

COMMONWEALTH OF PENNSYLVANIA



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July 16, 2014

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

RE: Supplement No. 210 to Tariff Gas Pa.
P.U.C. No. 9 of Columbia Gas of
Pennsylvania, Inc.
Docket No. R-2014-2407345

Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Main Brief in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in black ink that reads "Amy E. Hirakis".

Amy E. Hirakis
Assistant Consumer Advocate
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Enclosures

cc: Honorable Mark M. Hoyer
Certificate of Service

*180543

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

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:

Docket No. R-2014-2407345

MAIN BRIEF
OF THE OFFICE OF CONSUMER ADVOCATE

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I. INTRODUCTION

On February 26, 2014, Columbia Gas of Pennsylvania, Inc. (Columbia or Company) filed Supplement No. 210 to Tariff Gas Pa. P.U.C. No. 9 (Rider NAS) with the Public Utility Commission (Commission) to become effective April 28, 2014. See gen'ly Columbia Exh. EAE-4. Columbia proposes Rider NAS as an alternative approach to requiring a potential new residential customer to pay a large upfront deposit for a natural gas main extension and would instead permit the potential new residential customer to pay all or a portion of the upfront deposit amount through a surcharge on his or her natural gas bill over twenty years. Columbia Exh. EAE-4 at 1; Columbia St. 1 at 2-3.

On March 13, 2014, the Office of Consumer Advocate (OCA) filed a Notice of Appearance, Formal Complaint and Public Statement. On March 19, 2014, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance, Formal Complaint and Public Statement. A Notice of Intervention was filed by the Columbia Industrial Intervenors (CII) on March 21, 2014. The Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance on March 28, 2014.

By Order entered April 23, 2014, the Commission suspended the implementation of Rider NAS until October 28, 2014, and instituted an investigation. This matter was assigned to Administrative Law Judge Mark A. Hoyer (ALJ). A prehearing conference was convened on May 9, 2014, and a litigation schedule was established.

Pursuant to the Prehearing Order entered May 23, 2014, the OCA served the Direct, Rebuttal and Surrebuttal Testimonies of Glenn A. Watkins¹ on June 10, 2014, June 24, 2014 and July 1, 2014, respectively. A hearing was held on July 9, 2014, in Harrisburg, and Mr. Watkins' Testimonies were admitted into the record in this matter.

Mr. Watkins Direct Testimony provides a summary of the general issues concerning the expansion of natural gas service to unserved areas. Mr. Watkins testified that the expansion of natural gas service has been limited, explaining:

As has been the case in many parts of the Country including Pennsylvania, the expansion of natural gas distribution infrastructure to serve new customers has been limited due to the simple fact that the economic costs of expanding distribution mains more often than not, has exceeded the perceived benefits realized by natural gas distribution companies ("NGDCs") as well as by potential new natural gas consumers (at least in short-term). In short, the problems or constraints of expanding natural gas distribution infrastructure and thereby making natural gas more available to residential consumers, have been well known and are rather straightforward. However, solutions to these constraints have been much more challenging and typically require regulatory and/or public policy guidance.

OCA St. 1 at 2.

Mr. Watkins goes on to explain that traditional policies regarding natural gas expansion to unserved areas are shifting across the country in order to encourage the expansion of natural gas service, testifying that:

In the regulatory arena, our focus has historically been very narrow in scope until recently. That is, traditionally, regulatory policy has most often only evaluated the direct costs and benefits of potential utility expansion projects while other societal costs and benefits have largely been ignored. In the last several years, I

¹ Mr. Watkins is a Principal and Senior Economist with Technical Associates, Inc., an economics and financial consulting firm. Mr. Watkins conducts marginal and embedded cost of service, rate design, cost of capital, revenue requirement, and load forecasting studies involving numerous electric, gas, water/wastewater, and telephone utilities, and has provided expert testimony in Alabama, Arizona, Delaware, Georgia, Illinois, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Vermont, Virginia, South Carolina, Washington, and West Virginia. Mr. Watkins obtained his B.S. in economics and M.B.A. from the Virginia Commonwealth University in 1982 and 1988, respectively. Mr. Watkins has experience in expansion projects throughout the United States. See OCA St. 1 at 1, 5-6. Mr. Watkins' curriculum vitae is attached to his Direct Testimony as Schedule GAW-1.

have seen a transition away from this perspective and have been involved in numerous cases in which broader costs and benefits have also been considered. The vast majority of these cases involved natural gas and water utility industries relating to the expansion of facilities for the overall public benefit, but may not have passed traditional direct utility-only cost benefit analyses. Specific examples include the approval of new surface water treatment facilities in New Jersey and Arizona that were, in and of themselves, not required to meet the demands of their current (or expected short-term future) customers and were “uneconomical” from a direct cost/benefit perspective. However, the long-term benefits of new surface water treatment facilities were deemed to outweigh the lack of a direct economic feasibility analysis. Furthermore, the benefits accruing to the public overall by promoting and advocating the expansion of water utility mains to unserved areas has been recognized in several jurisdictions even though the direct costs of such water utility mains expansions may not pass a traditional economic cost/benefit test. In these instances, it has been common for regulatory agencies to require minimum allowances for the expansion of water mains and service lines and/or establish rules and regulations in which the required rate of return of a potential project is less than the overall allowable total return on rate base.

OCA St. 1 at 5-6. (footnotes omitted). Mr. Watkins explains that without addressing the cost barriers that prevent many consumers from accessing natural gas service, the expansion of natural gas service to unserved areas will continue to be limited.

Specifically, Mr. Watkins states:

It is evident that prior policies of requiring new customers to totally fund such expansions with upfront cash contributions have simply not worked very well. As such, innovative new plans and policies such as new service area surcharges, programs to minimize upfront cash contributions of new residential natural gas customers, and mechanisms with a modest sharing of the cost of expansions between new and existing customers should be explored. Indeed, and while some approaches are more preferred than others and should be evaluated on a case by case basis, there is no single approach that I am aware of that will result in a “win-win” situation for all stakeholders under all circumstances -- at least in the short-term. In this regard, policymakers and regulators should encourage and evaluate various plans and proposals to promote the expansion of natural gas service on a case-by-case basis to determine the level of achievement and expansion that can reasonably be expected from a given plan and at the same time, evaluate the expected impact of costs and benefits to all stakeholders.

OCA St. 1 at 10-11.

The OCA appreciates Columbia's efforts in attempting to address some of the barriers to natural gas main extensions through Rider NAS. While generally supportive of Rider NAS, the OCA submits that Rider NAS, as proposed by Columbia, will have limited success because Rider NAS does not adequately address the leading barrier preventing consumers from extending natural gas mains to their homes, which is the high cost to the consumer for the uneconomic portion of the main. The Company's use of cost of capital in its economic model to determine a customer's contribution, in addition to the high interest rate the company proposes to use to calculate the monthly surcharge, will result in many consumers still unable to afford obtaining natural gas service. As discussed more fully below, the OCA proposes several modifications to Rider NAS that the OCA submits will make this program more affordable and attractive to consumers.

The OCA submits this Main Brief pursuant to the Prehearing Order entered May 23, 2014, and the ALJ's direction at the July 9, 2014 hearing.

II. DESCRIPTION OF THE COMPANY'S RIDER NAS PROPOSAL

As proposed, Rider New Area Service (NAS) will be a four year pilot program that will be available to potential customers seeking main extensions from Columbia. Columbia St. 1 at 2-3. The Rider NAS will be an alternative to the Company's current main extension tariff for these new customers. Columbia proposes that the Rider NAS pilot program be available only to residential customers and developers of residential properties who seek natural gas service. Columbia St. 1 at 4.

Under Rider NAS, the Company will first calculate the economic and uneconomic portion of the main extension using the Company's current economic model. This model is a Discounted Cash Flow model (DCF), which evaluates the expected revenues from the applicant

with the costs associated with constructing and installing the new main and service line, and installing a new meter over a 40-year period in which the future cash flows are discounted at the Company's overall cost of capital. OCA St. 1 at 12-13. If the DCF calculation shows that the present value of cash inflows (revenues from customer) is expected to exceed the present value of cash outflows (the capital costs of construction and installation), then the project is deemed economic, and no customer contribution is required. OCA St. 1 at 12-13. To the extent that the present value of cash inflows do not cover the present value of cash outflows, this portion of the extension project is deemed uneconomical and the applicant is required to pay the uneconomic portion. Customers who receive an extension will not be required to pay upfront the full cost for contributions in aid of construction, as is the usual practice in Pennsylvania. Columbia St. 1 at 2. Instead, Columbia will apply a monthly surcharge to the new customers' bills to be paid for not more than a period of 20 years. Columbia St. 1 at 5. The Rider NAS monthly surcharges will vary by project, but all customers within a project will have the same surcharge. The surcharge amount will be based on the amount of the "uneconomic" portion of each main extension project with an interest component. Columbia St. 1 at 5. Columbia proposes that the interest component for the surcharge be set at the Company's cost of capital, which is currently approximately 8%. Columbia St. 1 at 6; OCA St. 1 at 11. The monthly surcharge will be capped at \$35.00 and any uneconomic portion that will not be paid through the surcharge will be collected from the new customers as an upfront deposit. Columbia St. 1 at 11. Columbia will invest \$1 million per year into the Rider NAS pilot program. Columbia St. 1 at 10. As proposed by the Company, applicants will be able to finance no more than \$4,184 over twenty years through Rider NAS. OCA St. 1 at 16.

The OCA commends Columbia on seeking to make natural gas service more accessible within its service territory. As OCA witness Glenn Watkins testified, there are many public benefits associated with expanding natural gas service throughout Pennsylvania. OCA St. 1 at 7-10. As noted by Mr. Watkins and Columbia's witness Erich Evans, however, the upfront costs currently required from potential customers can deter these individuals from installing natural gas service to their homes. OCA St. 1 at 10; Columbia St. 1 at 3. As such, Mr. Watkins testified that in order to expand natural gas service, natural gas distribution companies (NGDCs) will need to develop "innovative new plans and policies such as new service area surcharges, programs to minimize upfront cash contributions of new residential natural gas customers, and mechanisms with a modest sharing of the cost of expansions between new and existing customers." OCA St. 1 at 10.

Mr. Watkins evaluated Rider NAS on behalf of the OCA. After evaluating Rider NAS, Mr. Watkins concluded:

[T]he Company's proposal will provide some benefit to potential new customers and will likely result in a small amount of mains extensions that would otherwise not occur absent the financing provisions within the NAS rider. However, I am concerned that if approved as proposed by Columbia, this rider will have only a very small marginal impact on making natural gas more available to energy consumers within the Company's service area.

OCA St. 1 at 15. Recognizing that Rider NAS is a pilot program, Mr. Watkins made several recommendations to Columbia's proposal to improve the success of the pilot program thereby making natural gas service more available to residential consumers within Columbia's service area. Mr. Watkins major recommendations to improve the success of the Rider NAS program are as follows:

- (1) For NAS projects, the Company's DCF model should use as inputs its most recent Commission-approved capital structure, wherein the cost of debt will reflect the weighted cost of long-term and short-term debt, and the cost of equity within the model will also use the weighted cost of long-

term and short-term debt such that the discount rate will equal the Company's weighted cost of debt (note: the model will continue to reflect an equity return except that instead of utilizing the Commission's approved return on equity, the DCF model will utilize the Company's cost of debt as a surrogate for equity return).

- (2) For any NAS project, the projected capital costs of all service lines, meters, and regulating equipment should be excluded from the DCF model.
- (3) An NAS applicant should not pay for any costs of the meter or the Company's service line from the main to the applicant's property line. In the Company's eastern service area, Columbia will also provide up to 50' of service line on the applicant's property at no charge to the applicant per Tariff Rule No. 8.
- (4) For purposes of calculating an applicant's surcharge amount under the NAS pilot, the annual interest rate shall be 3.00%.
- (5) The following items should be required to be reported annually by Columbia to the Commission, I&E and OCA during the period of the pilot program:
 - (a) investment per project including the economic model results and surcharge calculation details;
 - (b) total distance of NAS main installed;
 - (c) number of customers connected by project and number of subsequent connections to NAS extensions;
 - (d) NAS revenues received by principal and interest;
 - (e) annual NAS participant average use per customer (by residential and commercial sectors if applicable);
 - (f) average NAS participant investment cost per customer (by residential and commercial sectors if applicable);
 - (g) the number of customers along NAS extensions who have not yet connected and, to the extent available, why;
 - (h) direct program expenses;
 - (i) data on collections, including efforts for unpaid surcharge amounts; and,

- (j) the number of applicants turned down for insufficient credit.
- (6) Rider NAS should not be available to applicants in areas where mains of another natural gas company are already available for the applicants to take service.
- (7) Rider NAS should not be available to developers but should be applicable only to homeowners.
- (8) Applicants should have the option of the following surcharge (financing) mechanisms:
 - (a) A 20-year term, capped at \$35.00 per month, wherein the applicant shall pay upfront any excess above the amount that will be collected through the surcharge or
 - (b) A 10-year term, with no payment cap, with a maximum amount of \$8,000 permitted to be recovered through the surcharge.
- (9) The Company should commit \$2 million annual funding for the NAS pilot.

OCA St. 1 at 17-19. Mr. Watkins testified that “with these modifications, there should be much more acceptance and participation in the NAS program, thereby making natural gas more available to energy consumers within Columbia’s service area.” OCA St. 1 at 17-19. The OCA submits that Rider NAS should be modified to include these recommendations.

III. SUMMARY OF ARGUMENT

Pennsylvania sits on one of the largest natural gas supplies, the Marcellus Shale formation. One such benefit of this recent large increase in natural gas supply in Pennsylvania is that the price of natural gas has decreased significantly and is expected to remain low for the next several years. OCA St. 1 at 8. These lower natural gas prices can provide significant benefits to consumers and communities. Unfortunately, despite these benefits, many areas of the Commonwealth remain unserved or underserved. One of the primary reasons areas remain unserved is the cost of extending mains to consumers.

For a consumer who is not already served by natural gas, two large investments must be made in order to receive service. First, the consumer must pay an upfront deposit to a natural gas distribution company (NGDC) to pay for any part of the main extension project deemed uneconomical by the NGDC. Second, the consumer must pay to convert the home's heating equipment from electric, oil, or propane heat to natural gas heat. See OCA St. 1 at 3. These upfront costs can make a natural gas service extension cost prohibitive to a consumer despite the benefits the consumer would receive from having natural gas service. See OCA St. 1 at 4.

The OCA commends Columbia on seeking to expand natural gas service in its service territory by offering consumers an alternative to its existing main extension tariff that would alleviate some of the upfront costs of extending natural gas service to a home. While the OCA is generally supportive of Columbia's proposed Rider NAS, the OCA submits that some modifications to Rider NAS are necessary for the program to be successful. As proposed, Rider NAS does not fully address the cost barrier that prevents many consumers from extending gas service to their homes. Without better addressing this barrier, the success of this program will be limited. The OCA submits, however, that the OCA's proposed modifications will better address the cost barriers by making the program more affordable without harming existing ratepayers and will provide a sound pilot program that will be attractive to potential customers seeking natural gas service.

IV. OCA'S POSITION

As explained above, Columbia's proposed Rider NAS pilot program will use the Company's current economic model to determine the uneconomic portions of a main extension requests made by Rider NAS applicants. To the extent that a portion of the extension project is deemed uneconomical, the applicant is required to pay the uneconomic portion. Rider NAS will

allow applicants to pay the uneconomic portion over a twenty-year period through a monthly surcharge on their bills instead of paying this cost upfront before the Company begins the main extension project. OCA St. 1 at 12.

In reviewing the Company's proposed Rider NAS, OCA witness Glenn Watkins determined that the Company's use of a DCF model "generally provides a sound basis for evaluating the feasibility of individual projects." OCA St. 1 at 13. Mr. Watkins, however, disagreed with certain aspects of how Columbia applies the DCF model in calculating the uneconomic portion of a main extension project under the proposed Rider NAS. OCA St. 1 at 13. Specifically, Mr. Watkins recommended two modifications to the Company's economic model for purposes of this pilot program. First, Mr. Watkins recommended that:

For NAS projects, the Company's DCF model shall use as inputs its most recent Commission-approved capital structure, wherein the cost of debt will reflect the weighted cost of long-term and short-term debt, and the cost of equity within the model will also use the weighted cost of long-term and short-term debt such that the discount rate will equal the Company's weighted cost of debt (note: the model will continue to reflect an equity return except that instead of utilizing the Commission's approved return on equity, the DCF model will utilize the Company's cost of debt as a surrogate for equity return).

OCA St. 1 at 18. Second, Mr. Watkins recommended changes to how service lines, meters and regulating equipment are entered and included into the economic model. For the reasons explained below, the OCA submits that the economic model used in Rider NAS be modified to reflect Mr. Watkins' recommendations. These modifications will more properly reflect the economics of the proposed main extension.

As proposed by the Company, for customers participating in the Rider NAS pilot program, the customer's contribution will be financed over a term of twenty years at an interest rate of approximately 8%. OCA St. 1 at 11. With an 8% interest rate, the maximum amount that a new customer could finance would be \$4,184, and any remaining contribution would have to

be paid upfront by the customer. OCA St. 1 at 11. As discussed herein, the OCA recommends that the interest rate used to calculate the monthly surcharge be reduced to 3% to better reflect the effective interest rates, including tax benefits, currently available for home equity loans. The purpose of the program is to better enable customers to afford the main extension without having to pay a large upfront deposit. This purpose, though, should not result in excessive interest charges to customers.

Company witness Evans and I&E witness Boyd opposed Mr. Watkins' proposed modifications to Rider NAS. Mr. Evans and Ms. Boyd asserted that Mr. Watkins' proposed modifications to the Rider NAS pilot program will result in existing ratepayers subsidizing new Rider NAS customers. Mr. Watkins disagreed with this assertion. Specifically, Mr. Watkins explained why there is no "subsidization" related to Rider NAS and his proposed modifications.

Mr. Watkins testified:

While I agree that my proposed modifications to the Company's NAS rider could have an immaterial increased impact in existing customers' distribution rates in the near term, it cannot be said that existing customers will be "subsidizing" these new mains expansions. This is because a subsidy only exists when a ratepayer is charged more than his/her stand alone cost of providing natural gas service. Indeed, all customers receive substantial benefits by being part of Columbia's distribution system. Therefore, while customers are clearly better off by being part of a system that averages Columbia's total cost, it cannot be said that they would be asked to subsidize other customers who join the system and share in the averaging of the Company's total cost.

OCA St. 1-SR at 5-6.

In his Surrebuttal Testimony, OCA witness Watkins responded to Ms. Boyd's examples where she attempted to show increased costs from Mr. Watkins' modifications. Mr. Watkins testified that Ms. Boyd's assumptions were overstated, but even if they were accepted, existing ratepayers' rates would increase by about 19 cents per year under his proposed modifications as compared to the Company's proposal. Specifically, Mr. Watkins testified:

In her rebuttal testimony, Ms. Boyd provides a scenario of the cost impact on existing ratepayers under the assumption that all mains extension projects result in the maximum amount financed. Under this assumption, Ms. Boyd calculates a total cost to existing ratepayers of \$74,418 per year. Under this scenario, this \$74,418 would result in an increase to existing residential customers' rates of about \$0.19 per customer per year. It should be noted that Ms. Boyd's scenario overstates the additional costs to ratepayers in that her scenario assumes every mains extension project will result in the maximum amount of financing available. In reality, many, if not most, mains expansion projects that will go forward will result in a significantly lower contribution. Ms. Boyd's scenario also does not consider those mains expansion projects that have a positive present value which will reduce the cost to existing customers. Ms. Boyd's scenario also does not reflect the certainty that Columbia's distribution rates will increase over time.

OCA St. 1-SR at 5.

Mr. Watkins also explained that these witnesses' positions in opposition to his modifications do not reflect the full benefits of gas extensions. Specifically, Mr. Watkins testified:

Whereas my recommended modifications to the NAS rider will have an immaterial upward impact on distribution rates, the other witnesses in this case advocate a policy of absolutely no potential upward impact on distribution rates regardless of the benefits that will be achieved by making natural gas more available to residential energy consumers. As indicated in my direct testimony, each new residential customer that converts to natural gas from an alternative heating energy source can expect to save in the neighborhood of \$1,000 to \$1,300 per year. Furthermore, initiating a program that truly encourages the expansion of Columbia's distribution mains to currently unserved areas will have direct and indirect benefits to residences and small businesses within Columbia's service territory. These expansions will make the future expansions of other mains more feasible allowing more energy consumers to realize the benefits of natural gas and provide more disposable income available to be spent within the community. At the same time, the benefits that will accrue under my proposed modifications to Columbia's proposed NAS rider will far outweigh the minimal costs that are incurred under my proposal.

* * *

[A]s proposed by the Company, the NAS rider will result in few mains expansions due to the methods in which deposit requirements are determined as well as the Company's proposed high interest rate for financing such deposits. In recommending my proposed modifications to the NAS rider, I have evaluated the

benefits and costs to potential new customers, existing ratepayers, and Pennsylvania overall. I have concluded that the minimal amount of additional cost that will be borne by existing customers is far outweighed by the benefits that will be realized by energy users within Columbia's service area as well as Pennsylvania as a whole.

OCA St. 1-SR at 3, 7.

The OCA submits that its recommended modifications to the Company's proposal are reasonable and should be adopted. The modifications will improve the program and will not result in harm to existing ratepayers.

A. Setting the Interest Rate at 3%

In Columbia's evaluation of gas extension projects, to the extent that the present value of cash inflows do not cover the present value of cash outflows, this portion of the extension project is deemed uneconomical and the applicant is required to pay the uneconomic portion. OCA St. 1 at 12. This is also known as a Customer Contribution in Aid of Construction (CIAC). Rather than requiring the applicant to obtain a bank loan or deplete his or her savings, Rider NAS will allow applicants to pay their CIAC over a twenty-year period through a monthly surcharge on their bills instead of paying this cost upfront before the Company begins the main extension project. According to Rider NAS, the surcharge will include "interest equal to the fixed cost of capital as approved in the Company's most recent rate case at the time the meter is set." See Columbia Exh. EAE-4 at Third Rev. Pg. No. 175. Columbia proposes that this interest will serve as a credit to the cost of service to compensate all other customers for the carrying costs of financing the CIAC over twenty years. Columbia St.1 at 5-6. Currently, this interest rate is 7.91%. See I&E St. 1-R at 18.

In his Direct Testimony, OCA witness Watkins stated that he was concerned about the Company's proposed financing interest rate. Specifically, Mr. Watkins testified:

Current market interest rates are such that home equity loans are in the range of 3.5% to 4.5%, which are also generally tax deductible for income tax purposes, such that the effective interest rate to homeowners is considerably low. Given that many, if not most, homeowners could finance the upfront contribution with a home equity loan with an effective interest rate of somewhere around 3%, it would make little sense to finance the same amount at approximately 8% (which is not deductible for income tax purposes). As such, I believe it is fair to say that most homeowners are savvy enough to recognize the exceptionally high interest rate proposed by Columbia and this in and of itself, will result in limited participation and success.

See OCA St. 1 at 15-16. Indeed, at Columbia's proposed interest rate of nearly 8%, Rider NAS customers with the maximum surcharge of \$35 per month would pay more in interest than principal over the 20-year term of the financing agreement (\$4,215 in interest and \$4,184 in principal). See OCA St. 1 at 16. As such, Mr. Watkins recommended that Columbia use a 3% annual interest rate for purposes of calculating Rider NAS customers' surcharge amount. See OCA St. 1 at 18.

The OCA submits that in order for the Rider NAS pilot program to be successful, it must be attractive to applicants, and applying a financing rate of nearly 8% is not attractive when lending institutions are offering home equity loan products (that are tax deductible) with financing rates of about half as much. Furthermore, applicants will be able to finance no more than \$4,184 over twenty years through Rider NAS, and therefore, only relatively small extension projects would qualify for the pilot program. As such, the OCA submits that applying a 3% interest rate, along with the other recommendations made in this Main Brief, is crucial to the success of the Rider NAS pilot program.

In his Rebuttal Testimony, Columbia witness Evans opposed OCA witness Watkins' recommendation to lower the Rider NAS financing interest rate. Mr. Evans testified that Rider NAS should not be compared to a bank loan or home equity loan that involves credit checks,

collateral, and a home appraisal and would result in a greater subsidy from existing ratepayers. Columbia St. 1-R at 8, 5.

I&E witness Boyd also opposed Mr. Watkins' recommendation for similar reasons. See I&E St. 1-R at 16. Ms. Boyd also asserted that there is "subsidization" of Rider NAS extensions by existing ratepayers. See I&E St. 1-R at 17-19. Mr. Watkins disagreed with Ms. Boyd's and Mr. Evans' assertions that the proposed modifications to the Rider NAS pilot program will result in existing ratepayers subsidizing new Rider NAS customers. Specifically, Mr. Watkins testified:

While I agree that my proposed modifications to the Company's NAS rider could have an immaterial increased impact in existing customers' distribution rates in the near term, it cannot be said that existing customers will be "subsidizing" these new mains expansions. This is because a subsidy only exists when a ratepayer is charged more than his/her stand alone cost of providing natural gas service. Indeed, all customers receive substantial benefits by being part of Columbia's distribution system. Therefore, while customers are clearly better off by being part of a system that averages Columbia's total cost, it cannot be said that they would be asked to subsidize other customers who join the system and share in the averaging of the Company's total cost.

OCA St. 1-SR at 5-6.

The OCA submits that in order for the Rider NAS pilot program to be attractive to applicants, the surcharge financing rate must be lowered. As currently structured, Rider NAS is not an attractive financing option for most residential homeowners and will not provide the assistance needed to make gas extensions more available to residential consumers in Columbia's service territory. The OCA further submits that Rider NAS applicants that do not have the option of obtaining a home equity loan product would be charged nearly twice as much interest for financing all or a portion of their extension through Rider NAS than if they could obtain a home equity loan. Such treatment further disadvantages the very customers that Columbia seeks to help with this pilot program. These customers are, however, least able to absorb such high

interest charges. Neither Columbia nor I&E have provided sufficient reasons for requiring such treatment of Rider NAS applicants.

Of additional concern, Columbia does not intend to provide Rider NAS applicants with notice of the interest rate used to calculate the surcharge. When questioned about the information that the Company intended to provide Rider NAS applicant, Columbia witness Evans testified that the only information Columbia intends to provide is the upfront amount due, if any, and the monthly Rider NAS surcharge amount. See Tr. at 15. The OCA submits that the Company should be required to provide to Rider NAS applicants in writing the amount of upfront payment due, the amount of the Rider NAS monthly surcharge, the term of the surcharge (20 years) and the interest rate used to calculate the surcharge amount so that applicants can make informed decisions. Such information is crucial for Rider NAS applicants to make a meaningful and informed decision regarding whether the use of Rider NAS is right for their situations and circumstances.

As such, Columbia's and I&E's positions should be rejected. Columbia should be directed to utilize a 3% financing interest rate in calculating surcharges due under the Rider NAS pilot program, which more closely reflects the effective interest rate for borrowing the upfront deposit utilizing a home equity loan product. A 3% interest rate will also allow for more expensive projects to move forward and will be more attractive to applicants.

B. Economic Model

1. Cost of Debt as Surrogate for Equity Return

As noted above, in the Company's economic model, the future cash flows are discounted at the Company's overall cost of capital. Mr. Watkins recommended that the Company substitute its cost of capital with its cost of debt, which would lower the portion of the expansion project deemed uneconomical. Mr. Watkins testified that substituting the cost of debt for the

cost of capital is not a novel concept. Mr. Watkins testified that Delmarva Power & Light (“DP&L”), a public utility that provides natural gas service to areas in Delaware, Maryland, and Virginia, modified how it determines the amount of upfront customer contributions to use the company’s cost of debt instead of its cost of capital in its economic model, which is also a DCF model. OCA St. 1 at 6. Mr. Watkins also pointed to the major water utilities serving Pennsylvania as examples of utilities using cost of debt instead of cost of capital in their economic models to determine whether a customer contribution is required. OCA St. 1 at 6, n. 3.

Support for using cost of debt instead of cost of capital in an economic model can be found in the Commission’s regulations as well. As stated above, major water utilities serving Pennsylvania already use cost of debt in their economic models to determine if any customer contribution is required for a water main extension. The use of cost of debt in economic models to determine whether a water main extension project is economical is found in 52 Pa. Code Section 65.21. Chapter 65 was amended by Commission Order in 1996, and changed how major water utilities calculate the uneconomic portion of line extensions by requiring the utilities to use cost of debt in their economic models instead of cost of capital. See Re Line Extensions, Revised Order, Docket No. L-930089 (Oct. 7, 1996)(Revised Order), 1996 Pa. PUC Lexis 162; see also 52 Pa.Code § 65.21. In the Order amending Chapter 65, the Commission states that “the application of this regulation should ensure, as recommended by IRRC, that utilities will fund all line extensions that are appropriate for the level of service to be purchased by the new customer without requiring the utilities and their existing customers to incur the costs of unreasonable line extensions.” 1996 Pa. PUC Lexis 162. The Commission explained why cost of debt is appropriate in determining whether an extension project is economic, stating:

Debt costs are the utility’s additional annual cost of debt associated with financing the line extension investment; the annual amount is determined by multiplying the

proportion of line extension investment financed by debt times the utility's debt cost rate. Due to the infrequency of base rate cases for some companies, we have decided to use a company's current debt cost data. The cost of preferred stock [cost of capital], however, has been specifically excluded since it is a relatively minor component of any utility's cost of service and would needlessly complicate the economic standard for a line extension.

1996 Pa. PUC Lexis 162. The Commission states that by using cost of debt in the economic model, it "believe[s] that this formula will result in the applicant bearing only those costs of his or her line extension which will not pay for itself through annual revenues." 1996 Pa. PUC Lexis 162.

Although Chapter 65 applies to water utilities, the adoption of Section 65.21 illustrates that using cost of debt in an economic model does not result in costs being shifted from new customers to existing customers, as the Commission has already found that using cost of debt in an economic model results in the applicant paying only the costs of the line extension project that "will not pay for itself through annual revenues," i.e. the uneconomic portion. 1996 Pa. PUC Lexis 162. The Commission also stated:

Moreover, even in the absence of mandatory regulations for the electric, telephone and natural gas industries, **we suggest that the proposed water regulations serve as the appropriate economic concept and provide guidance for line extensions in the other utility industries.** These regulations reflect the Commission's view regarding line extensions and may prove instructive in adjudicating complaint cases involving line extensions in any industry.

1996 Pa. PUC Lexis 162. (Emphasis added).

Columbia and I&E both oppose substituting cost of debt for cost of capital in the economic model. Columbia witness Erich Evans testified that substituting the cost of debt for the cost of capital would shift costs to existing customers because "these changes would effectively lower the results in the model and reduce or eliminate the recommended deposit." Columbia St. 1-R at 13. I&E witness Lisa Boyd similarly testified that "this change will require

existing customers to further subsidize the costs of Company extensions to individuals who requested service.” I&E St 1-R at 8. Both arguments, however, fail to recognize, as the Commission did, that the cost of debt is the utility’s additional annual cost of financing the investment and thus there is no subsidy.²

Mr. Watkins explained that his recommendation to use cost of debt for cost of capital should not be rejected based on the fact that new customers will be paying a lower contribution amount than under the Company’s proposal. Even if the Company’s approach had merit, the change to the use of debt would have a de minimus impact on existing ratepayers. Mr. Watkins demonstrated that even under a scenario where the Company derives no revenue from new customers participating in the Rider NAS pilot program, and all positive benefits to existing ratepayers from extension projects deemed economical are ignored, the impact on the rates to existing ratepayers is minimal, testifying:

Under the Company’s proposal to cap the NAS financing annually at \$1,000,000 of capital expenditures, this equates to an approximate annual revenue requirement in the first year (which will decline over time) of approximately \$145,000. If this \$145,000 revenue requirement is divided by Columbia’s total number of residential customers of 384,331, an impact of slightly less than 38¢ per customer per year results. This impact is itself greatly overstated in that it assumes absolutely no revenue contribution from any new customers, it does not recognize that in reality, new customers will be paying full tariff rates, and those that do elect to finance upfront construction costs will be contributing cash through their loan payments (and thereby reducing rate base through CIAC and increasing interest income crediting to all ratepayers).

OCA St. 1 at 21-22. (footnote omitted). Mr. Watkins clearly demonstrates that existing ratepayers will not be harmed by modifying the economic model to use the Company’s cost of debt instead of its cost of capital.

² As explained earlier in this brief, Mr. Watkins also explained the reasons why there is no subsidy. See also OCA St. 1 at 5-6.

The OCA submits that the economic model used in Columbia's proposed Rider NAS should be modified to use the Company's cost of debt instead of its cost of equity. As explained by both OCA witness Mr. Watkins and Columbia witness Mr. Evans, using the cost of debt in the economic model will reduce the amount that applicants will be required to pay for a line extension. OCA St. 1-SR at 3; Columbia St. 1-R at 13. Making Rider NAS more affordable should make this pilot program more attractive to applicants, which in turn should increase participation and increase the success of the program. In addition, as Mr. Watkins testified, and as found by the Commission, using cost of debt does not shift "uneconomical costs" to existing customers.

2. Cost of Service Lines, Meters, and Regulating Equipment

As noted above, Columbia's economic model not only contains the costs of extending a new main, but also includes the costs associated with installing service lines, meters and regulating equipment. In regards to these costs, OCA witness Mr. Watkins recommended that 1) the economic model include separate entries for the two types of service lines, and 2) service lines, meters and regulating equipment not be included in the economic model used for Rider NAS. OCA St. 1 at 18.

In regard to Mr. Watkins' recommendation to have the economic model include separate entries for the two types of service lines, Mr. Watkins explained that "within the definition of "service lines" there are two separate distinctions. These distinctions are: (1) the service line from the distribution main to the customer's property line and (2) the service line on the customer's property from the property line to the meter." OCA St. 1 at 14. Mr. Watkins also explained in testimony that there is a distinction between how the Company treats service lines that run on the customer's property to the meter in its western and eastern service areas, testifying that:

As a matter of statute in Pennsylvania, customers in the western portion of Columbia's service area must install, own, and maintain their own service lines within their property.¹⁰ For customers in the eastern portion of the Company's service area, the Company owns and maintains the service line and according to Tariff Rule 8.1, the Company will provide an allowance of up to approximately 50 feet of new service line for each new customer.

¹⁰ 66 Pa. C.S. § 1510

OCA St. 1 at 13-14.

Mr. Watkins explained that because of the distinctions between the two types of service lines, and the distinction between the western and eastern service areas, the Rider NAS economic model should be modified to include separate line entries, stating:

[T]here is no distinction in Columbia's DCF model between the various types of service line and/or whether allowances of up to 50 feet [for the Company's eastern service area] are embedded within the model. That is, there is simply a single entry for "service line investment" within the DCF model, and my evaluation of actual individual projects reveals there is no way to make a determination as to whether Columbia's field personnel (who actually make inputs and run the model) properly reflect allowances or ownership. However, based on informal conversations with the Company, I have been informed that field personnel are aware of these nuances and properly reflect allowances and ownership within its DCF modeling scenarios. In this regard and absent my other recommendations that will be discussed later in my testimony, I recommend that specific separate entries be required for Company-owned service lines, allowances, and customer-owned service lines to ensure that individual field personnel appropriately apply the model in accordance with the Public Utility Code and the Company's approved Tariff.

OCA St. 1 at 14.

Mr. Watkins also recommended excluding service lines, meters and regulating equipment from the Rider NAS economic model. Mr. Watkins explained that including these costs in the economic model does not promote the purpose of Rider NAS, which is to extend mains. Mr. Watkins explained:

the primary objective of this proposed program is to promote the expansion of Columbia's mains to unserved areas and make natural gas more available to residential energy consumers. Given the purpose of this program is to extend Columbia's distribution mains, it is logical that other costs required to connect a

new customer (i.e., services and metering costs) not be reflected in the determination of customer contributions.

OCA St. 1 at 16.

In addition, inclusion of meters and regulating equipment in the economic model may not comport with Commission's regulation. Specifically, 52 Pa. Code § 59.17, Furnishing of Meters and Regulations, states:

(a) *Installation.* Except as provided in § 59.31 (relating to service from production or transmission lines), **a public utility shall provide and install at its own expense and shall continue to own, maintain and operate equipment necessary for the regulation and measurement of gas furnished to its customers.**

52 Pa. Code § 59.17. (Emphasis added). Columbia's economic model, however, does include the costs of furnishing meters and regulating equipment. As Mr. Watkins explained:

[B]ecause Columbia includes the capital (installation) costs of providing a meter within each DCF project feasibility analysis, for those projects in which a deposit is required, the customer is essentially paying for the cost of the meter. For example, suppose that under Columbia's current practices in which the installation costs of a meter are included within the DCF model, an upfront customer contribution of \$1,000 is required. However, if the exact same model was run but metering costs were input at zero, the required customer contribution would only be \$800. As such, the customer is being required to contribute an upfront meter installation cost of \$200.

OCA St. 1 at 13-15.

The OCA submits that the economic model used in Rider NAS should reflect Mr. Watkins' recommendations regarding the recording and treatment of service lines, meters, and regulating equipment. As Mr. Watkins explained in testimony, distinctions between the types of service lines and between the service areas necessitate separate entry lines in the economic model to ensure that only the costs associated with the appropriate service lines are included in the economic model (if service lines are to be included in the economic model at all). In regard to including the costs of service lines, meters and regulating equipment, Mr. Watkins explained

that inclusion of such costs does not promote the purpose of Rider NAS, does not comport with Commission regulation, and is not consistent with the cost of extending the mains.

C. Additional Reporting Requirements

In his Direct Testimony, OCA witness Watkins noted that Columbia did not propose any reporting requirements relating to the Rider NAS pilot program. See OCA St. 1 at 17. So that the parties and the Commission can evaluate the program, Mr. Watkins recommended that Columbia be required to report annually to the Commission, the OCA and I&E the following:

- (c) investment per project including the economic model results and surcharge calculation details;
- (d) total distance of NAS main installed;
- (c) number of customers connected by project and number of subsequent connections to NAS extensions;
- (d) NAS revenues received by principal and interest;
- (g) annual NAS participant average use per customer (by residential and commercial sectors if applicable);
- (h) average NAS participant investment cost per customer (by residential and commercial sectors if applicable);
- (g) the number of customers along NAS extensions who have not yet connected and, to the extent available, why;
- (h) direct program expenses;
- (k) data on collections, including efforts for unpaid surcharge amounts; and,
- (l) the number of applicants turned down for insufficient credit.

See OCA St. 1 at 18-19. In her Rebuttal Testimony, I&E witness Boyd supported OCA witness Watkins' recommended reporting requirements. See I&E St. 1-R at 20.

In his Rebuttal Testimony, Columbia witness Evans stated that the Company agrees with OCA witness Watkins' recommended annual reporting requirements except for (g). Columbia St.

1-R at 10. Mr. Evans testified that in order for Columbia to provide the information requested in (g) above, the Company would have to survey each potential customer along the proposed extension and determine why the potential customers were not connecting to the extension, which “would pose additional cost and effort for little reason.” Id. at 11. Also, Mr. Evans testified that it could be difficult to determine who the potential customers along an extension are. Id. As a replacement for (g), Mr. Evans stated that Columbia would agree to identify the number of projects evaluated for Rider NAS service that did not elect to go forward under Rider NAS. Id.

The OCA submits that the additional information relating to the number of projects evaluated for Rider NAS service that did not elect to go forward under Rider NAS, which Columbia agrees to provide in its annual reporting to the Commission, the OCA and I&E, would be useful and should be provided. The OCA, however, submits that Columbia’s concern regarding the determination of the number of potential customers along a Rider NAS extension that do not connect to gas service may be overstated, particularly since Columbia should be attempting to maximize the number of customers connecting to a new main through outreach efforts.

The OCA submits that it would be reasonable for Columbia to contact all structure owners with mailing or delivery addresses along a potential Rider NAS extension route to determine if they will connect to natural gas service if the extension is completed. If structure owners do not accept natural gas service from the extension, Columbia should follow up with the owners to determine the reasons therefor. The OCA submits that such information is crucial to evaluating the Rider NAS pilot program and its attractiveness to potential customers.

As such, Columbia should be directed to provide all of the information in OCA witness Watkins’ recommended reporting requirements listed above to the Commission, the OCA and

I&E annually for the duration of the Rider NAS pilot program. Additionally, as Columbia witness Evans stated the Company agreed to do, Columbia should be directed to identify the number of projects evaluated for Rider NAS service that did not elect to go forward under Rider NAS in its annual reporting to the Commission, the OCA and I&E.

D. Treatment of Residential Developers

Columbia proposes that Rider NAS be available to bona fide residential developers. See Columbia Exh. EAE-4 at Fifth Rev. Pg. No. 174. A bona fide residential developer is defined as: “a developer of residential dwellings, building in an area where Columbia does not currently provide service and requests to obtain gas service.” See Columbia Exh. EAE-4 at Fifth Rev. Pg. No. 175. Columbia will consider bona fide residential developer applicants for Rider NAS “based on the number of potential customers, the density of the area seeking service, the potential usage and the cost of extending or expanding service.” Columbia St. 1 at 4. In such cases, the Rider NAS surcharge would be the responsibility of whoever is paying the monthly bill after the meter is set. See Columbia St. 1 at 4; Tr. at 18.

In his Direct Testimony, OCA witness Watkins testified that he is concerned about the proposed availability of Rider NAS to residential developers. Specifically, Mr. Watkins testified:

As I understand Columbia’s proposal, Columbia would change its current policy of requiring contributions from developers, and instead install new mains in developments at no cost to the developer and when new homes are built and occupied, the new homeowner will then be required to either pay their proportionate share of an upfront cash contribution or finance this amount over 20 years. While there is no doubt that the homes built in these new developments will have natural gas heating equipment and appliances installed, the new homeowners will obviously need to subscribe to Columbia as its NGDC provider. I am extremely concerned that these potential new homeowners will have no idea that they will be obligated to pay Columbia an upfront cash contribution or finance this amount for 20 years until after they have purchased their new home and moved in. Clearly, it is much easier and more economical for each new homeowner to simply roll the contribution requirement into the cost of the new home. As such, while there may be other innovative ideas or plans to help

developers, I do not believe the Company's plan is appropriate for new developments.

See OCA St 1 at 16-17. (Footnote omitted). As such, Mr. Watkins recommended that the Rider NAS pilot program not be available to residential developers and instead, be applicable only to homeowners. OCA St. 1 at 19.

In his Rebuttal Testimony, Columbia witness Evans testified that residential developers pass along any upfront costs for extensions and carrying costs to homeowners in the costs charged for the homes or lots in the developments, but some developers avoid natural gas due to the upfront cost. Columbia St. 1-R at 10. Additionally, Mr. Evans testified that residential developers can bring natural gas service to a large number of new customers, which would achieve one of the purposes of the pilot program to expand natural gas service in the Commonwealth. Id.

The OCA submits that there is no evidence to support Columbia's position that developers avoid natural gas due to the upfront costs of extensions. During redirect examination, Mr. Watkins testified that Columbia had provided the economic analyses and underlying information for a random sampling of the 2013 requests to Columbia for main extension economic analyses. Tr. at 34-35. Mr. Watkins testified that he determined that there were two requests for economic analyses by developers in the sampling provided by Columbia. Tr. at 35. Of these two requests for economic analyses by developers in 2013, Mr. Watkins testified that both requests were economic or in other words, that neither analyses resulted in an upfront deposit. Tr. at 36.

Of additional concern, Columbia witness Evans testified that Columbia's Rider NAS pilot program does not require bona fide developers to notify homebuyers that they will be responsible for the Rider NAS surcharge, yet homebuyers must consent to payment of the

surcharge when they call Columbia to turn on natural gas service before the Company will do so. Tr. at 17. Mr. Evans, therefore, agreed that these homebuyers may not have any knowledge of the Rider NAS surcharge until they call Columbia to turn on natural gas service. Tr. at 17-18. By the time the homeowner requests natural gas service, the OCA submits that the opportunity to borrow the amount needed to pay the CIAC up front with a primary mortgages is missed.

The OCA submits that not only has Columbia failed to provide any evidence of a need by residential developers for an alternative funding mechanism for natural gas extensions, allowing residential developers to use Rider NAS would likely lead to other complications in the access to service by new customers. With appropriate notice, homebuyers might have rolled their portion of the Rider NAS costs into their mortgages, or they may have determined to purchase another home or lot outside of the development. Should a need for an alternative extension program for developers be determined, the OCA submits that Columbia should design a program specifically for developers. Based on the foregoing, the OCA submits that Columbia's Rider NAS pilot program should be available only to residential homeowners.

E. Other Proposed Modifications

1. Gas-on-Gas Competition

Columbia's Proposed Rider NAS contains no prohibition against extending mains to areas already served by mains of other Natural Gas Distribution Companies (NGDCs). Columbia's service territory in the western part of the State, however, overlaps with the service territories of other NGDCs, creating the possibility that Columbia could potentially use Rider NAS to extend mains in areas already served by these other NGDCs. Mr. Watkins recommended that Rider NAS include a prohibition against extending mains to areas already serviced by mains of other NGDCs, testifying:

While I acknowledge that there is little realistic probability that a new residential customer would elect to make an upfront cash contribution or finance the cost of extending a Columbia main when another NGDC already has service available in that customers' area and am fully aware of the current Gas-on-Gas investigation that is pending before the Commission, any such duplicative facilities are not in the best public interest and should not be allowed in the NAS Rider.

OCA St. 1 at 17.

Columbia witness Erich Evans testified that Mr. Watkins' recommendation is "overly vague" and the Mr. Watkins recommendation "offers no suggestion on how to define areas already served by another NGDC." Columbia St. 1-R at 11. To avoid any confusion, it is the OCA's position that "already available" means that there is a main belonging to another NGDC in the ground which can be connected to the home being considered for Rider NAS.

2. Repayment Options

As proposed, under Rider NAS, new customers will only have one payoff option, which is to pay the Rider NAS surcharge for a period of 20 years, capped at \$35.00 month,, wherein the customer will have to pay upfront any excess above the amount that will be collected through the surcharge. Mr. Watkins recommended that Rider NAS customers be provided a second option, specifically the option of having a 10-year repayment term with no payment cap, with a maximum amount of \$8,000 permitted to be recovered through the surcharge. OCA St. 1 at 18. This second payoff option provides two benefits to Rider NAS customers. First, the Rider NAS customer can reduce the overall amount of interest he or she pays over the lifetime of the payback period, since the payback period is reduced. Second, the 10-year repayment option will enable customers to reduce their upfront contribution because the customer will be able to roll more of his or her uneconomic portion into the surcharge since there is no cap. The OCA submits that Rider NAS should be modified to include a 10-year repayment option.

3. Annual Funding

Columbia proposes to commit \$1 million of annual funding for the Rider NAS pilot program. As recommended by Mr. Watkins, the OCA submits that the Company should commit \$2 million a year towards Rider NAS. Increasing the amount of annual funding should increase the number of consumers able to participate in Rider NAS per year, and better promote the expansion of natural gas service in Columbia's service territory.

V. **OSBA'S POSITION**

A. Review of Tax Depreciation Benefits in Customer Contribution Calculation

[The OCA takes no position on this issue].

B. Income Tax Costs in Rider NAS Charge Calculation

OSBA witness Robert Knecht recommended that Columbia should modify its calculation of the Rider NAS surcharge to reflect the income tax costs associated with the equity cost of capital. OSBA St. 1 at 5. The OCA submits that Mr. Knecht's recommendation misunderstands the Company's economic model and should be rejected. In evaluating the Company's economic model, OCA witness Glenn Watkins concluded that the economic model does assign the appropriate income taxes to new customers. Mr. Watkins testified that:

Within the Company's DCF model, the Company explicitly includes an income tax expense that is the responsibility of the potential customer. As is industry practice, the present value of revenues is compared to the present value of capital investment and income tax expenses to determine whether any contribution is required. As such, the Company's model clearly assigns an appropriate level of income taxes to potential new customers. To the extent there is a revenue minus cost shortfall (in present value terms) the customer must fund this upfront or finance this shortfall under the NAS provision.

OCA St. 1-R at 3. The calculation of the Rider NAS surcharge need not be modified to reflect Mr. Knecht's recommendations.

C. Recording Customer Contributions Whether Payments Are Made or Not

OSBA witness Robert Knecht expressed concern with Columbia's proposal to record customer contributions only if Rider NAS payments are actually made. OSBA St. 1 at 6. Mr. Knecht recommended that the Company should instead record customer contributions whether or not payments are made. OSBA 1 at 6. In response to Mr. Knecht's recommendation, OCA witness Mr. Watkins explained the difference between the Company's proposal and Mr. Knecht's recommendation in terms of the impact to existing customers, stating:

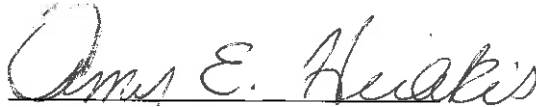
While there may be an extremely small percentage of customers that do not make timely NAS payments, this percentage should be so small that it will not have any measurable impact on Columbia's rates or revenue requirement. However, should the Commission agree with Mr. Knecht in this regard, any uncollectible [expense] associated with NAS monthly payments will simply increase the Company's uncollectible expense reflected in base rates.

OCA St. 1-R at 3. Accordingly, the OCA submits that Mr. Knecht's recommendation is unnecessary.

VI. CONCLUSION

The OCA respectfully requests that the Commission modify Rider NAS to incorporate the OCA's recommendations discussed herein.

Respectfully Submitted,



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PROPOSED FINDINGS OF FACT
OF THE OFFICE OF CONSUMER ADVOCATE

General

1. On February 26, 2014, Columbia Gas of Pennsylvania, Inc. (Columbia or Company) filed Supplement No. 210 to Tariff Gas Pa. P.U.C. No. 9 (Rider NAS) with the Public Utility Commission (Commission) to become effective April 28, 2014. See gen'ly Columbia Exh. EAE-4.
2. Under Rider NAS, customers who receive an extension will not be required to pay upfront the full cost of the customer contribution of the extension project. Columbia St. 1 at 2.
3. Each new residential customer that converts to natural gas from an alternative heating energy source can expect to save in the neighborhood of \$1,000 to \$1,300 per year. OCA St. 1-SR at 3.
4. Initiating a program that truly encourages the expansion of Columbia's distribution mains to currently unserved areas will have direct and indirect benefits to residences and small businesses within Columbia's service territory, as these expansions will make the future expansions of other mains more feasible allowing more energy consumers to realize the benefits of natural gas and provide more disposable income available to be spent within the community. OCA St. 1-SR at 3.
5. As proposed by the Company, the Rider NAS pilot program will result in few mains expansions due to the methods in which deposit requirements are determined as well as the Company's proposed high interest rate for financing such deposits. OCA St. 1-SR at 7.

Interest Rate

1. Rather than requiring the applicant to obtain a bank loan or deplete his or her savings, Rider NAS will allow applicants to pay their Customer Contribution in Aid of Construction (CIAC) over a twenty-year period through a monthly surcharge on their bills instead of paying this cost upfront before the Company begins the main extension project. See gen'ly Columbia Exh. EAE-4.
2. According to Rider NAS, the surcharge will include “interest equal to the fixed cost of capital as approved in the Company’s most recent rate case at the time the meter is set.” See Columbia Exh. EAE-4 at Third Rev. Pg. No. 175.
3. Currently, the interest equal to the fixed cost of capital as approved in the Company’s most recent rate case is 7.91%. See I&E St. 1-R at 18.
4. Current market interest rates are such that home equity loans are in the range of 3.5% to 4.5% and are also generally tax deductible for income tax purposes. OCA St. 1 at 15.
5. At Columbia’s proposed interest rate of 7.91%, Rider NAS customers with the maximum surcharge of \$35 per month would pay more in interest than principal over the 20-year term of the financing agreement (\$4,215 in interest and \$4,184 in principal). OCA St. 1 at 16.
6. A 3% annual interest rate for purposes of calculating Rider NAS customers’ surcharge amount is more appropriate for the pilot program. See OCA St. 1 at 18.
7. The OCA’s proposed modifications to the Company’s Rider NAS would have an immaterial increased impact in existing customers’ distribution rates in the near term, but this impact does rise to the level of subsidization by existing ratepayers because a subsidy only exists when a ratepayer is charged more than his/her stand alone cost of providing natural gas service. OCA St. 1-SR at 5-6.

8. The only information Columbia intends to provide to Rider NAS customers is the upfront amount due, if any, and the monthly Rider NAS surcharge amount. Tr. 15.

Economic Model

1. Columbia's proposed Rider NAS pilot program will use the Company's current economic model to determine the uneconomic portions of a main extension requests made by Rider NAS applicants.

2. Columbia's economic model is a Discounted Cash Flow (DCF) model that evaluates the expected revenues from the applicant with the costs associated with constructing and installing the new main and service line, and installing a new meter over a 40-year period in which the future cash flows are discounted at the Company's overall cost of capital. OCA St. 1 at 12-13.

3. Columbia's economic model includes the costs of extending a new main, installing service lines, and installing meters and regulating equipment. OCA St. 1 at 13.

4. If Columbia's DCF calculation shows that the present value of cash inflows (revenues from customer) is expected to exceed the present value of cash outflows (the capital costs of construction and installation), then the project is deemed economic, and no customer contribution is required. OCA St. 1 at 12-13.

5. To the extent that the present value of cash inflows do not cover the present value of cash outflows, this portion of the extension project is deemed uneconomical and the applicant is required to pay the uneconomic portion. OCA St. 1 at 12-13.

6. The Company's economic model uses as inputs its most recent Commission-approved capital structure, its weighted cost of long-term and short-term debt, and its most recently approved cost of equity. OCA St. 1 at 17.
7. Using the cost of debt in the economic model instead of the cost of equity will reduce the amount that applicants will be required to pay for a natural gas main extension. See OCA St. 1-SR at 3; see also Columbia St. 1-R at 13.
8. Using the cost of debt in the economic model instead of the cost of equity would have a de minimus impact on existing ratepayers. See OCA St. 1 at 21-22.
9. The minimal amount of additional cost that will be borne by existing customers is far outweighed by the benefits that will be realized by energy users within Columbia's service area as well as Pennsylvania as a whole. OCA St. 1-SR at 7.
10. Existing ratepayers will not be harmed by modifying the economic model to use the Company's cost of debt instead of its cost of capital. See OCA St. 1-SR at 5-6.
11. Within the definition of "service lines" there are two separate distinctions: (1) the service line from the distribution main to the customer's property line and (2) the service line on the customer's property from the property line to the meter." OCA St. 1 at 14.
12. In the western portion of Columbia's service area, customers must install, own, and maintain their own service lines within their property. OCA St. 1 at 13-14.
13. In the eastern portion of the Company's service area, the Company owns and maintains the service line and the Company is required by Tariff Rule 8.1 to provide an allowance of up to approximately 50 feet of new service line for each new customer. OCA St. 1 at 14.
14. The Company's economic model does not include separate line entries for the types of service lines or distinguish between the service areas. OCA St. 1 at 14.

15. Separate entries for Company-owned service lines, allowances, and customer-owned service lines are necessary to ensure that individual field personnel appropriately apply the model in accordance with the Public Utility Code and the Company's approved Tariff. OCA St. 1 at 14.

Treatment of Residential Developers

1. Columbia proposes that Rider NAS be available to bona fide residential developers. See Columbia Exh. EAE-4 at Fifth Rev. Pg. No. 174.
2. Rider NAS defines a bona fide residential developer as: "a developer of residential dwellings, building in an area where Columbia does not currently provide service and requests to obtain gas service." See Columbia Exh. EAE-4 at Fifth Rev. Pg. No. 175.
3. Columbia proposes consider bona fide residential developer applicants for Rider NAS based on the number of potential customers, the density of the area seeking service, the potential usage and the cost of extending or expanding service. Columbia St. 1 at 4.
4. The Rider NAS surcharge is the responsibility of whoever is paying the monthly bill after the meter is set. See Columbia St. 1 at 4; Tr. at 18.
5. Columbia's proposed Rider NAS pilot program does not require bona fide developers to notify homebuyers that they will be responsible for the Rider NAS surcharge. Tr. at 17. Potential new homeowners in developments where the developers utilized Rider NAS could, therefore, have no idea that they will be obligated to pay Columbia an upfront cash contribution or finance this amount for 20 years until after they have purchased their new home and moved in. OCA St. 1 at 16-17.

6. For new homeowners in developments, it is much easier and more economical to roll the contribution requirement for a natural gas extension into the cost of the new home than to pay a surcharge to Columbia for twenty years pursuant to Rider NAS. OCA St. 1 at 17.
7. Residential developers pass along any upfront costs for extensions and carrying costs to homeowners in the costs charged for the homes or lots in the developments. Columbia St. 1-R at 10.
8. Columbia had provided the economic analyses and underlying information for a random sampling of the 2013 requests to Columbia for extension economic analyses to OCA witness Watkins. Tr. at 34-35.
9. Mr. Watkins determined that there were two requests for economic analyses by developers in the random sampling for extension economic analyses provided by Columbia. Tr. at 35.
10. Of these two requests for economic analyses by developers in 2013, Mr. Watkins both requests were economic and did not require an upfront deposit. Tr. at 36.

Gas-on-Gas Competition

1. Columbia's Proposed Rider NAS contains no prohibition against extending mains to areas already served by mains of other Natural Gas Distribution Companies (NGDCs). OCA St. 1 at 17.
2. Columbia's service territory in the western part of the Commonwealth overlaps with the service territories of other NGDCs. See OCA St. 1 at 17.

Income Tax Costs in Rider NAS Charge Calculation

1. Within the Company's DCF model, the Company explicitly includes an income tax expense that is the responsibility of the potential customer. As is industry practice, the present value of revenues is compared to the present value of capital investment and income tax expenses to determine whether any contribution is required. As such, the Company's economic model assigns the appropriate income taxes to new customers. OCA St. 1-R at 3.

Recording Customer Contributions Whether Payments Are Made or Not

1. Any uncollectible expense associated with Rider NAS monthly surcharge payments will increase the Company's uncollectible expense reflected in base rates, and such, there is no need to record customer contributions only if Rider NAS payments are actually made as recommended by the Office of Small Business Advocate. See OCA St. 1-R at 3; OSBA 1 at 6.

PROPOSED CONCLUSIONS OF LAW
OF THE OFFICE OF CONSUMER ADVOCATE

1. Columbia's Tariff Rule 8.1 requires the Company to provide an allowance of up to approximately 50 feet of new service line for each new customer in its eastern service territory.
2. The inclusion of meters and regulating equipment in the Rider NAS economic model does not comport with Commission's regulation at 52 Pa. Code § 59.17.
3. Section 65.21 of the Commission's regulations requires that the major water companies serving Pennsylvania use of cost of debt in their economic models to determine whether a water main extension project is economical. 52 Pa. Code § 65.21.
4. In the Commission Order amending Chapter 65, the Commission found that using cost of debt in a water utility's economic model results in new customer bearing only those costs, which will not pay for themselves through annual revenues, and thus, does not result in existing ratepayers subsidizing the new customers. Re Line Extensions, Revised Order, Docket No. L-930089 (Oct. 7, 1996) (Revised Order), 1996 Pa. PUC Lexis 162.
5. Using cost of debt in the Rider NAS economic model to calculate the uneconomic portion of a natural gas line extension results in the new customer bearing only those costs of his or her line extension, which will not pay for themselves through annual revenues, and thus, does not result in existing ratepayers subsidizing the new customers.
6. Columbia's Rider NAS without modification is not reasonable or in the public interest.

PROPOSED ORDERING PARAGRAPHS
OF THE OFFICE OF CONSUMER ADVOCATE

1. Columbia shall utilize a 3% interest rate in calculating the surcharge amounts under the Rider NAS pilot program.
2. For Rider NAS projects, the Company's DCF model shall use as inputs its most recent Commission-approved capital structure, wherein the cost of debt will reflect the weighted cost of long-term and short-term debt, and the cost of equity within the model will also use the weighted cost of long-term and short-term debt such that the discount rate will equal the Company's weighted cost of debt.
3. For any Rider NAS project, the projected capital costs of all service lines, meters, and regulating equipment should be excluded from the DCF model.
4. Columbia shall report annually to the Commission, the OCA and I&E the following:
 - (e) Investment per project including the economic model results and surcharge calculation details;
 - (f) Total distance of NAS main installed;
 - (c) Number of customers connected by project and number of subsequent connections to NAS extensions;
 - (d) NAS revenues received by principal and interest;
 - (i) Annual NAS participant average use per customer (by residential and commercial sectors if applicable);
 - (j) Average NAS participant investment cost per customer (by residential and commercial sectors if applicable);
 - (g) The number of customers along NAS extensions who have not yet connected and, to the extent available, why;
 - (h) Direct program expenses;

- (m) Data on collections, including efforts for unpaid surcharge amounts;
 - (n) The number of applicants turned down for insufficient credit; and
 - (o) Identify the number of projects evaluated for Rider NAS service that did not elect to go forward under Rider NAS.
5. Rider NAS shall be available exclusively to residential homeowners and lot owners.
 6. Rider NAS shall not be available to applicants in areas where mains of another natural gas company are already available for the applicants to take service.
 7. The Company shall commit \$2 million annual funding for the Rider NAS pilot program.
 8. Applicants shall have the option of the following surcharge mechanisms:
 - (a) A 20- year term, capped at \$35.00 per month, wherein the applicant shall pay upfront any excess above the amount that will be collected through the surcharge or
 - (b) A 10-year term, with no payment cap, with a maximum amount of \$8,000 permitted to be recovered through the surcharge.
 9. Columbia's economic model assigns the appropriate income taxes to new customers, and therefore, the Office of Small Business Advocate's argument to modify its calculation of the Rider NAS surcharge to reflect the income tax costs associated with the equity cost of capital is rejected.
 10. There is no demonstrated need to record customer contributions only if Rider NAS payments are actually made, and as such, the recommendation by the Office of Small Business Advocate to do so is rejected.

CERTIFICATE OF SERVICE

Re: Supplement No. 210 to Tariff Gas Pa. P.U.C. No. 9 of Columbia Gas of Pennsylvania, Inc.
Docket No. R-2014-2407345

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Main Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 16th day of July 2014.

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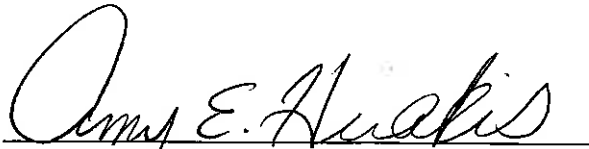
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