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October 16, 2020

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

**VIA ELECTRONIC FILING**

**RE: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania; Docket Nos. R-2020-3018835 and C-2020-3020105**

Dear Secretary Chiavetta,

Attached please find for filing with the Pennsylvania Public Utility Commission the Main Brief of the Columbia Industrial Intervenors ("CII") in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to these proceedings are being duly served via email only due to the current COVID-19 pandemic. Upon lifting of the aforementioned Emergency Order, we can provide parties with a hard copy.

Sincerely,

McNEES WALLACE & NURICK LLC

By Charis Mincavage
Charis Mincavage

Counsel to the Columbia Industrial Intervenors

Enclosures
c: Administrative Law Judge Katrina L. Dunderdale (via email and First Class Mail)
Daniel Pallas, Assistant to ALJ Dunderdale (via email)
Matthew Stewart, Bureau of Technical Utility Services (via email)
Stephen Jakab, Bureau of Technical Utility Services (via email)
Marc Hoffer, Bureau of Technical Utility Services (via email)
Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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Charis Mincavage
Counsel to the Columbia Industrial Intervenors

Dated this 16th day of October, 2020, at Harrisburg, Pennsylvania.

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| PENNSYLVANIA PUBLIC UTILITY COMMISSION | : | |
| | : | DOCKET NO. R-2020-3018835 |
| v. | : | C-2020-3020105 |
| | : | |
| COLUMBIA GAS OF PENNSYLVANIA, INC. | : | |

**MAIN BRIEF OF**
**THE COLUMBIA INDUSTRIAL INTERVENORS**

Hanover Foods Corporation
International Paper Company
Knouse Foods Cooperative, Inc.
RHI Magnesita
University of Pittsburgh Medical Center

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Dated: October 16, 2020

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## I. INTRODUCTION

On April 24, 2020, Columbia Gas of Pennsylvania, Inc. ("Columbia" or "Company"), filed with the Pennsylvania Public Utility Commission ("PUC" or "Commission") Supplement No. 307 to Tariff Gas – Pa. P.U.C. No. 9 ("Supplement No. 307"). *Columbia Gas of Pennsylvania, Inc. Supplement No. 307 to Tariff Gas Pa. P.U.C. No. 9*, Docket No. R-2020-3018835 (Apr. 24, 2020). Supplement No. 307 requested a general rate increase of approximately $100.4 million over the Company's present annual revenues. Columbia supplemented this request with the Direct Testimony of several witnesses, responses to filing requirements, and documentation regarding the Company's proposals.

On May 29, 2020, the Columbia Industrial Intervenors ("CII") filed a Complaint in this proceeding. A description of CII is set forth in Paragraph 5 of CII's Complaint. A Prehearing Conference was held on June 3, 2020, before Administrative Law Judge ("ALJ") Katrina L. Dunderdale, in which the procedural schedule for this proceeding was developed.

CII received the Company's Direct Testimony on April 24, 2020. Pursuant to the procedural schedule, on July 28, 2020, CII submitted Direct Testimony and received Direct Testimony from the following parties: the Office of Consumer Advocate ("OCA"); the Bureau of Investigation and Enforcement ("I&E"); the Office of Small Business Advocate ("OSBA"); the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"); Community Action Association of Pennsylvania ("CAAP"); and The Pennsylvania State University ("PSU"). On August 26, 2020, CII submitted Rebuttal Testimony and received Rebuttal Testimony from the following parties: Columbia; OCA; OSBA; CAAP, and PSU. On September 16, 2020, CII received Surrebuttal Testimony from the following parties: Columbia; OCA; I&E; OSBA; CAUSE-PA; and PSU. The evidentiary hearings in this proceeding, which were originally scheduled for September 22-24, 2020, were completed in one day on

September 24, 2020. Pursuant to the remaining procedural schedule, CII submits this Main Brief to address certain issues raised in this proceeding.

## II. SUMMARY OF ARGUMENT

For more than the past decade, Columbia has sought rate increases approximately every twelve to eighteen months. Columbia's most recent request seeks an increase of over $100 million and comes in the midst of a worldwide pandemic. In light of the significant hardships being faced by Columbia customers, Columbia should not be permitted to receive a rate increase at this time, as the impact on ratepayers would not be just or reasonable. *See* Section III, *infra*.

If, however, the Commission determines that a rate increase should be applied in this proceeding, the preferred Cost of Service Study to be approved would be the Customer/Demand study, as this study may be more analytically sound and may more accurately capture cost of service components. *See* Section X.B., *infra*. If, however, the PUC decides not to accept the Customer/Demand study for this proceeding, then Columbia's proposed Average study should be approved without modification. *Id*.

Regardless of the Cost of Service Study utilized by the Commission in this proceeding, the PUC must recognize the need for gradualism, along with cost to serve. In this instance, Columbia is proposing to allocate to the Large Distribution Service ("LDS") customers an approximate 26% rate increase, which is significantly above the system average increase that would result from Columbia's proposal. Moreover, several parties to this proceeding are suggesting even higher rate increases for this class of customers. In light of the fact that large commercial and industrial customers have been significantly impacted by the current COVID-19 pandemic, and this impact will continue for at least the coming months, the PUC should ensure the principle of gradualism is applied herein so that Rate LDS receive no more, if not less, than the system average increase. *See* Section X.C.1., *infra*.

Finally, for purposes of this proceeding, Columbia has not sought any change in the current allocation of universal service program costs; however, several parties have argued that the costs of these programs should be spread among all customer classes even though only the residential customers are able to partake in these programs. Because requiring all customers to remit costs for programs for which they cannot participate would violate cost causation principles, further impact the hardships on large commercial and industrial customers, and apply precedent from states other than Pennsylvania, Columbia's status quo with respect to cost allocation of these programs should remain. *See* Section X.C.3., *infra*.

## III. OVERALL POSITION ON RATE INCREASE

Beginning in 2008, Columbia began seeking rate increases before the PUC almost every year, with nine increase requests in the past twelve years. *See Direct Testimony of Frank Plank*, CII Statement No. 1 ("CII St. 1"), p. 6. In addition, Columbia implemented a Distribution System Improvement Charge ("DSIC"), which permits the Company to collect additional dollars from customers in between base rate proceeding. *Id*. Most recently, Columbia filed for a $100.4 million rate increase on April 24, 2020, which was approximately one month after the COVID-19 pandemic began to impact Pennsylvania.

Unfortunately, Columbia's rate increase request does not reference the impact of the pandemic on Columbia's proposed rates or reflect the impact of the pandemic on the Company's customers, especially its large commercial and industrial customers, such as CII members. *Id*. at 7. As correctly noted by the OCA, while Columbia prepared this case assuming "business as usual," there was nothing that compelled the Company to actually file the case. *See Direct Testimony of Scott Rubin*, OCA Statement No. 1 ("OCA St. 1"), p. 9.

As a result, Columbia's proposed rate increase may have significant impacts on Columbia's customers, and CII agrees with OCA that this is not the time to impose higher costs on either people or businesses. OCA St. 1, p. 9. As an example, Knouse Food Cooperative, a member of CII, has faced and will most likely continue to face challenges during the course of this pandemic. CII St. 1, p. 7. For instance, Knouse requires personal protective equipment ("PPE") for its employees, but this equipment has been difficult to obtain and has increased in price. Similarly, Knouse has needed to engage extra personnel to implement procedures such as daily temperature checks for employees, while at the same time, Knouse faces challenges in determining the size of its work force on a daily and weekly basis due to illness and quarantine requirements stemming from the pandemic. Moreover, Knouse cannot determine the future impact of the pandemic. Knouse's processing is dependent upon the availability of crops, but uncertainty remains as to whether farmers will have the workforce needed to pick the fruit off of the trees. *Id*. at 7-8.

Large industrial and commercial customers such as Knouse have had to contend with Columbia seeking rate increases on a constant basis, compounded with the application of Columbia's DSIC. *Id*. at 8. Moreover, Columbia's proposal in this filing is especially excessive, as the Company is seeking a rate increase of over $100 million. *Id*. As noted by the OCA, ratepayers are not living under normal conditions, and economic conditions continue to remain a concern for many in Columbia's service territory. OCA St. No. 1, p. 23.

Accordingly, the PUC should deny Columbia's request to increase rates at this time. Now is not the time to impose additional, unavoidable costs on consumers. OCA St. 1, pp. 22-23. Moreover, in light of the fact that Columbia's filing is based on data for the Company under normal conditions, the PUC cannot completely rely on that data for purposes of implementing a rate increase at this time. Accordingly, implementing a rate increase for Columbia at this time would be neither just nor reasonable. Rather, the PUC should deny Columbia's rate increase in its entirety and keep Columbia's existing rates in effect. In return, Columbia should have the opportunity to file another rate increase request in 2021, at which time hopefully more certainty regarding the impact of the COVID-19 pandemic may exist both in terms of the impact on customers and the data within Columbia's filing.

## IV. RATE BASE

### A. Plant in Service FPFTY Plant Additions

CII offers no opinion on this issue at this time.

### B. Cloud-Based Computing

CII offers no opinion on this issue at this time.

### C. Depreciation Reserve

CII offers no opinion on this issue at this time.

### D. ADIT

CII offers no opinion on this issue at this time.

## V. REVENUE

As noted in Section III, *supra*, CII submits that Columbia should not receive a rate increase at this time due to the impact of COVID-19 on customers and lack of recognition of the COVID-19 pandemic in Columbia's filing. *See* Section III, *supra*. If, however, the Commission determines that Columbia should receive a rate increase, CII submits that any rate increase must be just, reasonable, and indicative of the impact of the COVID-19 pandemic.[1]

[1] Per the requirements of the ALJ, attached to this Main Brief as Appendix A is the spreadsheet template provided by the ALJ. CII has included all of the tables set forth in the spreadsheet template but has not completed the tables, as CII has not offered an opinion in this proceeding regarding the issues set forth in the tables.

## VI. EXPENSES

### A. Labor Expense

#### 1. Annualization Adjustment

CII offers no opinion on this issue at this time.

#### 2. Employee Complement

CII offers no opinion on this issue at this time.

### B. Other Employee Benefits

CII offers no opinion on this issue at this time.

### C. Incentive Compensation and Stock Rewards

CII offers no opinion on this issue at this time.

### D. PUC, OCA, OSBA Fees

CII offers no opinion on this issue at this time.

### E. Rate Case Expense

CII offers no opinion on this issue at this time.

### F. Outside Services

CII offers no opinion on this issue at this time.

### G. Other Adjustments

#### 1. Adjustments for Safety Initiatives

a) Cross Bore Identification

CII offers no opinion on this issue at this time.

b) Gas Qualification Specialists

CII offers no opinion on this issue at this time.

c) Legacy Service Line Records

CII offers no opinion on this issue at this time.

d) Customer-owned Field Assembled Riser Replacement

CII offers no opinion on this issue at this time.

**2. Compensation Adjustments**

CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

## VII. TAXES

### A. Taxes Other Than Income Taxes

CII offers no opinion on this issue at this time.

### B. Income Taxes

CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

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CII offers no opinion on this issue at this time.

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### 1. Customer Assistance Program

CII offers no opinion on this issue at this time.

### 2. Low-Income Customer Outreach

CII offers no opinion on this issue at this time.

### 3. Health and Safety Pilot

CII offers no opinion on this issue at this time.

### 4. LIURP

CII offers no opinion on this issue at this time.

### 5. Hardship Fund

CII offers no opinion on this issue at this time.

## B. Pipeline Replacement Issues

### 1. DIMP

CII offers no opinion on this issue at this time.

### 2. Pipeline Replacement

CII offers no opinion on this issue at this time.

### 3. Pipeline Replacement Costs

CII offers no opinion on this issue at this time.

### 4. Risk Reduction

CII offers no opinion on this issue at this time.

## X. RATE STRUCTURE

### A. Introduction

Once Columbia's revenue request has been determined, any resulting revenue increase will need to be allocated among the customer classes. As discussed more fully herein, a Cost of Service Study provides the basis for determining cost allocation; however, the Commission must also consider the principle of gradualism in applying any such increases. In this instance, Columbia's Customer/Demand study would provide the most appropriate Cost of Service study mechanism, however, assuming *arguendo* that the PUC chooses not to utilize the Customer/Demand study, then Columbia's Average study without modification should be adopted. *See* Section X.B., *infra*.

Even with the appropriate Cost of Service Study as a guide for setting rates, the PUC must recognize the principle of gradualism. In this instance, Columbia is proposing a 26% rate increase to Rate Schedule Large Distribution Service ("LDS"), which is 1.5 times the system average. Moreover, several parties are recommending additional increases to Rate LDS, which would result in Rate LDS receiving 2.0 to 2.5 times the system average. In light of the hardship currently facing large commercial and industrial customers during the COVID-19 pandemic, Rate LDS should receive a minimal rate increase, but certainly not more than the system average. *See* Section X.C.1, *infra*.

To that same end, none of the parties have presented any argument that would support further increasing these large commercial and industrial customers' costs by changing Columbia's status quo with respect to the allocation of Universal Service Programs. Because such a change would result in ignoring cost causation principles, Columbia's current cost allocation must remain in place with respect to these programs. *See* Section X.C.3., *infra*.

### B. Cost of Service

In this proceeding, Columbia provided three separate Cost of Service Studies: (1) the Customer/Demand; (2) the Peak and Average ("P&A"); and (3) the Average study (which averages the results of the Customer/Demand and P&G studies). While Columbia provided the results of three studies, the Company relies on a single Cost of Service Study ("COSS") (*i.e.*, the Average study) for purposes of revenue allocation and rate design. *Rebuttal Testimony of M.J. Bell*, Columbia Statement No. 3-R ("Columbia St. 3R"), pp. 12-17. According to Columbia, the P&A Study tends to produce results more favorable to the residential class while the Customer/Demand Study tends to produce more favorable results for the industrial class. *Id*. at 12-13. Several parties to this proceeding either request the use of a different COSS than the Average Study and/or propose to modify the COSSs presented by Columbia. For example, the OCA proposes the exclusive use of the P&A study with certain adjustments; I&E recommends the use of Columbia's P&A study; OSBA proposes a study that provides 75% weighting to the P&A study and 25% weighting to the Customer/Demand study; and PSU recommends the Customer/Demand study. As discussed more fully herein, while CII submits the use of the Customer/Demand study would be the most appropriate for purposes of this proceeding, in the alternative, Columbia's proposed Average COSS without modification should be adopted by the Commission.

A COSS is an analytical tool that informs how the total cost to provide public utility service should be spread out or allocated to the various customer classes. The Commission has reiterated that a cost of service study is an important factor in the rate setting process. *See Pa. Pub. Util. Comm'n v. Aqua Pa., Inc*., Docket No. R-00072711, 2008 Pa. PUC LEXIS 50 (July 31, 2008); *Pa. Pub. Util. Comm'n v. West Penn Power Co.*, Docket No. R-00973981, 1998 Pa. PUC LEXIS (May 29, 1998). The Commonwealth Court has held that the cost of service is the polestar for setting public utility rates. *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1020 (Pa Cmwlth. 2006. Cost of service and cost causation principles require that customers should only pay for the costs that they cause or for the benefits they receive within their customer class. Furthermore, principles of gradualism, mitigation of rate shock, and rate stability are also considerations for ensuring that a particular customer class does not realize a sudden and sharp increase in rates. *See Lloyd,* 904 A.2d at 1018-1021.

Although Columbia sets forth the reasons for utilizing the Average COSS, including the fact that it does not favor a single customer class, OCA argues for the exclusive use of the P&A study without any consideration or use of the Customer/Demand study. *See Direct Testimony of Jerome D. Mierzwa*, OCA Statement No. 4 ("OCA St. 4"), pp. 3-32.[2] Unfortunately, the exclusive use of the P&A COSS would discriminate against other rate classes in favor of the residential class. Furthermore, that OCA's proposed allocation method under the P&A study would produce returns that fall outside the range of reasonableness. *Rebuttal Testimony of Chad Notestrone*, Columbia Statement No. 11-R ("Columbia St. 11R"), p. 30. Because the failure to sufficiently account for the Customer/Demand Study "would not produce a fair and reasonable allocation of costs," the OCA's proposed use of the P&A study must be rejected. *Id.* Simply put, the exclusive use of the P&A Study would not result in a just and reasonable rate allocation and should not be accepted by the Commission. *See* 66 Pa. C.S. § 1301.

In an effort to support the P&A COSS, OCA asserts that a PUC decision in National Fuel Gas Distribution Corporation's ("NFGD") 1994 base rate case supports the exclusive use of the P&A method. OCA St. 4, p. 25 (citing *Pa. PUC v. National Fuel Gas Distribution Co.*, 83 Pa.

[2] I&E also recommends the exclusive use of Columbia's P&A study. *See Direct Testimony of Ethan Cline*, I&E Statement No. 3 ("I&E St. 3"), p. 16. Given that I&E's position on this issue largely aligns with OCA's position, CII's arguments herein apply to I&E's position and will not be duplicated herein.

PUC 262, 1994 Pa. PUC LEXIS 134* (1994) (herein, after "NFGD 1994 Order")).[3] OCA's reliance on the NFGD 1994 Order is misplaced. First, the NFGD proceeding is significantly different than Columbia's current case. Columbia St. 11-R, pp. 19-20. Unlike Columbia, which has submitted both P&A and Customer/Demand COSSs in this case, NFGD only submitted P&A COSSs. *PUC v. NFGD*, 1994 Pa. PUC LEXIS 134 at *308. In the NFGD proceedings, the Commission only had the option of selecting between slightly different P&A COSSs. *Id.* At *308-311. Conversely, Columbia has submitted both Customer/Demand and P&A COSSs for PUC review, and Columbia has provided such diversity for the past nine rate cases. *See, e.g., Pa. PUC et al. v. Columbia Gas of Pa., Inc.*, PUC Docket No. R-2010-2215623, 2011 Pa. PUC LEXIS 1551 at *92-95 (Recommended Decision issued Aug. 1, 2011) (explaining Columbia's use of the Customer-Demand and P&A COSSs in its 2011 base rate proceeding). Second, the use of P&A COSSs by NFGD in 1994 (and in NFGD's rate cases before 1994) is inapplicable to the operational circumstances of Columbia today. Finally, the PUC's decision in the NFGD proceeding is over twenty-five years old. Therefore, the NFGD 1994 Order does not confirm or indicate that Columbia's exclusive use of the P&A study in this 2020 rate case proceeding would be just and reasonable.

OCA also contends that Columbia's COSS errs in evaluating the costs of pipeline mains and in assigning distribution mains to separate pressure groups. OCA St. 4, pp. 7-8. However, the Company uses Graphical Information System ("GIS") to identify at a granular level the pipe segments that serve certain premises, the operating pressures of those pipe segments, the size of the pipe, and the pipe material. Columbia St. 11-R, p. 24. This detailed information enables Columbia to more accurately identify the specific mains being used to serve specific customers

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[3] I&E also referenced the 1994 NFG case. I&E St. 3, p. 16-17.

and to more accurately assign mains when determining revenue responsibility for each rate class. *Id*. In fact, OSBA commends Columbia's efforts to use GIS software to conduct a more detailed analysis of costs of mains. *Direct Testimony of Robert Knecht*, OSBA Statement No. 1 ("OSBA St. 1"), pp. 14-15.

Thus, while OCA disagrees with Columbia's granular approach because the OCA prefers to allocate distribution mains exclusively using the P&A method, the use of such granular information produces a more accurate COSS and enables Columbia to better adhere to cost causation principles when formulating its COSSs in this proceeding. An effective COSS allocates costs to customers based on the cost to serve those customers. As to the cost of mains, Columbia states that the residential class is the largest class and would be expected to be allocated the largest percentage of main costs based on its use of mains. Columbia St. 11-R, pp. 29-30. Thus, OCA has not demonstrated that Columbia's approach to analyzing the costs of mains fails to adhere to cost of service ratemaking principles.

Although the OSBA does not go so far as to support the sole use of the P&A COSS, OSBA argues for a 75% weighting to the P&A study and 25% weighting to the Customer/Demand study, as compared to Columbia's Average COSS, which provides for a 50%/50% weighting. OSBA St. 1, pp. 27-30. OSBA primarily advances the 75/25 weighting because the results of such weighting align with the results of OSBA's witness's analysis and are most favorable to the small business/commercial class (*i.e.,* Rate SGS/SDSS). *See id.* at p. 27. In light of the concerns addressed above regarding the P&A Study, OSBA has not demonstrated that a 75/25 weighting of Columbia's COSSs is just and reasonable. Moreover, OSBA's proposal could result in discrimination in rates during the revenue allocation process. Accordingly, OSBA's proposed modifications to Columbia's COSSs should be rejected.

In contrast to OCA, PSU argues for the sole use of the Customer/Demand study. *Rebuttal Testimony of James L. Crist*, PSU Statement No. 1-R ("PSU St. 1R"), pp. 1-2. PSU points out that the New York Public Service Commission in 2017 adopted a Customer-Demand study for NFGD. *Id.* at 11-12. In allocating the costs of mains, NFGD performed a regression analysis to determine that 58.56% of the costs were customer related while 41.44% of the costs were demand-related. *Id.* at 12. NFGD's regression analysis examined the relationship between the size of the pipe and the average cost per foot. *Id.* at 12. Because there is a clear and direct relationship between the number of customers and the need for more pipeline extensions, mains should be allocated based on the number of customers. *Id.* at p. 7. Customers cause the costs of pipeline extensions. Accordingly, unlike the P&A Method, the Customer/Demand Method accurately accounts for cost causation principles and the direct link between the number of customers and the degree of pipeline extensions.

Like PSU, CII contends that the use of the Customer/Demand study may be more analytically sound and more accurately capture cost of service components. Thus, the Commission should consider approving the Customer/Demand study for purposes if this proceeding. If, however, the PUC seeks to utilize the Average COSS but decides to utilize a different weighting of Columbia's P&A and Customer/Demand Studies other than Columbia's proposed 50/50 weighting in the Average Study, the Commission should consider affording greater weight to the Customer/Demand Study.

Importantly, the exclusive use of Columbia's P&A COSS has not been demonstrated to be just and reasonable or consistent with Commission precedent. The exclusive use of the P&A Study (and its omission of the direct relationship between the number of customers and pipeline usage) would unfairly discriminate against higher load customers. For those same reasons, any request to provide greater weight to the P&A Study should be rejected. Conversely, the Customer/Demand Study accurately captures cost of service components and could be utilized on its own merits or provided greater weight in comparison to the P&A study. Alternatively, if the Commission has concerns with either the P&A or Customer/Demand Studies then the Commission should accept Columbia's Average Study, without modification, as just and reasonable.

### C. Revenue Allocation

#### 1. Proposed Revenue Allocation and Alternatives

As discussed more fully in Section III, *supra*, Columbia has requested approximately nine base rate increases in the past twelve years, with Columbia seeking $100.4 million in the middle of the COVID-19 pandemic. CII St. 1, pp. 6-7. Pursuant to Columbia's proposal, LDS rates would increase by approximately 25%, while the State Advocates would propose even higher rate increase to this class. *See Rebuttal Testimony of Frank Plan*k, CII Statement No. 1-R ("CII St. 1R"), p. 2. Because large commercial and industrial customers are already facing very difficult economic conditions, combined with the constant increases proposed by Columbia over the past decade, such proposals would further escalate these customers hardships. For these reasons, if the PUC grants Columbia a rate increase, Rate LDS should receive a significantly lower rate increase and certainly no more than the system average.

In this proceeding, Columbia is requesting an increase of over $100 million, which would result in a system average increase of 17.5%. *See* CII St. 1, p. 6. Columbia is proposing to increase Rate LDS's customer charge by approximately 24%, while increasing Rate LDS's volumetric charge by approximately 28%. *Id*. at 7. As a result, Rate LDS customers will see an approximate increase of 25% on their Columbia invoices if the Company's request is approved. *Id*. For large commercial and industrial customers, such as CII member Knouse whose natural gas costs are approximately 50% of Knouse's overall energy costs, Columbia's proposal would significantly impact these customers' overall energy budgets. *Id*.

Unfortunately, several parties in this proceeding propose even higher rate increases for the LDS class. Specifically, the OCA is proposing a 36% rate increase, while the OSBA is suggesting an increase of between 38% and 43%. CII St. 1R, p. 2. In other words, while Columbia is proposing to increase Rate LDS by 1.5 times the system average, the OCA is suggesting Rate LDS receive an increase that is 2 times the system average, while the OSBA's proposed increase would be 2.5 times the system average for Rate LDS.

Pursuant to the Public Utility Code, "[e]very rate made, demanded or received by any public utility…shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa. C.S. Section 1301. In addition, "[n]o public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage." 66 Pa. C.S. Section 1304. Moreover, "[n]o public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service." *Id*. Moreover, while cost of service is the polestar for ratemaking purposes in Pennsylvania, the PUC has also held that the principle of gradualism must be considered. *See Lloyd*, 904 A.2d at 1018-1021.

Accordingly, while Rate LDS may need to receive some increase in order to move this class of customers closer to their cost to serve, such an increase should be less than 26% and certainly not be greater than the system average. Rather, the PUC must look to principle of gradualism to recognize the issues with which Rate LDS customers must currently contend.

Moreover, the proposals of the OCA and OSBA must be rejected out of hand, as to increase Rate LDS by two or more times the system average would certainly ignore the principle of gradualism.

Large commercial and industrial customers on Columbia's system have had to contend with Columbia seeking rate increases approximately every twelve to eighteen months for over the past decade. CII St. 1, p. 8. Moreover, Columbia's proposal in this rate filing is especially excessive, as the Company's requested rate increase of $100 million would translate to an approximate 25% increase to Rate LDs. *Id.* When this 25% increase is combined with the uncertainty that customers face due to the impact of the COVID-19 pandemic, the results are especially alarming. *Id.* Moreover, the attempts by the OCA and OSBA to increase Rate LDS to two or more times the system average would certainly ignore the principles of gradualism. For these reasons, if Columbia is granted any rate increase in this proceeding, Rate LDS should receive an increase of no more than the system average increase.

**2. Flex Customers**

CII offers no opinion on this issue at this time.

**3. Allocation of Universal Service Costs**

To date, the costs of Columbia's Universal Service Program ("USP") has been funded by the residential customer class, as these customers are the class that is eligible to receive the benefits offered by the UPS. Although Columbia did not propose to change the status quo with respect to cost allocation in this proceeding, CAUSE-PA, OCA, and CAAP seek to allocate USP costs to all rate classes based on their assertions that the USP is a "public good" and, therefore, provides indirect benefits to all customer classes. As discussed more fully herein, because the proposal to allocate USP costs to non-residential classes violates cost-causation principles, does not provide any benefit for non-residential classes, and would create a slippery slope by applying precedent from other states, the Commission must reject CAAP, CAUSE-PA and OCA's proposal. Rather the status quo must remain with respect to USP cost collection.

The proposal to change allocation of USP costs to all customer classes must be rejected because, if adopted, the change would ignore the well-established principles of cost-causation. The Commonwealth Court of Pennsylvania has previously indicated that the principle of cost causation is the polestar for ratemaking purposes. *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010, 1016 (Pa. Cmwlth. 2006). Therefore, "[c]ost causation may not be subordinated and ignored in determining class rates." PSU St. 1R, p. 18.

The arguments of OCA, CAUSE-PA, and CAAP, that UPS costs should be allocated to all customers because Columbia's USP provides a "public" and "indirect" benefit to non-residential classes, completely ignore the principles of cost causation. *Direct Testimony of Roger D. Colton*, OCA Statement No. 5 ("OCA St. 5"), pp. 40-41; *Direct Testimony of Mitchell Miller* , CAUSE-PA Statement No.1 ("CAUSE-PA St. 1"), pp. 40-43; *Rebuttal Testimony of Susan A. Moore*, CAAP Statement No. 1-R ("CAAP St. 1R"), p. 2. In fashioning the proper cost allocation for Columbia's USP, the Commission must consider why these types of programs were initially developed. *Rebuttal Testimony of Andrew Tubbs*, Columbia Statement No. 1-R ("Columbia St. 1R"), p. 25. Programs such as USPs were created in order to "reduce overall costs related to customer arrearages and customer collection costs to *residential* rate payers by reducing *residential* customer arrearages." *Id*. As such, residential customers are the sole class eligible to receive universal service benefits and must necessarily bear the cost of these programs. *Id*.; *see also* PSU St. 1R, p. 19. In other words, because only residential customers benefit from USP, only residential customers should be allocated these costs.

Further, even if the Commission were to consider the OCA's claim of a "public benefit" for purposes of cost causation, no such public benefit can be found, especially in light of the hardships currently faced by large commercial and industrial customers due to the COVID-19 pandemic. CII St. No. 1R, p. 2; PSU Statement No. 1R, p. 18. Shifting costs for the USP to rate classes that neither cause any cost to the Company in relation to residential customer arrearages nor receive any benefit from reduced residential arrearages, on the basis that the USP is somehow a public good "divorce[s] revenue allocation and rate design from cost incurrence and cost allocation principles." Columbia St. 1R, pp. 25-26. Such a proposal "looks outside the ratemaking process to arbitrarily conclude that a cost that is caused by one class should be shifted to other classes." *Id*. Moreover, if the Commission were to allocate USP costs on the amorphous basis of a "public benefit," future proceedings could find numerous parties requesting discounts, subsidies, credits, or free service based upon the same "public benefits" offered. In the end, because even businesses provide societal benefits through wages, no funding source will exist for all of the free service given for alleged "public benefits."

In an effort to further justify their proposal, CAUSE-PA and the OCA rely on the Commission's statements in its *2019 Amendments to Policy Statement on Customer Assistance Program 52 Pa. Code § 69.261-69.267*, Docket No. M-2019-3012599, Final Policy Statement and Order (entered November 5, 2019) ("Final CAP Policy Statement"). Specifically, the OCA and CAUSE-PA seem to point to the Commission's statements indicating the PUC's willingness to consider arguments for the inclusion of non-residential classes in allocation of USP costs as support OCA and CAUSE-PA's proposal. OCA St. 5, p. 29; CAUSE-PA St. 1, pp. 38-39. Simply because the Commission is willing to hear arguments regarding USP cost obligations does not mean that the Commission has necessarily changed its stance on cost-allocation. *See* Final Cap

Policy Statement, p. 97. The Commission has merely committed to considering the merits of such arguments and has made no determination concerning the appropriateness of allocating USP costs to non-residential customer classes.

Lastly, the OCA and CAUSE-PA's attempt to justify allocating USP costs to non-residential customer classes by merely pointing to other states' cost-recovery methods for their respective USPs. CAUSE-PA St. 1, p. 43; OCA St. 5, pp. 55-56. According to CAUSE-PA and the OCA, other states have allocated cost responsibility of USPs to all customer classes. *Id*. However, the fact that some other states may assign costs to non-residential classes is not sufficient to abandon the well-settled and long adhered-to principles of cost causation and allocate USP costs to customer classes that receive no direct benefit from these programs. PSU St. 1R, p. 26. USPs vary state by state and are controlled by the operative laws of each state. *Id*. Further, other states programs may have different qualification requirements or program cost limits. *Id*. Therefore, whether or not other states have allocated USP costs to non-residential classes is of no significance to this proceeding.

Accordingly, because the proposal to allocate USP costs to all customer classes violates the principles of cost-causation as the USP provides no direct benefit to nor provides eligibility for customer classes outside of the residential class, the Commission should uphold the status quo of cost allocation for the USP.

## D. Rate Design

### 1. Residential Rate Design

#### a) Residential Customer Charge

CII has no opinion on this issue at this time.

#### b) Weather Normalization Adjustment

CII has no opinion on this issue at this time.

c) Revenue Normalization Adjustment

CII has no opinion on this issue at this time

**2. Small C&I Customer Rate Design**

CII has no opinion on this issue at this time.

**3. Large C&I Customer Rate Design**

CII has no opinion on this issue at this time.

**4. Gas Procurement Charge Rider**

CII has no opinion on this issue at this time.

**E. Bill Impacts**

CII has no opinion on this issue at this time.

## XI. CONCLUSION

**WHEREFORE**, the Columbia Industrial Intervenors respectfully requests that the Pennsylvania Public Utility Commission:

(1) Deny Columbia's requested rate increase at this time due to the COVID-19 pandemic;

(2) Grant only amount needed to ensure just and reasonable rates for all customers if the PUC determines that Columbia should receive some rate increase;

(3) Accept Columbia's Customer/Demand Cost of Service Study;

(4) In the alternative, accept Columbia's Average Cost of Service Study without modification;

(5) Allocate Rate Schedule Large Distribution Service only a minimal rate increase, if any, but certainly no more than the system average;

(6) Maintain the status quo with respect to Columbia's current allocation of Universal Service Program costs; and

(7) Grant any other relief consistent with the arguments set forth herein.

Respectfully submitted,

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Dated: October 16, 2020

# Appendix A

TABLE I
Company Name
INCOME SUMMARY
R-##########

| | Pro Forma Present Rates (1) | Company Adjustments (1) | Pro Forma Present Rates (Revised) (1) | ALJ Adjustments | ALJ Pro Forma Present Rates | ALJ Revenue Increase | Total Allowable Revenues |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| Operating Revenue | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenses: | | | | | | | |
| O & M Expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Taxes, Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Income Taxes: | | | | | | | |
| State | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Federal | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Inc. Available for Return | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Rate Base | 0 | 0 | 0 | 0 | 0 | | 0 |
| Rate of Return | #DIV/0! | | #DIV/0! | | | | 0.00000000% |

(1) Company Main Brief

{*A7734940:1}

TABLE I(A)
Company Name
RATE OF RETURN
R-##########

| | Structure | Cost | After-Tax Weighted Cost | Effective Tax Rate Complement | Pre-Tax Weighted Cost Rate |
|---|---|---|---|---|---|
| Total Cost of Debt | | | 0.00000000% | | |
| Long-term Debt | 0.00% | 0.00% | 0.00000000% | | 0.00% |
| Short-term Debt | 0.00% | 0.00% | 0.00000000% | | |
| Preferred Stock | 0.00% | 0.00% | 0.00000000% | 0.711079 | 0.00% |
| Common Equity | 0.00% | 0.00% | 0.00000000% | 0.711079 | 0.00% |
| | 0.00% | | 0.00000000% | | 0.00% |

Pre-Tax Interest Coverage #DIV/0!

After-Tax Interest Coverage #DIV/0!

TABLE I(B)
Company Name
REVENUE FACTOR
R-##########

| | |
|---|---|
| 100% | 1.00000000 |
| Less: | |
| Uncollectible Accounts Factor (*) | 0.00000000 |
| PUC, OCA, OSBA Assessment Factors (*) | 0.00000000 |
| Gross Receipts Tax | 0.00000000 |
| Other Tax Factors | 0.00000000 |
| | 1.00000000 |
| State Income Tax Rate (*) | 0.09990000 |
| Effective State Income Tax Rate | 0.09990000 |
| Factor After Local and State Taxes | 0.90010000 |
| Federal Income Tax Rate (*) | 0.21000000 |
| Effective Federal Income Tax Rate | 0.18902100 |
| Revenue Factor (100% - Effective Tax Rates) | 0.71107900 |

(*) Company Main Brief

TABLE II
Company Name
SUMMARY OF ADJUSTMENTS
R-##########

| Adjustments | | Rate Base | Revenues | Expenses | Depreciation | Taxes-Other | State Income Tax | Federal Income Tax |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| RATE BASE: | | | | | | | | |
| CWC: | | | | | | | | |
| Int. & Div. (Table IV) | (IV!B38) | | | | | | | |
| Taxes (Table V) | (V!P34) | | | | | | | |
| O & M (Table VI) | (VI!B42) | | | | | | | |
| REVENUES: | | | | | | | | |
| | | | 0 | | | | 0 | 0 |
| EXPENSES: | | | | | | | | |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| | | | | 0 | | | 0 | 0 |
| TAXES: | | | | | | | | |
| Interest Synchronization (Table III) | | | | | | | 0 | 0 |
| TOTALS | | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

TABLE III
Company Name
INTEREST SYNCHRONIZATION
R-##########

| | Amount $ |
|---|---|
| Company Rate Base Claim | 0 |
| ALJ Rate Base Adjustments | 0 |
| ALJ Rate Base | 0 |
| Weighted Cost of Debt | 0.00000000% |
| ALJ Interest Expense | 0 |
| Company Claim (1) | 0 |
| Total ALJ Adjustment | 0 |
| Company Adjustment | 0 |
| Net ALJ Interest Adjustment | 0 |
| State Income Tax Rate | 9.99% |
| State Income Tax Adjustment | 0 |
| Net ALJ Interest Adjustment | 0 |
| State Income Tax Adjustment | 0 |
| Net ALJ Adjustment for F.I.T. | 0 |
| Federal Income Tax Rate | 21.00% |
| Federal Income Tax Adjustment | 0 |

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TABLE IV
Company Name
CASH WORKING CAPITAL - Interest and Dividends
R-##########

| Accrued Interest | Long-Term Debt | Short-Term Debt | Preferred Stock Dividends | |
|---|---|---|---|---|
| Company Rate Base Claim | $0 | $0 | Company Rate Base Claim | $0 |
| ALJ Rate Base Adjustments | $0 | $0 | ALJ Rate Base Adjustments | $0 |
| ALJ Rate Base | $0 | $0 | ALJ Rate Base | $0 |
| Weighted Cost of Debt | 0.00000000% | 0.00% | Weighted Cost Pref. Stock | 0.00000000% |
| ALJ Annual Interest Exp. | $0 | $0 | ALJ Preferred Dividends | $0 |
| Average Revenue Lag Days | 0.0 | 0.0 | Average Revenue Lag Days | 0.0 |
| Average Expense Lag Days | 0.0 | 0.0 | Average Expense Lag Days | 0.0 |
| Net Lag Days | 0.0 | 0.0 | Net Lag Days | 0.0 |
| Working Capital Adjustment | | | | |
| ALJ Daily Interest Exp. | $0 | $0 | ALJ Daily Dividends | $0 |
| Net Lag Days | 0.0 | 0.0 | Net Lag Days | 0.0 |
| ALJ Working Capital | $0 | $0 | | $0 |
| Company Claim (1) | $0 | $0 | Company Claim (1) | $0 |
| ALJ Adjustment | $0 | $0 | | $0 |
| Total Interest & Dividend Adj. | $0 | | | |

(1) Company Main Brief.

TABLE V
Company Name
CASH WORKING CAPITAL -TAXES
R-##########

| Description | Company Proforma Tax Expense Present Rates | ALJ Adjustments | ALJ Pro forma Tax Expense Present Rates | ALJ Allowance | ALJ Adjusted Taxes at Present Rates | Daily Expense | Net Lead/ Lag Days | Accrued Tax Adjustment |
|---|---|---|---|---|---|---|---|---|
| PUC Assessment | $0 | $0 | $0 | $0 | $0 | $0.00 | 0.00 | $0 |
| Public Utility Realty | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| Capital Stock Tax | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | | $0 | $0.00 | 0.00 | $0 |
| State Income Tax | $0 | $0 | $0 | $0 | $0 | $0.00 | 0.00 | $0 |
| Federal Income Tax | $0 | $0 | $0 | $0 | $0 | $0.00 | 0.00 | $0 |
| | $0 | $0 | $0 | $0 | $0 | | | |

| | |
|---|---|
| ALJ Allowance | 0 |
| Company Claim (1) | 0 |
| ALJ Adjustment | 0 |

(1) Company Main Brief

TABLE VI
Company Name
CASH WORKING CAPITAL -- O & M EXPENSE
R-##########

| Description | Company Pro forma F.T.Y. Expense | ALJ | ALJ Pro forma Expenses | Lag Days | Lag Dollars |
|---|---|---|---|---|---|
| Service Company | $0 | $0 | $0 | 0.00 | $0 |
| Chemicals | $0 | $0 | $0 | 0.00 | $0 |
| Group Insurance | $0 | $0 | $0 | 0.00 | $0 |
| Insurance, Other | $0 | $0 | $0 | 0.00 | $0 |
| Labor | $0 | $0 | $0 | 0.00 | $0 |
| Leased Equip./Rent | $0 | $0 | $0 | 0.00 | $0 |
| Leased Vehicles | $0 | $0 | $0 | 0.00 | $0 |
| Miscellaneous | $0 | $0 | $0 | 0.00 | $0 |
| Natural Gas | $0 | $0 | $0 | 0.00 | $0 |
| Power | $0 | $0 | $0 | 0.00 | $0 |
| Purchased Water | $0 | $0 | $0 | 0.00 | $0 |
| Telephone | $0 | $0 | $0 | 0.00 | $0 |
| Waste Disposal | $0 | $0 | $0 | 0.00 | $0 |
| Post Retirement Benefits | $0 | $0 | $0 | 0.00 | $0 |
| Pensions | $0 | $0 | $0 | 0.00 | $0 |
| | $0 | $0 | $0 | #DIV/0! | $0 |

| | | |
|---|---|---|
| ALJ Average Revenue Lag | 0.0 | |
| Less: ALJ Avg. Expense Lag | #DIV/0! | |
| Net Difference | #DIV/0! | Days |
| ALJ Pro forma O & M Expense per Day | $0 | |
| ALJ CWC for O & M | #DIV/0! | |
| Less: Company Claim (1) | $0 | |
| ALJ Adjustment | #DIV/0! | |

(1) Company Main Brief