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July 16, 2014

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
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Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.  
Docket No. R-2014-2407345**

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Dear Secretary Chiavetta:

Enclosed please find the Main Brief of Columbia Gas of Pennsylvania, Inc. in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

MWH/skr  
Enclosure

cc: Honorable Mark A. Hoyer  
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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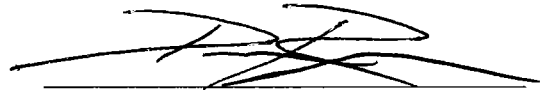
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Date: July 16, 2014



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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2014-2407345
	:	
Columbia Gas of Pennsylvania, Inc.	:	

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**MAIN BRIEF OF COLUMBIA GAS OF PENNSYLVANIA, INC.**

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## TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION .....	2
II. DESCRIPTION OF THE COMPANY’S PILOT RIDER NAS PROPOSAL .....	4
III. SUMMARY OF ARGUMENT .....	8
IV. OCA’S POSITION .....	10
A. OCA’s Proposal To Set The Pilot Rider NAS Surcharge Interest Rate At 3% Should Be Rejected.....	12
B. OCA’s Proposals To Modify Columbia’s Economic Model For Pilot Rider NAS Projects Should Be Denied .....	18
1. Cost of Debt as Surrogate for Equity Return .....	20
2. Costs of Service Lines, Meters, and Regulating Equipment .....	22
C. Additional Reporting Requirements .....	24
D. OCA’s Proposed Treatment Of Residential Developers Should Be Rejected.....	26
E. OCA’s Other Proposed Modifications Should Be Denied .....	28
V. OSBA’S POSITION .....	31
A. No Need Exists For OSBA’s Proposed Review Of Tax Depreciation Benefits In The Customer Contribution Calculation.....	31
B. OSBA’s Proposal To Gross Up For Income Tax Costs In The Pilot Rider NAS Charge Calculation Should Be Rejected.....	33
C. OSBA’s Proposed Modification To Record Customer Contributions Whether Payments Are Made Or Not Should Be Denied. ....	34
VI. CONCLUSION.....	36
APPENDIX A – Proposing Findings of Fact .....	37
APPENDIX B – Proposed Conclusions of Law .....	48

## TABLE OF AUTHORITIES

	<u>Page</u>
<b><u>Pennsylvania Court Decisions</u></b>	
<i>Borough of E. McKeesport v. Special/Temporary Civil Serv. Comm'n</i> , 942 A.2d 274 (Pa. Cmwlth. 2008).....	3
<i>Kyu Son Yi v. State Bd. of Veterinarian Med.</i> , 960 A.2d 864 (Pa. Cmwlth. 2008) .....	4
<i>Met-Ed Indus. Users Grp. v. Pa. P.U.C.</i> , 960 A.2d 189 (Pa. Cmwlth. 2008) .....	3
<i>Se-Ling Hosiery v. Margulies</i> , 364 Pa. 45, 70 A.2d 854 (1950).....	3, 48
<b><u>Pennsylvania Administrative Agency Decisions</u></b>	
<i>Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.</i> , Docket Nos. R-2012-2321748, <i>et al.</i> (Apr. 24, 2013) (Recommended Decision), <i>adopted</i> (Order Entered May 23, 2013).....	4, 16
<i>Pa. P.U.C. v. Metro. Edison Co.</i> , Docket No. R-00061366, 2007 Pa. P.U.C. LEXIS 5 (Jan. 11, 2007).....	3, 48
<i>Pa. P.U.C. v. Philadelphia Gas Works</i> , Docket No. R-00061931, 2007 Pa. P.U.C. LEXIS 45 (Sept. 28, 2007).....	3, 48
<i>Re Contributions in Aid of Construction and Customer Advances</i> , Docket No. I-880083, 70 Pa. PUC 44 (Order Entered June 14, 1989).....	10, 31, 32, 48
<b><u>Pennsylvania Statutes</u></b>	
2 Pa. C.S. § 704.....	3
66 Pa. C.S. § 332(a) .....	3
<b><u>Regulations</u></b>	
52 Pa. Code § 59.17(a).....	23, 24, 48
<b><u>Miscellaneous</u></b>	
Tax Reform Act of 1986 .....	10, 31, 32, 48

## **I. INTRODUCTION**

On February 26, 2014, Columbia filed with the Pennsylvania Public Utility Commission (“Commission”) Supplement No. 210 to its Tariff Gas – Pa. P.U.C. No. 9 (“Supplement No. 210”). Supplement No. 210, which was issued February 26, 2014, and was to be effective April 28, 2014, proposes a Pilot Rider New Area Service (“NAS”) to make natural gas service more accessible to new residential customers and new residential developments in Columbia’s certificated service territory, while minimizing cost shifting to existing customers.

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. On March 21, 2014, the Columbia Industrial Intervenors (“CII”) filed a Petition to Intervene. On March 28, 2014, the Bureau of Investigation and Enforcement (“I&E”) filed a Notice of Appearance.

On April 23, 2014, the Commission entered an order instituting an investigation concerning Supplement No. 210. The Commission’s order also suspended Supplement No. 210 until October 28, 2014, and assigned the case to the Office of Administrative Law Judge.

On April 28, 2014, Administrative Law Judge (“ALJ”) Mark A. Hoyer issued a Prehearing Conference Order, which provided that an Initial Prehearing Conference was scheduled for May 9, 2014.

A prehearing conference was held before the ALJ on May 9, 2014. The parties submitted prehearing memoranda in accordance with the ALJ’s Prehearing Conference Order. At the prehearing conference, the ALJ established the litigation schedule. On May 23, 2014, the ALJ issued a Prehearing Order that confirmed the litigation schedule, modified discovery rules, and granted CII’s Petition to Intervene.

The parties to this proceeding conducted substantial formal and informal discovery. Pursuant to the established litigation schedule, OCA and OSBA served their direct testimony and exhibits on June 10, 2014. On June 24, 2014, Columbia, OCA, OSBA, and I&E served their rebuttal testimony and exhibits. On July 1, 2014, Columbia, OCA, and OSBA served their surrebuttal testimony and exhibits. On July 7, 2014, I&E served its rejoinder testimony.

On July 9, 2014, a hearing was held before the ALJ for the submission of all testimony and exhibits and for the cross-examination of Columbia witness Erich A. Evans and OCA witness Glenn A. Watkins.

Pursuant to Section 332(a) of the Public Utility Code, 66 Pa. C.S. § 332(a), Columbia has the burden of proof in this proceeding as to Supplement No. 210. The burden of proof, also known as the burden of persuasion, means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery, Inc. v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950). However, a party that offers a proposal not included in the Applicant's filing bears the burden of proof for such proposal. *See, e.g., Pa. P.U.C. v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at \*165-68 (Order Entered Sept. 28, 2007); *Pa. P.U.C. v. Metro. Edison Co.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5, at \*111-12 (Order Entered Jan. 11, 2007). As the proponent of a Commission order with respect to its proposal, such party bears the burden of proof as to proposals not included in the filing.

In addition, any finding in this case must be supported by and based upon substantial evidence of record. *Met-Ed Indus. Users Grp. v. Pa. P.U.C.*, 960 A.2d 189, 193 n.2 (Pa. Cmwlth. 2008) (citing 2 Pa. C.S. § 704). Substantial evidence is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. *Borough of E. McKeesport v. Special/Temporary Civil Serv. Comm'n*, 942 A.2d 274, 281 n.9 (Pa. Cmwlth. 2008) (citation

omitted). Substantial evidence must be “more than a scintilla and must do more than create a suspicion of the existence of the fact to be established.” *Kyu Son Yi v. State Bd. of Veterinary Med.*, 960 A.2d 864, 874 (Pa. Cmwlth. 2008) (citation omitted).

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

Columbia is proposing Pilot Rider NAS, a four-year pilot program, as an alternative payment option for customers requesting distribution line extensions in areas that currently do not have Columbia gas distribution facilities. (Columbia Statement No. 1, pp. 2-3). The Company originally proposed Pilot Rider NAS in its 2012 base rate proceeding at Docket No. R-2012-2321748. As part of the settlement in that proceeding, the parties agreed “to enter into an informal collaborative . . . to attempt to develop a program to extend service to new areas.” *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2012-2321748, *et al.*, p. 14 (Apr. 24, 2013) (Recommended Decision), *adopted* (Order Entered May 23, 2013). Pursuant to the settlement, the collaborative was held. After that collaborative, Columbia filed the instant proposal.

Columbia’s current procedure for extending facilities to new applicants begins with an economic analysis that determines whether the full investment cost of the line extension is cost-justified by the projected revenues. (Columbia Statement No. 1, p. 2). If the project is not cost-justified, the applicant or applicants must pay an upfront deposit to receive the distribution line extension. (Columbia Statement No. 1, p. 2). The amount of the upfront deposit equals the present value amount of investment to extend the facilities that are in excess of the projected future revenues from the new applicant(s) over the next 40 years. (Columbia Statement No. 1, p. 5). This economic analysis and determination of the deposit due would remain unchanged under Pilot Rider NAS. (Columbia Statement No. 1, p. 5). Since the lump-sum upfront deposit can

often be meaningful, it can hinder the expansion of natural gas service to unserved and underserved portions of Columbia's service area. (Columbia Statement No. 1, p. 3).

Pilot Rider NAS aims to expand natural gas service to those areas by serving as an additional option for customers to pay the deposit for the uneconomic portion of a line extension. Specifically, Supplement No. 210 allows all or a portion of the deposit to be paid through a monthly surcharge over a 20-year period. (Columbia Statement No. 1, pp. 2-3). To maintain a simple pilot program and to control costs, only a 20-year payment term is permitted in calculating the Pilot Rider NAS surcharge amount. (Columbia Statement No. 1, p. 6; Columbia Statement No. 1-R, p. 14). However, a customer may pay off the principal balance at any time. (Columbia Statement No. 1-R, p. 14). The monthly surcharge includes the carrying costs for the 20-year term and contains a principal amount and an interest amount. (Columbia Statement No. 1, pp. 5-6).

Under Pilot Rider NAS, the amount of the surcharge per meter may not exceed \$35.00 per month. (Columbia Statement No. 1, p. 11). If the amount of the uneconomic portion of the line extension exceeds the principal amount that can be recovered through the Pilot Rider NAS surcharge, the applicant will be required to pay the difference through an upfront deposit. (Columbia Statement No. 1, p. 11). When a project involves more than one meter, the payment amount will be applied to all of the meters involved over the 20-year term. (Columbia Statement No. 1, p. 5).<sup>1</sup> Also, the monthly surcharge will remain the same for 20 years or until the customer pays off the remaining balance, whichever comes first. (Columbia Statement No. 1, p. 6). Therefore, rather than having to pay the full deposit upfront to receive the line extension,

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<sup>1</sup> Thus, in the case of a project involving multiple residences, the amount of the uneconomic portion that can be recovered through Pilot Rider NAS will increase, as the \$35.00 per month cap will apply to each applicant.

Pilot Rider NAS would give an applicant the option to pay a fixed amount up to \$35.00 per month per meter for up to 20 years instead.

In addition, if more customers are added to the new Pilot Rider NAS line extensions, they would be charged the same surcharge. (Columbia Statement No. 1, p. 8).<sup>2</sup> Although after the project is completed the surcharge amount would remain the same, the principal amount would be collected over a shorter timeframe than initially projected because more customers would be paying down the balance than anticipated. (Columbia Statement No. 1, p. 8). Furthermore, all customers included in a particular Pilot Rider NAS project will receive the surcharge on their bill; however, they do have the option to pay the balance in full with their first bill from Columbia or anytime thereafter. (Columbia Statement No. 1, p. 8).

The customer's obligation to pay the monthly surcharge begins when the meter is set (Columbia Exhibit EAE-4). Further, the obligation remains with the meter. (Columbia Statement No. 1, p. 7). Therefore, in the event of a change in customer, the new customer is responsible for the monthly tariffed surcharge or may pay off the remaining balance after receiving the surcharge on the bill. (Columbia Statement No. 1, pp. 7-8). If that new customer does not want to pay the surcharge or the balance remaining, Columbia will simply not initiate service, and the new customer will have to seek alternative service. (Columbia Statement No. 1, p. 7). This increases the likelihood that Columbia will collect the monthly surcharge amounts over the 20-year term. (Columbia Statement No. 1, p. 7). However, in the event of nonpayment of the Pilot Rider NAS charge, Columbia will not disconnect natural gas service. (Columbia

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<sup>2</sup> In the event a commercial or industrial customer connects to the Pilot Rider NAS line extension, they would not be eligible for the Pilot Rider NAS surcharge. (Columbia Statement No. 1, p. 4). However, the Pilot Rider NAS customers associated with that project would receive a credit against their Pilot Rider NAS balance for new revenues. (Columbia Statement No. 1, pp. 4, 8).

Statement No. 1, p. 7). Instead, Columbia will use its standard collection practices. (Columbia Statement No. 1, p. 7).

For ratemaking purposes, when a customer chooses Pilot Rider NAS to pay for the deposit, the full cost of the line extension funded by Pilot Rider NAS initially would be placed in Columbia's rate base. (Columbia Statement No. 1, p. 5). As mentioned previously, the surcharge includes a principal amount and an interest amount. As the monthly surcharges are received, the principal amounts will be applied as a customer advance to reduce the rate base. (Columbia Statement No. 1, p. 5). The interest amount will be credited to the Company's cost of service to compensate all of the existing customers for the carrying costs. (Columbia Statement No. 1, pp. 5-6). The interest rate used in calculating the monthly surcharge is set at Columbia's weighted average cost of capital in its most recent base rate proceeding. (Columbia Statement No. 1, p. 6). Doing so will compensate existing customers for the carrying costs of the Pilot Rider NAS line extensions in rate base, thereby avoiding cost shifting from an inadequate interest rate. (Columbia Statement No. 1-R, p. 5). If a Pilot Rider NAS project has an unpaid balance at the end of the 20-year period, that amount remains in Columbia's rate base. (Columbia Statement No. 1, p. 9).<sup>3</sup>

As proposed by Columbia, the Pilot Rider NAS program would be available to all residential customers and bona fide developers of residential properties in its service territory that seek natural gas service. (Columbia Statement No. 1, p. 4). Certain qualifications exist for a developer of residential properties to be considered a "bona fide developer" under the Pilot Rider NAS program. (Columbia Statement No. 1, p. 4). The developer must be building in an area where Columbia currently does not provide service and it must be building or developing a large

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<sup>3</sup> The only reason for an unpaid balance would be nonpayment during the 20-year term, such as if the meter were inactive for a period of time or the customer defaults on the payments. (Columbia Statement No. 1, p. 9).

aggregation of residential entities that ask to obtain natural gas service. (Columbia Statement No. 1, p. 4). Columbia will consider the following regarding developers requesting Pilot Rider NAS: (1) the number of potential customers; (2) the density of the area seeking service; (3) the potential usage; and (4) the cost of extending or expanding service. (Columbia Statement No. 1, p. 4). Commercial buildings, however, would be excluded from the program. (Columbia Statement No. 1, p. 4).<sup>4</sup>

Finally, for each calendar year of the pilot, Columbia is setting a maximum of \$1 million of excess amounts that can qualify for Pilot Rider NAS. (Columbia Statement No. 1, p. 10). This enables the Company to balance the extension of new facilities with its other obligations, such as providing safe and reliable service and continuing its main replacement program as scheduled. (Columbia Statement No. 1, p. 10). The limit of \$1 million was determined by reviewing customer deposits for the last five years. (Columbia Statement No. 1, pp. 10-11). Each year, the sum of those deposits averaged approximately \$300,000. (Columbia Statement No. 1, p. 11). If the future Pilot Rider NAS line extensions are similar to Columbia's other line extension projects for the past five years, Columbia will have more than three times the number of line extension projects compared to each of the past five years. (Columbia Statement No. 1, p. 11).

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

Columbia's Pilot Rider NAS program is reasonable and beneficial to Pennsylvanians in unserved and underserved areas of the Company's service territory, and fair to existing customers. The expansion of natural gas service to those areas is often hindered by the inability

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<sup>4</sup> Columbia witness Erich A. Evans has explained what would happen if a project is a combination of residential and commercial buildings. (Columbia Statement No. 1, p. 4). Specifically, "The commercial buildings would be excluded. In this situation, if a deposit is due for the project the deposit would be split between the residential homes and the commercial buildings. The residential homes would be able to use Pilot Rider NAS, and the commercial buildings would need to pay their share of the deposit up front." (Columbia Statement No. 1, p. 4).

of applicants to pay the upfront deposit for uneconomic line extensions. Pilot Rider NAS provides an alternative option for applicants to pay for the upfront deposit by allowing them to pay a fixed amount up to \$35.00 each month for a 20-year term. Crediting the interest portion of the monthly payments to the cost of service compensates and avoids any subsidization by existing customers. Moreover, I&E does not oppose the Company's Pilot Rider NAS program as filed. (I&E Statement No. 1-R, p. 6).

However, OCA's and OSBA's proposed modifications to the Pilot Rider NAS program are unreasonable and, therefore, should be denied. Several of OCA's modifications shift costs of Pilot Rider NAS line extensions to existing customers. Specifically, lowering the interest rate used in the surcharge calculation to 3%, replacing the cost of equity with the Company's weighted cost of debt in the economic model for Pilot Rider NAS projects, and removing the costs of service lines, meters, and regulating equipment, all shift costs of Pilot Rider NAS main extensions to existing customers. Further, OCA's proposal to create two different economic models, one for Pilot Rider NAS and one for traditional line extensions, would cause customer confusion, increase Columbia's administrative costs for no reason, and adversely affect Columbia's shareholders due to regulatory lag. Moreover, while Columbia does not oppose most of OCA's additional reporting requirements, some are unnecessary, vague, and subjective, and would create issues with Columbia's administration of the Pilot Rider NAS program. OCA also proposes to exclude residential developments from the Pilot Rider NAS program despite the developments' ability to bring the benefits natural gas service to a larger number of new residential customers. The several other modifications that OCA proposes are unreasonable because they are unnecessary, are duplicative, increase administrative costs, and may adversely

affect Columbia's administration of Pilot Rider NAS and the Company's other programs, such as its main replacement program.

OSBA's proposed modifications are also unreasonable. First, no need exists for a review of the tax depreciation benefits because Columbia properly treats customer contributions as taxable income and treats line extensions funded by those contributions as depreciable assets consistent with the Tax Reform Act of 1986 and the Commission's investigation in 1989 in *Re Contributions in Aid of Construction and Customer Advances*, Docket No. I-880083, 70 Pa. PUC 44 (Order Entered June 14, 1989). Further, OSBA's proposal to gross up the rate used for the interest portion of the Pilot Rider NAS charge is unnecessary and should also be rejected. Finally, OSBA's proposal to record customers' Pilot Rider NAS surcharge payments and write down gross plant regardless of whether the payments are actually made is unreasonable. The Company has sufficient leverage to collect overdue Pilot Rider NAS payments, and capping the surcharge at \$35.00 will increase the likelihood of payments. In addition, Columbia should not bear the risk of under-recovery of the Pilot Rider NAS charge, just as it is not at risk under its traditional upfront deposit procedures.

For the reasons detailed below, Columbia's proposed Pilot Rider NAS program should be approved without modification, and the proposed modifications submitted by OCA and OSBA, outside of the reporting requirements not opposed by Columbia, should be denied.

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

OCA has proposed a number of changes to Pilot Rider NAS. Several of the proposed changes (lower Pilot Rider NAS surcharge interest rate, substantially reduced cost of capital in the economic model used to calculate the principal amount of the applicant's unjustified plant investment, changes to the economic model to exclude plant investment actually needed to

service the applicant) will serve to shift a portion of the recovery of the uneconomic project investment from Pilot Rider NAS applicants to existing Columbia customers.

There is no valid justification for asking existing customers to pay costs of a Pilot Rider NAS extension that properly should be borne by the Pilot Rider NAS applicant. OCA's primary reasoning for its proposed cost shifting appears to revolve around OCA witness Watkins's theory that existing customers have and will receive benefits for payment of existing infrastructure and should, therefore, bear some portion of new infrastructure for Pilot Rider NAS customers as well. In the words of Mr. Watkins, "new customers of a utility system receive benefits that have previously been paid for by existing ratepayers." (OCA Statement No. 1, p. 11). He states further that "while existing ratepayers must fund a utility's infrastructure (plant) during the most expensive early years, new customers that come online later in the life of such investments, reap the benefit of lower-priced infrastructure." (OCA Statement No. 1, p. 11).

Mr. Watkins's logic makes no sense. Existing customers already shoulder the burden of paying for infrastructure that will be used later by new customers. Pilot Rider NAS customers will not be providing any revenues to pay for that existing infrastructure because the fact that they are paying the Pilot Rider NAS surcharge means that their future revenue stream is not sufficient to pay for the new plant to serve them. Under such situation, therefore, OCA's proposal that existing customers should be expected to pay even more costs by shifting a portion of the new investment cost to them is not reasonable. OCA's proposal amounts to shifting the costs of new customers' line extensions to existing customers so that those new customers can experience substantial savings from receiving natural gas service. While Columbia strives for Pilot Rider NAS to be successful, transforming it into a program that forces existing customers to pay for new customers' line extensions is unfair and unacceptable. Such shifting is even more

unnecessary given Mr. Watkins's admission that "each residential customer will realize energy savings of about \$1,000 per year by utilizing natural gas," over alternative energy sources. (OCA Statement No. 1-R, p. 2). A customer using Pilot Rider NAS will pay at maximum \$420 a year in monthly surcharges at \$35.00 per month. (Columbia Statement No. 1-SR, p. 3). Not only is that payment manageable, the new customer would still realize substantial savings. There is no reason that a Pilot Rider NAS applicant should receive even more savings by shifting costs to existing customers.

At the same time that OCA seeks to shift costs from Pilot Rider NAS applicants to existing customers, it proposes other changes to Pilot Rider NAS that will reduce its effectiveness in making gas service more available. In particular, this includes OCA's proposal to limit the availability of Pilot Rider NAS by prohibiting its use in developer situations. Columbia will respond to these unreasonable restrictions, and other proposed OCA changes to Pilot Rider NAS, below.

For the reasons explained herein, OCA's unjustified proposed revisions to Pilot Rider NAS should be rejected.

**A. OCA'S PROPOSAL TO SET THE PILOT RIDER NAS SURCHARGE INTEREST RATE AT 3% SHOULD BE REJECTED**

OCA has proposed to set the interest rate at 3% for purposes of calculating the monthly surcharge.<sup>5</sup> (OCA Statement No. 1, p. 18). OCA's proposal is unreasonable because it shifts costs of the line extensions to existing customers. As explained previously, Columbia proposed an interest rate set at its weighted average cost of capital. This proposal fits appropriately within the structure of Pilot Rider NAS. During the term of an applicant's Pilot Rider NAS surcharge,

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<sup>5</sup> To avoid any confusion, an interest rate is used in Columbia's discounted cash flow ("DCF") model, and an interest rate is used for the purpose of calculating the monthly Pilot Rider NAS surcharge. In this section of the brief, the interest rate at issue is the one used by the Company to calculate the monthly surcharge.

the balance of the uneconomic investment is included in rate base for ratemaking purposes. (Columbia Statement No. 1, p. 5). This balance is paid down by the principal portion of the surcharge payment. (Columbia Statement No. 1, p. 5). To offset the fact that the ratemaking process will include the uneconomic investment in rate base, Columbia's Pilot Rider NAS proposal will credit Pilot Rider NAS interest as income. (Columbia Statement No. 1, pp. 5-6). Since rate base will earn a return at the weighted cost of capital, Columbia proposes that the Pilot Rider NAS interest be set at the same weighted cost of capital.<sup>6</sup> (Columbia Statement No. 1, p. 6; Columbia Statement No. 1-R, p. 5). In this way, Pilot Rider NAS will sufficiently compensate existing customers for the carrying costs of the line extension. (Columbia Statement No. 1-R, p. 5).

However, OCA proposes to shift costs to existing customers that will not use the Pilot Rider NAS line extensions rather than having the customers who actually use the Pilot Rider NAS line extensions pay for all of the costs. OCA achieves the cost shifting by proposing that the interest rate to be used for Pilot Rider NAS be set at 3%. (OCA Statement No. 1, p. 18). Since the current weighted average cost of capital is about 7.91% (OSBA Statement No. 1, p. 5),<sup>7</sup> it is evident that OCA's proposal will not compensate existing customers in a rate case for the temporary addition of uneconomic plant investments to serve Pilot Rider NAS customers.

OCA does not deny that its proposed 3% interest rate would make existing customers incur costs of a Pilot Rider NAS line extension. (Tr. 31-32; OCA Statement No. 1, p. 20). OCA makes this proposal despite its witness's admission that "the socialization of uneconomic

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<sup>6</sup> To be clear, each new Pilot Rider NAS project will receive an interest rate calculated at the weighted cost of capital from Columbia's most recent litigated base rate proceeding. If the most recent proceeding was settled, the equity return rate to be included in the weighted cost of capital will be the rate set by the Commission for Distribution System Improvement Charge ("DSIC") purposes. (Columbia Statement No. 1, p. 6). The rate will remain fixed for the term of each project.

<sup>7</sup> As indicated in footnote 6, the weighted average cost of capital will vary based upon inputs, including the equity return rate.

projects between new and existing customers has historically not been condoned or accepted -- at least within the natural gas industry.” (OCA Statement No. 1, p. 5). OCA offers several reasons in support of its proposal to charge a non-compensatory interest rate. (OCA Statement No. 1, pp. 5-6, 11, 15-16, 20-21). None of these reasons is sufficient to justify shifting costs to existing customers from Pilot Rider NAS applicants.

First, OCA argues that its proposed 3% interest rate is justified because home equity loans are in the range of 3.5% to 4.5%. OCA contends that applicants will be hesitant to use Pilot Rider NAS at an interest rate greater than 3% because they could finance the upfront deposit with a lower interest rate. (OCA Statement No. 1, pp. 15-16). Specifically, Mr. Watkins alleges that “[g]iven 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%.” (OCA Statement No. 1, p. 16). He also believes that “most homeowners are savvy enough” to determine the difference between the Pilot Rider NAS interest rate and a home equity loan interest rate, resulting in limited customer participation. (OCA Statement No. 1, p. 16).

OCA fails to recognize that if its contention were true, Pilot Rider NAS would not be needed because customers in unserved and underserved areas would already be financing uneconomic portions of line extensions with home equity loans. As explained by Mr. Evans in his rebuttal testimony, “If a customer wanted to use a home equity loan or other means to pay the upfront deposit, then the customer would be doing that today.” (Columbia Statement No. 1-R, p. 8). While Columbia does not deny that some customers do in fact finance uneconomic portions of line extensions with home equity loans, it is unfair to compare Pilot Rider NAS to a secured bank loan because Columbia is not a bank and Pilot Rider NAS is not a loan. (Columbia

Statement No. 1-R, p. 8). Home equity loans involve credit checks, collateral, and a home appraisal, among other things, to which a Pilot Rider NAS applicant would not be subjected. (Columbia Statement No. 1-R, p. 8). It is totally inappropriate to compare an unsecured Pilot Rider NAS surcharge to a home equity loan. Further, this inaccurate comparison does not justify OCA's proposal to shift costs to existing customers.

Second, OCA contends that shifting costs to existing customers is justified because the amount shifted is small. Mr. Watkins, assuming "a worst case scenario," alleges that if his various cost shifting modifications are adopted, "the additional cost impact on existing residential customers would be approximately \$0.38 per customer per year." (OCA Statement No. 1-SR, p. 4). Assuming annual capital spending of \$2 million under the Pilot Rider NAS program, as proposed by OCA and discussed further in Section IV.E, the cost impact would double to \$0.76 per customer per year under Mr. Watkins's "worst case scenario." (OCA Statement No. 1-SR, p. 4 n.5).

OCA's argument is flawed for several reasons. Most importantly, the magnitude of the subsidy for each of Columbia's over 400,000 customers should not be determinative of whether any subsidy should be provided in the pilot. One of the purposes of the pilot should be to test whether a surcharge mechanism, which does not require shifting costs to existing customers, will encourage more applicants to request service extensions. (Columbia Statement No. 1, p. 3). OCA should not presume that Pilot Rider NAS will be unsuccessful without a subsidy from current customers.

OCA's support for a reduced interest rate on the basis that the subsidy will be small also understates the potential consequences of OCA's proposal. To begin, Pilot Rider NAS is a pilot program that can set a precedent for other any future expansion of Pilot Rider NAS for

Columbia, or for other natural gas distribution companies (“NGDCs”) that might adopt a similar program. If the “test” of Pilot Rider NAS using an insufficiently compensatory interest rate is used to justify an expanded program in the future, the magnitude of the subsidy per existing customer could grow exponentially. Moreover, commercial and industrial customers are not able to participate in Pilot Rider NAS. However, a future program could be implemented based on Pilot Rider NAS that includes those customers.<sup>8</sup> Any future expansion of Pilot Rider NAS to these customers with potentially greater capital investments would further grow a subsidy. Therefore, even assuming that Mr. Watkins’s calculations of the “worst case scenario” under the pilot are correct, these additional effects could have a substantial impact on the costs borne by existing customers to subsidize new customers’ line extensions. OCA’s purported “small” subsidy should not be tested in the pilot.

Third, OCA alleges that cost shifting in Pilot Rider NAS is appropriate because some main extension projects will have net positive values that will reduce the cost to serve existing customers. (OCA Statement No. 1, pp. 20-21; OCA Statement No. 1-SR, p. 4). As support, Mr. Watkins cites the 52 mains extension projects completed by Columbia that had a positive net present value (“NPV”). (OCA Statement No. 1, p. 21). However, what Mr. Watkins fails to recognize is that no Pilot Rider NAS project will provide a positive NPV. Pilot Rider NAS will only be used as an alternative to paying deposits for uneconomic extensions. Furthermore, as Columbia witness Mr. Evans explains in his rebuttal testimony, the fact that occasionally main extensions produce a positive NPV is not a basis to establish main extension rules that intentionally are designed to shift costs to existing customers. (Columbia Statement No. 1-R, p. 16). No assurance exists that future projects will have a positive NPV. (Columbia Statement

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<sup>8</sup> In fact, the Company’s original presentation of Pilot Rider NAS in its 2012 base rate proceeding at Docket No. R-2012-2321748 proposed that commercial and industrial customers be permitted in Pilot Rider NAS as well.

No. 1-R, p. 16). Additionally, as OCA witness Mr. Watkins observed, existing customers have paid for much of the existing backbone plant that is needed to serve the new customers. (Columbia Statement No. 1-R, p. 16). Pilot Rider NAS projects will provide no contribution toward that existing backbone plant. Therefore, any positive income effect from other main extension projects helps spread the cost of remaining recovery among a broader customer base. (Columbia Statement No. 1-R, p. 16). This occasional contribution toward recovery of existing fixed costs should not be used as a basis for requiring a subsidy of Pilot Rider NAS projects. Consequently, OCA's argument citing positive NPV from some main extension projects is without merit.

Fourth, OCA contends that the broader costs and benefits of expanding natural gas service should be considered. (OCA Statement No. 1, pp. 5-6). In support, Mr. Watkins states that “[i]n the last several years,” he “ha[s] been involved in numerous cases in which broader costs and benefits have also been considered,” citing five instances in New Jersey, Arizona, Virginia, and Delaware. (OCA Statement No. 1, pp. 5-6). Notably, the cases cited are few, and not one was in Pennsylvania. As Mr. Evans highlights in his rebuttal testimony, “Mr. Watkins makes broad statements about changing policies on line extensions, but his actual examples are limited, as shown by his responses to discovery provided as Exhibit EAE-1.” (Columbia Statement No. 1-R, p. 3; Columbia Exhibit EAE-1). Pennsylvania gas utilities should neither be forced to engage in uneconomic expansions that shift costs to existing customers nor abandon historic practices that require applicants to pay the cost to extend facilities. (Columbia Statement No. 1-R, p. 3). Such an approach contradicts the manner in which Pennsylvania NGDCs have conducted line extensions for decades.

While lowering the interest rate to 3% and shifting costs to existing customers may make the Pilot Rider NAS program more attractive to new customers, the pilot should not test whether the program can be successful without such subsidization by existing customers. Thus, it would be unreasonable, contrary to cost-causation principles, and unnecessarily burdensome to make existing customers subsidize line extensions to new customers.

**B. OCA'S PROPOSALS TO MODIFY COLUMBIA'S ECONOMIC MODEL FOR PILOT RIDER NAS PROJECTS SHOULD BE DENIED**

OCA has proposed that Columbia's economic model (also known as its "NPV" or "DCF" model) used to determine the amount of uneconomic main extensions be modified for Pilot Rider NAS projects. (OCA Statement No. 1, pp. 13-16, 18). OCA proposes two changes to the model: (1) replace the cost of equity in the model with a debt costs rate; and (2) remove investment of service lines, meters, and regulatory equipment from the model. (OCA Statement No. 1, pp. 13-16, 18). OCA suggests these changes to the economic model for Pilot Rider NAS projects despite Mr. Watkins's declaration that the traditional method is "appropriate" and "pretty much an industry standard." (Tr. 31).

Before responding to the specifics of these two proposals, Columbia opposes these proposals for several general reasons. First, as OCA witness Watkins acknowledges, the effect of these proposals is to shift costs to existing customers. (OCA Statement No. 1, p. 20; OCA Statement No. 1-SR, p. 3). Both proposals reduce the principal amount of the Pilot Rider NAS balance (*i.e.*, the applicant's customer contribution) than would otherwise be produced from Columbia's standard application of its model. (Tr. 32; Columbia Statement No. 1-R, p. 13; OCA Statement No. 1, p. 20; OCA Statement No. 1-SR, p. 3). The differences would be paid by Columbia's existing customers through increased rate base. For reasons explained previously,

there is no reason to conclude that a subsidy by existing customers should be included in the pilot program.

Second, OCA's proposal would require Columbia to employ two economic models: one for Pilot Rider NAS and one for traditional main extensions. (Columbia Statement No. 1-R, p. 12). Two separate DCF models would increase the administrative costs incurred by Columbia. (Columbia Statement No. 1-R, p. 12). Columbia would have to build and maintain an entirely separate economic model for Pilot Rider NAS. Every single time that an applicant would contact Columbia about a line extension, Columbia would be required to perform, and explain the results of, two economic analyses instead of one. (Columbia Statement No. 1-R, p. 13). The simpler, most practical solution is to use the same economic model for both Pilot Rider NAS and Columbia's traditional line extensions. (Columbia Statement No. 1-R, p. 12).

Additionally, two economic models will confuse customers. Mr. Evans provided the following example:

Imagine if Columbia evaluated a customer who wanted to have gas service and the economic model showed that the customer would owe a \$1,500 deposit. The customer would be told to pay that upfront or to consider Pilot Rider NAS. The customer does not want to pay that much up front and opts to use Pilot Rider NAS instead. Suppose further that, as suggested by Mr. Watkins, Pilot Rider NAS had a different economic model that results in the deposit dropping to \$200. Now, the customer thinks that sounds better and decides to pay the \$200 upfront. However, the customer cannot because the upfront payment is \$1,500, but Pilot Rider NAS is \$200 over 20 years.

(Columbia Statement No. 1-R, p. 13). Simply put, the deposit amounts would be different and that would confuse customers. Such customer confusion will negatively affect the success of the Pilot Rider NAS program and could result in applicants not availing themselves of natural gas service. As Mr. Watkins admits, the expansion of natural gas infrastructure has been hampered by the traditional requirement of upfront deposits. (Tr. 32-33; OCA Statement No. 1, pp. 2-4).

While Pilot Rider NAS aims to be a solution to that problem, requiring two different economic models breeds customer confusion and would negate any positive effect the Pilot Rider NAS program would have. Therefore, having two economic models, one for Pilot Rider NAS and one for all other line extensions, would confuse customers and should be avoided.

It should also be noted that the modifications proposed by OCA would have an adverse impact on Columbia's shareholders due to unanticipated regulatory lag. (Columbia Statement No. 1-R, p. 15). Excluding certain plant from the model and using Columbia's cost of debt instead of its weighted cost of capital in the DCF model lowers the upfront deposit owed by customers. (Columbia Statement No. 1-R, p. 15). OCA fails to suggest any measure to increase revenue to compensate for lowering the deposit. (Columbia Statement No. 1-R, p. 15). As noted by Mr. Evans, this would create "additional regulatory lag that is not planned for by the Company." (Columbia Statement No. 1-R, p. 15). This is because OCA's changes would require that Columbia invest in uneconomic plant between rate cases. Mr. Watkins is incorrect in his assertion that regulatory lag is normal with any plant investment. (Columbia Statement No. 1-R, p. 15). The economic analysis performed for traditional line extensions aims to prevent regulatory lag, and "[t]he models used and deposit amounts are determined to correctly match the capital investment with the revenue from each project." (Columbia Statement No. 1-R, p. 15). If the calculations were changed as proposed by OCA, the calculations would become unbalanced, thereby creating regulatory lag and negatively affecting Columbia's shareholders. (Columbia Statement No. 1-R, p. 15). Thus, OCA's proposed modifications to the Company's economic model should be rejected.

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

OCA's first proposed change to the DCF model would replace the cost of equity for Pilot Rider NAS projects with the Company's weighted cost of long-term and short-term debt. (OCA

Statement No. 1, p. 18). Using the cost of debt instead of the equity return is unreasonable because it will understate the capital cost of a main extension and thereby overstate the justified investment. Pilot Rider NAS line extensions are capital investments. Therefore, the return on those capital investments should be reflected in the model accordingly by using a weighted cost of capital that includes equity return and the weighted cost of debt, rather than just a debt cost rate.

Using two different economic models, one of which produces a lower required deposit, would shift costs to existing customers. Mr. Evans notes in his rebuttal testimony that “using Columbia’s cost of debt in place of its cost of capital . . . would have the effect of lowering the deposit due from customers without any increase in revenue to compensate.” (Columbia Statement No. 1-R, p. 15). Costs will be shifted to existing customers if the deposit amount does not properly reflect the Company’s capital investment in the Pilot Rider NAS line extensions. OCA even admits that by requiring the cost of debt to be used in place of the cost of equity for Pilot Rider NAS, costs would be shifted to existing customers. (OCA Statement No. 1, p. 20). Therefore, establishing a separate economic model for Pilot Rider NAS that replaces the equity return component with the weighted cost of debt is unreasonable because it shifts costs to existing customers.

The cost of equity is properly used within the DCF model because Pilot Rider NAS line extensions are capital investments. To ensure that the Company obtains a proper return on its investment, the model should continue to use the cost of equity. Requiring the Company to do otherwise would force it to engage in uneconomic expansions of its facilities. Columbia would invest its capital in line extensions without accurately projecting the return it should receive on that investment. The result would be to understate the costs of the project. By replacing the

equity return component with the weighted cost of debt, OCA's proposal disrupts the balance of the DCF model for Pilot Rider NAS line extensions. As noted above, this results in the shifting of costs to existing customers. Therefore, Columbia's DCF model should accordingly reflect the Company's approved equity return, not the weighted cost of debt. Thus, OCA's proposal should be rejected.

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

OCA proposes to remove the costs of service lines, meters, and regulating equipment from Columbia's DCF model for Pilot Rider NAS projects. (OCA Statement No. 1, pp. 13-16, 18). This proposed modification should be rejected.

OCA's proposal would shift, on a dollar for dollar basis, the cost of service lines, meter, and regulating equipment from Pilot Rider NAS applicants to existing customers. Such proposed shift is without limitation of any degree. For example, OCA proposes that "[f]or any NAS project, the projected capital costs of all service lines . . . shall be excluded from the DCF model." (OCA Statement No. 1, p. 18). Excluding the capital costs of all service lines could lead to extreme results. Mr. Evans has provided the following example: "[I]f service to a new customer requires the installation of a 1,000 foot service line on the applicant's property, Mr. Watkins would want Columbia to exclude the costs of that service line from the DCF model." (Columbia Statement No. 1-R, p. 13). Like its proposed 3% interest rate for the monthly surcharge, OCA's exclusion of service line costs from the economic model only serves to shift costs to existing customers and to provide new customers with a windfall. (Columbia Statement No. 1-R, pp. 13-14).

Similarly, excluding the costs of the meter and regulating equipment would shift those costs to existing customers. Mr. Watkins admitted that the meter and regulating equipment are necessary to extend and provide service to a new customer. (Tr. 27). As explained by Mr. Evans

in his rebuttal testimony, “The costs of the meter and regulation equipment are properly included in Columbia’s economic model because they are costs the Company will incur to expand its service infrastructure.” (Columbia Statement No. 1-R, p. 6).

An accurate economic model for line extensions properly reflects all of the costs to extend and provide service to new customers. Service lines, meters, and regulating equipment are necessary to extend and provide service to a new customer. Therefore, costs of the service line, meters, and regulating equipment are and should continue to be properly reflected in Columbia’s economic model.

OCA contends, with respect to meter and regulating equipment investment, that Columbia’s DCF model does not comport with the Commission’s regulations. (OCA Statement No. 1, pp. 14-15). OCA cites 52 Pa. Code § 59.17(a), which states that “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.” (OCA Statement No. 1, pp. 14-15). However, contrary to the assertions of the OCA, Columbia’s DCF model comports with the Commission’s regulations. Section 59.17(a) is intended to prevent situations where customers install and own meters. It is not intended to prohibit utilities from accounting for the cost of meters and regulating equipment in their economic analysis for line extensions. As observed by Mr. Evans in his rebuttal testimony, “Removal of the meter and regulation equipment cost from the model would understate the cost to serve the customer.” (Columbia Statement No. 1-R, p. 6). Since Columbia’s rates include the cost of meters and regulating equipment, “[r]emoving those costs would cause that equation to become unbalanced” and should only be done “if the goal is to have existing customers subsidize new customers.” (Columbia Statement No. 1-R, pp. 6-7). As discussed above, shifting costs of new customers’

line extensions to existing customers is inequitable and inappropriate for a pilot. It forces existing customers to subsidize extending service to new customers while enabling those new customers to obtain substantial savings from receiving natural gas service.

In addition, OCA's proposal fails to account for the fact that Columbia's customer charge, which covers these costs, is sufficient on its own to justify a meter and average service line without a customer contribution. (Columbia Statement No. 1-R, p. 7). For instance, the Company's current customer charge is \$16.75 and produces an NPV over 40 years of \$2,018. (Columbia Statement No. 1-R, p. 7). In 2013, the average cost of a residential service line was \$1,689. (Columbia Exhibit EAE-2). Using OCA's example that a residential meter and regulating equipment cost \$200, the total cost of an average residential service line, meter, and regulating equipment is \$1,889. (OCA Statement No. 1, p. 15; Columbia Statement No. 1-R, p. 7). As a result, the NPV over 40 years of the customer charge (\$2,018) exceeds the cost of the service line, meter, and regulating equipment (\$1,889). Therefore, the Company's customer charge alone justifies the investment in the service line, meter, and regulating equipment. (Columbia Statement No. 1-R, p. 7). Thus, Columbia's DCF model covers those costs without charging the customer and complies with 52 Pa. Code § 59.17(a). (Columbia Statement No. 1-R, p. 7).

For these reasons, OCA's modification to Columbia's DCF model to exclude service lines, meters, and regulating equipment is unreasonable and should be rejected.

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

OCA's proposed modifications include several annual reporting requirements. (OCA Statement No. 1, pp. 17-19). While Columbia does not oppose most of the suggested reporting requirements, it disagrees with the one proposed in letter (g). (Columbia Statement No. 1-R, pp. 10-11). That reporting requirement asks for Columbia to annually provide "the number of

customers along [Pilot Rider] NAS extensions who have not yet connected and, to the extent available, why.” (OCA Statement No. 1, p. 19). Mr. Evans explains in his rebuttal testimony that this reporting requirement “would pose additional cost and effort for little reason.” (Columbia Statement No. 1-R, p. 11). Providing this information would require “survey[ing] every potential customer along the main lines and determin[ing] why each customer has not obtained gas service.” (Columbia Statement No. 1-R, p. 11). Further, this requirement is extremely vague and entirely subjective. (Columbia Statement No. 1-R, p. 11). OCA fails to detail how many feet off the distribution main that customers must be for Columbia to consider them as located “along NAS extensions.” (Columbia Statement No. 1-R, p. 11). Nor does OCA state what Columbia should do when a customer is near both an NAS main and a non-NAS main. (Columbia Statement No. 1-R, p. 11). Nevertheless, in place of letter (g), Columbia would agree to identify the number of projects evaluated for Pilot Rider NAS service that ultimately do not elect Pilot Rider NAS. (Columbia Statement No. 1-R, p. 11).

Further, Mr. Watkins proposes that in each rate case filing within the Pilot Rider NAS program period, Columbia “should provide to the statutory parties a separation of the projected investment in NAS pilot capital costs from all other projected capital expenditures.” (OCA Statement No. 1, p. 19). This requirement solely amounts to duplicative work, as Columbia has already agreed to substantial reporting on Pilot Rider NAS projects. (Columbia Statement No. 1-R, pp. 14-15). Columbia also notes that such a separation could become complicated because “a Pilot Rider NAS-financed main may still be used to serve other customers.” (Columbia Statement No. 1-R, p. 15). Therefore, it is unclear how such a main would be reported according to OCA’s proposed requirement. In sum, the reporting requirement proposed in letter (g), as written, is unworkable, and a separation of the project investment in Pilot Rider NAS capital

costs from other projected capital expenditures is unnecessary. Thus, both of these reporting requirements should be rejected.

**D. OCA'S PROPOSED TREATMENT OF RESIDENTIAL DEVELOPERS SHOULD BE REJECTED**

OCA has proposed to exclude bona fide residential developments from Pilot Rider NAS. (OCA Statement No. 1, pp. 16-17, 19). However, OCA's position is flawed for several reasons. First, OCA mistakenly believes that Columbia's proposal to include bona fide residential developments "would change its current policy of requiring contributions from developers." (OCA Statement No. 1, p. 16). Columbia's proposal does not change its existing practice of applying its DCF model to new development projects. (Columbia Statement No. 1-R, p. 9). Pilot Rider NAS merely provides an alternative to pay the upfront deposit for the uneconomic portion of a line extension, up to the limit of the \$35.00 per month charge for each meter in the development. (Columbia Statement No. 1-R, p. 9). Rather than require a developer to pay a large upfront deposit, Pilot Rider NAS spreads recovery of the cost as new homes are built. Moreover, as noted by Mr. Evans, if the meter is set and the developer still owns the property, the developer would pay the monthly surcharge until a new customer owns the property. (Tr. 18).

OCA expresses concern that new homeowners will unknowingly assume the obligation to pay the upfront deposit or monthly surcharge. (OCA Statement No. 1, pp. 16-17). However, if the developer fails to disclose the existence of the Pilot Rider NAS surcharge to the homebuyer, that dispute is between the homebuyer and the developer. (Columbia Statement No. 1-R, p. 10). Also, this scenario is no different than when a homeowner that utilizes Pilot Rider NAS sells the house to another person and fails to disclose the existence of the surcharge. In all cases, new purchasers will be advised by Columbia of the charge when a request for service is made. (Tr.

17). Furthermore, Pilot Rider NAS is a tariffed rate. (Tr. 21). Like all tariffed rates, an applicant for service would not know the charges prior to commencing service or from looking at Columbia's tariff. (Tr. 21).

Moreover, whether the developer pays the upfront contribution out of its pocket or it is paid through Pilot Rider NAS, the costs of the line extension will be passed on to the homebuyer. (Columbia Statement No. 1-R, p. 10). Inevitably, when a developer prices the home or lot to be sold to the homebuyer, it would pass on the cost of the upfront deposit to the homebuyer. (Columbia Statement No. 1-R, p. 10). Under Pilot Rider NAS, that cost would be passed on to the homebuyer as well, except it would be recovered over a 20-year term. Furthermore, if more customers are added to the development and take service from the Pilot Rider NAS line extension, they would contribute to paying down the remaining balance. Ultimately, this could reduce the total amount that a customer would have to pay than if the developer paid the deposit upfront and passed that total cost onto the customer when the home or lot was purchased. Furthermore, given the price advantages of natural gas service, "it should be advantageous to the homeowner to have natural gas even if the developer has used Pilot Rider NAS for the upfront deposit." (Columbia Statement No. 1-R, p. 10). Consequently, OCA's concerns do not warrant excluding residential developments from Pilot Rider NAS.

In addition, OCA proposes to exclude developments despite residential developments' ability to reach a large number of residential customers. (Columbia Statement No. 1-R, p. 10). OCA also recognizes that "there has been some reluctance of developers to install natural gas equipment in areas not currently served by a[n] NGDC distribution main." (OCA Statement No. 1, p. 4). In 2013 alone, 13 potential new development projects chose not to install gas service. (Tr. 16). Nevertheless, OCA wishes to exclude residential developments. OCA's position is

contradictory. While OCA acknowledges that natural gas service brings immense benefits to Pennsylvanians, it wants to exclude residential developments that can deliver those benefits on a larger scale. (Columbia Statement No. 1-R, p. 10). Therefore, since developments are uniquely positioned to bring natural gas service to a large number of new residential customers and OCA's concerns about developments participating in the Pilot Rider NAS program are unfounded, OCA's proposal to exclude residential developments should be rejected.

**E. OCA'S OTHER PROPOSED MODIFICATIONS SHOULD BE DENIED**

OCA proposes several other modifications to Pilot Rider NAS that should be denied. To begin, Mr. Watkins asserts that the Company's DCF model should have separate entries for Company-owned service lines and customer-owned service lines. (OCA Statement No. 1, p. 14). He notes that under Columbia's Commission-approved tariff, the customer installs, owns, and maintains the service line in the Company's western service territory, while the Company installs, owns, and maintains the service line in its eastern service territory. (OCA Statement No. 1, pp. 13-14). Further, as noted by Mr. Watkins, Columbia provides up to 50' of service line on an applicant's property at no cost to the customer in its eastern service territory. (OCA Statement No. 1, p. 14). The purpose of the proposed modification, according to OCA, is "to ensure that individual field personnel appropriately apply the model in accordance with the Public Utility Code and the Company's approved Tariff." (OCA Statement No. 1, p. 14). Mr. Watkins appears to think that field personnel might incorrectly include customer-owned services in the model for projects in western Pennsylvania. However, no evidence exists that Columbia's field personnel are not applying the model correctly. Moreover, Mr. Evans notes in his rebuttal testimony that "Columbia's personnel know how to use the model and input the correct amounts for each project they evaluate." (Columbia Statement No. 1-R, p. 6). Those personnel also do not need a breakout of the expense detail because the model is used internally. (Columbia

Statement No. 1-R, p. 6). Therefore, this modification would only impose additional labor and costs to redesign the model and retrain personnel on how to utilize it. (Columbia Statement No. 1-R, p. 6). Thus, OCA's proposed modification to the DCF model should be rejected.

OCA also proposes that Pilot Rider NAS should not be available in areas already served by another NGDC. (OCA Statement No. 1, pp. 17, 19). Specifically, Mr. Watkins recommends that Pilot Rider NAS should not be allowed "in areas where mains of another natural gas company are already available for the applicants to take service." (OCA Statement No. 1, p. 19). Initially, it is to be noted that this restriction is vague. Mr. Watkins does not explain how to define where mains of another NGDC are "available." (Columbia Statement No. 1-R, p. 11). Furthermore, if an applicant requested a line extension from Columbia today, Columbia cannot reject the request based upon whether another gas utility's mains were in the area. (Columbia Statement No. 1-R, pp. 11-12).<sup>9</sup> Pilot Rider NAS should similarly not be limited in such a fashion. (Columbia Statement No. 1-R, p. 12). Furthermore, Mr. Evans states in his rebuttal testimony that "the issue of duplicative facilities is being considered by the Commission in the 'Gas-on-Gas' competition case at Docket Nos. P-2011-2277868 and I-2012-2320323 and should not be prejudged in this context." (Columbia Statement No. 1-R, p. 12).

In addition, OCA recommends a second option for the term of the Pilot Rider NAS program. (OCA Statement No. 1, p. 18). Under this proposal, Pilot Rider NAS applicants would have the option of choosing between the 20-year term capped at \$35.00 or a 10-year term with no payment cap and a maximum recoverable amount of \$8,000. (OCA Statement No. 1, p. 18). Columbia disagrees that this additional option under Pilot Rider NAS should be implemented. The different payment term and dollar limitation would cause additional programming and

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<sup>9</sup> Columbia observes that there is no reason to believe that a residential customer of another gas utility would pay a deposit, or use Pilot Rider NAS, to switch to Columbia's service. Therefore, Pilot Rider NAS would not be used to take residential customers from another utility.

administration issues for the program. (Columbia Statement No. 1-R, p. 14). Thus, it would add costs for the pilot. A shorter term is also unnecessary because customers always have the option of paying down the remaining Pilot Rider NAS balance early. (Columbia Statement No. 1-R, p. 14). Since customers always have the option to voluntarily increase their monthly payments to pay off the balance in 10 years (or less) or to pay the balance off with a lump sum without penalty, no reason exists for the additional Pilot Rider NAS program option proposed by Mr. Watkins. (Columbia Statement No. 1-R, p. 14).

OCA also proposes to increase the annual funding for Pilot Rider NAS from \$1 million to \$2 million. (OCA Statement No. 1, p. 18). As discussed in Section II, *supra*, Columbia set the \$1 million limit on annual funding to prevent any adverse impact on its main replacement program. Columbia only has so much capital to invest in any given year. (Columbia Statement No. 1-R, p. 15). Funneling another \$1 million in annual funding to Pilot Rider NAS may adversely affect Columbia's ability to replace existing bare steel mains. (Columbia Statement No. 1-R, pp. 15-16). Moreover, OCA has noted in its surrebuttal testimony that under Mr. Watkins's "worst case scenario," any increase in capital investment pursuant to Pilot Rider NAS, as modified by OCA, would increase cost shifting to existing customers. (OCA Statement No. 1-SR, p. 4 n.5). Despite recognizing this, OCA proposes to double the annual funding of Pilot Rider NAS and, therefore, double the cost shifting to existing customers that will occur if its modifications are adopted. Therefore, annual funding for Pilot Rider NAS should remain at \$1 million.

For all the reasons stated above, OCA's proposed modifications to Columbia's Pilot Rider NAS program should not be adopted.

## V. OSBA'S POSITION

### A. **NO NEED EXISTS FOR OSBA'S PROPOSED REVIEW OF TAX DEPRECIATION BENEFITS IN THE CUSTOMER CONTRIBUTION CALCULATION**

OSBA witness Robert D. Knecht argues that Columbia should review its calculations for customer contributions because he believes that it may not properly reflect tax depreciation benefits. (OSBA Statement No. 1, pp. 3-5, 7). However, Mr. Knecht's position is flawed for several reasons. Mr. Knecht's position is based upon his belief that Columbia is overstating the value of the customer contribution. (OSBA Statement No. 1, p. 4). Mr. Knecht reasons that Columbia "should not obtain any additional depreciation tax shields" because there allegedly is "no incremental gross plant to depreciate." (OSBA Statement No. 1, p. 4; *see also* OSBA Statement No. 3, p. 2).

OSBA's argument is incorrect. The crux of OSBA's argument is its assertion that contributions in aid of construction ("CIACs") are not depreciable. OSBA fails to recognize that the Internal Revenue Code, as amended by the Tax Reform Act of 1986, treats CIACs as taxable income to the utility. Consequently, line extensions funded by CIACs are depreciable assets for tax purposes. (Columbia Statement No. 1-R, p. 17). Therefore, Columbia appropriately reflects tax depreciation benefits in its economic model.

The Commission's investigation in 1989 concerning how to treat the new taxable status of CIACs supports this position. *See Re Contributions in Aid of Construction and Customer Advances*, Docket No. I-880083, 70 Pa. PUC 44, 47 (Order Entered June 14, 1989). Therein, the Commission determined that natural gas utilities should include in their rate base the resulting deferred tax debit from paying income tax on the CIAC. *Id.* at 47-48, 57. Moreover, as the natural gas utility receives the tax depreciation on the facilities constructed with the CIAC, the deferred tax debit is removed from the utility's rate base. *Id.*

Here, Columbia's approach of including tax depreciation benefits in its economic model is entirely consistent with the Tax Reform Act of 1986 and the Commission's order in *Re Contributions in Aid of Construction and Customer Advances*. To begin, Columbia treats the CIACs it receives from customers as taxable income. Moreover, for tax purposes, it considers the facilities funded by CIACs as depreciable assets. Additionally, the deferred tax debit resulting from Columbia paying income tax on the CIAC is included in its rate base. As the Company realizes the tax depreciation on the facilities funded by the CIAC, it removes the deferred tax debit from its rate base.

In his surrebuttal testimony, Mr. Knecht also mischaracterizes the Commission's findings in *Re Contributions in Aid of Construction and Customer Advances*. Mr. Knecht asserts that Columbia had an alternative to including taxes on CIACs in rate base because Columbia had the option to charge the taxes to the applicant as a gross up to the contribution. (OSBA Statement No. 3, p. 3 n.1). As discussed previously, the Commission explicitly approved the method used by Columbia in *Re Contributions in Aid of Construction and Customer Advances*. However, the "grossed up for income taxes" method, which Mr. Knecht alleges was also approved, could only continue to be used by those "gas utilities which currently employ[ed]" that method. *Id.* at 57. The Commission stated further that "[s]hould any electric or gas utility wish to deviate from these methods it must file a petition, complete with proposed tariffs, to deviate from this method." *Id.* Since Columbia has neither used the grossed-up method cited by Mr. Knecht nor petitioned to use it, the Company should continue to use the methodology explicitly approved by the Commission in *Re Contributions in Aid of Construction and Customer Advances*, and any argument to the contrary is without merit. Thus, for the foregoing reasons, Columbia properly

includes accelerated tax depreciation benefits in its model, and OSBA's proposed review of the model should be rejected.

**B. OSBA'S PROPOSAL TO GROSS UP FOR INCOME TAX COSTS IN THE PILOT RIDER NAS CHARGE CALCULATION SHOULD BE REJECTED**

OSBA also proposes that the interest rate used in the Pilot Rider NAS charge calculation should be grossed up for income tax costs. (OSBA Statement No. 1, pp. 5, 7). However, Mr. Knecht's argument is in error. While Mr. Knecht contends that the Company understates the requisite revenues to fund the Pilot Rider NAS investment by allegedly not reflecting the equity cost of capital's associated income tax costs, no need exists to gross up the interest rate for calculating the Pilot Rider NAS charge. (OSBA Statement No. 1, pp. 5, 7; Columbia Statement No. 1-R, pp. 18-19). As explained by Mr. Evans in his rebuttal testimony, "Columbia has proposed the Pilot Rider NAS charge to be consistent with its economic evaluation of line extensions," which "uses its most recent weighted average cost of capital to determine if any deposit is due from the customer." (Columbia Statement No. 1-R, pp. 18-19). Therefore, it is simpler, more efficient, and consistent with the Company's evaluation of line extensions for Columbia to use the weighted average cost of capital when determining the Pilot Rider NAS monthly surcharge and the total deposit due. (Columbia Statement No. 1-R, p. 19).

Moreover, grossing up the interest rate used in the Pilot Rider NAS surcharge calculation would needlessly complicate the formula. (Columbia Statement No. 1-R, p. 19). Mr. Knecht fails to recognize that a deferred tax impact exists, which serves to reduce rate base, and that between base rate cases, Columbia incurs carrying charges. (Columbia Statement No. 1-R, p. 19). Mr. Evans explains that "different tax impacts and carrying charges would cause minor up and down changes to the interest rate," and that these fluctuations would unnecessarily complicate the Pilot Rider NAS surcharge calculation. (Columbia Statement No. 1-R, p. 19).

Thus, OSBA's proposed modification to Columbia's calculation of the Pilot Rider NAS charge should be denied.

**C. OSBA'S PROPOSED MODIFICATION TO RECORD CUSTOMER CONTRIBUTIONS WHETHER PAYMENTS ARE MADE OR NOT SHOULD BE DENIED.**

OSBA has proposed that Columbia should record customers' Pilot Rider NAS surcharge payments and write down gross plant regardless of whether the payments are actually made. (OSBA Statement No. 1, pp. 6-7). OSBA's proposal is without merit.

OSBA offers two reasons for its proposal. First, OSBA believes that the Company has "little leverage" to collect payments because it will not terminate service for nonpayment. (OSBA Statement No. 1, p. 6). However, Columbia does have leverage to collect payments from its customers for nonpayment. (Columbia Statement No. 1-R, p. 20). As observed by Mr. Evans in his rebuttal testimony, "Columbia has legal avenues to collect outstanding payments from customers besides shutting off their service." (Columbia Statement No. 1-R, p. 20).

OSBA's second reason is that "the relatively high implied financing costs" means that applicants most likely to enlist in the program will have capital constraints and, as a result, will be less likely to pay the NAS surcharge. (OSBA Statement No. 1, p. 6). However, applicants with more interest in Pilot Rider NAS are not likely to present problems with nonpayment. (Columbia Statement No. 1-R, p. 20). As discussed earlier, the monthly surcharge "is capped at \$35.00, but it will often times be lower." (Columbia Statement No. 1-R, p. 20). Capping the monthly surcharge at such a small amount increases the likelihood that customers will pay the surcharge in full and on time. (Columbia Statement No. 1-R, p. 20). Customers can also more easily account for the payment each month because it is fixed. (Columbia Statement No. 1-R, p. 20). Therefore, OSBA's concerns are unfounded.

As part of its proposal to write down payment balances even if the payments are not made, OSBA also proposes adding an uncollectibles component to the Pilot Rider NAS surcharge to offset the uncollectible expenses that the Company may incur. (OSBA Statement No. 1, p. 6). OSBA's proposal would completely change the operation of Pilot Rider NAS. It would create hypothetical recovery of principal and interest on a Pilot Rider NAS project and then treat the hypothetical recovery as an uncollectible expense. Columbia would be placed at risk for these uncollectible amounts and would be required to incorporate an unknown additional charge in the Pilot Rider NAS surcharge to compensate for this unknown collectible. OSBA does not indicate whether this uncollectible charge is an amount in addition to the \$35.00 maximum monthly charge or whether this amount is to be included within the maximum charge. If the former, it violates the proposed pilot cap on the monthly surcharge. If the latter, it would reduce the principal amount of uneconomic plant that can be paid through the Pilot Rider NAS surcharge.

Columbia should not bear the risk for any under-recovery of the Pilot Rider NAS charge because it is not at risk under its traditional contribution method. (Columbia Statement No. 1-R, p. 20). As a result, no need exists for the Pilot Rider NAS charge to include an uncollectible component. (Columbia Statement No. 1-R, p. 20). Columbia's effort to develop an alternative to make contributions more affordable to pay should not be changed to put Columbia at risk. Thus, OSBA's proposal to write down gross plant whether or not payments are actually received and its proposal to add an uncollectible component to the Pilot Rider NAS charge should be rejected.

**VI. CONCLUSION**

For all the reasons stated above, Columbia Gas of Pennsylvania, Inc. respectfully requests that Administrative Law Judge Mark A. Hoyer and the Pennsylvania Public Utility Commission approve Supplement No. 210 without modification and deny the modifications, other than the unopposed reporting requirements, proposed by the Office of Consumer Advocate and the Office of Small Business Advocate.

Respectfully submitted,



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**APPENDIX A**  
**Proposed Findings of Fact**

Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) proposes the following findings of fact.

1. On February 26, 2014, Columbia filed with the Pennsylvania Public Utility Commission (“Commission”) Supplement No. 210 to its Tariff Gas – Pa. P.U.C. No. 9 (“Supplement No. 210”). Supplement No. 210, which was issued February 26, 2014, and was to be effective April 28, 2014, proposes a Pilot Rider New Area Service (“NAS”) to make natural gas service more accessible to new residential customers and developers of new residential plans in Columbia’s certificated service territory, while minimizing cost shifting to existing customers.

2. Columbia is proposing Pilot Rider NAS, a four-year pilot program, as an alternative payment option for customers requesting distribution line extensions in areas that currently do not have gas distribution facilities. (Columbia Statement No. 1, pp. 2-3).

3. Columbia’s current procedure for extending facilities to new applicants begins with an economic analysis that determines whether the full investment cost of the line extension is cost-justified by the projected revenues. (Columbia Statement No. 1, p. 2).

4. If the project is not cost-justified, the applicant or applicants must pay an upfront deposit to receive the distribution line extension. (Columbia Statement No. 1, p. 2).

5. The amount of the upfront deposit equals the present value amount of investment to extend the facilities that are in excess of the projected future revenues from the new applicant(s) over the next 40 years. (Columbia Statement No. 1, p. 5).

6. The economic analysis and determination of the deposit due would remain unchanged under Pilot Rider NAS. (Columbia Statement No. 1, p. 5).

7. The lump-sum upfront deposit can often be meaningful and can hinder the expansion of natural gas service to unserved and underserved portions of Columbia's service area. (Columbia Statement No. 1, p. 3).

8. Pilot Rider NAS aims to expand natural gas service to unserved and underserved areas by serving as an additional option for customers to pay the deposit for the uneconomic portion of a line extension. Specifically, Supplement No. 210 allows all or a portion of the deposit to be paid through a monthly surcharge over a 20-year period. (Columbia Statement No. 1, pp. 2-3).

9. To maintain a simple pilot program and to control costs, only a 20-year payment term is permitted in calculating the Pilot Rider NAS surcharge amount. (Columbia Statement No. 1, p. 6; Columbia Statement No. 1-R, p. 14).

10. A customer may pay off the principal balance at any time. (Columbia Statement No. 1-R, p. 14).

11. The monthly surcharge includes the carrying costs for the 20-year term and contains a principal amount and an interest amount. (Columbia Statement No. 1, pp. 5-6).

12. Under Pilot Rider NAS, the amount of the surcharge per meter may not exceed \$35.00 per month. (Columbia Statement No. 1, p. 11).

13. If the amount of the uneconomic portion of the line extension exceeds the principal amount that can be recovered through the Pilot Rider NAS surcharge, the applicant will be required to pay the difference through an upfront deposit. (Columbia Statement No. 1, p. 11).

14. When a project involves more than one meter, the payment amount will be applied to all of the meters involved over the 20-year term. (Columbia Statement No. 1, p. 5).

15. The monthly surcharge will remain the same for 20 years or until the customer pays off the remaining balance, whichever comes first. (Columbia Statement No. 1, p. 6).

16. If more customers are added to the new Pilot Rider NAS line extensions, they would be charged the same surcharge. (Columbia Statement No. 1, p. 8).

17. When customers are added, the principal amount would be collected over a shorter timeframe than initially projected because more customers would be paying down the balance than anticipated. (Columbia Statement No. 1, p. 8).

18. All customers included in a particular Pilot Rider NAS project will receive the surcharge on their bill; however, they do have the option to pay the balance in full with their first bill from Columbia or anytime thereafter. (Columbia Statement No. 1, p. 8).

19. The customer's obligation to pay the monthly surcharge begins when the meter is set, and that obligation remains with the meter. (Columbia Exhibit EAE-4; Columbia Statement No. 1, p. 7).

20. In the event of a customer change, the new customer is responsible for the monthly surcharge or may pay off the remaining balance after receiving the surcharge on the bill. (Columbia Statement No. 1, pp. 7-8).

21. If that new customer does not want to pay the surcharge or the balance remaining, Columbia will not initiate service, and the new customer will have to seek alternative service. (Columbia Statement No. 1, p. 7).

22. In the event of nonpayment of the Pilot Rider NAS charge, Columbia will not disconnect natural gas service, but it will use its standard collection practices. (Columbia Statement No. 1, p. 7).

23. For ratemaking purposes, when a customer chooses Pilot Rider NAS to pay for the deposit, the full cost of the line extension funded by Pilot Rider NAS initially would be placed in Columbia's rate base. (Columbia Statement No. 1, p. 5).

24. As the monthly surcharges are received, the principal amounts will be applied as a customer advance to reduce the rate base. (Columbia Statement No. 1, p. 5).

25. The interest amount will be credited to the Company's cost of service to compensate all of the existing customers for the carrying costs. (Columbia Statement No. 1, pp. 5-6).

26. The interest rate used in calculating the monthly surcharge is set at Columbia's weighted average cost of capital in its most recent base rate proceeding. (Columbia Statement No. 1, p. 6).

27. Setting the interest rate used in calculating the monthly surcharge at Columbia's weighted average cost of capital compensates existing customers for the carrying costs of the Pilot Rider NAS line extensions in rate base, thereby avoiding cost shifting from an inadequate interest rate. (Columbia Statement No. 1-R, p. 5).

28. If a Pilot Rider NAS project has an unpaid balance at the end of the 20-year period, that amount remains in Columbia's rate base. (Columbia Statement No. 1, p. 9).

29. The Pilot Rider NAS program will be available to all residential customers and bona fide developers of residential properties in Columbia's service territory that seek natural gas service. (Columbia Statement No. 1, p. 4).

30. Certain qualifications exist for a developer of residential properties to be considered a "bona fide developer" under the Pilot Rider NAS program. (Columbia Statement No. 1, p. 4).

31. The developer must be building in an area where Columbia currently does not provide service and it must be building or developing a large aggregation of residential entities that ask to obtain natural gas service. (Columbia Statement No. 1, p. 4).

32. Columbia will consider the following regarding developers requesting Pilot Rider NAS: (1) the number of potential customers; (2) the density of the area seeking service; (3) the potential usage; and (4) the cost of extending or expanding service. (Columbia Statement No. 1, p. 4).

33. Commercial buildings will be excluded from the program. (Columbia Statement No. 1, p. 4).

34. If the project is a combination of residential and commercial buildings and a deposit is due for the project, the deposit will be split among the residential homes and commercial buildings. (Columbia Statement No. 1, p. 4). In such a scenario, the residential homes may use Pilot Rider NAS to pay for their share, but the commercial buildings will be required to pay their share of the deposit up front. (Columbia Statement No. 1, p. 4).

35. Annual funding for each year of the Pilot Rider NAS program is set at maximum of \$1 million of excess amounts that can qualify for Pilot Rider NAS. (Columbia Statement No. 1, p. 10).

36. The \$1 million annual funding limitation enables the Company to balance the extension of new facilities with its other obligations, such as providing safe and reliable service and continuing its main replacement program as scheduled. (Columbia Statement No. 1, p. 10).

37. The limit of \$1 million was determined by reviewing customer deposits for the last five years. (Columbia Statement No. 1, pp. 10-11). Each year, the sum of those deposits averaged approximately \$300,000. (Columbia Statement No. 1, p. 11).

38. If the future Pilot Rider NAS line extensions are similar to Columbia's other line extension projects for the past five years, Columbia will have more than three times the number of line extension projects compared to each of the past five years. (Columbia Statement No. 1, p. 11).

39. The Office of Consumer Advocate's ("OCA") proposal to set the interest rate used in the Pilot Rider NAS surcharge calculation at 3% shifts costs to existing customers. (OCA Statement No. 1, p. 20).

40. Each residential customer will realize energy savings of about \$1,000 per year by utilizing natural gas over alternative energy sources. (OCA Statement No. 1-R, p. 2).

41. A customer using Pilot Rider NAS will pay at maximum \$420 a year in monthly surcharges at \$35.00 per month. (Columbia Statement No. 1-SR, p. 3).

42. Home equity loans involve credit checks, collateral, and a home appraisal, among other things, to which a Pilot Rider NAS applicant would not be subjected. (Columbia Statement No. 1-R, p. 8).

43. Existing customers have paid for much of the existing backbone plant that is needed to serve the new customers, and Pilot Rider NAS projects will provide no contribution toward that existing backbone plant. (Columbia Statement No. 1-R, p. 16).

44. Any positive income effect from other main extension projects helps spread the cost of remaining recovery among a broader customer base. (Columbia Statement No. 1-R, p. 16).

45. OCA's proposed changes to Columbia's economic model would shift costs to existing customers, require the Company to employ two economic models (one for Pilot Rider NAS and one for traditional main extensions), increase administrative costs, confuse customers,

and adversely affect Columbia's shareholders due to regulatory lag. (Columbia Statement No. 1-R, pp. 12-13, 15).

46. Excluding certain capital investment to add new customers and using Columbia's cost of debt instead of its weighted cost of capital in the discounted cash flow ("DCF") model lowers the upfront deposit owed by customers. (Columbia Statement No. 1-R, p. 15).

47. The costs of the meter and regulation equipment are properly included in Columbia's economic model because they are costs the Company will incur to expand its service infrastructure. (Columbia Statement No. 1-R, p. 6).

48. Columbia's customer charge, which covers the costs of the service lines, meters, and regulating equipment, is sufficient on its own to justify a meter and average service line without a customer contribution. (Columbia Statement No. 1-R, p. 7).

49. OCA's proposal for a reporting requirement that asks for Columbia to annually provide the number of customers along Pilot Rider NAS extensions who have not yet connected and, to the extent available, why would pose additional cost and effort for little reason and would require surveying every potential customer along the main lines and determining why each customer has not obtained gas service. (Columbia Statement No. 1-R, p. 11). Further, this requirement is extremely vague and entirely subjective. (Columbia Statement No. 1-R, p. 11).

50. In place of that reporting requirement, Columbia proposes to annually identify the number of projects evaluated for Pilot Rider NAS service that ultimately do not elect Pilot Rider NAS. (Columbia Statement No. 1-R, p. 11).

51. OCA's proposal that Columbia provide in each rate filing a separation of the projected investment in Pilot Rider NAS capital costs from all other projected capital expenditures amounts to duplicative work. (Columbia Statement No. 1-R, p. 14). It is also

unclear how a Pilot Rider NAS-financed main that serves other customers would be reported under this requirement. (Columbia Statement No. 1-R, p. 15).

52. Columbia's proposal does not change its existing practice of applying its DCF model to new development projects. (Columbia Statement No. 1-R, p. 9).

53. If a developer fails to disclose the existence of the Pilot Rider NAS surcharge to the homebuyer, that dispute is between the homebuyer and the developer. (Columbia Statement No. 1-R, p. 10).

54. New purchasers will be advised by Columbia of the charge when a request for service is made. (Tr. 17).

55. Pilot Rider NAS is a tariffed rate and like all tariffed rates, an applicant for service would not know the charges prior to commencing service or from looking at Columbia's tariff. (Tr. 21).

56. Whether the developer pays the upfront contribution out of its pocket or it is paid through Pilot Rider NAS, the costs of the line extension will be passed on to the homebuyer. (Columbia Statement No. 1-R, p. 10).

57. When a developer prices the home or lot to be sold to the homebuyer, it would pass on the cost of the upfront deposit to the homebuyer. (Columbia Statement No. 1-R, p. 10). Under Pilot Rider NAS, that cost would be passed on to the homebuyer as well, except it would be recovered over a 20-year term.

58. Residential developments have the potential to reach a large number of residential customers. (Columbia Statement No. 1-R, p. 10).

59. There has been some reluctance of developers to install natural gas equipment in areas not currently served by a natural gas distribution company (“NGDC”) distribution main. (OCA Statement No. 1, p. 4).

60. In 2013 alone, 13 potential new development projects chose not to install gas service. (Tr. 16).

61. OCA’s proposal that the Company’s DCF model should have separate entries for Company-owned service lines and customer-owned service lines would only impose additional labor and costs to redesign the model and retrain personnel on how to utilize it. (Columbia Statement No. 1-R, p. 6).

62. Under Columbia’s Commission-approved tariff, the customer installs, owns, and maintains the service line in the Company’s western service territory, while the Company installs, owns, and maintains the service line in its eastern service territory. (OCA Statement No. 1, pp. 13-14).

63. Columbia’s field personnel are applying the model correctly. (Columbia Statement No. 1-R, p. 6).

64. Columbia’s personnel also do not need a breakout of the expense detail because the model is used internally. (Columbia Statement No. 1-R, p. 6).

65. If an applicant requested a line extension from Columbia today, Columbia cannot reject the request based upon whether another gas utility’s mains were in the area. (Columbia Statement No. 1-R, pp. 11-12).

66. The issue of duplicative facilities is being considered by the Commission in the “Gas-on-Gas” competition case at Docket Nos. P-2011-2277868 and I-2012-2320323 and should not be prejudged in this context. (Columbia Statement No. 1-R, p. 12).

67. OCA's proposal to provide Pilot Rider NAS applicants with an alternative option of a 10-year term with no payment cap and a maximum recoverable amount of \$8,000 would cause additional programming and administration issues for the program. (Columbia Statement No. 1-R, p. 14).

68. A shorter term than 20 years is unnecessary because customers always have the option to voluntarily increase their monthly payments or pay the balance off with a lump sum without penalty. (Columbia Statement No. 1-R, p. 14).

69. OCA's proposal to increase the annual funding for Pilot Rider NAS from \$1 million to \$2 million may adversely affect Columbia's ability to replace existing bare steel mains. (Columbia Statement No. 1-R, pp. 15-16).

70. Doubling the annual funding of Pilot Rider NAS doubles the cost shifting to existing customers if OCA's modifications were adopted. (OCA Statement No. 1-SR, p. 4 n.5).

71. Line extensions funded by contributions in aid of construction ("CIACs") are depreciable assets for tax purposes. (Columbia Statement No. 1-R, p. 17).

72. Columbia treats the CIACs it receives from customers as taxable income.

73. The deferred tax debit resulting from Columbia paying income tax on the CIAC is included in its rate base. As the Company realizes the tax depreciation on the facilities funded by the CIAC, it removes the deferred tax debit from its rate base.

74. Columbia has leverage to collect payments from its customers for nonpayment because it has legal avenues to collect outstanding payments from customers besides shutting off their service. (Columbia Statement No. 1-R, p. 20).

75. Applicants with more interest in Pilot Rider NAS are not likely to present problems with nonpayment. (Columbia Statement No. 1-R, p. 20).

76. Capping the monthly surcharge at \$35.00 increases the likelihood that customers will pay the surcharge in full and on time. (Columbia Statement No. 1-R, p. 20).

77. Customers can more easily account for the payment each month because it is fixed. (Columbia Statement No. 1-R, p. 20).

78. Columbia does not bear the risk for any under-recovery of a customer contribution under its traditional contribution method. (Columbia Statement No. 1-R, p. 20).

**APPENDIX B**  
**Proposed Conclusions of Law**

Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) proposes the following conclusions of law:

1. The burden of proof, also known as the burden of persuasion, means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery, Inc. v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950).

2. A party that offers a proposal not included in the Applicant’s filing bears the burden of proof for such proposal. *See, e.g., Pa. P.U.C. v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at \*165-68 (Order Entered Sept. 28, 2007); *Pa. P.U.C. v. Metro. Edison Co.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5, at \*111-12 (Order Entered Jan. 11, 2007). As the proponent of a Commission order with respect to its proposal, such party bears the burden of proof as to proposals not included in the filing.

3. Columbia’s discounted cash flow (“DCF”) model comports with the Commission’s regulations. Section 59.17(a), 52 Pa. Code § 59.17(a), is intended to prevent situations where customers install and own meters. It is not intended to prohibit utilities from accounting for the cost of meters and regulating equipment in their economic analysis for line extensions.

4. The Internal Revenue Code, as amended by the Tax Reform Act of 1986, treats contributions in aid of construction (“CIACs”) as taxable income to the utility.

5. The Commission determined in *Re Contributions in Aid of Construction and Customer Advances*, Docket No. I-880083, 70 Pa. PUC 44, 47-48, 57 (Order Entered June 14, 1989) that natural gas utilities should include in their rate base the resulting deferred tax debit from paying income tax on the CIAC. The Commission also concluded that as the natural gas

utility receives the tax depreciation on the facilities constructed with the CIAC, the deferred tax debit is removed from the utility's rate base. *Id.*

6. Supplement No. 210, as proposed by Columbia, is reasonable and is adopted without modification, except for the unopposed reporting requirements.

7. The Office of Consumer Advocate's ("OCA") proposed modifications the Pilot Rider NAS program, other than the reporting requirements unopposed by Columbia, are denied.

8. The Office of Small Business Advocate's ("OSBA") proposed modifications to the Pilot Rider NAS program are denied.