

COMMONWEALTH OF PENNSYLVANIA



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September 11, 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 Exceptions to the Recommended Decision in the above-referenced proceeding.

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

Respectfully Submitted,

  
Amy E. Hirakis  
Assistant Consumer Advocate  
PA Attorney I.D. # 310094

Enclosures

cc: Honorable Mark M. Hoyer  
OSA ([ra-OSA@pa.gov](mailto:ra-OSA@pa.gov))  
Certificate of Service

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission

v.

Columbia Gas of Pennsylvania, Inc.

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Docket No. R-2014-2407345

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EXCEPTIONS  
OF THE OFFICE OF CONSUMER ADVOCATE

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Dated: September 11, 2014

## I. INTRODUCTION

On February 26, 2014, Columbia Gas of Pennsylvania, Inc. (Columbia or Company) filed Supplement No. 210 to Tariff Gas Pa. P.U.C. No. 9 (Rider NAS) with the Public Utility Commission (Commission). Columbia proposed Rider NAS as five-year pilot program designed to offer residential consumers and developers of residential homes with an alternative to paying a large upfront deposit (also known as a contribution in aid of construction, or CIAC) for a natural gas main extension, and would instead permit the potential new residential customer to pay all or a portion of the upfront deposit amount through a surcharge on his or her natural gas bill over a period of up to twenty years.

On March 13, 2014, the Office of Consumer Advocate (OCA) filed a Notice of Appearance, Formal Complaint and Public Statement. The OCA served the Direct, Rebuttal and Surrebuttal Testimonies of Glenn A. Watkins<sup>1</sup> in which he testified to the benefits of extending natural gas to consumers, explained the barriers to extending natural gas mains to new consumers, and made recommendations to improve the success of the Rider NAS pilot.

Throughout this proceeding it has been the OCA's position that extending natural gas service to unserved consumers is in the public interest, and that alternatives to current main extension tariffs should be considered in order to promote the expansion of natural gas service in the Commonwealth. The OCA submits, however, that any such alternative programs should be designed to encourage potential new consumers to participate in the program as the entire

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

purpose of these programs is to expand natural gas mains. As such, OCA witness Watkins evaluated Columbia's proposed Rider NAS pilot program for areas of improvements and potential solutions. After evaluating Rider NAS, Mr. Watkins concluded:

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

OCA St. 1 at 15. To improve the success of the Rider NAS program, Mr. Watkins made the following recommendations:

- (1) For NAS projects, the Company's DCF model should use as inputs its most recent Commission-approved capital structure, wherein the cost of debt will reflect the weighted cost of long-term and short-term debt, and the cost of equity within the model will also use the weighted cost of long-term and short-term debt such that the discount rate will equal the Company's weighted cost of debt (note: the model will continue to reflect an equity return except that instead of utilizing the Commission's approved return on equity, the DCF model will utilize the Company's cost of debt as a surrogate for equity return).
- (2) For any NAS project, the projected capital costs of all service lines, meters, and regulating equipment should be excluded from the DCF model.
- (3) An NAS applicant should not pay for any costs of the meter or the Company's service line from the main to the applicant's property line. In the Company's eastern service area, Columbia will also provide up to 50' of service line on the applicant's property at no charge to the applicant per Tariff Rule No. 8.
- (4) For purposes of calculating an applicant's surcharge amount under the NAS pilot, the annual interest rate shall be 3.00%.
- (5) The following items should be required to be reported annually by Columbia to the Commission, I&E and OCA during the period of the pilot program:
  - (a) investment per project including the economic model results and surcharge calculation details;

- (b) total distance of NAS main installed;
  - (c) number of customers connected by project and number of subsequent connections to NAS extensions;
  - (d) NAS revenues received by principal and interest;
  - (e) annual NAS participant average use per customer (by residential and commercial sectors if applicable);
  - (f) average NAS participant investment cost per customer (by residential and commercial sectors if applicable);
  - (g) the number of customers along NAS extensions who have not yet connected and, to the extent available, why;
  - (h) direct program expenses;
  - (i) data on collections, including efforts for unpaid surcharge amounts; and,
  - (j) the number of applicants turned down for insufficient credit.
- (6) Rider NAS should not be available to applicants in areas where mains of another natural gas company are already available for the applicants to take service.

OCA St. 1 at 17-19.

The OCA submits that Mr. Watkins proposed modifications to Rider NAS would increase the participation in the Rider NAS pilot program, and thereby make natural gas service more available to residential consumers within Columbia's service area. As demonstrated in Mr. Watkins' Direct Testimony, there are many public benefits associated with residential customers having access to natural gas service which warrants the promotion of expanding natural gas service throughout Pennsylvania. See OCA St. 1 at 7-10. For example, because Pennsylvania sits on one of the largest natural gas supplies, the Marcellus Shale formation, one such benefit is that the price of natural gas has decreased significantly and is expected to remain low for the

next several years. See OCA St. 1 at 8. The United States Department of Energy Information Administration’s (“EIA”) long-term forecast of energy prices predicts the following national average residential delivered prices of energy per dekatherm (nominal dollars):

Residential Delivered Price Per Dth (Nominal Dollars) <sup>2</sup>			
Energy Source	Year		
	2012	2020	2030
Natural Gas	\$10.46	\$13.13	\$18.18
Electricity	\$34.83	\$40.94	\$49.78
Heating Oil	\$27.30	\$27.94	\$38.50
Propane	\$24.12	\$26.94	\$34.67

Annual Energy Outlook 2014, With Projections to 2014, U.S. Energy Information Administration, April 2014, Table A3; OCA St. 1 at 9. These lower natural gas prices can provide significant benefits to consumers and communities, especially when consumers substitute natural gas in place of electricity, heating oil and propane for space heating. Mr. Watkins illustrated this point in testimony, where he explained the following:

Based on data provided in Columbia’s current and pending rate case, the average Columbia residential customer utilizes slightly less than 5 dekatherms (“Dth”) of natural gas per month. Using this 5 Dth average as a proxy for the amount of natural gas that potential new customers from unserved or underserved areas will utilize, I have compared the equivalent costs of electricity, heating oil, and propane with the delivered price of natural gas from Columbia. Specifically, for electricity, I have utilized the incremental delivered price (including generation and riders) for PPL Electric’s (“PPL”) residential customers on a kWh basis, and then converted this to a Dth energy equivalent. The incremental delivered price of electricity is about 11.92¢ per kWh, which translates to a cost of \$34.92/Dth.

With respect to heating oil and propane, these commodities are much more seasonally volatile such that I have used recent prices during the heating season of \$4.00 per gallon for heating oil and \$3.10 per gallon for propane. These oil and propane prices translate to \$29.63/Dth and \$33.84/Dth, respectively. According to Columbia’s current Tariff effective April 1, 2014, the delivered price for residential service is \$9.94/Dth. In addition, I have considered the current

<sup>2</sup> Includes commodity, transportation, and distribution costs

customer charge of \$16.76 per month and applied this to the average usage of 5 Dth per customer to arrive at a weighted effective cost of \$13.29/Dth for natural gas. As such, the following is a comparison of Columbia's residential natural gas and alternative energy sources on a per dekatherm basis:

<u>Source of Energy</u>	<u>Delivered Price Per Dth</u>
Natural Gas	\$13.29
Electricity	\$34.92
Heating Oil	\$29.63
Propane	\$33.84

When the above prices of various energy sources are applied to average usage of 5 Dth per month the following annual savings per customer are obtained:

<u>Source of Energy</u>	<u>Annual Savings</u>
Natural Gas vs. Electricity	\$1,298
Natural Gas vs. Oil	\$980
Natural Gas vs. Propane	\$1,233

As can be seen above, although nominal natural gas prices are projected to increase substantially between 2012, 2020, and 2030, it is expected that natural gas will remain far less expensive than other alternative energy sources well into the future.

OCA St. 1 at 7-8. (Footnotes omitted).

Despite the benefits of natural gas, many areas of the Commonwealth remain unserved by natural gas. Mr. Watkins testified that the expansion of natural gas service has been limited due to the cost of extending mains to consumers, explaining:

As has been the case in many parts of the Country including Pennsylvania, the expansion of natural gas distribution infrastructure to serve new customers has been limited due to the simple fact that the economic costs of expanding distribution mains more often than not, has exceeded the perceived benefits realized by natural gas distribution companies ("NGDCs") as well as by potential new natural gas consumers (at least in short-term).

OCA St. 1 at 2. For example, for the consumer who is not already served by natural gas but would like to be, two large investments must be made in order to have natural gas mains extended to his/her home. First, the consumer must pay an upfront deposit to a NGDC to pay for any part of the main extension project deemed uneconomical by the NGDC. Second, the consumer must pay to convert the home's heating equipment from electric, oil, or propane heat to natural gas heat. See OCA St. 1 at 3. These upfront costs can make a natural gas service extension cost prohibitive to the consumer despite the benefits the consumer would receive from having natural gas service. See OCA St. 1 at 4; see also, OCA St. 1 at 10; Columbia St. 1 at 3. Mr. Watkins testified that without addressing the cost barriers that prevent many consumers from accessing natural gas service, the expansion of natural gas service to unserved areas will continue to be limited, explaining:

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

OCA St. 1 at 10-11.

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

In the regulatory arena, our focus has historically been very narrow in scope until recently. That is, traditionally, regulatory policy has most often only evaluated

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

OCA St. 1 at 5-6. (footnotes omitted).

The OCA submits that as proposed, Rider NAS does not fully address the cost barrier that prevents many consumers from extending gas service to their homes, and thus, the success of this program will be limited. This proceeding, however, is an opportunity for Columbia, other interested parties, and the Commission to shape Rider NAS into a program that will better promote the expansion of natural gas mains in Columbia’s service territory. The OCA recognizes that some of its recommendations, if adopted, would result in new customers paying less than they would under the Company’s proposal for a natural gas main extension, but submits that when evaluating Rider NAS, it should not be presumed that Columbia’s existing economic model is the only method of calculating the economics of a main extension, nor that any modifications to Columbia’s economic model that results in new customers paying less for a main extension than under the Company’s proposal results in existing customers subsidizing new customers. The test is not whether the OCA’s modifications to Columbia’s economic model

results in new customers paying less for a natural gas main extension project than as proposed by the Company, but whether such modifications properly calculate the economics of extending mains while simultaneously making main extensions more attractive to consumers.

It is critical to recognize that making modifications to Columbia's proposed economic model to more properly and accurately capture the economics cost of main expansions does not create a subsidy even if the upfront contribution is reduced as compared to Columbia's proposal. Simply reducing the upfront customer contribution of a new customer does not lead to subsidization because, as Mr. Watkins explained in testimony:

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.

Mr. Watkins testified that existing customers benefit from new customers connecting to the system, explaining that the economics of connecting new customers to the system go both ways as follows:

For some expansion projects that produce a net present value of benefits greater than costs (even if discounted at the Company's cost of capital), wherein no new customer contribution is required, the new customer will be contributing more revenues to the system as a whole than as otherwise required, thereby directly benefiting existing ratepayers. In other words, when the net present value of a potential project is negative, that new customer must make a cash contribution (or finance it) equal to the present value deficiency amount. However, when the net present value of a potential project is positive, that customer does not receive a cash credit for connecting to the system, but rather, the benefits of that new customer simply accrue to all existing ratepayers.

OCA St. 1 at 20-21. More simply, not only do existing ratepayers benefit from having new customers added as there are then more customers to spread the costs to, but existing ratepayers

also benefit by having new customers connect who have main extension projects with a net present value greater than the cost of connecting. Thus, even though adopting the OCA's modification to the economic model will result in some minimal costs being assigned differently under the OCA's proposal than under the Company's proposal, this does not create a subsidy. Mr. Watkins testified that by using data provided by Columbia he was able to determine that since Columbia's last base rate case, more than half of the main extension projects that were approved to go forward by potential new customers were projects that would actually reduce the cost to serve existing customers. See OCA St. 1 at 21. Mr. Watkins testified that if the OCA's proposed modifications to the Rider NAS economic model and interest rate are adopted there will be less than a 38¢ per year per existing customer difference between the Company's proposal and the OCA's proposal. See OCA St. 1 at 21-22. Mr. Watkins testified that in calculating this 38¢ per year per existing customer impact, he ignored the fact that approximately half of Columbia's new main extension projects have a positive net present value. Thus, even though adopting the OCA's modifications will result in some minimal costs 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.

After a fully litigated proceeding, on August 22, 2014, Administrative Law Judge (ALJ) Mark A. Hoyer issued his Recommended Decision (R.D.). In his R.D., ALJ Hoyer recommended approval of Supplement No. 210 to Tariff Gas PA P.U.C. No. 9, Columbia Gas of Pennsylvania, Inc.'s (Columbia or the Company) proposed Pilot Rider New Area Service (NAS), with several modifications. The R.D., however, rejected the majority of the OCA's proposed

modifications to Rider NAS. The OCA respectfully submits the following Exceptions to the Recommended Decision of ALJ Hoyer.

## II. EXCEPTIONS

Exception 1: The Recommended Decision Erred in Recommending that the OCA's Proposal to Use the Company's Cost of Debt in the Economic Model Should Be Rejected. (R.D. at 57-59; OCA M.B. at 16-20; OCA R.B. at 1-4).

The Company proposed to calculate the economics of a Rider NAS main extension project using the economic model it uses in its existing main extension tariff. The OCA recommended that the Company modify the economic model used for Rider NAS by substituting its cost of capital with its cost of debt in the model when determining the uneconomic portion of the main extension. The OCA explained that using the Company's cost of debt in the economic model would reduce the amount that new customers would be required to pay to have a natural gas main extended to their homes, which would result in more consumers being able to participate in the Rider NAS program and would promote the expansion of natural gas mains in Columbia's service territory. See OCA St. 1 at 17-19; see also, OCA M.B. at 16, 20. Columbia and I&E opposed the OCA's recommendation arguing that reducing the amount a new customer is asked to pay for a main extension from Columbia's proposal would result in existing ratepayers subsidizing new customers. The ALJ accepted this argument and recommended rejection of the OCA's proposed modification to the Rider NAS economic model. R.D. at 59.

The OCA respectfully disagrees with the ALJ's recommendation. Contrary to Columbia's and I&E's contention, as explained above, a subsidy is not created simply by using cost of debt instead of cost of capital in the economic model. Although the OCA's recommendation will result in new customers paying less for a natural gas main extension project than as proposed by the Company, no subsidy will exist because using the Company's

cost of debt in the Rider NAS economic model correctly analyzes the costs and benefits of main extensions.

The ALJ's conclusion that cost of capital is the only appropriate input that can be used to calculate a customer's contribution amount ignores the fact that other inputs can, and are, used in economic models of other public utilities to calculate customer contribution amounts even here in Pennsylvania. OCA St. 1 at 6; see also OCA M.B. at 17-18. Water utilities that serve Pennsylvania, for example, are required to 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, 1996)(Revised Order), 1996 Pa. PUC Lexis 162. In the Order amending Chapter 65, the Commission states that "the application of this regulation should ensure, as recommended by IRRC, that utilities will fund all line extensions that are appropriate for the level of service to be purchased by the new customer without requiring the utilities and their existing customers to incur the costs of unreasonable line extensions." 1996 Pa. PUC Lexis 162. The Commission explained why cost of debt is appropriate in determining whether an extension project is economic, stating:

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

1996 Pa. PUC Lexis 162. The Commission states that by using cost of debt in the economic model, it "believe[s] that this formula will result in the applicant bearing only those costs of his

or her line extension which will not pay for itself through annual revenues.” 1996 Pa. PUC Lexis 162.

Although Chapter 65 applies only to water utilities, the adoption of Section 65.21 illustrates that using cost of debt in an economic model does not result in existing ratepayers subsidizing new customers, as the Commission has already found that using cost of debt in an economic model results in the applicant paying only the costs of the line extension project that “will not pay for itself through annual revenues,” i.e. the uneconomic portion. 1996 Pa. PUC Lexis 162. The Commission in its Order even recognized that this would be appropriate for natural gas companies. The Commission also stated:

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

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

The ALJ’s conclusion that cost of capital is the only appropriate input that can be used to calculate the economics of a main extension should not be adopted by the Commission as 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. Accordingly, the Commission should not accept the ALJ’s recommendation to reject the OCA’s proposal to modify the Rider NAS economic model to use the Company’s cost of debt instead of the Company’s cost of capital.

Exception 2: The Recommended Decision Erred in Recommending that the OCA’s Proposal to Remove the Cost of Service Lines, Meters and Regulating Equipment from the Rider NAS Economic Model

Should Be Rejected. (R.D. at 59-62; OCA M.B. at 20-23; OCA R.B. at 10-11).

Columbia's proposed Rider NAS economic model includes the costs of extending the new main and installing service lines, meters and regulating equipment. In regards to these costs, the OCA recommended that service lines, meters and regulating equipment not be included in the economic model used for Rider NAS. OCA St. 1 at 18. The ALJ recommended that the OCA's recommendation that these costs be removed from the Rider NAS economic model be rejected, concluding that these are proper costs to be included in the economic model because they reflect the costs of extending and providing service to new customers, and removing these costs would shift the costs to existing customers. R.D. at 60-61.

Mr. Watkins, however, explained in testimony that including these costs in the economic model does not promote the purpose of Rider NAS, which is to extend mains. Mr. Watkins explained:

the primary objective of this proposed program is to promote the expansion of Columbia's mains to unserved areas and make natural gas more available to residential energy consumers. Given the purpose of this program is to extend Columbia's distribution mains, it is logical that other costs required to connect a new customer (i.e., services and metering costs) not be reflected in the determination of customer contributions.

OCA St. 1 at 16. Because the cost of service lines, meters, and regulating equipment do not promote the purpose of Rider NAS, the OCA submits that they should not be included in the Rider NAS economic model. The OCA submits that only the costs of extending the main itself should be included in the Rider NAS economic model.

The ALJ also rejects the OCA's argument that inclusion of meters and regulating equipment in the Rider NAS economic model does not comport with Commission's regulation. The OCA argued that 52 Pa. Code § 59.17 prohibits the costs of meters and regulating equipment from being passed on to customers. Specifically, the regulation 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). The OCA submitted that Columbia's proposed Rider NAS economic model violates this regulation because it does include the costs of furnishing meters and regulating equipment thus directly charging these costs to the customers. As Mr. Watkins explained:

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

OCA St. 1 at 13-15. The ALJ, however, concluded that Columbia's proposed economic model does comport with the regulation because this regulation is "intended to prevent situations where customers install and own meters" and not "intended to prohibit utilities from accounting for the cost of meters and regulating equipment in their economic analysis for line extensions." R.D. at 61. The ALJ provides no basis for his interpretation of this statute. The OCA submits that the ALJ's interpretation is incorrect.

The ALJ also concludes that removing these costs from the Rider NAS economic model "forces existing customers to subsidize extending service to new customers while enabling those new customers to obtain substantial savings from receiving natural gas service." R.D. at 61. The OCA submits that the requirement of 52 Pa. Code § 59.17, that the utility bear the cost of installing meters and regulating equipment, cannot be ignored simply to avoid these costs being

passed on to existing customers. Furthermore, the ALJ's conclusion that shifting costs, even as little as 38¢ per existing customer per year, equates to existing customers being forced to subsidize new customers who will receive substantial savings from having natural gas service illustrates that the ALJ incorrectly analyzes the concept of subsidization and fails to recognize the public benefits of increasing natural gas service availability to more consumers throughout the Commonwealth and the fact that potential new customers are not currently pursuing natural gas service despite the potential savings he references. Accordingly, the OCA respectfully submits that the Commission should not allow Columbia to include the costs of meters and regulating equipment in the Rider NAS economic model.

Exception 3: The Recommended Decision Erred in Recommending that the OCA's Proposal to Reduce the Rider NAS Interest Rate Should Be Rejected. (R.D. at 54-57; OCA M.B. at 13-16; OCA R.B. at 4-5).

As proposed by Columbia, the Rider NAS monthly surcharge will include a financing rate equal to the Company's cost of capital. See Columbia Exh. EAE-4 at Third Rev. Pg. No. 175. Currently, this interest rate is 7.91%. See I&E St. 1-R at 18. The OCA recommended that the Company's proposed financing interest rate be lowered to 3% to more accurately reflect the interest rates consumers can obtain through home equity loans. As explained by Mr. Watkins, Columbia's use of an interest rate that is nearly 8% is out of line with the current market and will result in consumers choosing not to participate in the Rider NAS program. Specifically, Mr. Watkins testified:

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

rate proposed by Columbia and this in and of itself, will result in limited participation and success.

OCA St. 1 at 15-16. Mr. Watkins also explained that 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.

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

The ALJ rejected the OCA's recommendation to lower the Rider NAS interest rate based in part on accepting Columbia's argument that Rider NAS should not be compared to a bank loan or home equity loan because unlike these loan products, Columbia would not do credit checks, require collateral or a home appraisal. R.D.at 55.

The OCA concurs with the ALJ that Columbia 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. 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. The OCA submits that Columbia should not be able to use an 8% interest rate simply because it is not a bank. In order for the Rider NAS pilot program to be attractive to applicants, the

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

The ALJ also concluded that reducing the interest rate would result in existing ratepayers subsidizing main extension projects. R.D. at 54-55. The OCA respectfully disagrees with the ALJ's conclusion. The OCA submits that the ALJ's conclusion that the OCA's proposal will result in existing ratepayers subsidizing new customers again incorrectly analyzes the concept of subsidization. The ALJ fails to recognize the fact that some (and historically half) of Columbia's new customer projects result in an economic model analysis that produces a positive present value of revenues over costs --- in other words, from a mathematical standpoint, half of the new main extension projects that go forward result in a negative CIAC requirement, but since there are no CIAC credits or refunds, these benefits reduce existing ratepayers rates. See OCA St. 1 at 20-21. As was explained more fully above, it cannot be concluded that existing ratepayers are being asked to subsidize new customers when these new customers who join Columbia's system will share in the averaging of the Company's total costs.

As such, the ALJ's recommendation to reject the OCA's proposal to reduce the Rider NAS interest rate to 3% should not be adopted by the Commission. The OCA submits that

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

Exception 4: The Recommended Decision Erred in Recommending that the OCA's Proposal to Prohibit Rider NAS From Being Available in Areas Already Served By Other NGDCs Be Rejected. (R.D. at 73-74; OCA M.B. at 27-28; OCA R.B. at 16).

Columbia's Proposed Rider NAS contains no prohibition against extending mains to areas already served by mains of other NGDCs. Columbia's service territory in the western part of the State, however, overlaps with the service territories of other NGDCs, creating the possibility that Columbia could potentially use Rider NAS to extend mains in areas already served by these other NGDCs. The OCA recommended that Rider NAS include a prohibition against extending mains to areas already serviced by mains of other NGDCs. The ALJ rejected the OCA's recommendation, however, concluding that this proceeding is not the proper place to consider the issue of duplicative facilities. R.D, at 74.

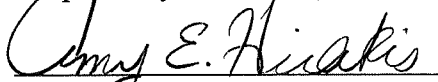
The OCA respectfully disagrees with the ALJ's assertion that the issue of duplicative facilities is not a proper issue to be addressed in this proceeding. The purpose of this proceeding is to design the parameters of the Rider NAS program. One such parameter that needs to be addressed is whether Rider NAS will be used in areas where natural gas service is already available. As the purpose behind Rider NAS is to promote the expansion of natural gas service, the OCA submits that it is inappropriate for Columbia to use the Rider NAS program and the funds Columbia has designated for this program to extend natural gas mains to areas where natural gas service already exists. As such, the OCA submits that the ALJ's recommendation to reject the OCA's proposal that Rider NAS not be available to consumers in areas already served

by natural gas not be adopted by the Commission, and that the Commission prohibit Columbia from making Rider NAS available in areas that already have access to natural gas service.

### III. CONCLUSION

The OCA respectfully requests that the Commission grant these Exceptions to the Recommended Decision and incorporate the results, along with the OCA positions already adopted by the ALJ's Recommended Decision, in its final Order in this proceeding.

Respectfully Submitted,



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September 11, 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 Exceptions to the Recommended Decision, 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 11th day of September 2014.

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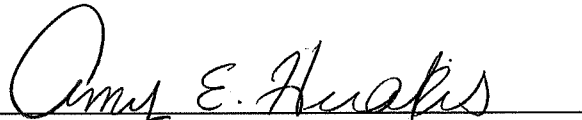
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