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July 23, 2014

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

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

Secretary Chiavetta:

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

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

Respectfully Submitted,

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Enclosures
cc: Honorable Mark M. Hoyer
Certificate of Service
*180543

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF
OF THE OFFICE OF CONSUMER ADVOCATE

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I. INTRODUCTION

On July 16, 2014, the Office of Consumer Advocate (OCA) filed its Main Brief in this proceeding. Main Briefs were also filed by Columbia Gas of Pennsylvania (Columbia or Company), the Bureau of Investigation and Enforcement (I&E), and the Office of Small Business Advocate (OSBA). The Main Briefs addressed Columbia's proposed Rider New Area Service (NAS). In the Rider NAS proceeding and the OCA's Main Brief, the OCA proposed several modifications to Rider NAS. The OCA's Main Brief provides a comprehensive statement of its positions, and the OCA will not repeat all of those arguments here. Columbia, I&E, and OSBA have disputed the appropriateness and necessity of many of the OCA's proposed modifications to Rider NAS. The OCA hereby files its Reply Brief in response to the Main Briefs filed by Columbia, I&E, and OSBA and will respond to specific arguments contained in the other parties' Main Briefs regarding the OCA's recommended modifications to Rider NAS.

The OCA submits that nothing argued in the other parties' Main Briefs changes the position expressed in the OCA's Main Brief in this proceeding. To the extent an argument is not addressed in this Reply Brief, the OCA relies on those positions already advanced in the OCA Main Brief.

II. OCA'S POSITION

A. The OCA's proposed modifications to Rider NAS will not result in existing ratepayers "subsidizing" new customers.

The OCA recommends three modifications to Rider NAS which would result in a lower contribution in aid of construction amount for Rider NAS customers than under Columbia's proposal – 1) using a 3% interest rate to calculate the Rider NAS surcharge, 2) using the Company's cost of debt instead of its cost of capital in the Rider NAS economic model, and 3) removing the costs of service lines, meters or regulatory equipment from the Rider NAS economic model. The other parties object to these three recommendations arguing that the OCA's modifications will lead to the costs of Rider NAS projects being shifted from new customers to existing ratepayers, thus creating a "subsidy." See Columbia M.B. at 18-19, see also 21-22; I&E M.B. at 11-15, OSBA M.B. at 8. The principal argument in the Main Briefs of Columbia, I&E, and OSBA is that any proposed modifications to Rider NAS that result in new customers paying a lower contribution amount for a natural gas main extension than under Rider NAS as proposed by Columbia (i.e. lowering the interest rate and modifying the economic model) results in existing ratepayers subsidizing new customers, and thus those recommendations should be rejected. See Columbia M.B. at 18-19, see also 21-22; I&E M.B. at 11-15, OSBA M.B. at 8.

It is undisputed that the OCA's recommendations regarding the Rider NAS interest rate and economic model will result in the new customer paying less for a natural gas main extension project than as proposed by the Company, but this is a result of properly calculating the economics of the main extension and properly establishing interest rates to reflect current market conditions. There is no "subsidy' here, only a correct analysis of the costs and benefits of main extensions.

As explained more fully in the OCA's Main Brief, Columbia's and I&E's use of the term "subsidy" to describe the effect of the OCA's recommendations on how much a new customer will be required to pay for a natural gas main extension is misapplied. See OCA M.B. at 11. OCA witness Glenn Watkins explained in testimony that reducing the upfront customer contribution of a new customer does not lead to subsidization, stating:

> a subsidy only exists when a ratepayer is charged more than his/her stand alone cost of providing natural gas service. Indeed, all customers receive substantial

> benefits by being part of Columbia's distribution system. Therefore, while customers are clearly better off by being part of a system that averages Columbia's total cost, it cannot be said that they would be asked to subsidize other customers who join the system and share in the averaging of the Company's total cost.

OCA St. 1-SR at 5-6. More simply, all ratepayers share in the cost of service, and existing ratepayers benefit from having new customers added as there are then more customers to spread the costs to. Thus, even though adopting the OCA's modifications will result in some minimal costs[1] being assigned differently under the OCA's proposal than under the Company's proposal, this does not create a subsidy. If anything, Rider NAS as proposed by the Company will have new customers paying too much for the main extensions to their homes.

Columbia proposes that the Rider NAS economic model use its cost of capital to calculate new customers' contribution amounts, and asserts that the its cost of capital is the only input that can be used to calculate a customers' contribution amount. As the OCA established in its Main Brief, however, other inputs can, and are, used in economic models to calculate customer contribution amounts. See OCA M.B. at 17-18. For example, Delmarva Power & Light, a public utility that provides natural gas service to areas in Delaware, Maryland, and Virginia, modified how it determines the amount of upfront customer contributions to use the company's cost of debt instead of its cost of capital in its economic model, which is also a DCF model. OCA St. 1 at 6. In the water industry, the Commission requires that water utilities that serve Pennsylvania use their cost of debt as an input to their economic models and not their cost of capital. See 52 Pa.Code § 65.21. The Commission has specifically found that cost of debt is the appropriate input for economic models to calculate customer contribution amounts for water main extensions. See Re Line Extensions, Revised Order, Docket No. L-930089 (Oct. 7,

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[1] OCA witness Watkins testified that if the OCA's proposed modifications to the Rider NAS interest rate and economic model are adopted there is less than 38¢ per year per existing customer difference between the Company proposal and the OCA's proposal. See OCA St. 1 at 21-22.

1996)(Revised Order), 1996 Pa. PUC Lexis 162. The Commission found no "subsidy" from using cost of debt in the economic analysis for water main extensions. 1996 Pa. PUC Lexis 162. The assertion that no other input other than the Columbia's cost of capital will produce an appropriate customer contribution amount should be rejected. The OCA has demonstrated that cost of debt has been deemed by the Commission an appropriate input to economic models to calculate customer contribution amounts for extension projects and that the use here does not result in any subsidy. See OCA M.B. at 17-18.

In addition, the OCA submits that its recommendation that the Rider NAS interest rate be set at 3% does not result in any "subsidy." As OCA witness Watkins testified, even though costs will be assigned differently if the Rider NAS interest rate is set at 3% than under the Company's current proposal, "all ratepayers will receive benefits of the interest income earned through [Rider NAS] payments." OCA St. 1 at 13.

The OCA submits that its recommendations that the Rider NAS interest rate be set at 3% and that the Rider NAS economic model use the Company's cost of debt and omit the costs of service lines, meters and regulating equipment do not result in existing ratepayers "subsidizing" new customers. The OCA's recommendations should be evaluated based on the record evidence that these modification to Rider NAS will make natural gas main extensions more attractive and feasible to potential consumers.

B. Setting the Interest Rate

1. Columbia's proposed interest rate does not promote the goals of the Rider NAS program.

As proposed by Columbia, a Rider NAS applicant's upfront customer contribution will be paid over a period of up to 20-years at an interest rate at the Company's cost of capital, which is currently set at 7.91%. The OCA proposes that the Rider NAS interest rate should be reduced to 3% to reflect the low interest rates (which are tax deductible) currently available to consumers through such things as home equity loans or home equity lines of credit. Columbia argues in its Main Brief that the Company's choice of financing rate should not be compared to a loan because the Company is not a bank and Rider NAS is not a loan. Columbia M.B. at 14-15. The OCA concurs with Columbia that it is not a financial institution, but asserts that if the Company is going to offer a program to consumers in which a service or product is financed over a period of time, that the Company's proposed financing rate should be comparable to the rates offered by a financial institution. At the Company's proposed interest rate Rider NAS applicants would be charged nearly twice as much interest for financing all or a portion of their extension through Rider NAS than if they could obtain a home equity loan. Under Columbia's proposal, Rider NAS customers could potentially pay more in interest than the actual cost of the applicant's portion of the natural gas main extension project.[2] The OCA submits that the Company's use of such a high interest rate does not advance main extensions or the goal of the program. Equally troubling is the fact that Columbia does not intend to disclose the interest rate to consumers. See Tr. at 15. For the Rider NAS pilot program to be fair to consumers and attractive to applicants, the surcharge financing rate must be lowered. As currently structured, Rider NAS is not an attractive financing option for most residential homeowners and will not provide the assistance needed to make gas extensions more available to residential consumers in Columbia's service territory.

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[2] At Columbia's proposed interest rate of nearly 8%, Rider NAS customers with the maximum surcharge of $35 per month would pay more in interest than principal over the 20-year term of the financing agreement ($4,215 in interest and $4,184 in principal). See OCA St. 1 at 16.

2. <u>The Rider NAS interest rate cannot be compared to the UGI GET Gas Program</u>.

In its Main Brief, I&E attempts to support Columbia's use of a 7.91% interest rate by comparing the Rider NAS program to the UGI GET Gas program. I&E M.B. at 8. I&E states that the OCA's recommended 3% is "significantly below the interest level the Commission recently approved in another line extension program." <u>Id</u>. at 8. No part of the Rider NAS surcharge calculation can be compared to how UGI calculates its surcharge in the GET Gas program, however, because the programs are completely different. In the Rider NAS program, a customer's surcharge is calculated using the cost of that customer's main extension project. In the GET Gas program, however, in lieu of paying an upfront customer contribution, every customer participating in the GET Gas program will pay a company specific fixed GET Gas surcharge for a period of up to ten years, whether a customer's contribution in aid of construction is $5,000 or $10,000.[3] UGI Penn Natural Gas customers participating in GET Gas, for example, will pay $44.90 per month; UGI Central Penn Gas customers will pay $21.75 per month; and UGI Utility customers will pay $54.95 per month. If one were to compare the Rider NAS program to the UGI GET Gas program, the OCA submits that the proper comparison is to the overall cost to the customer for a main extension under each program, and such a comparison is easy to make. As OCA witness Watkins testified, using Columbia's proposed interest rate of nearly 8%, Rider NAS customers with the maximum surcharge of $35 per month would pay approximately $8,400 for a main extension project that had a customer contribution amount of $4,200. <u>See</u> OCA St. 1 at 16. The Rider NAS customer, hence, pays twice as much for the main

[3] Joint Petition of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for Approval to Implement Growth Extension Tariff Pilot Programs to Facilitate the Extension of Gas Service to Unserved and Underserved Areas within the Companies' Service Territories, Docket No. P-2013-2356232, Recommended Decision at 12-13.

extension than he would have if he paid the cost of the main extension upfront. A GET Gas UGI Utility customer will pay $54.95 a month for 10 years and pay a total cost of $6,594.

The OCA submits that I&E's comparison of the interest rate proposed by Columbia for Rider NAS to the interest rate in the UGI GET Gas program is incomplete and should not be relied upon.

C. Economic Model

1. Increased administrative costs is not a reason to reject otherwise appropriate modifications to Rider NAS.

Columbia argues that the OCA's recommendation to modify the Rider NAS economic model by using the Company's cost of debt in place of its cost of capital and removing the costs of service lines, meters, and regulating equipment should be rejected because this modification would increase the administrative costs incurred by Columbia. Columbia M.B. at 19. Columbia, however, did not put any cost evidence into the record to quantify the increase in administrative costs if the Rider NAS economic model is modified to incorporate the OCA's recommendations. Without such cost information, it cannot be determined whether the OCA's recommendations to the Rider NAS economic model are genuinely cost prohibitive. In its Main Brief, Columbia states, "the simpler, most practical solution is to use the same economic model for both Pilot Rider NAS and Columbia's traditional line extensions." Columbia M.B. at 19. The OCA submits, however, that the OCA's modifications to the Rider NAS economic model should be judged on the merits of the OCA's recommendations and what will best achieve the goal of making natural gas more available to the residents of the Commonwealth through reasonable main extensions, and should not turn on whether the OCA's recommendations may increase the administrative costs as there is no record evidence of these costs.

2. OCA's modifications will not cause customer confusion.

Columbia argues that if the OCA's recommendations to modify the Rider NAS economic model are accepted, that applicants seeking natural gas service would receive two prices from the Company for the cost of a natural gas main extension. The applicant would receive a price calculated using the Company's traditional main extension tariff and the Rider NAS price if the customer chooses to elect the Rider NAS option. The Company argues that a customer presented with two different costs could become confused and choose not to proceed with the main extension project. Columbia M.B. at 19. Columbia provides the following hypothetical example to illustrate how a customer could be confused - customer contacts Columbia for a quote to have service extended to his home, is given two prices - $1,500 for a traditional main extension and $200 under Rider NAS, wants to pay only the $200 amount but doesn't want to finance the $200 over a period of time to be determined by the Company, is confused, and opts not to proceed with the main extension. Columbia M.B. at 19. The OCA submits first that this confusion is of Columbia's own making. Columbia could elect to use the same economic model for both its main extension tariff and Rider NAS. Second, the OCA submits that Columbia is underestimating the ability of consumers to understand that they have the option of two programs that offer two different costs and payback choices. Instead of confusion, the OCA believes that many applicants who would otherwise not move forward with the main extension project due to cost restraints would proceed with the main extension project because the Rider NAS quote is affordable. Furthermore, the OCA submits that Columbia's hypothetical is misleading because customers electing the Rider NAS option can pay the balance of their customer contribution at any time, even upfront in a single payment. Columbia St. 1-R at 14.

3. <u>The OCA's modifications should not adversely affect company shareholders</u>.

Columbia argues that the OCA's modifications to the interest rate and the Rider NAS economic model will adversely impact the Company's shareholders due to regulatory lag. Columbia M.B. at 20. OCA witness Watkins addressed the potential of the OCA's recommended modifications adversely impacting the Company's shareholders in testimony, and explained that shareholders would not be adversely impacted if the OCA's recommendations are adopted. Specifically, Mr. Watkins' stated:

> Under my recommendations, all projects that go forward will simply be rolled into rate base and recovered in the normal course of business through the traditional regulatory process. In this regard, while some may question a concern of regulatory lag, I note the following:
>
> (a) This is true with any new plant investment and is simply the result of how rate regulation is performed in Pennsylvania;
>
> (b) NGDCs (including Columbia) are allowed to, and do, utilize fully forecasted future test years within their general rate cases such that reasonable projections of expansions will be reflected within Columbia's rate request using forward looking (future) expected mains expansion projects; and
>
> (c) In between rate cases, Columbia will recover interest and principal payments from NAS participants. While the principal payments will eventually be booked as CIAC (and hence, a reduction to rate base), these rate base reductions will not be realized until the Company's next base rate case. Furthermore, although ratepayers will receive the benefit of annual interest income once a rate case is filed, the Company will keep the interest income it earns in between rate cases.

OCA St. 1 at 20. The OCA submits that Columbia's shareholders will not be adversely impacted if the OCA's recommendations are adopted, and that this concern should not be a basis for rejecting the OCA's recommendations.

4. <u>The Commission Regulation at 52 Pa. Code § 59.17(a) requires Columbia to install at its own expense customer meters and regulating equipment</u>.

In Direct Testimony, OCA witness Mr. Watkins raised the concern that the Company's inclusion of meters and regulating equipment in the economic analysis may not comply with the Commission's regulation at 52 Pa. Code § 59.17(a), which states:

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

52 Pa. Code § 59.17. (Emphasis added). It is the OCA's position that this regulation requires public utilities, such as Columbia, to <u>install at its own expense</u> meters and regulating equipment, and as such, Columbia should not be including these costs into its Rider NAS economic model. In their Main Briefs, both Columbia and I&E address the existence of this regulation by providing strained interpretations of the plain language of this regulation. Columbia asserts that this regulation merely "prevent[s] situations where customers install and own meters." Columbia M.B. at 23. Columbia, however, provides no explanation for its interpretation of this regulation. The regulation clearly identifies "a public utility" as the subject of the regulation, thus it is the public utility who is "required to provide and install at its own expense" meters and regulating equipment.

I&E acknowledges in its Main Brief that this regulation makes the meter costs the Company's responsibility, but concludes that "although meter costs are the Company's responsibility, they are still a cost component of the extension project that should be considered in the economic model." I&E M.B. at 15. I&E's interpretation of this regulation is that even though the regulation requires a public utility to "provide at its own expense" meters and regulating equipment to every customer, a public utility is free to then pass those costs on to its main extension customers. This regulation does not authorize public utilities to pass the costs of meters and regulating equipment directly on to customers – new or existing – and I&E cites to no other regulation that permits a public utility to do so. I&E's interpretation also renders the regulation meaningless if, as I&E asserts, a public utility can simply pass on the costs to new customers that a regulation states the public utility is responsible for itself.

It is the OCA's contention that, despite Columbia's and I&E's attempt to interpret this regulation to support their positions, the regulation plainly states that the meter and regulating equipment costs are Columbia's responsibility. As such, the costs of meters and regulating equipment should not be included in the Rider NAS economic model.

5. I&E's assertion that OCA's modifications violate the Public Utility Code lacks merit and must be rejected.

In its Main Brief, I&E asserts that the OCA's recommended modifications to the Rider NAS interest rate and economic model violate the Public Utility Code, specifically Sections 1301, 1304, and 1502. I&E M.B. at 7, 12. I&E, however, does not provide any legal analysis explaining how the OCA's recommended modifications violate the Public Utility Code requirement that rates be just, reasonable and non-discriminatory. The OCA submits that I&E assertion is without merit. As set forth above, the OCA's recommended modifications to Rider NAS create no subsidy nor result in discrimination in rates or services. Thus, there is no basis for I&E's claim.

D. Additional Reporting Requirements

In the Main Brief, the OCA recommended that Columbia be required to report annually to the Commission, the OCA and I&E the following regarding the Rider NAS pilot program:

(a) investment per project including the economic model results and surcharge calculation details;

(b) total distance of NAS main installed;

(c) number of customers connected by project and number of subsequent connections to NAS extensions;

(d) NAS revenues received by principal and interest;

(e) annual NAS participant average use per customer (by residential and commercial sectors if applicable);

(f) average NAS participant investment cost per customer (by residential and commercial sectors if applicable);

(g) the number of customers along NAS extensions who have not yet connected and, to the extent available, why;

(h) direct program expenses;

(i) data on collections, including efforts for unpaid surcharge amounts; and,

(j) the number of applicants turned down for insufficient credit.

See OCA M.B. at 23-25. See also OCA St. 1 at 18-19. I&E supports the OCA's recommendation. See I&E M.B. at 16-17. See also I&E St. 1-R at 20.

In its Main Brief, Columbia states that it does not oppose most of the OCA's proposed reporting requirements, but does oppose letter (g). Columbia M.B. at 24. Columbia argues that letter (g), as written, is "unworkable." Columbia M.B. at 25. Columbia states that letter (g) is "extremely vague and entirely subjective" because the OCA's recommendation does not describe what is meant by "along NAS extensions." Id. As provided in its Main Brief, the OCA submits that it would be reasonable for Columbia to contact all structure owners with mailing or delivery addresses along a potential Rider NAS extension route to determine if they will connect to natural gas service if the extension is completed. OCA M.B. at 24. If structure owners do not accept natural gas service from the extension, Columbia should follow up with the owners to determine the reasons. Id. The OCA submits that such information is essential to evaluating the Rider NAS pilot program and its attractiveness to potential customers.

The OCA submits that Columbia should be directed to provide all of the information in the OCA's proposed reporting requirements listed above to the Commission, the OCA and I&E annually for the duration of the Rider NAS pilot program.

E. Treatment of Residential Developers

In its Main Brief, the OCA noted its concerns regarding Columbia's proposal to permit residential developers to utilize the Rider NAS pilot program. The OCA concluded that Columbia failed to provide any evidence of a need by residential developers for an alternative funding mechanism for natural gas extensions, and therefore, the Rider NAS program should be available to only to homeowners. Further, the OCA noted its concern that Columbia did not intend to require bona fide developers to notify homebuyers that they will be responsible for the Rider NAS surcharge and concluded that allowing residential developers to use Rider NAS would likely lead to other complications in the access to service by new customers. See OCA M.B. at 25-27.

In its Main Brief, Columbia asserts several reasons in support of its position that residential developers should be permitted to utilize the Rider NAS pilot program. See e.g. Columbia M.B. at 26-28. First, Columbia asserts that the OCA mistakenly believes that the Rider NAS program would change the Company's current policy of requiring contributions from developers. Columbia states that it would use its existing practice of applying the DCF model to new development projects, and Rider NAS would merely provide an alternative method to pay any upfront deposit due. See Columbia M.B. at 26. Columbia misconstrues the OCA's argument. As stated in Columbia's Main Brief, the Rider NAS program would, in fact, change the Company's current policy of requiring contributions from developers. Id. Rather than collecting the contribution, if any, from the developer, the Rider NAS program would permit the developer to bypass the contribution and have it collected from homebuyers in the development through the Rider NAS surcharge. As OCA witness Watkins testified:

> I am extremely concerned that these potential new homeowners will have no idea that they will be obligated to pay Columbia an upfront cash contribution or finance this amount for 20 years until after they have purchased their new home and moved in. Clearly, it is much easier and more economical for each new homeowner to simply roll the contribution requirement into the cost of the new home.

See OCA St 1 at 16-17. (Footnote omitted). As discussed in the OCA's Main Brief and in this Reply Brief, allowing developers to utilize Rider NAS unnecessarily complicates the access to natural gas service for homebuyers in developments. See OCA M.B. at 25-27. The obligation to pay a surcharge for natural gas service for twenty years at 7.91% interest to cover the developer's upfront deposit due to Columbia is likely to be unattractive to new homebuyers that could have rolled such costs into their mortgage or could have chosen another property to purchase.

Next, Columbia asserts that if the developer fails to disclose the existence of the Rider NAS surcharge to homebuyers, that dispute is between the homebuyer and the developer. See Columbia M.B. at 26. The OCA submits that it is not reasonable public policy to approve a program that, as designed, would likely result in such disputes and could complicate the process for access to service by homebuyers.

Additionally, Columbia asserts that regardless of the Rider NAS pilot program, developers would pass on the cost of the upfront deposit the homebuyers. See Columbia M.B. at 27. The OCA submits that homebuyers would generally expect the developer to build into the home's price the developer's costs, just as any other business would do in determining the price of its goods or services. In this instance, homebuyers obtain a mortgage or pay cash for the developer's costs that are built into the home's price and would do so at the current low interest rates that are tax deductible. As explained in the OCA's Main Brief and above in this Reply Brief, allowing developers to use Rider NAS, however, would likely lead to other complications in the access to service by new customers because with appropriate notice, homebuyers might have rolled their portion of the Rider NAS costs into their mortgages, or they may have determined to purchase another home or lot outside of the development. See OCA M.B. at 27.

Last, Columbia asserts that it is important to permit developers to utilize the Rider NAS pilot program because they can reach a large number of residential customers, and the OCA's position is unreasonable given its position that the expansion of natural gas service brings benefits to Pennsylvanians.[4] See Columbia M.B. at 27-28. Columbia goes on to explain that in 2013, 13 potential new development projects chose not to install natural gas service. Id. at 27, citing Tr. 16 (cross-examination of Company witness Evans). The OCA submits that Columbia's example regarding the number of developers that did not pursue natural gas extensions in 2013 is misleading. The remainder of Company witness Evans testimony on this issue is as follows:

> Q. And those 13 developers, did they specifically say we are not going to go forward with this project to extend the gas main because of the upfront cost, or do they not have a reason?
>
> A. I don't know. I just looked at that last night, and didn't look into all the details, but I just looked at the exact number so ---.
>
> Q. Okay. Is it possible that some of those developers actually had no deposit due?
>
> A. It could be possible. I'm not sure.
>
> Q. Well, did you review that information?
>
> A. I did not. I just looked for the developers that did not go forward.

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[4] The OCA's position is that more expansion should be encouraged. Trying to shoehorn developers into this program, however, is not in the public interest. Columbia could develop and propose a program just for developers to better achieve this goal and address the unique circumstances presented by developers.

Tr. 16.

OCA witness Watkins did, however, provide more information on this issue. As explained in the OCA's Main Brief, Mr. Watkins testified that Columbia had provided the economic analyses and underlying information for a random sampling of the 2013 requests to Columbia for main extension economic analyses. Tr. at 34-35. Mr. Watkins testified that he determined that there were two requests for economic analyses by developers in the sampling provided by Columbia. Tr. at 35. Of these two requests for economic analyses by developers in 2013, Mr. Watkins testified that both requests were economic or in other words, that neither analysis resulted in an upfront deposit. Tr. at 36. As such, the OCA submits that there is no evidence to support Columbia's position that developers avoid natural gas due to the upfront costs of extensions. Therefore, although the OCA agrees that developers could bring natural gas service to a large number of residential customers, trying to fit developers into this limited program is not a reasonable way to proceed. Instead, the evidence shows that there is a reason, other than upfront deposits for natural gas extensions, as to why developers may not be choosing to install natural gas. The OCA submits that the lack of evidence of a need, along with the unnecessary complication to the access to natural gas service for homebuyers in developments, supports the conclusion that the Rider NAS pilot program should not be available to residential developers.

F. Other Proposed Modifications

1. The OCA's recommendation to prohibit Rider NAS from serving areas where natural gas is already available is reasonable.

Columbia argues in its Main Brief that the OCA's recommendation to restrict Rider NAS from serving areas where natural gas is already available should be rejected because the term "available" is too broad and too difficult for the Company to interpret. Columbia M.B. at 29.

The OCA's Main Brief explains that in making this recommendation, by "already available," the OCA means that there is a main belonging to another NGDC in the ground which can be connected to the home being considered for Rider NAS. OCA M.B. at 27-28. The OCA maintains that it is not in the public interest to allow Rider NAS to extend mains to areas already served by other natural gas distribution companies, as the purpose of Rider NAS should be to expand natural gas service to unserved areas in Columbia's service territory, not to simply increase Columbia's customer base.

2. <u>Columbia's statement that "no reason exists" for customers to have payment options is incorrect</u>.

As proposed, Rider NAS customers will only have one payoff option, which is to pay the Rider NAS surcharge for a period of 20 years, capped at $35.00 month, wherein the customer will have to pay upfront any excess above the amount that will be collected through the surcharge. The OCA recommended that Rider NAS customers be provided a second option of a 10-year repayment term with no payment cap, with a maximum amount of $8,000 permitted to be recovered through the surcharge. OCA St. 1 at 18. Columbia asserts in its Main Brief that "no reason exists" for offering Rider NAS customers the repayment option proposed by the OCA. Columbia M.B. at 30. As set forth in the OCA's Main Brief, this second payoff option provides two benefits to Rider NAS customers – 1) the Rider NAS customer can reduce the overall amount of interest he or she pays over the lifetime of the payback period, since the payback period is reduced, and 2) the 10-year repayment option will enable customers to reduce their upfront contribution because the customer will be able to roll more of his or her uneconomic portion into the surcharge since there is no cap. OCA M.B. at 30. The OCA submits that Rider NAS should be modified to include a 10-year repayment option.

3. Annual Funding

As stated in the OCA's Main Brief, the OCA submits that the Company should commit $2 million a year towards Rider NAS. OCA M.B. at 29. It is the OCA's position that increasing the amount of annual funding should increase the number of consumers able to participate in Rider NAS per year, and better promote the expansion of natural gas service in Columbia's service territory. In its Main Brief, Columbia argues that its annual funding for Rider NAS should remain at $1 million because "funneling another $1 million in annual funding to Pilot Rider NAS may adversely affect Columbia's ability to replace existing bare steel mains." Columbia M.B. at 30. (Emphasis added). Columbia, however, has failed to demonstrate in this proceeding what impact, if any, increasing its annual funding will have on the Company's main replacement program. The OCA maintains its position that the Company should commit $2 million per year to the Rider NAS program.

III. CONCLUSION

For the foregoing reasons and those set forth in the OCA's Main Brief, the OCA respectfully requests that the Commission approve Rider NAS as modified by the OCA's recommendations.

Respectfully Submitted,

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July 23, 2014

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CERTIFICATE OF SERVICE

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

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

Dated this 23rd day of July 2014.

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