



COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE  
REFER TO OUR FILE

July 16, 2014

**Via E-Filing**

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

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

Dear Secretary Chiavetta:

Enclosed please find the Bureau of Investigation and Enforcement's (I&E)  
**Main Brief** in the above-captioned proceeding.

Copies are being served on all active parties of record. If you have any questions,  
please contact me at (717) 783-7998.

Sincerely,

Allison C. Kaster  
Prosecutor  
Bureau of Investigation and Enforcement  
PA Attorney I.D. #93176

ACK/snc  
Enclosures

cc: Certificate of Service  
Hon. Mark A. Hoyer

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**MAIN BRIEF  
OF THE  
BUREAU OF INVESTIGATION & ENFORCEMENT**

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Dated: July 16, 2014

## 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 with a proposed effective date of April 28, 2014. Supplement No. 210 contained the Company's proposed Rider New Area Service (Rider NAS or Rider), a new tariff provision designed to provide potential new customers an alternative for financing main extensions. Pursuant to the Commission's authority under the Public Utility Code,<sup>1</sup> the Commission on April 23, 2014, entered an Order suspending Supplement No. 210 (Suspension Order) until October 28, 2014, unless permitted by Commission order to become effective earlier.

The Commission described the Company's Rider NAS in the Suspension Order as follows:

Columbia proposes this new Rider implementing a 4 year pilot program, in an effort to make natural gas services more accessible to Pennsylvanians in Columbia's certificated service territory. Columbia states that this Rider will provide an alternative approach to requiring potential new residential customers to pay a large upfront deposit in order for Columbia to extend its facilities to provide natural gas services.

Under its current tariff, Columbia determines an allowable amount (Investment) of costs that can be spent to connect a new customer, which is in part based on the anticipated gas requirements/revenues of the customer. Any costs in excess of this Investment must be paid by the customer upfront (Deposit). Columbia indicates that this NAS will allow customers who are required to pay out of

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<sup>1</sup> 66 Pa. C.S. § 1308(b).

pocket expenses upfront, to instead pay the Deposit over a 20 year period.

Columbia asserts that no current customer will be affected by this rider. This rider will only affect new customers who specifically choose this option, and the maximum monthly amount will not exceed \$35 per month.<sup>2</sup>

Rider NAS was initially proposed by Columbia in the Company's 2012 base rate case at Docket No. R-2012-2321748. In that proceeding, I&E submitted both direct and surrebuttal testimony regarding the Company's proposed design of Rider NAS.<sup>3</sup> As part of the settlement of that proceeding, Columbia agreed to withdraw the program and instead pursue its development through an informal collaborative with the participation of interested parties. I&E also participated in the collaborative during which the parties exchanged discussions regarding their various positions.<sup>4</sup> As a direct result of I&E's participation with respect to the Rider NAS design in both the 2012 rate case and the subsequent collaborative, I&E was satisfied with Rider NAS as filed by the Company in February 2014 and did not file direct testimony opposing the Company's proposal.

## **II. DESCRIPTION OF THE COMPANY'S RIDER NAS PROPOSAL**

In an effort to make natural gas service more accessible to Pennsylvanians, Pilot Rider NAS provides an alternative approach for residential customers and developers to paying up-front deposits for facility extensions.<sup>5</sup> Under the current extension tariff, when a prospective customer contacts the Company to inquire about securing gas service, that customer is responsible for payment of the uneconomic portion of the extension, which is

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<sup>2</sup> April 23, 2014 Suspension Order at 1-2.

<sup>3</sup> I&E St. No. 1-R, p. 5.

<sup>4</sup> I&E St. No. 1-R, p. 5.

<sup>5</sup> Columbia St. No. 1, p. 3.

any portion of the extension cost that cannot be justified by projected revenues.<sup>6</sup> The customer is currently required to pay an up-front deposit for the uneconomic share before service will be extended, and Columbia has found that this up-front cost can deter potential new customers from taking natural gas service.<sup>7</sup>

Rider NAS is designed to significantly reduce the up-front cost as it gives prospective customers the option of paying all or a portion of the uneconomic share through a monthly surcharge. If a potential customer elects to use Rider NAS, the customer's payment will be calculated over a 20-year period with a surcharge added to the monthly gas bill.<sup>8</sup> The Company proposes to limit the monthly surcharge to a maximum of \$35 and the Rider NAS customer would maintain the right to pay the balance off early.<sup>9</sup> The Company proposes that the full cost of the extension be placed in rate base at the time the project is completed. Over the course of the 20-year repayment of the uneconomic portion, amounts equal to the principal payments would be transferred from rate base to contributions in aid of construction (CIAC).<sup>10</sup> Existing customers will be compensated through the interest portion of the Rider NAS surcharge and the transfer of principal payments to CIAC over the 20-year term.<sup>11</sup> The Company proposes Rider NAS as a four-year pilot program to determine its effectiveness and customer acceptance,

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<sup>6</sup> Columbia St. No. 1, p. 2, I&E St. No. 1-R, p. 3.

<sup>7</sup> Columbia St. No. 1, p. 3.

<sup>8</sup> I&E St. No. 1-R, p. 4. Columbia St. No. 1, p. 6

<sup>9</sup> I&E St. No. 1-R, p. 4. Columbia St. No. 1, p. 6.

<sup>10</sup> I&E St. No. 1-R, p. 4.

<sup>11</sup> I&E St. No. 1-R, p. 4.

and proposes to allocate \$1.0 million annually from its existing capital budget to Rider NAS projects during the pilot phase.<sup>12</sup>

### **III. SUMMARY OF ARGUMENT**

Columbia's Rider NAS pilot program is designed to provide an alternative to financing line extensions for customers located in unserved and underserved areas who may be unable to secure access to natural gas service due to the up-front customer deposit required to extend such service. The Rider NAS pilot program does not change the Company's current line extensions rules. It simply allows potential new customers to secure gas service for a modest monthly charge over a twenty-year period rather than be required to pay the entire cash contribution up-front. OCA's recommended changes to the surcharge interest rate and economic model go far beyond the scope of what was envisioned by Rider NAS as they are wholesale changes to the Company's line extension rules and will require existing customers to subsidize new Rider NAS customers.

### **IV. OCA'S POSITION**

#### **A. SETTING THE INTEREST RATE AT 3%**

The monthly Rider NAS surcharge is designed to recover from customers the investment required for the Company to extend its facilities. The Company proposes to use its weighted average cost of capital in its most recent base rate proceeding to determine the Rider NAS surcharge. If no return on equity was specified in the most recent rate case, the Company proposes to use the Commission's published Distribution System Improvement Charge (DSIC) equity return for gas utilities as a proxy. This

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<sup>12</sup> Columbia St. No. 1, p. 3.

proposal is appropriate because it reflects the actual cost of the funds utilized by the Company in making the line extensions and minimizes the amount of costs shifted to existing ratepayers.

OCA maintains that an interest rate equal to the Commission authorized rate of return at approximately 8% is not competitive, and cites to home equity loans in the range of 3.5% to 4.5% to support its recommended annual interest rate of 3%.<sup>13</sup> OCA witness Watkins contends that the participation and success of the Rider NAS program will be limited given that most homeowners are savvy enough to recognize the high interest rate proposed by Columbia.<sup>14</sup> OCA's attempt to make Rider NAS more attractive to potential new customers by arbitrarily decreasing the interest rate to 3% is unsupported and requires existing customers to subsidize new costs to bring these new customers onto the system. This is a fundamental alteration to the Company's existing tariff rule since, as the Commission noted in its Suspension Order based upon Columbia's design of the Rider, no current customer will be affected by this rider because it will only affect new customers who specifically choose this option.

Attempting to make the program parameters of Rider NAS more attractive to potential new customers based on the features of a home equity loan is inappropriate for several reasons. First, Columbia witness Evans correctly articulated that no customer will be forced to use Rider NAS.<sup>15</sup> Some customers may have the option to use a home equity loan to finance the up-front contribution and may choose to do so. The Rider NAS

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<sup>13</sup> OCA St. No. 1, pp. 15-16, 18.

<sup>14</sup> OCA St. No. 1, p. 16.

<sup>15</sup> Columbia St. No. 1-R, p. 8.

simply provides another option and is not designed to compete with or replace the use of a home equity loan or any other financing tool available to the customer. Second, Columbia witness Evans highlights that Columbia is not a bank and Rider NAS is not a loan.<sup>16</sup> Rider NAS will not have any of the traditional requirements of a home equity loan, such as a credit check, collateral, or a home appraisal. Given that they are very different instruments, Rider NAS should not be forced to mimic a home equity loan interest rate.<sup>17</sup> Third, to the extent that comparing Rider NAS to a loan is appropriate, if a potential new gas customer does not want to attach the line extension cost to their home or lacks the necessary equity to do so I&E witness Boyd argues that an 8% interest rate is reasonable for an unsecured personal loan.<sup>18</sup>

Additionally, OCA's position that the Company's proposed interest rate will make Rider NAS unattractive ignores the fact that financing a gas line extension with a home equity loan may not necessarily reflect the best approach for all customers.<sup>19</sup> Rider NAS allows customers to secure gas service for a modest monthly charge over a twenty-year period and is paid by the person taking service from that meter; therefore, customers will not be responsible for the principal balance if they do not stay in the home for the twenty-year financing period.<sup>20</sup> I&E witness Boyd highlighted that, unlike a home equity or personal loan, the flexibility to walk away from the extension balance under Rider NAS if the home is sold may be an attractive feature given the mobile nature of society

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<sup>16</sup> Columbia St. No. 1-R, p. 8.

<sup>17</sup> Columbia St. No. 1-R, p. 8.

<sup>18</sup> I&E St. No. 1-R, p. 16.

<sup>19</sup> I&E St. No. 1-R, p. 16.

<sup>20</sup> I&E St. No. 1-R, p. 16. Columbia St No. 1, p. 7.

today.<sup>21</sup> OCA's narrow focus on the interest rate fails to fully recognize the benefit of Rider NAS, which is that it provides an option to pay the up-front deposit for those customers who may not have another option or who, for whatever reason, may not like the other options available to them.

Reducing the interest rate to OCA's recommended 3% will cause Columbia's existing customers to subsidize the new Rider NAS customers by requiring them to provide significantly more funding of the revenue requirement for the rate-based uneconomic portion of Rider NAS projects.<sup>22</sup> Columbia included the interest portion of the NAS payment to reimburse existing customers for the carrying costs of NAS investments costs that are included in rate base. Reducing the interest percentage as OCA recommends requires existing customers to provide significantly more funding of the revenue requirement for the rate-based uneconomic portion of NAS projects.<sup>23</sup> Columbia also opposes OCA's recommendation because "if the OCA's proposed interest rate of 3% were used, then the existing customers would not be sufficiently compensated, and a subsidy would exist."<sup>24</sup>

Requiring existing customers to subsidize potential new customers is not in the public interest as it violates the Public Utility Code's mandate that all rates must be just and reasonable<sup>25</sup> and non-discriminatory.<sup>26</sup> Moreover, OCA's proposed subsidy is not consistent with the current thinking of the Pennsylvania General Assembly as reflected in

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<sup>21</sup> I&E St. No. 1-R, p. 16.

<sup>22</sup> I&E St. No. 1-R, p. 15; Columbia St. No. 1, p. 4.

<sup>23</sup> I&E St. No. 1-R, pp. 17-18.

<sup>24</sup> Columbia St. No. 1-R, p. 5.

<sup>25</sup> 66 Pa. C.S. § 1301.

<sup>26</sup> 66 Pa. C.S. § 1304.

Senate Bill 738, which was introduced on April 3, 2013, to address distribution system extension and expansion plans to increase natural gas usage in the Commonwealth.<sup>27</sup>

When the bill was considered on the Senate floor, concerns were raised about the potential risk to current customers to pay for these main extensions. Senator Yaw, who sponsored Senate Bill 738, stated:

Pennsylvania has always had the policy of pay as you go. It is the same way for electric utility lines. If you want to have lines extended, then you have to pay for it. We have a policy in this State, we do not socialize the cost of those, and it is the same way with gas service.<sup>28</sup>

Additionally, OCA's recommended 3% is significantly below the interest level the Commission recently approved in another line extension program. UGI proposed its Growth Extension Tariff (GET Gas) Pilot Programs to explore ways to economically extend gas service to new customers by allowing certain new customers obtain service without paying a large up-front contribution. With regard to the GET Gas surcharge rates, the parties reached a settlement that utilized a pre-tax weighted average cost of capital equal to 11.92%.<sup>29</sup> While the Settlement adopts a "black box" cost of capital without the adoption of any specific methodology for calculating individual capital cost components, it is clear that Columbia's current weighted average cost of capital of approximately 8% is more in line with what was approved for UGI's GET Gas program than OCA's recommended 3% for Columbia's Rider NAS program.

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<sup>27</sup> I&E Ex. 1-R, Sch. 1.

<sup>28</sup> I&E Ex. 1-R, Sch. 2, p. 3.

<sup>29</sup> Joint Petition of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for Approval to Implement Growth Extension Tariff Pilot Programs to Facilitate the Extension of Gas Service to Unserved and Underserved Areas within the Companies' Service Territories, Docket No. P-2013-2356232, Recommended Decision, pp. 25-29.

I&E witness Boyd explained the impact of the subsidy under OCA's interest rate recommendation. A single Rider NAS customer financing \$4,213 at the Company's proposed interest rate of 7.91% for a twenty-year period would require existing customers to provide \$109 in revenue to fund that project on the date it was placed in service.<sup>30</sup> The same amount over a twenty-year period at OCA's proposed 3% interest rate would require existing customers to provide \$314 in revenue to fund the Rider NAS project on the date it was placed in service.<sup>31</sup> This example illustrates the effect of a single customer financing \$4,213; however, the Company's annual commitment to the Rider NAS program is \$1,000,000, which would correspond to 237 new Rider NAS customers if the same \$4,213 is financed.<sup>32</sup> As a result, existing customers would be required to provide revenue to fund the uneconomic share of Rider NAS projects of \$74,418.<sup>33</sup>

OCA witness Watkins argues that the revenue required from existing customers is insignificant, highlighting that this \$74,418 would increase exiting residential customer rates by only \$0.19 per year.<sup>34</sup> I&E disagrees that this cost shifting is inconsequential because, if Rider NAS is continued beyond the proposed four-year pilot or if the Company's dollar commitment is increased, the Rider NAS program as modified by OCA has the potential to become a substantial burden to existing customers.<sup>35</sup>

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<sup>30</sup> I&E St. No. 1-R, pp. 17-18.

<sup>31</sup> I&E St. No. 1-R, pp. 18-19.

<sup>32</sup> I&E St. No. 1-R, p. 19.

<sup>33</sup> I&E St. No. 1-R, p. 19.

<sup>34</sup> OCA St. No. 1-SR, p. 5.

<sup>35</sup> I&E St. No. 1-RJ, p. 10.

It is undisputed that existing customers will be required to pay more under OCA's 3% interest than the Company's proposed weighted average cost of capital.<sup>36</sup> OCA focuses the Commission's attention on the benefit of utility expansion, but ignores the fact that those costs will be shifted to existing customers. Columbia correctly maintains that there are many benefits to residential customers when they switch to natural gas and further incentives to use Rider NAS, such as shifting costs to existing customers, should not be necessary.<sup>37</sup> Columbia does not believe its main extension rules should be intentionally designed to shift costs to existing customers.<sup>38</sup> I&E agrees and maintains that this subsidy, no matter how small during the pilot phase, must be rejected as it results in unjust and unreasonable rates for Columbia's existing ratepayers.

## **B. ECONOMIC MODEL**

Columbia's Rider NAS program is not designed to change Columbia's existing line extension process.<sup>39</sup> Rider NAS is offered as an alternative to help customers pay their required contribution, but the Company's economic evaluation of line extensions will not be changed under the Company's proposed program. However, OCA has proposed wholesale changes to the Company's current economic model by reducing the equity cost rate and removing service lines, meters, and regulating equipment costs from the evaluation. Columbia correctly argues that it would be impractical to have two different economic evaluations.<sup>40</sup> I&E also contends that having two different economic

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<sup>36</sup> I&E St. No. 1-R, pp. 18-19. Columbia St. No. 1-R, p. 9. OCA St. No. 1, p. 20.

<sup>37</sup> Columbia St. No. 1-R, p. 2.

<sup>38</sup> Columbia St. No. 1-R, p. 16.

<sup>39</sup> Columbia St. No. 1-R, p. 12.

<sup>40</sup> Columbia St. No. 1-R, p. 12.

evaluations for the same service establishes an unreasonable service distinction. This is especially true in light of the fact that the OCA's recommended changes to the Company's economic model will shift costs from potential new Rider NAS customers to existing customers.

### **1. Cost of Debt as Surrogate for Equity Return**

Columbia uses a Discounted Cash Flow (DCF) model to evaluate the expected revenues and costs of line extension projects.<sup>41</sup> If the full cost of the extension is not justified by the projected revenues, customers must pay for the uneconomic portion in the form of an up-front deposit. No party disputes that the DCF model is appropriate; however, OCA proposes to modify the DCF for Rider NAS projects by using the Company's cost of debt as a surrogate for the Commission's approved return on equity in the model.<sup>42</sup>

This proposal to reduce the return on equity utilized in the Company's economic analysis to the cost of debt will significantly change the outcome for the uneconomic and economic pieces of an extension. Reducing the equity input in the evaluation will shift some of the uneconomic portion that the new customer is required to pay to the economic portion that is recovered in rate base from existing customers. In short, it will require existing customers to further subsidize the costs of extensions to individuals who have requested service.<sup>43</sup> Columbia agrees that not including the full cost of capital to serve a

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<sup>41</sup> OCA St. No. 1, p. 12.

<sup>42</sup> OCA St. No. 1, p. 18.

<sup>43</sup> I&E St. No. 1-R, p. 8.

customer in the economic analysis will reduce or eliminate the recommended deposit for NAS customers and shift those costs to existing customers.<sup>44</sup>

As discussed above, requiring existing customers to subsidize potential new customers is not in the public interest as it violates the Public Utility Code's mandate that all rates must be just and reasonable.<sup>45</sup> Additionally, the Public Utility Code prohibits discrimination in rates<sup>46</sup> and service.<sup>47</sup> Under the OCA proposal, there will be two different economic evaluations for line extensions that could result in two very different deposit amounts based simply on the potential new customer's choice for payment. Columbia provided an example illustrating that under its current economic model a potential customer may owe a \$1,500 deposit; however, if OCA's recommendation to reduce the cost of equity to the cost of debt is approved, that deposit could drop to \$200 over 20 years.<sup>48</sup> OCA has failed to prove why Rider NAS customers should have an economic evaluation that is substantially more favorable than non-NAS projects.

OCA has not supported why the full cost of capital to serve a customer should not be reflected in the Company's economic analysis. While there is no standard line extension standard tariff provision applicable to all natural gas distribution companies, there is uniformity with respect to the party responsible for the uneconomic piece – the

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<sup>44</sup> Columbia St. No. 1-R, p. 13.

<sup>45</sup> 66 Pa. C.S. § 1301.

<sup>46</sup> 66 Pa. C.S. § 1304.

<sup>47</sup> 66 Pa. C.S. § 1502.

<sup>48</sup> Columbia St. No. 1-R, p. 13.

prospective customer.<sup>49</sup> OCA's proposal to substantially reduce the amount paid by potential new customers and shift it to existing customers must be rejected.

## 2. Costs of Service Lines, Meters, and Regulating Equipment

OCA proposes to exclude the capital costs of service lines, meters, and regulating equipment from the DCF model when evaluating NAS projects, and further recommends that Rider NAS customers not be required to pay for any service line or meter costs.<sup>50</sup> Again, this proposal will require the Company to evaluate Rider NAS projects differently from all other extension projects and will shift costs from new Rider NAS customers to existing customers.

Service lines, meters, and regulating equipment are part of the project costs to extend natural gas service and, as such, belong in the analysis to determine the economic and uneconomic share.<sup>51</sup> Section 1501 of the Public Utility Code, as interpreted by the appellate courts, does not require utilities to extend service to all customers in their service territory, but only requires such extensions under reasonable conditions subject to the regulations and orders of the Commission.<sup>52</sup> As such, Columbia should not be required to engage in uneconomic expansions. The Company correctly states that the "goal of the program is not to engage in uneconomic expansions; therefore, all proper costs of the expansions should be considered."<sup>53</sup> Commission regulations require gas utilities to include a rule in its tariff setting forth the conditions under which facilities will

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<sup>49</sup> I&E St. No. 1-R, p. 9.

<sup>50</sup> OCA St. No. 1, pp. 13-15, 18.

<sup>51</sup> I&E St. No. 1-R, p. 11.

<sup>52</sup> 66 Pa.C.S. § 1501; *Fayette County Gas Co. v. Pa. Pub. Util. Comm'n*, 33 A.2d 761 (Pa. Super. 1943); *Popowsky v. Pa. Pub. Util. Comm'n*, 589 Pa. 605, 910 A.2d 38 (2006).

<sup>53</sup> Columbia St. No. 1-R, p. 7.

be extended and allow gas utilities to, upon proper cause shown, refuse or condition the acceptance of a particular application of extension of facilities.<sup>54</sup> Columbia's Tariff Rule 8 complies with this regulatory mandate and requires residential applicants to provide a cash deposit equal to difference between the minimum capital investment required to serve the applicant and the amount of capital the Company can justify investing in the project.<sup>55</sup> The economic analysis for Rider NAS projects will not be complete if the cost of service lines, meters, and regulator equipment are excluded from the evaluation and the OCA's recommendation will significantly understate the investment required from the Rider NAS customer.

OCA witness Watkins objects to the inclusion of service lines in the economic analysis due to the fact that Columbia has two different service line policies relative to customer location, and the variation of policies in these territories is not clearly delineated in the Columbia DCF model.<sup>56</sup> OCA's concern about service line ownership and costs between eastern and western region customers is irrelevant to the Company's economic analysis. Moreover, Section 1510 of the Public Utility Code statutorily preserves any such tariffed differences that might have existed as far back as 1984.<sup>57</sup> I&E witness Boyd correctly contends that, regardless of who owns or is responsible for service lines, it is part of the project cost and should be included in the economic analysis.<sup>58</sup> Whether or not service lines are included in the Company's rate base is an

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<sup>54</sup> 52 Pa. Code § 59.27.

<sup>55</sup> Supplement 181 to Tariff Gas-Pa. P.U.C. No. 9, Fourth Revised Page No. 8, Tariff Rule 8.2.1.

<sup>56</sup> OCA Statement No. 1, pp. 13-14.

<sup>57</sup> 66 Pa.C.S. §1510.

<sup>58</sup> I&E St. No. 1-R, p. 12.

accounting function, but it does not change the fact that service line costs are part of the Company's costs in reaching new customers and should be considered in economic evaluation of the project.<sup>59</sup> Likewise, Columbia contends that this proposed modification to the DCF model is "absurd."<sup>60</sup> Columbia illustrates this absurdity by explaining that, under OCA's proposal, if a potential Rider NAS customer requires a 1,000 foot service line those costs would be excluded from the DCF model and would be shifted to existing customers.<sup>61</sup> By doing so, the Rider NAS customer would receive a windfall because those costs would be entirely paid by existing customers.

Similarly, meters and regulator equipment must be included in the Company's economic analysis. OCA witness Watkins relies upon 52 Pa. Code § 59.17, which states that regulation and measurement equipment shall be installed at the Company's own expense.<sup>62</sup> Although meter costs are the Company's responsibility, they are still a cost component of the extension project that should be considered in the economic evaluation.<sup>63</sup> How those meters are accounted for in rate base is an accounting matter, but there is no doubt that they are costs the Company will incur to expand its infrastructure.<sup>64</sup> Columbia witness Evans correctly notes that removing meter and regulation equipment costs from the economic model would improperly understate the cost to serve Rider NAS customers.<sup>65</sup>

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<sup>59</sup> I&E St. No. 1-R, p. 12.

<sup>60</sup> Columbia St. No. 1-R, p. 13.

<sup>61</sup> Columbia St. No. 1-R, pp. 13-14.

<sup>62</sup> OCA St. No. 1, pp. 14-15.

<sup>63</sup> I&E St. No. 1-R, p. 12. Columbia St. No. 1-R, p. 6.

<sup>64</sup> I&E St. No. 1-R, p. 12.

<sup>65</sup> Columbia St. No. 1-R, p. 6.

Removing service lines, meters, and regulator equipment from the economic model will require the Company to utilize a completely different economic model for Rider NAS projects than what it currently uses for other line extensions. OCA has not demonstrated why it is appropriate for the Company's economic evaluation of Rider NAS projects to be different than its non-Rider NAS projects, and thus interjects a level of discrimination in the service provided by the Company that is unfounded. Moreover, both I&E and the Company are concerned that the economic analysis for Rider NAS projects will not be complete if the cost of service lines, meters and regulator equipment are excluded. Those costs are part of the expansion project and they must be appropriately reflected. Columbia correctly argues that it should not have to engage in uneconomic expansions, and that is exactly what may occur if service lines, meters, and regulator costs are not properly reflected in its economic model.<sup>66</sup> OCA's proposal to remove those costs from the analysis does not mean that the costs will not be incurred; it simply means that such costs will be shifted to existing customers.

### **C. ADDITIONAL REPORTING REQUIREMENTS**

OCA proposed that the Company comply with a number of annual reporting requirements during the pilot phase of Rider NAS.<sup>67</sup> The Company modified one of the suggested requirements but agreed to the remaining reporting requirements recommended by OCA.<sup>68</sup> I&E reviewed OCA's recommendation and agreed that the requested information would be beneficial to adequately evaluate the Rider NAS program during

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<sup>66</sup> Columbia St. No. 1-R, p. 6.

<sup>67</sup> OCA St. No. 1, pp. 18-19.

<sup>68</sup> Columbia St. No. 1-R, pp. 10-11.

the pilot phase.<sup>69</sup> Therefore, I&E requests that OCA's additional reporting requirements be adopted by the Commission.

**D. TREATMENT OF RESIDENTIAL DEVELOPERS**

I&E took no position on this issue.

**E. OTHER PROPOSED MODIFICATIONS**

I&E took no position on this issue.

**V. OSBA'S POSITION**

**A. REVIEW OF TAX DEPRECIATION BENEFITS IN CUSTOMER CONTRIBUTION CALCULATION**

I&E took no position on this issue.

**B. INCOME TAX COSTS IN RIDER NAS CHARGE CALCULATION**

I&E took no position on this issue.

**C. RECORDING CUSTOMER CONTRIBUTIONS WHETHER PAYMENTS ARE MADE OR NOT**

I&E took no position on this issue.


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<sup>69</sup> I&E St. No. 1-R, p. 20.

**VI. CONCLUSION**

For the reasons stated herein, I&E recommends that the Administrative Law Judge dismiss the proposed modifications to the Company's proposed Rider NAS submitted by the OCA as addressed by I&E above and, except for the additional reporting requirements, approve the Rider as filed in Supplement No. 210 to Tariff-Gas – PA. P.U.C. No. 9.

Respectfully submitted,



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Dated: July 16, 2014

**PROPOSED FINDINGS OF FACT**

1. In an effort to make natural gas service more accessible to Pennsylvanians, Rider NAS provides an alternative approach for residential customers and developers to paying up-front deposits for facility extensions (Columbia St. No. 1, p. 3).
2. Rider NAS will be offered to customers as a pilot program over a four-year period (Columbia St. No. 1, p. 3).
3. Under the current extension tariff, the prospective customer is responsible for payment of the uneconomic portion of the extension, which is any portion of the extension cost that cannot be justified by projected revenues (Columbia St. No. 1, p. 2, I&E St. No. 1-R, p. 3).
4. The Rider NAS monthly surcharge will be limited to a maximum of \$35 per month (I&E St. No. 1-R, p. 4).
5. The Rider NAS surcharge will be calculated over a 20-year period (I&E St. No. 1-R, p. 4, Columbia St. No. 1, p. 6).
6. Customers will retain the right to pay their Rider NAS balance early (Columbia St. No. 1, p. 6).
7. Existing customers will be compensated through the interest portion of the Rider NAS surcharge and the transfer of principal payments to contributions in aid of construction over the 20-year term (I&E St. No. 1, p. 4).
8. Rider NAS will be offered as an alternative to existing financing tools for service extensions, and no potential customer will be forced to use Rider NAS (St. No. 1-R, p. 8).
9. The obligation to pay for the line extension remains with the meter; therefore, Rider NAS customers will not be responsible for the principal balance if they do not stay in the home for the twenty-year financing period (I&E St. No. 1-R, p. 16, Columbia St. No. 1, p. 7).
10. Existing customers will be required to subsidize a greater portion of new extensions under a calculation that uses OCA's proposed 3% interest rate rather than the Company's proposed weighted average cost of capital (I&E St. No. 1-R, pp. 18-19, Columbia St. No. 1-R, p. 9, OCA St. No. 1, p. 20.).

11. Senator Yaw, who sponsored Senate Bill 738, envisioned that the cost of line extensions would be paid by new customers, not existing customers (I&E Ex. 1-R, Sch. 1).
12. Rider NAS does not change Columbia's existing line extension process (Columbia St. No. 1-R, p. 12).
13. Columbia uses a Discounted Cash Flow model to evaluate the revenues and costs of line extension projects (OCA St. No. 1, p. 12).
14. Service lines, meters, and regulating equipment are part of the project costs to extend natural gas service (I&E St. No. 1-R, p. 11).
15. OCA's proposed changes to the Company's economic model to reduce the cost of equity and remove the capital costs of service lines, meters and regulating equipment will require the Company to do an economic evaluation for Rider NAS projects that is different than the economic evaluation the Company conducts for other similar line extensions (Columbia St. No. 1-R, p. 12).
16. Existing customers will be required to subsidize more costs under the OCA's proposed changes to the economic model than under the Company's current economic model (I&E St. No. 1-R, pp. 7-14, Columbia St. No. 1-R, pp. 6, 13-14).

#### **PROPOSED CONCLUSIONS OF LAW**

1. Every rate made, demanded, or received by any public utility shall be just and reasonable and in conformity with regulations or orders of the Commission. 66 Pa.C.S. § 1301.
2. No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service. 66 Pa.C.S. § 1304.
3. Utilities are not required to extend service to all customers in their service territory under all conditions, but only to customers under reasonable conditions subject to the regulations and orders of the Commission. 66 Pa.C.S. § 1501.

4. No public utility shall, as to service, make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage, nor shall any public utility establish or maintain any unreasonable difference as to service. 66 Pa.C.S. § 1502.
5. Utilities are required to include in their tariffs a line extension rule that sets forth the conditions under which facilities will be extended and allows the Company, upon proper cause shown, to refuse or condition the acceptance of an application for extension of facilities. 52. Pa. Code §59.27.
6. Requiring existing customers to subsidize potential new customers is not in the public interest as it violates the Public Utility Code's mandate that all rates made and demanded must be just and reasonable and non-discriminatory.
7. Approving two main extension policies that use different economic models or different economic inputs in calculating the uneconomic portion of the extension to be funded by potential new customers and that result in an economic evaluation that is substantially more favorable for NAS customers than non-NAS customers is not in the public interest as it violates the Public Utility Code's mandate that all rates made and demanded must be just and reasonable and non-discriminatory.
8. Offering potential new customers an alternative financing option in lieu of an up-front payment for the calculated uneconomic portion of a new main extension that is calculated on the same bases as is the uneconomic portion under the Company's existing main extension tariff is in the public interest as it assures that all rates made and demanded are just and reasonable and non-discriminatory.
9. Approving two main extension policies that use different economic models or different economic inputs in calculating the uneconomic portion of the extension to be funded by potential new customers and that result in an economic evaluation that is substantially more favorable for NAS customers than non-NAS customers is not in the public interest as it violates the Public Utility Code's mandate that the public utility not discriminate in service by establishing or maintaining an unreasonable difference as to service.
10. Offering potential new customers an alternative financing option in lieu of an up-front payment for the calculated uneconomic portion of a new main extension that is calculated on the same bases as is the uneconomic portion under the Company's existing main extension tariff is in the public interest as it assures that all service is extended under reasonable and non-discriminatory conditions.

11. Columbia's Tariff Supplement No. 181, Fourth Revised Page No. 8, Tariff Rule 8.2.1. setting forth the conditions under which facilities will be extended and allowing Columbia, under proper cause shown, to refuse or condition the acceptance of an application for extension of facilities on the basis of the same economic model with the same economic inputs complies with the Commission's regulation at 52 Pa. Code §59.27.

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**CERTIFICATE OF SERVICE**

I hereby certify that I am serving the foregoing **Main Brief** dated July 16, 2014, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

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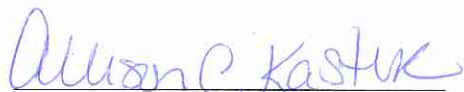
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