S

As shown above, under the Company's proposed rates, the Columbia and Marietta rate district customers would experience increases in the fixed monthly customer charge for 5/8" meter service of 43.5% and 80.4%, respectively. *See, C*olumbia Exh. DF-9RJ (8/25 Rejoinder). I&E's recommended customer charges would increase the customer charge for the 5/8" meter by 18.2% for Columbia and 48.7% for Marietta. *See*, I&E Exh. 2-SR, Sch. 2. The OCA's primary recommended customer charge for a 5/8" meter service is $12.45 per month for Columbia and Marietta rate district customers, based upon the Company's revised allocations of costs to the customer-related function and inclusive of Public Fire costs. *See*, OCA Sch. JDM-1 Surrebuttal (Errata). This represents a 20.8% increase for Columbia rate district customers and a 51.8% increase for Marietta rate district customers. The OSBA recommended customer charge increases for a 5/8" meter customer of 34.6% for the Columbia rate district and 69.3% for the Marietta rate district. *See*, OSBA Exh. BK-1S, Sch. BK-4S.

The main crux of the appropriate customer charge is it relies upon having an appropriate customer cost analysis. A customer cost analysis is a part of a COSS that is used to determine the appropriate fixed customer charges for the various classes and meter sizes. It is necessary to perform a customer cost analysis because a fixed customer charge represents the revenue that the Company is guaranteed to receive each month, regardless of the level of usage. To develop the customer charges, Columbia's witness, Mr. Fox, allocated revenue requirements to the Company's customer charges. The costs were split into two components: (1) those costs related to meters and service pipes (which vary by the size of the meter and service); and (2) those costs related to billing, meter reading, and collections (which vary by the number of billings). Columbia St. 3 at 12. Mr. Fox stated that:

> For the metering components of the service charge, I calculated a cost per equivalent meter, and then scaled this cost up by meter size based on the aforementioned meter equivalents. I then calculated a per-bill charge for the billing component (same for all meter sizes) and added that to each meter component.

Id.[58]

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[58] Columbia Exhibit DF-5RJ (8/25 Rejoinder) presented the Company's updated allocation of customer related charges and Columbia Exhibit DF-7RJ (8/25 Rejoinder) presented a comparison of the Company's cost-of-service-based and proposed customer charges.

The dispute among the Parties generally involved the designation of certain costs as indirect costs that are more appropriately recovered in the volumetric charges. Specifically, the OCA raised concerns regarding: (1) the allocation of bad debt expense; (2) allocation of indirect costs such as general and administrative expenses, regulatory commission expenses, and general plant investment costs; (3) allocation of the remaining 75% of the public fire protection cost of service; and (4) allocation of volumetric usage costs of $114,935,[59] through the monthly customer charges.[60] OCA St. 3 at 7-8.

I&E similarly recommended removing several revenue requirement items from the customer charge including O&M expense related to transmission and distribution, as well as plant in service and corresponding depreciation expenses for several items such as buildings and land, transportation, laboratory equipment,

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[59] The OSBA's witness, Mr. Kalcic, also recommended removal of this $114,935 amount from the Company's customer charge claim. OSBA St. 1 at 9-10.

[60] As previously indicated, the Company's proposed rates set forth in Columbia Exhibit DF-9RJ (8/25 Rejoinder) reflect the Company's agreement to remove $114,935 in volumetric charges from the fixed customer charge. Columbia St. 3-R at 10.

communications equipment, general and field equipment, etc., and reallocating them to the volumetric charges.[61] I&E St. 2 at 11; I&E St. 2-SR at 6-7.

The OSBA's analysis centers on the treatment of T&D costs. The Company determined that 30% of these costs are customer-related and should be recovered in the customer charges. In contrast, the OSBA contended that 15.7% is more appropriate because it represents the ratio of Columbia's total meters and services plant investments to the Company's total T&D plant in service. OSBA St. 1 at 8-9. For its part, I&E recommended that there be no classification of T&D O&M Expense as customer related. I&E St. 2 at 11.

The Company argued costs included in its calculation of customer charges are sufficiently connected to the provision of service and consistent with Commission precedent. Specifically, those costs related to indirect O&M Expenses, indirect depreciation expenses, are essential to the maintenance of customer facilities, and are

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[61] I&E recommended to exclude $912,405 O&M expense (allocating 0%) relating to Transmission and Distribution (T&D) from the customer charge. I&E further recommended to exclude portions of the following total plant in service amounts allocated to the customer cost function: $366,160 of Franchise, $15,280 of General Land, $577,536 of General Structures and Improvements, $747,565 of Transportation Equipment, $8,856 of Stores Equipment, $297,850 of Tools, Shop and General Equipment, $47,353 of Laboratory Equipment, $548,850 of Power Operated Equipment, $194,639 of Communications Equipment, $187,685 of Miscellaneous Equipment, and $75,699 of Other Tangible Equipment, along with the corresponding reductions to annual depreciation expense and increased accrued depreciation expense. *See*, I&E Exh. 2-SR, Sch. 1; *see also*, Columbia Exh. DF-2R (8/14 Rebuttal). We note that it does not appear that the Company allocated any portion of Laboratory Equipment to the customer charge. *See,* Columbia Exh. DF-2RJ (8/25 Rejoinder). It should further be noted that, as the Company has repeatedly revised its revenue increase request, as well as its proposed rates, throughout the course of this base rate proceeding, I&E's recommendation is not based on the Company's updated COSS (Columbia Exh. DF-2RJ (8/5 Rejoinder)) but is based on its recommended modifications to Columbia's COSS presented with the Company's rebuttal testimony (Columbia Exh. DF-2R (8/14 Rebuttal)).

related to the work of personnel working on customer facilities and customer accounting. Columbia M.B. at 102-103.

2. Recommended Decision

The ALJs recommended adoption of the OCA's proposed methodology for calculating customer charges, reasoning as follows:

> We agree with OCA that the Company's analysis includes numerous overhead costs that cannot reasonably be considered "direct costs" required to connect and maintain a customer's account. Rather, they are simply overhead costs that Columbia Water incurs in rendering service to its customers. The fact that some of these costs may be fixed, does not in and of itself make them direct costs that should be collected from a customer charge. Rather, the appropriate test is "whether the costs would increase with the addition of a customer and decrease with the subtraction of a customer."
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> *   *   *
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> We agree with OCA and OSBA that the percentage of T&D expenses appropriate for allocation to the customer charge as customer-related should be 15.7% and not the 30% allocator applied by Columbia Water witness Fox. OSBA's allocator, as based upon the ratio of Columbia Water's total meters and services plant investment to Columbia Water's Transmission and Distribution Plant in service, is better supported than the Company's position that a 30% allocator is reasonable.
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> *   *   *
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> The Commission allows some allocation of expenses that are classically considered indirect expenses in recognition that some portion of these expenses are attributable to the cost to serve individual customers. I&E's exclusion of indirect expenses does not take this factor into account. However, we believe that the Company includes expenses that are more appropriately recovered through volumetric charges. OCA's

> primary customer charge recommendation is sufficiently based upon cost of service principles and consideration of other sound principles of rate design and serves to moderate the increase in fixed monthly charges for Columbia and Marietta customers. OCA's analysis allows the most reasonable level of recovery of direct and indirect costs through the fixed customer charge.

R.D. at 74-76.

3. Disposition

No Party filed Exceptions to the ALJs' recommendation on this issue. We find adequate support in the record to conclude that the OCA's analysis allows for the most reasonable level of recovery of direct and indirect costs through the fixed customer charge. Therefore, we shall adopt the ALJs' recommendation on this issue without further comment.

D. Scaleback

1. Positions of the Parties

As a result of I&E and the OCA opposing the Company's requested increase in base rate revenue of $999,900, both Parties set forth scaleback recommendations applicable to their proposed revenue reduction. I&E M.B. at 41-42; OCA M.B. at 71. Although the OSBA did not sponsor any revenue adjustments in this proceeding, the OSBA likewise set forth a scaleback recommendation in the event that the Commission grants less than the Company's requested revenue increase. OSBA M.B. at 12-13.

Specifically, I&E argued that, if the Commission grants less than the Company's requested increase and adopts I&E's proposed customer charges, the Commission should scale back only the usage portion of customer rates.[62] I&E, however, stated that there would be no need to scale back public fire rates because the revenue being collected for public fire is already well below what the COSS demonstrates is required. I&E M.B. at 41-42; I&E St. 2-SR at 12-13.

The OCA recommended that to the extent that Columbia is awarded a lesser revenue increase than requested, the customer charges and volumetric rates determined in the first step[63] should be proportionately scaled back to account for the reduction in the overall revenue increase. OCA M.B. at 71.

The OSBA recommended that the Commission scale back proportionately the dollar increases applied to each element of the Columbia rate district's rates under the OSBA's recommended rate design to retain the relative magnitude of the OSBA's recommended class increases, while facilitating the consolidation of the Columbia and Marietta rate districts. OSBA. M.B. at 12-13.

The OSBA criticized the OCA's proposed scaleback methodology for essentially the same reasons that it opposed the OCA's proposed revenue allocation. According to the OSBA, the OCA's scaleback proposal would assign greater than

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[62] The Company submitted that if the Commission grants less than the Company's requested increase and adopts the Company's customer charges, I&E's recommendation that the Commission scale back only the usage portion of customer rates is appropriate. Columbia R.B. at 62.

[63] Corresponding to the Commission's adoption of the OCA's recommendation to reduce Columbia's proposed customer charge increases, the OCA noted that at the Company's requested revenue increase, as a first step, an amount of revenues would be shifted to usage-based rates on a proportional basis. OCA St. 3SR at 7.

proportional rate relief to the Residential and Public classes, at the expense of the Commercial and Industrial classes. OSBA R.B. at 11-12.

2. Recommended Decision

In their Recommended Decision, the ALJs recommended adopting the OCA's scaleback methodology, stating:

> We recommend that both the [GMS] customer charges and volumetric rates be scaled back [proportionately] as proposed by OCA. This method of scale back apportions the revenue increase consistently and preserves the benefits of the recommended revenue allocation.

R.D. at 77.

3. OSBA Exception No. 6 and Replies

In its Exception No. 6, the OSBA argues that the ALJs erred in their recommendation to adopt the OCA's scaleback methodology, reiterating the same argument from its Reply Brief that the OCA's scaleback methodology would assign greater than proportional rate relief in a scale back to the Residential and Public classes, at the expense of the Commercial and Industrial classes. OSBA Exc. at 12-13 (citing OSBA R.B. at 11-12).[64]

The OCA counters that the ALJs correctly concluded that the OCA's scaleback methodology preserves the benefits of the ALJs' recommended revenue allocation by apportioning the reduction in revenue increase consistently and

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[64] The OSBA reiterates claims regarding full and fair development of the evidentiary record, to which the OCA had previously rebutted. *See*, OSBA Exc. at 7-8; OCA R. Exc. at 18-20.

proportionately between customer charges and volumetric charges. OCA R. Exc. at 23 (citing R.D. at 77).

The OCA submits that no Party excepted to the ALJs' recommendation that the Commission adopt the OCA's recommended customer charges, or the shifting of the resulting revenue deficiency, created by reducing the Company's proposed customer charges, to consumption charges by proportionately increasing the Company's proposed volumetric rates (which the ALJs also recommended that the Commission adopt). Under its methodology, the OCA explains that both the customer charges and volumetric rates in the first step are proportionately scaled back to account for the difference between the approved revenue requirement and the Company's requested revenue requirement. OCA R. Exc. at 23.

The OCA contends that maintaining a proper balance of fixed and volumetric revenue recovery is particularly important in this case, where due to rate unification, a $12.45 customer charge for 5/8" meter service will increase customer charges for Marietta rate district customers by 52% at the Company's requested revenue increase. The OCA argues that the scaleback methodologies proposed by the OSBA would shift more cost recovery from fixed to volumetric rates and should not be adopted. OCA R. Exc. at 23-24.

4. Disposition

Based upon the evidence of record and in consideration of our adoption of the ALJs' recommendations regarding revenue allocation and customer charges, we further agree with the recommendation of the ALJs that a proportional scale back of the customer charges and volumetric rates, as found appropriate in this Opinion and Order,[65] be performed to attain the Commission allowed revenue increase authorized under this Opinion and Order.

It is important to note that there is no need to scale back public fire protection rates because this rate is limited to 25% of the cost of providing service to that class. As Columbia's witness, Mr. Fox, stated:

> For public fire service charges, I also allocated only 25% of these overall costs to public fire protection customers to comply with Section 1328 of the Public Utility Code. The remaining 75% was redistributed to the fixed charges, utilizing the readiness-to-serve component.

Columbia St. 3 at 11. The Company indicated that the public fire protection cost to serve amounted to $895,542 in revenue while the proof of revenue at Company proposed rates for public fire protection for both the Columbia and Marietta rate districts only totaled $295,632, a difference of $599,910. *See*, Columbia Exhs. DF-4RJ (8/25 Rejoinder) and DF-8RJ (8/25 Rejoinder).[66] Because the revenue being collected for public fire protection is already below what the COSS demonstrates is required, usage rates for public fire protection would not need to be scaled back.

Likewise, there is no need to scale back private fire protection rates. Although the cost-based rates for private fire protection are lower than existing rates, Columbia has proposed to increase those charges at the same percentage increase of

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[65] As previously indicated, the reduction to the Company's requested customer charges, as found appropriate in this Opinion and Order, has the effect of increasing the usage rates at the full requested revenue increase.

[66] The grandfathered hydrants are public fire hydrants that were connected to Columbia's distribution system as of June 20, 1948. These hydrants are not subject to rate changes filed by the Company. Notwithstanding, public fire hydrants that have been installed since are subject to applicable rate increases. Columbia St. 3 at 11.

public hydrants in the Columbia rate district, or approximately 1.1%. *See*, Columbia DF-9RJ (8/25 Rejoinder). Columbia posits that this approach is reasonable because no class should receive a rate decrease at a time when rates are increasing. Columbia St. 3 at 11-12.

Accordingly, we shall deny Exception No. 6 of the OSBA on this issue and adopt the ALJs' recommendation.

E. Black Box Customer Discount

As previously indicated, Columbia adopted a Black Box Customer Discount in this proceeding, capping its requested increase in annual revenues at $999,900, which, according to the Company, reduced the Company's claimed level of O&M expense for the FTY such that a $999,900 increase would result in a net operating income sufficient to allow the Company to earn a fair rate of return of 8.28% for ratemaking purposes. *See*, Columbia M.B. at 21; Columbia Exh. GDS 1-R at 1-4. Columbia explained that the Black Box Customer Discount adjustment is a placeholder and is intended to offset adjustments to the Company's rate request that may be proposed by I&E and/or other intervenors in this proceeding. Columbia St. 2 at 17.

In their Recommended Decision, the ALJs noted their recommended adjustments to the Company's expense claims, resulting in a recommended overall revenue increase of $944,893 at an overall rate of return of approximately 7.2% for ratemaking purposes. R.D. at 78. As such, the ALJs recommended that the Commission not apply a Black Box Customer Discount, reasoning that a further discount would be unnecessary. *Id*.

No Party filed Exceptions to the ALJs' recommendation. We find that the ALJs' recommendation is reasonable. Accordingly, we shall adopt the ALJs' recommendation and forgo any further discount to the overall annual distribution revenue increase of $971,180 that we shall authorize under this Opinion and Order.

X. Quality of Service

A. Isolation Valves

1. Positions of the Parties

Columbia, in its *2017 Columbia Rate Case*, agreed to provide the Commission with annual reporting regarding the Company's progress exercising isolation valves within its system, including information regarding the exercising of critical valves pursuant to the Commission's management audit at *Management Efficiency Investigation of Columbia Water Company*, Docket No. D-2014-2405415 (Implementation Plan submitted September 19, 2014) (2014 Management Audit). Columbia St. 1 at 9. Columbia's system has a total of 3,481 valves. *Id*. Of these, Columbia has exercised all 150 critical isolation valves and 1,530 non-critical valves within the past five years. Columbia St. 1-R at 8.

The OCA made three recommendations regarding Columbia's exercising of isolation valves, asking the Company to: (1) exercise critical valves on a one-to-three-year schedule; (2) exercise non-critical valves on a seven-to-ten-year schedule; and (3) maintain useful records of when valves were exercised. OCA St. 4SR at 6. The OCA also recommended any of the 1,425 unexercised non-critical valves should be exercised within the next five years to ensure all valves have been exercised and are operable. *Id*. at 3-4.

Columbia rejected the recommendations made by the OCA, noting the financial and labor costs associated with an expedited exercising schedule, the frequency of exercising proposed by the OCA, the possible inclusion and exercising of valves designed to remain closed, and asserted the Company's records of valve exercising are appropriate and in line with the rest of the industry. Additionally, Columbia submitted that the OCA's recommendation was unclear, averring that, if the recommendation is for Columbia to solely exercise the 1,425 non-critical valves not exercised in the past five years over the next five years, and to restart the exercise cycle, the Company is on track to comply with this recommendation and no further order of the Commission is necessary. Columbia asserted it is complying with Commission orders and that exercising the Company's valves falls within its managerial discretion. Columbia M.B. at 89-91.

The OCA supported its recommendations by pointing out the importance of isolation valves in the case of main breaks, repairs, or replacements. OCA M.B. at 72. The OCA disputed the purported costs of its recommendations and noted the Company's ongoing responsibility to maintain its facilities. *Id*. at 74. The OCA also questioned Columbia's assertion that frequent valve exercising was not necessary and pointed to boil water advisories issued in Columbia's system in 2021 and 2022 as reasoning for the exercise of isolation valves on the OCA's proposed schedule. *Id*. at 74-75.

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's proposals regarding the exercising of isolation valves. The ALJs highlighted Columbia's compliance with previously imposed requirements, noting that Columbia was on pace to complete the exercising of 1,425 remaining non-critical valves over the next five years, and that Columbia's records for exercising of valves were appropriate and included sufficient information. The Recommended Decision also referenced the ability of the Commission and other interested parties to evaluate Columbia's ongoing reporting to determine whether heightened monitoring is necessary. R.D. at 82. The ALJs found a rejection of the OCA's recommendations to be consistent with the Commission's decision in the recent Aqua Pennsylvania, Inc. base rate case proceeding. *Id*. (citing *Aqua 2022*).

3. Disposition

No Exceptions were filed to the ALJs' Recommended Decision. We find that the ALJs' recommendation is supported by ample record evidence and is just and reasonable. Accordingly, we shall reject the OCA's recommendations regarding the exercise of isolation valves and adopt the reasoning of the ALJs in their Recommended Decision.

B. Complaint Log

1. Positions of the Parties

Columbia disagreed with the OCA's recommendation, *infra*, requesting the Commission to require Columbia to provide future complaint logs in an Excel spreadsheet and to include additional details about the nature and outcome of complaints. Columbia M.B. at 92-93. Columbia asserted the information and format of its complaint logs satisfies the statutory requirements of the Commissions Regulations at 52 Pa. Code § 65.3. Columbia noted ambiguities in the OCA's recommendation, the Company's adherence to Commission requirements, and the OCA's own admission the log provided to the OCA was adequate for reviewing. *Id*. at 93; *see also* OCA St. 4 at 7.

The OCA asserted its recommendations are necessary, as Columbia's current complaint log fails to provide sufficient detail, making it difficult to ascertain the nature of a customer complaint (*i.e.*, whether the water quality issue was cloudiness, discoloration, or another issue). The OCA suggested that increased information is consistent with 52 Pa. Code § 65.3 and reasonable to help identify patterns of complaints and review the Company's response to complaints. OCA M.B. at 77

2. Recommended Decision

The ALJs recommended that the Commission reject the OCA's proposal regarding Columbia's complaint log. The ALJs found the complaint log provided by Columbia in response to discovery satisfied the requirements of the Commission's Regulations and was sufficient for reviewing, as noted by the OCA's witness in direct testimony. R.D. at 83.

3. Disposition

No Parties filed Exceptions to the ALJs' analysis of Columbia's complaint log and its formatting. In reviewing this matter, we find the ALJs' recommendation is supported by the record evidence and just and reasonable. We shall adopt the reasoning of the ALJs and reject the OCA's recommendations as to the complaint log.

C. Customer Complaint

1. Positions of the Parties

Columbia averred it has resolved customer service concerns raised by the OCA in its direct testimony involving a customer complaint regarding water quality and chlorine content. Upon learning of the concerns through the OCA's testimony, Columbia contacted the customer, conducted sampling which showed no issues, discussed sampling with the customer, and deemed the complaint resolved. Columbia M.B. at 94-95.

The OCA, through the direct testimony of its witness, Mr. Terry L. Fought, raised the issue of a customer concerned about water taste and the chlorine content of their water. The OCA requested Columbia contact the customer, investigate the complaint, and report back regarding resolution of the complaint. OCA St. 4 at 8.

2. Recommended Decision

The ALJs found that Columbia sufficiently and reasonably addressed the OCA's concerns. R.D. at 85. Further, the ALJs stated Columbia demonstrated an "excellent" quality of service and a lack of formal customer complaints since its last base rate proceeding and that no evidence suggests Columbia is failing to maintain an appropriate level of service. R.D. at 85.

3. Disposition

No Parties filed Exceptions to the ALJs' analysis of this matter. In reviewing, we find the ALJs' recommendation is supported by the record evidence and just and reasonable. We shall adopt the reasoning of the ALJs.

XI. Conclusion

Based on our review of the record in this proceeding, we shall: (1) grant, in part, and deny, in part, the Exceptions filed by I&E; (2) deny the Exceptions filed by Columbia, the OCA, and the OSBA; (3) adopt the ALJs' Recommended Decision, as modified; and (4) approve an annual revenue increase of $971,180 to the Company's *pro forma* revenue at present rates of $7,244,926, or approximately 13.4%., consistent with this Opinion and Order; **THEREFORE,**

IT IS ORDERED:

1. That the Exceptions filed by Columbia Water Company on November 2, 2023, are denied, consistent with this Opinion and Order.

2. That the Exceptions filed by the Commission's Bureau of Investigation and Enforcement on November 2, 2023, 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 November 2, 2023, are denied, consistent with this Opinion and Order.

4. That the Exceptions filed by the Office of Small Business Advocate on November 2, 2023, are denied, consistent with this Opinion and Order.

5. That the Recommended Decision of Administrative Law Judges Mary D. Long and Charece Z. Collins, issued on October 23, 2023, is adopted, as modified, by this Opinion and Order.

6. That the corrections and modifications directed by this Opinion and Order, reflected in the Columbia Water Company, Docket No. R-2023-3040258 (Commission Tables Calculating Allowed Revenue Increase), attached hereto, are adopted as in the public interest.

7. That Columbia Water Company shall not place into effect the rates contained in Supplement No. 121 to Tariff – Water Pa. P.U.C. No. 7, as filed.

8. That Columbia Water 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 $971,180, to become effective for service rendered on and after January 27, 2024.

9. That Columbia Water Company 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.

10. That Columbia Water Company shall comply with all directives and conclusions contained in this Opinion and Order that are not the subject of individual ordering paragraphs as if they were the subject of specific ordering paragraphs.

11. That the Formal Complaint filed by the Office of Consumer Advocate at Docket Number C-2023-3040746 is dismissed and shall be marked closed.

12. That the Formal Complaint filed by the Office of Small Business Advocate at Docket Number C-2023-3040567 is dismissed and shall be marked closed.

13. That the Formal Complaint filed by Sandra E. Shaub in this proceeding at Docket No. C-2023-3041197 is dismissed and shall be marked closed.

14. That the Formal Complaint filed by Vincent E. Collier III in this proceeding at Docket No. C-2023-3041198 is dismissed and shall be marked closed.

15. That a copy of this Opinion and Order be served on the Bureau of Consumer Services, Division of Policy; the Bureau of Investigation and Enforcement; and the Bureau of Technical Utility Services, Finance/Tariff Division for monitoring and compliance.

BY THE COMMISSION,

Rosemary Chiavetta
Secretary

(SEAL)

ORDER ADOPTED: January 18, 2024

ORDER ENTERED: January 18, 2024

XII. LIST OF ABBREVIATIONS

ADIT	Accumulated Deferred Income Taxes
ALJ	Administrative Law Judge
AWWA	American Water Works Association
BEC	Base-Extra Capacity
CAPM	Capital Asset Pricing Model
CIAC	Contributions in Aid of Construction
Code	Pennsylvania Public Utility Code
Columbia	Columbia Water Company
Commission	Pennsylvania Public Utility Commission
COSS	Cost of Service Study
CWC	Cash Working Capital
DCF	Discounted Cash Flow
DSIC	Distribution System Improvement Charge
ECAPM	Empirical Capital Asset Pricing Model
EDTMA	East Donegal Township Municipal Authority
ERP	Equity Risk Premium
FERC	Federal Energy Regulatory Commission
FTY	Future Test Year
GDP	Gross Domestic Product
GMS	General Metered Service
HTY	Historic Test Year
I&E	Bureau of Investigation and Enforcement
IESE	Instituto de Estudios Superiores de la Empresa
IOU	Investor-Owned Utility
LSLRP	Lead Service Line Replacement Program
LTIIP	Long-Term Infrastructure Improvement Plan
M&M Method	Modigliani-Miller Method
M&S	Materials and Supplies
OALJ	Office of Administrative Law Judge
OCA	Office of Consumer Advocate
O&M	Operating and Maintenance
OSBA	Office of Small Business Advocate
PENNVEST	Pennsylvania Infrastructure Investment Authority
PRPM	Predictive Risk Premium Model
PURT	Public Utility Realty Taxes
R.D.	Recommended Decision
ROE	Return on Equity

RP	Risk Premium
SIT	State Income Tax
SML	Security Market Line
STAS	State Tax Adjustment Surcharge
T&D	Transmission and Distribution
WACC	Weighted Average Cost of Capital

Pennsylvania Public Utility Commission

v.

Columbia Water Company
Docket No. R-2023-3040258

XIII. 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**

Commission Final Allowance
TABLE I
Columbia Water Company
INCOME SUMMARY
R-2023-3040258

		Pro Forma Present Rates [1]	Company Adjustments [1]	Pro Forma Present Rates (Revised [1])	Commission Adjustments	Commission Pro Forma Present Rates	Commission Revenue Increase	Total Allowable Revenues
		$	$	$	$	$	$	$
		(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) + (4)	(6)	(7) = (5) + (6)
								(b)
1.	Operating Revenue	7,244,926	0	7,244,926	0	7,244,926	971,180	8,216,107
2.	Expenses:							
3.	O & M Expense	4,079,604	0	4,079,604	(124,112)	3,955,491	1,360	3,956,851
4.	Depreciation	1,174,375	0	1,174,375	0	1,174,375	0	1,174,375
5.	Taxes, Other	240,832	0	240,832	0	240,832	6,384	247,216
6.	Income Taxes:							
7.	State	58,409	0	58,409	11,175	69,584	86,613	156,197
8.	Federal	0	0	0	0	0	0	0
9.	Pennvest Expense	1,308,122	0	1,308,122	0	1,308,122	0	1,308,122
10.	Total Expenses	6,861,342	0	6,861,342	(112,937)	6,748,405	94,357	6,842,762
11.	Net Income Available for Return	383,584	0	383,584	112,937	496,521	876,823	1,373,345
12.	Rate Base	18,750,106	0	18,750,106	(15,285)	18,734,821		18,734,821
13.	Rate of Return	2.05%		2.05%		2.65%		7.33%

(1) Company Main Brief

Revenue Change (%):	13.40%
% of requested	97.13%

Commission Final Allowance
TABLE I(A)
Columbia Water Company
RATE OF RETURN
R-2023-3040258

		Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
		(1)	(2)	[(3)=(1)x(2)]	(4)	[(5)=(3)x(4)]
1.	Total Cost of Debt			1.15%		1.15%
2.	Long-term Debt[(1)]	36.66%	3.15%	1.15%		1.15%
3.	Short-term Debt	0.00%	0.00%	0.00%		0.00%
4.	Preferred Stock	0.00%	0.00%	0.00%	0.910100	0.00%
5.	Common Equity[(1)]	63.34%	9.75%	6.18%	0.910100	6.79%
6.	Rate of Return[(1)]	100.00%		7.33%		7.9448%
7.	Pre-Tax Interest Coverage	6.88				
8.	After-Tax Interest Coverage	6.35				
9.	Tax Rate Complement (1-(21%+(9.99% X (1-21%))	91.01000%				

Notes and Sources:
[(1)]See Section VIII - Fair Rate of Return

Commission Final Allowance
TABLE I(B)
Columbia Water Company
REVENUE FACTOR
R-2023-3040258

1.	100%	1.00000000
	Less:	
2.	Uncollectible Accounts Factor [(1)]	0.00140045
3.	PUC, OCA, OSBA Assessment Factors [(1)]	0.00657336
4.	Gross Receipts Tax	0.00000000
5.	Other Tax Factors	0.00000000
6.		0.99202619
7.	State Income Tax Rate [(1)]	0.08990000
8.	Effective State Income Tax Rate	0.08918315
9.	Factor After Local and State Taxes	0.90284304
10.	Federal Income Tax Rate [(1)]	0.00000000
11.	Effective Federal Income Tax Rate	0.00000000
12.	Revenue Factor (100% - Effective Tax Rates)	0.90284304

[(1)]Company Main Brief

Commission Final Adjustments
TABLE II
Columbia Water Company
SUMMARY OF ADJUSTMENTS
R-2023-3040258

	Adjustments (1)	Rate Base (2)	Revenues (3)	Expenses (4)	Depreciation (5)	Taxes-Other (6)	State Income Tax (7)	Federal Income Tax (8)
1.	RATE BASE:							
	CWC:							
2.	Int. & Div. (Table IV)	0						
3.	Taxes (Table V)	0						
4.	O & M (Table VI)	(15,285)						
5.								
6.								
7.								
8.	REVENUES:							
9.			0				0	0
10.	EXPENSES:							
11.	Rate Case Expense [1]			(52,311)			4,703	0
12.	Materials and Supplies - Going-Level [2]			(14,400)			1,295	0
13.	Office Expenses [3]			(3,466)			312	0
14.	EDTMA Expenses [4]			(53,936)			4,849	0
15.							0	0
16.							0	0
17.							0	0
18.							0	0
19.							0	0
20.							0	0
21.							0	0
22.							0	0
23.							0	0
24.							0	0
25.							0	0
26.							0	0
27.					0		0	0
28.	TAXES:							
29.	Interest Synchronization (Table III)						16	0
30.	TOTALS	(15,285)	0	(124,112)	0	0	11,175	0

Notes and Sources:

[1] Adopt OCA Rate Case Expense adjustment. ($392,330 / 3 years) - ($392,330 / 5 years) = $52,311. OCA St. 1SR at Sch. JLR-6.

[2] Adopt OCA Materials and Supplies adjustment. $18,000 x 4 years / 5 years = $14,400. OCA St. 1SR at Sch. JLR-8.

[3] Adopt OCA Office Expenses adjustment. ($25,995 / 3 years) - ($25,995 / 5 years) = $3,466. OCA St. 1SR at Sch. JLR-10.

[4] Adopt OCA EDTMA Expenses adjustment. OCA St. 1SR at Sch. JLR-15. Since OCA's $59,017 Materials and Supplies - Normalization adjustment isn't adopted, the EDTMA Expenses adjustment must be increased by applying OCA's EDTMA Allocation Percentage to total allowed Materials and Supplies expenses (i.e., the amount of OCA's Materials and Supplies - Normalization adjustment). $48,987 + ($59,017 x ((9.39% + 6.33% + 12.88% + 4.94%) / 4)) = $53,936

Commission Final Adjustments
TABLE III
Columbia Water Company
INTEREST SYNCHRONIZATION
R-2023-3040258

		Amount $
1.	Company Rate Base Claim [1]	18,750,106
2.	Commission Rate Base Adjustments (From Table II)	(15,285)
3.	Commission Rate Base (Line 1 - Line 2)	18,734,821
4.	Weighted Cost of Debt (From Table IA)	1.15%
5.	Commission Interest Expense - Rate Base (Line 3 x Line 4)	216,348
6.	Commission Interest Expense - PENNVEST Loan 80180[2]	366,363
7.	Commission Intereste Expense - PENNVEST Loan 85182[3]	64,064
8.	Company Adjustment[4]	42,013
9.	Commission Interest Expense - Total (Sum of Lines 5 through 8)	688,788
10.	Company Claim [1]	688,965
11.	Net Commission Interest Adjustment (Line 7 - Line 8)	177
12.	State Income Tax Rate	8.99%
13.	State Income Tax Adjustment (Line 11 x Line 12) (Flow to Table II)	16
14.	Net Commission Interest Adjustment (Line 11)	177
15.	State Income Tax Adjustment (Line 13)	16
16.	Net Commission Adjustment for F.I.T. (Line 14 - Line 15)	161
17.	Federal Income Tax Rate	0.00%
18.	Federal Income Tax Adjustment (Line 16 x Line 17) (Flow to Table II)	0

Notes and Sources:

[1] Company Main Brief

[2] See Docket R-2022-3036936, Appendix A - Loan 80180 Amortization Schedule and Payment History, sum of interest for payments due 2/1/23-1/1/24. The Company's 2022 Annual Report, Page 31, Line 21 reflects HTY interest equals the sum of interest for payments due 2/1/22-1/1/23 identified in Appendix A, so Appendix A is being used to determine FTY interest payments for Loan 80180.

[3] See Docket R-2022-3036936, Appendix B - Loan 85182 Amortization Schedule, sum of interest for payment numbers 1-12. Payment numbers 1-12 are used to annualize interest expense since this loan's first payment occurred during the FTY on 5/1/23.

[4] Per Company Table III, allowable interest expense with no rate base adjustments equals 0 interest synchronization adjustment. $14,880 x 1.15479% = 172 (rounded)

Commission Final Allowance
TABLE IV
Columbia Water Company
CASH WORKING CAPITAL - Interest and Dividends
R-2023-3040258

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$18,750,106	$18,750,106	Company Rate Base Claim	$18,750,106
2.	Commission Rate Base Adjustments	($15,285)	($15,285)	Commission Rate Base Adjustments	($15,285)
3.	Commission Rate Base	$18,734,821	$18,734,821	Commission Rate Base	$18,734,821
4.	Weighted Cost of Debt	1.15%	0.00%	Weighted Cost Pref. Stock	0.00%
5.	Commission Annual Interest Exp.	$216,348	$0	Commission Preferred Dividends	$0
6.	Average Revenue Lag Days (2)	90.00	90.0	Average Revenue Lag Days (2)	90.0
7.	Average Expense Lag Days	45.00	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	45.0	90.0	Net Lag Days	90.0
9.	Working Capital Adjustment				
10.	Commission Daily Interest Exp.	$593	$0	Commission Daily Dividends	$0
11.	Net Lag Days	45.0	90.0	Net Lag Days	90.0
12.	Commission Working Capital(3)	$0	$0		$0
13.	Company Claim (1)	$0	$0	Company Claim (1)	$0
14.	Commission Adjustment	$0	$0		$0
15.	Total Interest & Dividend Adj.	$0			

Notes and Sources:

(1) Company Main Brief.

(2) The 45-day method assumes that Net Lag Days equals 45. Since the Company claims Average Expense Lag Days is 45, Average Revenue Lag Days must be 90 for Net Lag Days to be 45.

(3) No cash working capital adjustment is made for accrued interest since the Company did not claim cash working capital for accrued interest.

Commission Final Allowance
TABLE V
Columbia Water Company
CASH WORKING CAPITAL - TAXES
R-2023-3040258

	Description (1)	Company Proforma Tax Expense Present Rates (2)	Commission Adjustments (3)	Commission Pro forma Tax Expense Present Rates (4)	Commission Allowance (5)	Commission Adjusted Taxes at Present Rates (6)	Daily Expense (7)	Net Lead/ Lag Days [(1)] (8)	Accrued Tax Adjustment (9)
1.	PUC Assessment	$47,624	$0	$47,624	$6,384	$54,008	$147.97	0.00	$0
2.	Public Utility Realty	$73,910	$0	$73,910		$73,910	$202.49	0.00	$0
3.	Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
4.		$0		$0		$0	$0.00	0.00	$0
5.		$0		$0		$0	$0.00	0.00	$0
6.		$0		$0		$0	$0.00	0.00	$0
		$0		$0		$0	$0.00	0.00	$0
		$0		$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
		$0	$0	$0		$0	$0.00	0.00	$0
7.	State Income Tax	$58,409	$11,175	$69,584	$86,613	$156,197	$427.94	0.00	$0
8.	Federal Income Tax	$0	$0	$0	$0	$0	$0.00	0.00	$0
9.		$179,943	$11,175	$191,118	$92,997	$284,115			$0
10.							Commission Allowance		0
11.							Company Claim [(1)]		0
12.							Commission Adjustment		0

Notes and Sources:
(1) Company Main Brief

Commission Final Allowance
TABLE VI
Columbia Water Company
CASH WORKING CAPITAL -- O & M EXPENSE
R-2023-3040258

	Description (1)	Company Pro forma F.T.Y. Expense (2)	Commission (3)	Commission Pro forma Expenses (4)	Lag Days (5)	Lag Dollars (6)
1.	O&M Expenses[2]	$4,079,604	($124,112)	$3,955,491	45.00	$177,997,109
2.	Less: Uncollectibles	($11,800)	$0	($11,800)	45.00	($531,000)
3.			$0	$0	0.00	$0
4.			$0	$0	0.00	$0
5.			$0	$0	0.00	$0
6.						
7.						
8.	Totals	$4,067,804	($124,112)	$3,943,691	45.00	$177,466,109
17.	Commission Average Revenue Lag [3]	90.0				
18.	Less: Commission Avg. Expense Lag	45.0				
19.	Net Difference	45.0	Days			
20.	Commission Pro forma					
22.	O & M Expense per Day	$10,805				
23.	Commission CWC for O & M	$486,225				
24.	Less: Company Claim [1]	$501,510				
25.	Commission Adjustment	($15,285)				

Notes and Sources:
[1] Company Main Brief, changed to a positive value to reflect that the Company's claim increases rate base.
[2] See Table II, Notes 1 - 4.
[3] See Table IV, Note 2.