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July 23, 2014

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
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Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.
Docket No. R-2014-2407345

Dear Secretary Chiavetta:

Enclosed please find the Reply 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/jl
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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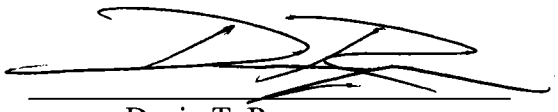

Devin T. Ryan

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF OF COLUMBIA GAS OF PENNSYLVANIA, INC.

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I. INTRODUCTION

On July 16, 2014, Columbia Gas of Pennsylvania, Inc. ("Columbia Gas" or the "Company") filed its Main Brief ("Main Brief or "MB") in accordance with the Prehearing Order issued by Administrative Law Judge Mark A. Hoyer (the "ALJ") on May 23, 2014. Therein, Columbia explained its positions on its proposed Pilot Rider New Area Service ("Pilot Rider NAS") program and the other parties' proposed modifications to the pilot program. Main Briefs also were filed by the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA"). On July 16, 2014, the Columbia Industrial Intervenors ("CII") advised that it was not filing a Main Brief.

Pilot Rider NAS aims to expand natural gas service to unserved and underserved areas of Columbia's service territory by providing applicants with an additional option to pay for a necessary upfront deposit to extend service. Under the pilot program, when an upfront deposit is due, an applicant can choose to pay a fixed amount up to $35.00 each month for a 20-year term instead of paying the whole deposit up front.

This Reply Brief primarily responds to the Main Briefs submitted by OCA and OSBA. In responding to the arguments raised by OCA and OSBA in their Main Briefs, Columbia will endeavor to rely on cross-references to those portions of the Company's Main Brief that have already responded to the issues raised by OCA and OSBA, rather than repeating the same arguments herein.

For reasons explained below, as well as those more fully explained in Columbia's Main Brief, OCA's and OSBA's proposed modifications are unreasonable and should be rejected.

II. SUMMARY OF ARGUMENT

Both OCA's and OSBA's proposed modifications are unreasonable and should be rejected. (Columbia MB pp. 10-35). OCA's proposed Pilot Rider NAS modifications should be rejected because they disrupt the fundamental concepts that underlie the pilot: avoiding cost shifting, making the pilot available to diverse categories of new customers, and keeping the pilot simple. The pilot should test the effectiveness of Pilot Rider NAS without shifting costs to existing customers. Shifting costs of uneconomic main extensions to existing customers is unreasonable in the context of the pilot. OCA has not shown a need to lower the interest rate to make the program more attractive. Nor has OCA demonstrated a need to burden existing customers with the uneconomic cost of new customers' line extensions by excluding certain capital investments and replacing the equity return with the cost of debt in Columbia's economic model. OCA also argues that residential developments should be excluded from Pilot Rider NAS because there is allegedly no evidence that developers avoid natural gas service due to the upfront deposit. However, OCA's own witness has provided ample evidence that developers avoid natural gas service because of the upfront deposit. Finally, certain of OCA's additional reporting requirements and its other proposed modifications to the structure of Pilot Rider NAS complicate the pilot and add costs. Therefore, these additional reporting requirements and other proposed modifications should be rejected.

OSBA's proposed modifications also should be denied. OSBA fails to respond to Columbia's arguments against OSBA's proposal to record customer contributions whether payments are made or not. Moreover, while Columbia agrees with OSBA that this proceeding is not the appropriate proceeding to examine substantive changes to Columbia's economic model, OSBA's Main Brief raises several other contentions that should be rejected. Thus, for reasons explained below, OCA's and OSBA's proposals are unreasonable and should be denied.

III. REPLY ARGUMENT

A. PURPOSE OF THE PILOT RIDER NAS PROGRAM

The purpose of the Pilot Rider NAS program is to expand natural gas service to unserved and underserved areas of Columbia's service territory. (Columbia MB p. 4). From the perspective of Columbia and I&E, Pilot Rider NAS should test the effectiveness of the program without shifting costs to existing customers. (Columbia Statement No. 1, p. 3; Columbia MB pp. 10-12; I&E MB pp. 4, 10, 16). However, OCA, with little support, presumes that the Pilot Rider NAS program will be unsuccessful. (OCA MB p. 4). As a result, OCA wishes to burden existing customers with the cost of uneconomic investments before the Pilot Rider NAS program has even been tested. (Columbia MB pp. 10-12).

While Columbia maintains that Pilot Rider NAS as proposed by the Company will be successful, the reason for the four-year pilot program is to test its effectiveness and evaluate its success without shifting costs to existing customers. (Columbia Statement No. 1, p. 3; Columbia MB pp. 10-12). As noted by I&E in its Main Brief, this is no time to undertake a wholesale change to Columbia's proposed Pilot Rider NAS program and force existing customers to bear costs of extending service to new customers. (I&E MB p. 4). Therefore, OCA's proposed modifications run contrary to the purpose of the Pilot Rider NAS program and should be rejected.

In addition, the Pilot Rider NAS program aims to expand service to unserved and underserved areas by providing an additional option for applicants to pay for the uneconomic portions of line extensions. (Columbia MB p. 5). OCA states in its Main Brief that under the Pilot Rider NAS program, the maximum deposit applicants will be able to reflect in Pilot Rider

NAS is $4,184[1] over 20 years. (OCA MB p. 5). Based upon this, OCA asserts that changes should be made to increase the maximum deposit covered in Pilot Rider NAS and to change Columbia's economic model to shift uneconomic investment to existing customers. However, OCA presents an incomplete picture.

First, OCA fails to recognize the cost of a main extension that an applicant's projected new revenues can support. For example, a customer with projected annual usage of 100 dekatherms ("Dth") would provide revenues to support approximately $6,200 in an economic main extension. (OSBA Exhibit IEc-2, Response to OSBA Interrogatory Set 1-002). Thus, the combination of new customer revenues and Columbia's proposed Pilot Rider NAS could enable a $10,400 main extension.

Second, OCA fails to recognize that its figure is limited to a single applicant paying the maximum $35.00 monthly surcharge over a period of 20 years. If multiple applicants request to participate in the Pilot Rider NAS program to pay for the uneconomic portion of a line extension, the amount grows linearly because the deposit amount is split among all of those applicants. (Columbia Statement No. 1, p. 5). For example, if five homeowners agree to use Pilot Rider NAS to pay for a line extension at the maximum $35.00 monthly surcharge over 20 years, the maximum investment would increase by a factor of five, to potentially over $50,000. Therefore, the Pilot Rider NAS program does not need to be revised to shift uneconomic portions of line extensions to existing customers to be a successful alternative.

B. OCA'S PROPOSAL TO SHIFT COSTS TO EXISTING CUSTOMERS IS UNREASONABLE

Several of OCA's proposals shift costs of uneconomic main extensions to existing customers. (Columbia MB pp. 10-11). OCA submits, however, that its proposed modifications

[1] Columbia has stated that the maximum deposit supportable by a single applicant paying the maximum $35.00 monthly surcharge is $4,212.57. (OSBA Exhibit IEc-2, Response to OSBA Interrogatory Set 1-008).

do not "harm[] existing ratepayers." (OCA MB p. 9). However, OCA even admits that its proposals shift costs to existing customers. (OCA Statement No. 1, p. 20; OCA Statement No. 1-SR, p. 3). Simply put, shifting costs to existing customers harms existing customers, as it requires them to pay for uneconomic investments for which they currently do not pay.

OCA's proposal falls squarely within the definition of "subsidy" provided by I&E – "[t]he dictionary defines subsidize as 'to help someone pay for the costs of something.'" (I&E Statement No. 1-RJ, p. 13). Columbia agrees with I&E that OCA's proposal does precisely that. (I&E Statement No. 1-RJ, p. 13).

OCA's position is that the cost shifting is justified because Columbia's proposal, as alleged by OCA, does not adequately address the high cost to the consumer for the uneconomic portion of the main. (OCA MB p. 4). OCA's position is erroneous. Pilot Rider NAS addresses the issue by spreading the cost of the uneconomic portion of the line extension over 20 years and capping the monthly surcharge at $35.00. (Columbia MB p. 5). In fact, as explained previously, the whole purpose of Pilot Rider NAS is to provide an additional option to pay for the uneconomic portions of line extensions instead of having applicants pay for them all up front.

Moreover, OCA proposes to shift costs to existing customers in order to make the program more affordable and attractive to new applicants. (OCA MB p. 4). OCA's "affordability" solution is to have existing customers pick up the cost of uneconomic expansions. This is particularly inequitable in light of the annual savings that new customers will realize by switching to natural gas service. As discussed in Columbia's Main Brief, OCA has noted new customers can achieve annual savings of around $1,000 by switching to natural gas service. (Columbia MB p. 12). Comparing the annual cost of paying the maximum $35.00 monthly surcharge ($420) to the savings to be achieved ($1,000), the new customer will realize

substantial savings by using Pilot Rider NAS. (Columbia MB p. 12). Given the annual savings, no reason exists for making the program more affordable and attractive at the expense of existing customers.

OCA asserts that any impact on existing customers has been "overstated." (OCA MB p. 19). OCA offers three reasons in support of its assertion: (1) it assumes no new revenue contributions from new customers; (2) it does not recognize that new customers will be paying full future tariff rates; and (3) it does not account for the fact that new customers' monthly surcharge payments reduce rate base as contributions over the life of the surcharge. (OCA MB p. 19). OCA also cites Mr. Watkins's surrebuttal testimony to support the contention that I&E witness Ms. Boyd's scenario fails to reflect future increases in distribution rates. (OCA MB p. 12).

OCA's arguments are without merit. First, it is incorrect that Pilot Rider NAS does not consider new revenues from new customers. The $1 million in annual Pilot Rider NAS funding is to finance uneconomic investments. (Columbia MB p. 8). New customer revenues are already considered in the economic model to calculate the economic portion of the line extension that is in rate base. (Columbia Statement No. 1, p. 5). As noted by Columbia in its discovery response to OSBA's question OSBA 1-008, the maximum investment justified by rates is $6,207, whereas the maximum deposit supportable by a single applicant paying the maximum $35.00 monthly surcharge is $4,212.57. (OSBA Exhibit IEc-2). Consequently, new customer revenues are already fully accounted for in the $6,207 figure.

Second, OCA's assertion that Pilot Rider NAS fails to consider future rate increases in its calculations mixes apples and oranges. Any future rate increases cover Columbia's future cost increases, primarily for main replacements. (Columbia Statement No. 1-SR, p. 2). These

revenue increases pay for future investments that likewise are not included in the economic model. The Company's economic model examines the incremental revenues to cover incremental plant investment for a new customer. (Columbia Statement No. 1-SR, p. 2). Therefore, future rate increases bear no consequence in determining the impact of OCA's proposals to shift those incremental costs to existing customers.

Finally, OCA's argument that the impact of its proposals to shift uneconomic costs to current customers is overstated because it fails to account for the monthly surcharge payments is without merit. While it is correct that the principal amount of the surcharge will, over time, be reflected as contributions that reduce rate base, this is proper because the amounts reflect uneconomic investments that properly should be paid by new applicants. The treatment of the principal is, thus, no new "benefit" to existing customers under Pilot Rider NAS. Furthermore, during the term of the surcharge, the uneconomic portion of the investment is in rate base. (Columbia MB pp. 12-13). However, Columbia set the interest rate used in the Pilot Rider NAS surcharge calculation at its weighted average cost of capital to compensate existing customers for the carrying costs of the uneconomic portions of the line extensions. (Columbia MB pp. 12-13). OCA's proposal to reduce the interest rate by nearly 5% will not sufficiently compensate existing customers for those costs. (Columbia MB p. 13).

Thus, under OCA's proposal, costs of uneconomic main extensions are shifted to existing customers, and Columbia is not overstating that cost shift.

1. Setting the Interest Rate Used in the Pilot Rider NAS Surcharge Calculation at 3%

OCA contends that for the Pilot Rider NAS program to be successful and attractive to applicants, the interest rate used in the surcharge calculation must be lowered to 3%. (OCA MB

pp. 14-16). OCA's proposal is unreasonable because it shifts costs to existing customers. (Columbia MB p. 13). OCA raises several arguments in its Main Brief that should be rejected.

First, OCA alleges that the interest rate must be lowered because some Pilot Rider NAS applicants that do not have the option to obtain a home equity loan would be charged a higher interest rate than a home equity loan. (OCA MB p. 15). However, the purpose of the pilot is to provide another option to assist customers in expanding service to unserved and underserved areas of Columbia's service territory. (Columbia MB pp. 4-5). The pilot is not focused just on customers who cannot obtain a home equity loan to pay for the upfront deposit. Moreover, nothing in Pilot Rider NAS prevents applicants from using a home equity loan to pay for the upfront deposit.

OCA also fails to recognize that if bank interest rates are a relevant criterion, a home equity loan rate is an improper comparison. Applicants would likely be charged a higher interest rate for a personal loan than for Pilot Rider NAS. The personal loan interest rate identified by I&E witness Ms. Boyd has a higher interest rate than the Company's weighted average cost of capital. (I&E Statement No. 1-R, pp. 16-17; Columbia MB p. 13). OCA wants Pilot Rider NAS applicants to receive a home equity loan interest rate without having collateral, a credit check, or an appraisal, all of which a bank would perform before giving out a home equity loan. (Columbia MB p. 15). Notably, OCA provides no support for the reason existing customers should be treated like a bank and forced to pay for the uneconomic portion of new customers' line extensions.

In addition, OCA argues that the interest rate is "excessive." (OCA MB p. 11). But there is nothing excessive about it. The fundamental flaw in OCA's argument is that it focuses on the wrong thing. Bank interest rates are not the relevant criterion. The relevant criterion for the

interest rate used to set this tariffed charge is the ratemaking return. Pilot Rider NAS customers will pay the same return that they will pay in utility rates on the utility investment. The interest is then provided as a credit in rate cases to compensate existing customers for the uneconomic share of the investment. (Columbia MB p. 13). Under the traditional economic model used to determine customer contributions, which Mr. Watkins admitted is "appropriate" and "an industry standard" (Tr. 31), Columbia accounts for the necessary return on the capital investment to determine whether the line extension is an economic investment or not. (OCA Statement No. 1, p. 12). To do so, Columbia uses the weighted average cost of capital. (OCA Statement No. 1, p. 12). Therefore, setting the interest rate at the weighted average cost of capital is appropriate and not excessive because it equals the return customers would have paid in rates for an economic plant investment.

Thus, for these reasons and those reasons discussed in the Company's Main Brief (Columbia MB pp. 12-18), OCA's proposal to set the interest rate used in the Pilot Rider NAS surcharge calculation at 3% is unreasonable and should be denied.

2. OCA's Two Proposed Changes to the Economic Model for Pilot Rider NAS Projects – Replacing Equity Return with the Cost of Debt and Removing the Costs of Service Lines, Meters, and Regulating Equipment

For Pilot Rider NAS projects, OCA proposes to replace the equity return in Columbia's economic model with the cost of debt, even though this proposal would lower the deposit owed from applicants and shift costs to existing customers. (OCA MB p. 20). As discussed above and in the Company's Main Brief, lowering the deposit shifts costs to existing customers, which is unreasonable. (Columbia MB pp. 18, 21). OCA also makes this proposal despite its recognition that its own witness believes that "the Company's use of a DCF model 'generally provides a sound basis for evaluating the feasibility of individual projects.'" (OCA MB p. 10).

OCA's proposal is unfounded. In its Main Brief, OCA attempts to justify its alterations to the Company's economic model by relying on Delmarva Power & Light and Pennsylvania water utilities using the cost of debt in their economic models. (OCA MB p. 17). Noticeably absent from OCA's support is a Pennsylvania gas utility. No evidence is offered by OCA that any other utilities in Pennsylvania, besides water utilities, use the cost of debt in place of the weighted cost of capital.

In addition, OCA's reliance on Pennsylvania water utilities using cost of debt is without merit. OCA points to 52 Pa. Code § 65.21, which requires water utilities to use their weighted long-term debt cost rate when evaluating whether a line extension is economic or not. (OCA MB p. 17). OCA also notes that Chapter 65 was amended by the Commission in *Re Line Extensions*, Docket No. L-930089, 173 Pa. PUC 188, 1996 Pa. PUC LEXIS 162 (Order Entered Oct. 7, 1996). (OCA MB p. 17). To support its position, OCA selects a portion of the Commission's order where the Commission "suggest[ed]" that the water regulations serve as guidance for other utilities' economic models and line extension policies. *Re Line Extensions*, 1996 Pa. PUC LEXIS at *11; (OCA MB p. 18). However, in that order, the Commission was explicit that "the new proposal [was] limited to water utilities" and that it was "no longer proposing that the line extension regulation apply across the board" to the other Pennsylvania utilities. *Re Line Extensions*, 1996 Pa. PUC LEXIS at *10. OCA also fails to realize that in the order, the Commission stated that it would "not hesitate to institute a similar rulemaking in the future . . . if the kinds of problems . . . in the water industry begin to occur regularly in electric, telephone and gas line extension cases." *Id.* at *10-11. However, the Commission's order was issued in 1996, and regulations for natural gas utilities have not changed to mandate the use of cost of debt instead of the equity return since that time.

Further, it is unfair to compare water service to natural gas service. First, water is a basic human need. The Commission removed the language, "safe, adequate and competitively priced alternative" from the water utility regulation because it was unnecessary. *Id.* at *17 n.5. No safe, adequate and competitively priced alternative exists for water. In contrast, people have alternatives to natural gas service, as recognized by the Commission in *Re Line Extensions* and by OCA's own witness. *Id.* at *9-10; (OCA Statement No. 1, pp. 7-9). Therefore, OCA's comparison of water service to natural gas service is improper.

OCA also incorrectly argues that the cost of debt reflects the utility's financing of the new plant investment. (OCA MB p. 19). OCA relies on the Commission's statement in *Re Line Extensions* that "[d]ebt costs are the utility's additional annual cost of debt associated with financing the line extension investment." *Re Line Extensions*, 1996 Pa. PUC LEXIS at *15; (OCA MB p. 17). However, OCA has presented zero evidence to support its contention that Columbia, or any other natural gas utility for that matter, pays for line extension investments solely with debt. One cannot simply assume that gas utilities are paying for the line extensions exclusively with debt. Columbia has a capital structure consisting of both debt and equity, and both debt and equity are incurred to finance new capital investment. Therefore, it would be improper to assume that all of the Company's main extensions are financed with debt. Such contention improperly overlooks the fact that existing customers pay a weighted cost of capital on new investment, and, thus, costs would be shifted by reflecting only a debt cost in the economic model.

OCA's Main Brief also addresses its proposal to remove the costs of service lines, meters, and regulating equipment from Columbia's economic model for Pilot Rider NAS projects. (OCA MB pp. 20-23). However, for reasons explained in more detail in Columbia's

Main Brief, OCA's proposal should be rejected because Columbia's economic model comports with 52 Pa. Code § 59.17(a) and properly reflects the costs to extend and provide service to new customers. (Columbia MB pp. 22-23). OCA's proposal would also shift costs to existing customers and lead to illogical results. (Columbia MB 22-24).

OCA further asserts that removing the costs of service lines, meters, and regulating equipment is appropriate because the purpose of the Pilot Rider NAS program is "to extend mains." (OCA MB p. 21). Such contention is without merit. The purpose of Pilot Rider NAS is to provide another option to pay the upfront cost to extend service. (Columbia Statement No. 1-SR, pp. 4-5; Columbia MB p. 5). There is no logic to a contention that meters, service lines, and regulating equipment are to be included in calculating a traditional upfront contribution, but excluded from Pilot Rider NAS because they are not "mains." Existing customers should not have to bear these investments.

Moreover, as discussed in the Company's Main Brief, OCA's proposal to replace the equity return with the cost of debt and remove the costs of service lines, meter, and regulating equipment would create two economic models. (Columbia MB pp. 18-19). Two economic models would increase Columbia's administrative costs, confuse customers, and adversely affect Columbia's shareholders. (Columbia MB pp. 19-20). OCA has not rebutted Columbia's concerns in testimony and fails to address these concerns about operating two economic models in its Main Brief.

For these reasons and the reasons discussed more fully in Columbia's Main Brief, OCA's proposed modifications to the interest rate used in the Pilot Rider NAS surcharge calculation and to the Company's economic model for Pilot Rider NAS projects are unreasonable and should be rejected.

C. OCA'S EXCLUSION OF RESIDENTIAL DEVELOPMENTS IS UNREASONABLE

OCA proposes to exclude residential developments from participating in Pilot Rider NAS. (OCA MB p. 26). However, OCA's arguments in support of this proposal are without merit. First, OCA states that "there is no evidence to support Columbia's position that developers avoid natural gas due to the upfront costs of extensions." (OCA MB p. 26). In making this statement, the OCA ignores the record evidence in this proceeding. Indeed, ample evidence that the upfront cost of main extensions deters developers was provided by OCA's own witness:

> [H]istorically NGDCs have required residential developers to make either upfront refundable deposits until such new homes are built and customers are using natural gas or provide non-refundable contributions to pay for the expected economic shortfall of expanding natural gas mains into the new development. Whether real or perceived, these upfront cash contributions to make natural gas available have at the very least, increased developers' cash working capital requirements and at most, reduced their profit margins. As such, 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) (emphasis added). Moreover, Mr. Watkins stated that "[t]he methods that have been used for decades have not worked very well at all" in expanding natural gas service in Pennsylvania and throughout the country. (Tr. 33). Furthermore, Columbia's witness also stated, "Currently, many customers and developers do not want to make the upfront payment and, therefore, avoid natural gas service." (Columbia Statement No. 1-SR, p. 5). Columbia's Main Brief also explained that in 2013 alone, 13 new developments chose not to receive natural gas service. (Columbia MB p. 27). Therefore, OCA cannot assert that no evidence exists to support Columbia's position when OCA's own witness and Columbia

presented evidence of residential developments avoiding natural gas service because of the upfront deposits.

In addition, in its Main Brief, OCA reiterates its argument about new homeowners lacking notice of the Pilot Rider NAS surcharge. (OCA MB pp. 26-27). As explained in Columbia's Main Brief, OCA's concerns are unfounded and should be rejected. (Columbia MB pp. 26-27).

OCA also alleges that residential developments should be excluded because by the time new homeowners request natural gas service, they will have missed the opportunity to borrow the amount needed to pay the contribution in aid of construction ("CIAC") up front through their mortgage. (OCA MB p. 27). However, OCA presented no evidence that customers have or will pay for the CIAC with their home mortgage or that the cost of the Pilot Rider NAS deposit amount would be factored into the amount of their mortgage.[2] Furthermore, even if a Pilot Rider NAS customer misses out on the opportunity to pay the deposit up front, that customer always has the option to pay down the balance at any time. (Columbia MB p. 30).

Finally, OCA asserts that permitting residential developments to participate would cause "other complications in the access to service by new customers." (OCA MB p. 27). But OCA provides little support as to how residential developments would complicate new customers' access to natural gas service. To the contrary, as explained in the Company's Main Brief, residential developments would enhance new customers' access to natural gas service because they have the potential to reach a large number of new residential customers. (Columbia MB pp. 27-28). Therefore, residential developments would not complicate access to natural gas service for new customers.

[2] As explained in Section III.A, *supra*, the parties have estimated that the maximum investment justified by a single applicant paying the maximum $35.00 monthly surcharge for 20 years is around $4,200. However, OCA has presented no evidence that a customer would roll such a small amount into his or her mortgage.

Thus, for these reasons and those more fully explained in Columbia's Main Brief, OCA's proposed exclusion of residential developments from Pilot Rider NAS should be denied.

D. ADDITIONAL REPORTING REQUIREMENTS PROPOSED BY OCA SHOULD BE REJECTED

OCA proposes several additional reporting requirements. (OCA MB p. 23).[3] As discussed in the Company's Main Brief, Columbia only opposes a few of those requirements, including the requirement in letter (g) that Columbia annually report the number of customers along Pilot Rider NAS mains that have not connected and, to the extent available, the reason why they have not connected. (Columbia MB pp. 24-26). The Company's Main Brief explains that this requirement is entirely vague and subjective and would only result in increased costs for no reason. (Columbia MB pp. 24-25). As a replacement, Columbia offers to identify the number of projects evaluated for Pilot Rider NAS that did not elect to go forward with the program. (Columbia MB p. 25). OCA notes in its Main Brief that Columbia's alternative reporting requirement "would be useful and should be provided." (OCA MB p. 24).

However, OCA argues that Columbia's concerns with the letter (g) reporting requirement may be "overstated" and proposes that Columbia contact every structure owner with a mailing or delivery address along the potential Pilot Rider NAS extension to determine whether each owner will connect to the new line extension. (OCA MB p. 24). OCA also wants Columbia to then "follow up" with those structure owners if they ultimately do not accept natural gas service from the new line extension. (OCA MB p. 24).

[3] Columbia notes that the letters used to list the reporting requirements in OCA's Main Brief sometimes repeat and vary from those in OCA's testimony. (OCA MB p. 23; OCA Statement No. 1, pp. 18-19). To avoid any confusion, in this Reply Brief, Columbia will reference the reporting requirements as they appear in OCA's testimony.

This requirement should be rejected. It was not proposed in OCA's testimony or at hearing. Waiting until its Main Brief to propose such a requirement is improper.[4] OCA deprived Columbia of the opportunity to develop testimony and to cross-examine OCA's witness on this proposal. Moreover, OCA fails to detail what costs would be involved with contacting all of these customers or whether contacts would be in-person, by repeated mailing, or by telephone calls. If the latter, OCA does not discuss whether this proposal violates "Do-Not-Call." *See* 73 P.S. § 2245.2. Therefore, OCA's proposal for Columbia to contact structure owners should be rejected.

OCA also proposes, for the first time in its Main Brief, that Columbia should provide applicants with certain written disclosures on the Pilot Rider NAS surcharge. (OCA MB p. 16). By waiting until its Main Brief to propose these disclosures, OCA has deprived Columbia of the opportunity to develop any testimony or cross-examine OCA's witness about this proposal.[5] Columbia notes that it has already proposed to explain customers' payment options (Tr. 15) and that it would not be opposed to advising customers of the cost of capital used to develop the Pilot Rider NAS surcharge.

For these reasons and those more fully discussed in Columbia's Main Brief, OCA's proposed additional reporting requirements, except for those unopposed by Columbia, should be denied.

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[4] *See, e.g., Pa. P.U.C. v. Pa. Power and Light Co.*, Docket Nos. R-822169, *et al.*, 55 P.U.R.4th 185, 57 Pa. PUC 559, 596-97 (Order Entered Aug. 19, 1983) ("Merits aside, it is highly inappropriate for a party to propose a completely new adjustment for the first time in its brief . . . Trial staff made no attempt to develop this issue during the course of this case, nor did they present testimony in support of such an adjustment."); *Enron Capital & Trade Res. Corp. v. Peoples Natural Gas Co.*, Docket No. R-00973928C0001, 1997 Pa. PUC LEXIS 178, at *10-11 (Nov. 13, 1997) (Recommended Decision) ("Enron can not be permitted to introduce an argument at the briefing stage which it did not introduce in the evidentiary phase of this proceeding . . . Imposing [the alternative proposal] without the other parties having notice and an opportunity to be heard would violate their due process rights."), *affirmed*, 1998 Pa. PUC LEXIS 199 (Order Entered Aug. 24, 1998).

[5] *See supra* note 4.

E. OCA'S OTHER PROPOSED MODIFICATIONS ARE UNREASONABLE

OCA proposed other modifications to Columbia's proposed Pilot Rider NAS program that, for reasons explained in the Company's Main Brief, should be rejected. (Columbia MB pp. 28-30). However, in OCA's Main Brief, it discusses only three of its other proposed modifications. (OCA MB pp. 27-29).

Concerning its proposal to prohibit extending mains to areas already served by the mains of another natural gas distribution company ("NGDC"), OCA states that "already available" mains means that another NGDC's main is "in the ground which can be connected to the home." (OCA MB p. 28). However, OCA fails to define "which can be connected." This clarification does nothing to solve the problem of how far off another NGDC's distribution main the customer must reside to be ineligible for Pilot Rider NAS. Therefore, Columbia maintains that OCA's proposal, as modified, is still entirely too vague and subjective.

Moreover, OCA wholly ignores Columbia's response to the proposed modification that no such prohibition currently exists. (Columbia MB p. 29). Further, while OCA cites Mr. Watkins's direct testimony wherein he states that he is "fully aware" of the Gas-on-Gas competition case (OCA MB p. 28), OCA fails to respond to Columbia's argument that the issue of duplicative facilities is already being considered in the Gas-on-Gas competition proceeding and should not be prejudged in this case. (Columbia MB p. 29).

In addition, in its Main Brief, OCA discusses its 10-year repayment term with a maximum deposit amount of $8,000 with no payment cap. (OCA MB pp. 28). For reasons discussed in Columbia's Main Brief, this second payment term option should be denied. (Columbia MB pp. 29-30). A second payment term option creates additional programming and administration issues and is unnecessary because the customers will always have the option to pay down the balance at any time. (Columbia MB pp. 29-30). Similarly, the support OCA

provides in its Main Brief is without merit. OCA argues that the 10-year payment term option can reduce the overall amount of interest paid by the customer since the payback period is smaller. (OCA MB p. 28). However, Pilot Rider NAS customers always have the option to pay down the remaining balance at any time, which enables them to reduce the Pilot Rider NAS payment term and the amount of interest paid. (Columbia MB p. 30). Furthermore, OCA contends that the second payment term option reduces the upfront contribution from customers because more of the deposit can be rolled into the surcharge since there is no surcharge cap. (OCA MB p. 28). However, the $35.00 monthly surcharge cap keeps payments affordable (Columbia MB p. 34), and eliminating that cap removes a reasonable customer protection.[6]

Finally, OCA reiterates its proposal that Columbia should increase its annual funding for Pilot Rider NAS from $1 million to $2 million. (OCA MB p. 29). As discussed in more detail in the Company's Main Brief, this proposal should be denied because funneling another $1 million into Pilot Rider NAS may adversely affect Columbia's main replacement program and would increase cost shifting to existing customers under Mr. Watkins's "worst case scenario." (Columbia MB p. 30). OCA fails to respond to any of these arguments against the increase in annual funding in its Main Brief.

Thus, for the reasons stated above and more fully in Columbia's Main Brief, OCA's other proposed modifications should be rejected.

F. OSBA'S ARGUMENTS

OSBA's Main Brief reiterates several of the same arguments about its proposed modifications that it has presented in testimony. (OSBA MB pp. 6, 11-14). As discussed in the Company's Main Brief, OSBA's proposed modifications should be rejected. (Columbia MB pp.

[6] As explained with respect to OSBA's concerns, a $35.00 per month cap reduces the likelihood of non-payment of the surcharge. (Columbia MB p. 34).

31-35). However, OSBA has raised other contentions in its Main Brief about its proposed modifications. (OSBA MB pp. 11-14).

First, while OSBA witness Mr. Knecht has argued in testimony that Columbia should review its calculation for customer contributions because it may not properly reflect tax depreciation benefits (OSBA Statement No. 1, pp. 3-5, 7), OSBA states in its Main Brief that this proceeding is not the appropriate venue for examining substantive changes to Columbia's economic model. (OSBA MB p. 11). While Columbia maintains that its calculation is proper (Columbia MB pp. 31-33), the Company agrees that this proceeding is not the appropriate time to undertake a wholesale evaluation of its calculation. Therefore, OSBA's proposal to review tax depreciation benefits in the customer contribution calculation should be rejected.

In addition, OSBA argues that its proposal to gross up the interest rate used in the Pilot Rider NAS charge calculation for income taxes is appropriate. (OSBA MB pp. 11-12). However, as explained in Columbia's Main Brief, OSBA's proposal should be rejected because: (1) it is simpler, more efficient, and consistent with the Company's evaluation of line extensions for it to use its weighted average cost of capital to determine the monthly Pilot Rider NAS surcharge and the total deposit due; and (2) grossing up the interest rate for income taxes would unnecessarily complicate the calculation. (Columbia MB pp. 33-34). Moreover, as noted above, OSBA acknowledges that this is not the appropriate venue for evaluating substantive changes to Columbia's economic model. (OSBA MB p. 11). Thus, OSBA's proposal to gross up the interest rate used in Pilot Rider NAS charge calculation for income taxes should be denied.

OSBA also asserts that the reporting requirements suggested by Mr. Watkins should be clarified to include rate class-specific information. (OSBA MB pp. 9-10). OSBA contends that its "tracking requirements" are necessary to prevent non-residential customers from subsidizing

new residential customers under Pilot Rider NAS. (OSBA MB p. 9). However, as explained by Mr. Evans, "[t]his proceeding is not where base rate decisions should be made." (Columbia Statement No. 1-SR, p. 3). Further, the Company maintains that it would be inappropriate to exclusively assign costs to residential customers when all customers could benefit from Pilot Rider NAS mains and when all customers receive the benefit of crediting the interest paid by Pilot Rider NAS customers to the cost of service. (Columbia Statement No. 1-SR, p. 4). Moreover, the Company has agreed to several of OCA's proposed reporting requirements, including the annual reporting of "investment per project" and the "direct program expenses" of Pilot Rider NAS. (Columbia Statement No. 1-SR, p. 4).[7] Therefore, OSBA's reporting requirements are premature and unnecessary.

Finally, in its Main Brief, OSBA discusses its proposal to record customer contributions and write down gross plant whether payments are made by the customer or not. (OSBA MB p. 13). As discussed in Columbia's Main Brief, OSBA's proposal is unreasonable and should be denied because OSBA's concerns are unfounded. (Columbia MB p. 34). For instance, Columbia has sufficient leverage to collect customer payments, Pilot Rider NAS customers are not more likely to present problems with nonpayment, and customers are more likely to make payments in full and on time considering the monthly surcharge is capped at $35.00 and fixed for the entire 20-year term. (Columbia MB p. 34). Moreover, OSBA's proposal to include an uncollectibles component in the Pilot Rider NAS surcharge is unreasonable because it would change the entire operation of Pilot Rider NAS, and OSBA does not indicate whether the

[7] Columbia notes that OSBA's reporting requirement in letter (f) is similar to OCA's reporting requirement in letter (g). (OSBA MB p. 10; OCA MB p. 23). For the reasons explained in Columbia's Main Brief (Columbia MB pp. 24-25) and in Section III.D herein, Columbia opposes such a reporting requirement because it is overly vague and subjective, would impose additional costs for no reason, and would create administrative issues. However, Columbia has offered a replacement for letter (g), under which Columbia would identify the number of projects evaluated for Pilot Rider NAS that ultimately do not elect Pilot Rider NAS. (Columbia MB p. 25).

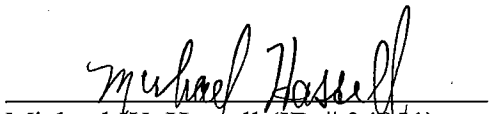
uncollectible charge is in addition to the maximum $35.00 monthly surcharge or included in that amount. (Columbia MB p. 35). However, OSBA fails to respond to any of these arguments in its Main Brief. OSBA further contends in its Main Brief that it is inequitable for Columbia not to absorb the risk of nonpayment for Pilot Rider NAS charges. (OSBA MB pp. 6, 14). However, as discussed in the Company's Main Brief, Columbia is not at risk for the traditional contribution method. (Columbia MB p. 35). Therefore, since Pilot Rider NAS is designed as only an additional option to the traditional contribution method, Columbia similarly should not be put at risk for nonpayment. (Columbia MB p. 35).

For these reasons stated above and in Columbia's Main Brief, OSBA's proposed modifications are unreasonable and should be rejected.

IV. CONCLUSION

For all the reasons stated above and more fully in the Company's Main Brief, 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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