



COMMONWEALTH OF PENNSYLVANIA

October 16, 2020

E-FILED

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

**Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc. 2020
Base Rate Filing / Docket No. R-2020-3018835**

Dear Secretary Chiavetta:

Enclosed please find the Main Brief, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceeding.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

Steven C. Gray
Senior Supervising
Assistant Small Business Advocate
Attorney I.D. No. 77538

Enclosures

cc: Robert D. Knecht
Matthew Stewart
Stephen Jakab
Marc Hoffer
Parties of Record

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I. Introduction

On April 24, 2020, Columbia Gas of Pennsylvania, Inc. (“Columbia” or the “Company”) filed Supplement No. 307 to Tariff Gas Pa. P.U.C. No. 9 (“Supplement 307”), with an effective date of January 23, 2021. Columbia proposed to increase overall base rates by approximately \$100.4 million per year, or 17.54% over present base rate revenues.

On May 4, 2020, the Office of Small Business Advocate (“OSBA”) filed a Complaint against Supplement 307.

On June 3, 2020, a prehearing conference was held before Administrative Law Judge (“ALJ”) Katrina L. Dunderdale.

On June 15, 2020, ALJ Dunderdale issued her Amended Prehearing Order.

On July 28, 2020, the OSBA served the Direct Testimony of Robert D. Knecht, in both Public and Highly Confidential versions.

On August 26, 2020, the OSBA served the Rebuttal Testimony of Mr. Knecht.

On September 16, 2020, the OSBA served the Surrebuttal Testimony of Mr. Knecht, in both Public and Highly Confidential versions.

On September 24, 2020, the ALJ Dunderdale conducted an evidentiary hearing.

On September 25, 2020, ALJ Dunderdale issued her Post-Hearing Order, admitting all testimony (including testimony of Mr. Knecht) into the record.

The OSBA submits this Main Brief in accordance with ALJ Dunderdale’s September 25th Post-Hearing Order.

II. Summary of Argument

The ALJ and the Commission should be aware that, when measuring Columbia's rate increase, the Company did not include in its present rates the roughly \$20 million in DSIC revenues that will effectively be rolled into the new base rates in January 2021.

This rate case takes places during the COVID-19 Pandemic. All of the Company's ratepayers have been affected, and many have been devastated, by the pandemic.

The OSBA analysis calculates that a Return on Equity in the range of 7.63% is appropriate for Columbia.

Columbia has used the approach of submitting two different cost of service methodologies, and then taking a simple 50/50 average of the two. The OSBA suggests that a 75/25 weighting of the two would be more appropriate than the Company's 50/50 average.

Columbia, unfortunately, did not follow its proposed cost of service methodology when proposing its revenue allocation. The OSBA takes its 75/25 weighting and proposes a revenue allocation based upon that cost of service methodology.

Columbia has not fully proven that its flex rate discounts are just and reasonable.

The OSBA recommends that further consideration of the allocation of universal service costs be deferred until such time when Columbia's small business and industrial customers have financially recovered from the pandemic.

The OSBA recommends the adoption of Columbia's rate design proposals for the SGS1 and SGS2 customer classes, subject to a scaleback related to any reduction in the claimed revenue requirement.

III. Overall Position on Rate Increase

A. The Proposed Net Increase

Columbia frequently states that it is requesting an overall base rate revenue increase of \$100.4 million in this proceeding. In evaluating the magnitude of the rate increase, the Commission should be aware that, in measuring the rate increase, the Company did not include some \$20 million in DSIC revenues that will effectively be rolled into rates in January 2021.¹ Simply put, relative to not filing a rate case, Columbia is requesting an additional \$80.4 million revenue increase in this proceeding. Thus, for example, awarding the Company a \$30 million base rate increase will provide the Company with an annual net increase in revenues of \$10 million over the status quo.

B. The COVID-19 Pandemic

OSBA witness Robert D. Knecht summarized the effects of the pandemic, as follows:

Of course, this rate proceeding takes place in the extraordinary circumstances of a pandemic, which is having a devastating impact on residences and many small businesses in Pennsylvania. The Commission does not need me [or the OSBA] to elaborate on these impacts.

OSBA Statement No. 1, at 3.

This is not a “traditional” rate case taking place in early 2019. This is a rate case taking place when Columbia’s ratepayers have been devastated by a pandemic. Ultimately, since the Company chooses to turn a blind eye to the pandemic, the ALJ and the Commission will be forced to remind them of the fact that a pandemic, does, in fact, exist.

C. The Requested Return on Equity

¹ Columbia Statement 9-R, at 5-6.

Columbia, by requesting a Return on Equity of 10.95%, is ignoring the changes in the financial markets that the COVID-19 Pandemic has wrought.

The OSBA calculates that a Return on Equity in the range of 7.63% is appropriate for Columbia.

IV. Rate Base

A. Plant in Service FPFTY Plant Additions

The OSBA is not addressing this issue in this Main Brief.

B. Cloud-Based Computing

The OSBA is not addressing this issue in this Main Brief.

C. Depreciation Reserve

The OSBA is not addressing this issue in this Main Brief.

D. ADIT

The OSBA is not addressing this issue in this Main Brief.

V. Revenue

As set forth above, Columbia explained that \$20 million of its \$100.4 million overall revenue increase request would otherwise be recoverable through the DSIC mechanism. Absent this rate proceeding, the \$20 million would, by operation of law, be included in the Company's tariff rates in January 2021.²

VI. Expenses

A. Labor Expense

1. Annualization Adjustment

The OSBA is not addressing this issue in this Main Brief.

² Columbia Statement 9-R, at 5-6.

2. Employee Complement

The OSBA is not addressing this issue in this Main Brief.

B. Other Employee Benefits

The OSBA is not addressing this issue in this Main Brief.

C. Incentive Compensation and Stock Rewards

The OSBA is not addressing this issue in this Main Brief.

D. PUC, OCA, OSBA Fees

The OSBA is not addressing this issue in this Main Brief.

E. Rate Case Expense

The OSBA is not addressing this issue in this Main Brief.

F. Outside Services

The OSBA is not addressing this issue in this Main Brief.

G. Other Adjustments

1. Adjustments for Safety Initiatives

a) Cross Bore Identification

The OSBA is not addressing this issue in this Main Brief.

b) Gas Qualification Specialists

The OSBA is not addressing this issue in this Main Brief.

c) Legacy Service Line Records

The OSBA is not addressing this issue in this Main Brief.

d) Customer-owned Field Assembled Riser Replacement

The OSBA is not addressing this issue in this Main Brief.

2. Compensation Adjustments

The OSBA is not addressing this issue in this Main Brief.

H. Depreciation Expense

The OSBA is not addressing this issue in this Main Brief.

VII. Taxes

A. Taxes Other Than Income Taxes

The OSBA is not addressing this issue in this Main Brief.

B. Income Taxes

The OSBA is not addressing this issue in this Main Brief.

VIII. Rate of Return

A. Introduction

At the time of this writing, the yield on the U.S. 10-Year Treasury Bond is 0.73%.³ In this proceeding, the Company is requesting a Return on Equity (“ROE”) of 10.95%. That is 1,022 basis points above the 10 Year T-Bond. That is an unreasonable risk premium even if this proceeding were a “traditional” base rates case, and is an absurd premium during the COVID-19 Pandemic.

In addition, Columbia has the audacity to request an upward adjustment to its ROE based upon exemplary management performance. Such a performance adjustment is not only unearned by the management of Columbia, it is totally inappropriate during the COVID-19 Pandemic.

B. Capital Structure Ratios

The OSBA is not addressing this issue in this Main Brief.

C. Debt Cost Rate

The OSBA is not addressing this issue in this Main Brief.

D. Return on Common Equity

1. Columbia Proposal

The Company requests an ROE of 10.95% inclusive of an upward adjustment based upon exemplary management performance.

The OSBA respectfully requests that the ALJ and the Commission deny both requests.

2. Other Parties’ Proposals

a) The OSBA Proposed ROE

³ See <https://www.bloomberg.com/markets/rates-bonds/government-bonds/us>.

In Columbia's previous base rates case the Company requested an ROE of 10.95%.⁴ This request occurred during a time period when the 10 Year T-Note was in the 2.8 to 3.0% range.⁵ In this proceeding, Columbia again requests an ROE of 10.95% – when the 10 Year T-Note ranges from 0.50 to 0.75%⁶

In the Commission's Order at Docket R-2017-2640058 (Order entered October 25, 2018), UGI Electric was awarded an ROE of 9.85%. In October of 2018, the 10 Year T-Note "was generally a little below 3.0 percent, implying that the Commission awarded UGI Electric a 6.9 percent (690 basis point) risk premium over the 10-year T-bond rate."⁷

Of course, the COVID-19 Pandemic was not in existence during October of 2018. Nevertheless, using that 690-basis award as precedent, and using the 10 Year T-Note rate at the time of this writing, would imply that Columbia should receive an ROE in the 7.63% range.⁸

b) The OCA Proposed ROE

The OCA proposes an ROE award in the 8.00 to 9.00 percent range, with a recommended value of 8.50 percent. OCA witness O'Donnell reaches his recommendation by using the discounted-cash-flow ("DCF") analysis of the cost of equity capital, consideration of the capital asset pricing model ("CAPM"), and the comparable earnings ("CE") approach.⁹

The OCA recommendation of 8.50% is obviously higher than the OSBA recommended ROE of 7.63%. Mr. Knecht concluded that the OCA's result is primarily based upon the Mr.

⁴ OSBA Statement No. 1, at 5.

⁵ OSBA Statement No. 1, at 5.

⁶ OSBA Statement No. 1, at 5.

⁷ OSBA Statement No. 1, at 5.

⁸ *See also*, OSBA Statement No. 1, at 3-6.

⁹ OSBA Statement No. 1-R, at 18.

O'Donnell's over-reliance on the DCF model. One significant problem with the DCF model is its circularity. As Mr. Knecht explained, the DCF model relies on market expectations for growth in utility dividends. Since market expectations for dividend growth are necessarily based on the market's expectations for regulatory ROE awards, the DCF tends to perpetuate the status quo and discourage regulators from adjusting ROE awards to reflect market realities.¹⁰ A second flaw in the DCF model is "the perpetual nature of the growth assumptions in the model." Given the realities of the impact of fossil fuels on the global climate, the OCA assumption that a natural gas distribution company's dividend will continue to grow at 5 percent forever is hopelessly unrealistic.¹¹

In regard to the CE analysis, Mr. O'Donnell makes a similar circularity error in that his "CE estimates rely on the assumption that past regulatory awards represent a reasonable proxy for future regulatory awards."¹² However, the changes in the capital markets, as exacerbated by the COVID-19 Pandemic, indicate that past regulatory awards are not a reasonable proxy, and thus Mr. O'Donnell's CE analysis lacks a credible foundation.

Mr. Knecht addressed Mr. O'Donnell's CAPM analysis, as follows:

Mr. O'Donnell's CAPM results imply that the cost of equity capital for NGDCs is far lower than his overall recommendation, ranging from 5.5 to 7.5 percent. This is not surprising as the CAPM is a risk premium model, and thus it directly reflects the current low interest rates in the capital markets.

¹⁰ OSBA Statement No. 1-R, at 20-21.

¹¹ OSBA Statement No. 1-R, at 21. *See also, id.*, at 20-23.

¹² OSBA Statement No. 1-R, at 23.

No. 1-R, at 24. Thus, the OCA's CAPM analysis aligns with and confirms the OSBA recommendation of an awarded ROE of 7.63%.

Nevertheless, Mr. Knecht observed that Mr. O'Donnell applied an inappropriate adder to the CAPM risk metric (called "beta") in his calculations.¹³ When an appropriate CAPM risk factor is used in the analysis, the CAPM results in an awarded ROE in the 5.2 to 7.1% range.¹⁴

3. Increment for Management Effectiveness

The Company's request for an upward adjustment to its the cost-based ROE award is an insult to Columbia's ratepayers, for two reasons.

First, demanding a premium from ratepayers during a pandemic is grossly inequitable. Residential customers have experienced unemployment at record levels, forcing many to stand in food lines so that their families can eat. Small businesses have been devastated to the point that a large percentage will never return. Industrial production has been massively affected. Yet Columbia wants to reward their shareholders because "management" did their job, while the Company's ratepayers suffer. Columbia's request that its management be rewarded in this manner is unconscionable.

Second, recent management failures at Columbia's affiliates indicate that management is undeserving of a reward for exemplary performance. Rather the reverse. Mr. Knecht testified:

[T]he massive management failure and criminal negligence of fellow Nisource subsidiary Columbia Gas of Massachusetts in September 2018. ***This admitted criminal behavior*** led to one fatality, a massive disruption to the lives of the residents and businesses of several towns in the Merrimack Valley in Massachusetts, and the required divestiture of that local distribution company by Nisource. ***The Company admits that it also led to the diversion of resources away from planned investments at Columbia Gas of Pennsylvania.*** Moreover, while

¹³ OSBA Statement No. 1-R, at 24-25.

¹⁴ OSBA Statement No. 1-R, at 25.

it would be impossible to quantify, this enormous management failure likely had a negative impact on the cost of debt capital for all Nisource subsidiaries.

OSBA Statement No. 1-R, at 25-26 (footnote omitted) (emphasis added).

The OSBA respectfully submits that not only should Columbia receive no upward adjustment in its awarded ROE for its management's performance, the ALJ and the Commission should consider assigning a penalty to Columbia's ROE in this proceeding.

IX. Miscellaneous Issues

A. Low-Income Customer Issues

1. Customer Assistance Program

The OSBA is not addressing this issue in this Main Brief.

2. Low-Income Customer Outreach

The OSBA is not addressing this issue in this Main Brief.

3. Health and Safety Pilot

The OSBA is not addressing this issue in this Main Brief.

4. LIURP

The OSBA is not addressing this issue in this Main Brief.

5. Hardship Fund

The OSBA is not addressing this issue in this Main Brief.

B. Pipeline Replacement Issues

1. DIMP

The OSBA is not addressing this issue in this Main Brief.

2. Pipeline Replacement

The OSBA is not addressing this issue in this Main Brief.

3. Pipeline Replacement Costs

The OSBA is not addressing this issue in this Main Brief.

4. Risk Reduction

The OSBA is not addressing this issue in this Main Brief.

X. Rate Structure

A. Introduction

Columbia provided three allocated cost of service study methodologies (“ACOSSs”) in this proceeding.¹⁵ Columbia selected two of the Company’s ACOSS’s (which produced significantly different results), averaged the results of the two ACOSSs (which produced the “third” ACOSS), and claimed to have based its revenue allocation upon that resulting average.

Cost allocation for a gas distribution utility often hinges on the methodologies chosen for the classification and allocation of mains costs. For many years, Columbia has used the approach of submitting two alternative methodologies which represent relatively extreme positions on this issue, and then taking a simple 50/50 average. This approach is understandable given the lack of any consistency among experts on this issue, but it is necessarily arbitrary. Moreover, neither of the two methods used by Columbia, or the average, is consistent with relatively recent Commission precedent. Mr. Knecht recommends using an alternative weighting approach that produces results that are historically more consistent with the Commission’s approved method, and which are generally consistent with settlement results from the Company last several base rate cases.

Columbia proposed its rate design at the Company’s full revenue request. At that full revenue request, the OSBA concluded that the Company’s proposed rate design was reasonable.

¹⁵ Mr. Knecht discusses the purpose and principles of an ACOSS in his Direct Testimony. *See* OSBA Statement No. 1, at 12-13.

When the ALJ and Commission scale back Columbia's revenue request, the rate increases should also be scaled back.

B. Cost of Service

Mr. Knecht addressed Columbia's choice to present "three" ACOSs in this proceeding:

For gas distribution utilities, the issue of the classification and allocation of mains costs is often contested in regulatory proceedings. This debate has a significant impact on rate design for several reasons.

First, mains costs are 'joint use' costs, meaning that they cannot be directly assigned to a particular customer or customer class, and must be allocated using some reasonable methodology.

Second, mains represent a large percentage of a gas utility's overall rate base, thereby determining each class' share of income tax and return on capital costs. Moreover, given the nature of ACOSs, the allocation of mains costs also drives the allocation of a large percentage of the O&M costs, as well as indirectly affecting the allocation of A&G costs.

Third, the analytical models used by cost allocation experts can vary considerably in their impact on the percentage of mains costs assigned to each class.

And fourth, the cost allocation methodology for mains can have a significant impact on the ultimate rate design for the recovery of costs within each rate class, notably with respect to the magnitude of the customer charge.

No. 1, at 13-14 (footnote omitted) (formatting added).

Given the difficulties and controversy surrounding the classification and allocation of mains costs, the Company approached the issue as explained by Mr. Knecht as follows:

Rather than take a firm position on this debate, the Company essentially picks two methods which it asserts lie at opposite ends of the philosophical spectrum and presents the results of both.

These studies are denoted the CD [customer demand] ACOS (Exhibit 111 Schedule 1) and the P&A [peak-and-average] ACOS (Exhibit 111 Schedule 2).

The third ACOSS (Exhibit 111, Schedule 3) is a simple average of the two. *The differences between these three ACOSSs are related only to the issue of mains cost allocation* – all other allocations are methodologically the same in the three studies.

OSBA Statement No. 1, at 14 (emphasis added) (formatting added).

Mr. Knecht provides extensive analysis and details regarding the classification and allocation of mains costs in his Direct Testimony. See OSBA Statement No. 1, at 14-19. Mr. Knecht observed that the CD ACOSS is most favorable to the larger customers of Columbia, whereas the P&A ACOSS is most favorable to the smallest customers of the Company.¹⁶

Given these inherent differences, Mr. Knecht created Table IEC-2 to demonstrate how widely the results vary across the various ACOSSs. To construct this Table, Mr. Knecht used regular tariff-rate revenue for Columbia’s flex rate customers (an issue discussed *infra*), and he created a “Traditional P&A ACOSS.”¹⁷ Table IEC-2 is set forth below:

Table IEC-2								
Summary of ACOSS Implications								
(\$000)								
	Total	Residential	SGS1	SGS2	Medium General	Large General	MDS	Flex
Current Non-Gas Revenues	433,835	318,013	34,082	39,058	21,885	15,356	552	4,887
CD ACOSS								
Increase to CBR	100,527	109,299	7,588	(9,913)	(7,431)	(5,166)	(458)	6,608
Percent	23.2%	34.4%	22.3%	-25.4%	-34.0%	-33.6%	-83.0%	135.2%
P&A ACOSS								
Increase to CBR	100,527	35,785	8,161	7,221	6,897	16,702	(458)	26,218

¹⁶ OSBA Statement No. 1, at 19-20.

¹⁷ A “Traditional P&A ACOSS” would have joint use mains allocated as an integrated system.

Percent	23.2%	11.3%	23.9%	18.5%	31.5%	108.8%	-83.0%	536.4%
Traditional P&A ACOSS								
Increase to CBR	100,527	2,038	3,784	11,781	16,730	28,805	(458)	37,848
Percent	23.2%	0.6%	11.1%	30.2%	76.4%	187.6%	-83.0%	774.4%
Source: RDK WP1, WP2, WP1A								

OSBA Statement No. 1, at 21.

The reader is invited to pick any customer-class column and compare the increases assigned to that customer class based upon which ACOSS is used. For example, the MDS customer class receives a decrease across all ACOSSs. The MDS customer class has its mains costs directly assigned – thus no variation. In contrast, the Residential customer class and the Large General customer class both show wildly different results based upon the ACOSS selected, but, of course, in opposite directions.

Mr. Knecht concluded, as follows:

Thus, absent some arbitrary averaging method, using the full range of possible cost allocation results provides little guidance for revenue allocation in this proceeding.

OSBA Statement No. 1, at 22.

Thus, Columbia’s decision to use a 50/50 averaging of its CD and P&A ACOSS is necessarily arbitrary.

As Mr. Knecht explained, Commission precedent for mains cost allocation is not entirely clear, but relatively recent precedent implies Commission support for the use of an “average and excess” (“A&E”) allocation method. However, no party filed an ACOSS explicitly using the A&E method in this proceeding. However, Mr. Knecht developed a 75/25 weighting of the P&A and CD methods which historically provided a closer approximation to the A&E

approach. Mr. Knecht then relied on both the 50/50 average and the 75/25 weighting methods for developing revenue allocation recommendations.

C. Revenue Allocation

1. Proposed Revenue Allocation and Alternatives

“Revenue allocation is the assignment of the dollar net increase or decrease to each of the Company’s rate classes in a base rates proceeding.”¹⁸ The seminal case on revenue allocation is the *Lloyd* decision, where the Commonwealth Court held that the cost of service was the “polestar” of a rate proceeding.¹⁹ In this proceeding, however, Columbia’s proposed revenue allocation was not fully consistent with its own proposed cost of service methodology, particularly where small and medium businesses are concerned.

Mr. Knecht discusses the details of revenue allocation in his Direct Testimony. *See* OSBA Statement No. 1, at 22-23. Ultimately, Mr. Knecht summarized the Columbia revenue allocation methodology, as follows:

The Company indicates that it subscribes to the principle that rates should be moved into line with allocated costs, subject to rate gradualism considerations.

For its cost basis, the Company claims that it generally relies on its Average ACOSS methodology.

The Company also proposes not to assign a rate decrease to the MDS class (and in fact includes an increase for the C&I Network), although a decrease would be justified based on allocated costs.

In addition, the Company appears to have considered the fact that it cannot impose rate increases on flex rate customers, the vast majority of which take service in the Large General Service class.

OSBA Statement No. 1, at 23-24 (formatting added).

¹⁸ OSBA Statement No. 1, at 22

¹⁹ *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006).

After reviewing Columbia's proposed revenue allocation, Mr. Knecht concluded, as follows:

As shown, the Company's revenue allocation proposal *is not consistent with its own cost allocation analysis*, even recognizing the Company's belief in a need to accommodate flex rate customer shortfalls.

* * *

Thus, it is not entirely clear how the Company developed the revenue allocation proposal for this proceeding. The Company indicates only that its revenue allocation serves to move class revenues closer to allocated costs, but it does not explain how its proposed revenue allocation is consistent with its cost allocation method, nor whether the progress toward cost-based rates is consistent across rate classes.

OSBA Statement No. 1, at 24-25 (emphasis added).

To address the issues of the uncertainty regarding a cost allocation methodology and the Company's failure to offer a revenue allocation consistent with its own ACOSS, Mr. Knecht proposed the following revenue allocation methodology:

First -- as to the cost basis, Mr. Knecht offered two alternative revenue allocation proposals. The first relied on the Company's 50/50 weighting of the ACOSS extremes. The second used a weighted average of the revenue requirements from the two Company ACOSSs, weighing the results of the P&A ACOSS at 75 percent and the CD ACOSS at 25 percent.

Second -- Mr. Knecht included the \$6.5 million in Flex rate revenues the Company's currently foregoes in its negotiated rates as current-rates revenue.

Third -- To reflect the principle of rate gradualism, Mr. Knecht limited the increase to any rate class to be no more than 2.0 times the system average.

Fourth -- Mr. Knecht eliminated the rate reductions implied for SGS2 and Medium General (*i.e.*, set the increases to zero) in the Company's 50/50 weighting calculation.

Fifth – Mr. Knecht took the net revenue shortfall that results from the adjustments in Steps 2, 3 and 4 above and reallocated that shortfall to the remaining classes on the basis of overall allocated cost.²⁰

Mr. Knecht summarized the Company's and his revenue allocation proposals in the following Table:

²⁰ See OSBA Statement No. 1, at 27-28.

Table IEc-5 RDK Proposed Revenue Allocation, Compared to Columbia Proposal						
	Columbia Proposal		RDK 50/50 Weighting		RDK 75/25 Weighting	
	\$000	%	\$000	%	\$000	%
Residential	72,614	22.8%	75,021	23.6%	64,966	20.4%
SGS1	8,397	24.6%	8,141	23.9%	9,240	27.1%
SGS2	9,664	24.7%	0	0.0%	4,157	10.6%
Medium General	5,672	25.9%	0	0.0%	4,047	18.5%
Large General	4,178	27.2%	5,903	38.4%	6,655	43.3%
MDS	0	0.0%	0	0.0%	0	0.0%
Flex Current Rate Adj.	--	--	6,519	--	6,519	--
Flex Increase	2	0.0%	4,943	43.3%	4,943	43.3%
Total	100,527	23.2%	100,527	21.7%	100,527	21.7%

Note: The adjustment to current flex rates to reflect the lack of evidentiary support for the discounts is included to true the totals to the Company's proposed increase. The system and flex rate percentage increases are calculated based on the adjusted base rates values.

Source: RDK WP2

OSBA Statement No. 1, at 30.

In particular, Mr. Knecht's analysis indicates that the Company's proposed increase for the SGS2 class (small to medium non-residential customers) and the Medium General (what Columbia calls the "SDS/LGSS" class) customers is wholly inconsistent with its own ACOSS results, and should either be assigned a zero increase (under 50/50 weighting) or an increase less than half that offered by the Company (75/25 weighting).²¹ Mr. Knecht's analysis also indicates that the Company's proposed increase for the smallest non-residential customers in the SGS1 class is not unreasonable under either cost allocation methodology.

²¹ For a description of Columbia's somewhat ill-named rate classes, see OSBA Statement 1, at 6-9.

For the reasons discussed above, the OSBA recommends that the Commission adopt the revenue allocation recommended by Mr. Knecht based on the 75/25 weighting approach. However, if the Commission approves the Company's proposed approach, the OSBA respectfully submits that Mr. Knecht's revenue allocation based on the 50/50 weighting is more consistent with the implications of the Company's ACOSS than the Company's revenue allocation proposal.

2. Flex Customers

In his Direct Testimony, OSBA witness Knecht summarized the issues with the Company's flex customers, as follows:

The Company's flex rate customers obtain service at a large rate discount relative to full tariff rates. Depending on the cost allocation methodology chosen, the under-recovery of costs from those customers at Columbia's proposed rates can be as high as \$31 million and is over \$16 million using the Company's proposed methodology. While discounted flex rates can theoretically provide benefits to non-flex ratepayers, both the need for and the magnitude of such rate discounts must be carefully documented.

OSBA Statement No. 1, at 2.

In general, a utility may be allowed to negotiate its rates with a customer who meets certain criteria. Those criteria include financial distress, threat of relocation, or lower-cost options such as alternative fuel, pipeline bypass, or "gas-on-gas competition." However, there are problems associated with offering flex rates, as explained by Mr. Knecht:

However, because flex rate discounts may be unduly discriminatory (as they apply to some customers and not others), and because they must implicitly be funded by other ratepayers, they require regulatory scrutiny. These discounts should only be allowed under certain economic conditions, most notably that they should be set at the maximum level possible while still retaining the customer.

OSBA Statement No. 1-S, at 1.

After an extended period of time, the OSBA was able to obtain some of the data from Columbia regarding the specific circumstances for its flex rate customers and the Company's rationale for offering discounted rates. That highly confidential information is set forth in Mr. Knecht's Surrebuttal Testimony, at 2-4. Based upon that highly confidential information, Mr. Knecht concluded, as follows:

First – that Columbia has not demonstrated that its gas-on-gas flex rate discounts of \$0.9 million are consistent with Commission policy.

Second – that approximately \$2.1 million of the bypass flex discounts are credible.

Third – that \$3.6 million of the flex discounts are suspect without more detailed information from the Company.²²

Based upon the information now available regarding the Company's flex customers, Mr. Knecht's Table IEc-5, set forth above, should revise the flex rates revenue allocation from \$6.5 million down to \$3.3 million. The remaining \$3.2 million should be allocated in proportion to that set forth in Table IEc-5.

3. Allocation of Universal Service Costs

The Commission entered its *Final Policy Statement and Order* on November 5, 2019, at Docket M-2019-3012599, addressing both the type and financing of low-income customer assistance programs.

Mr. Knecht summarized the Columbia proposal for funding its universal service costs, as follows:

Columbia proposes to continue the existing practice of assigning and recovering its universal service program costs from residential ratepayers using a volumetric 'Rider USP' charge. For the FPFTY, the Company' forecasts that it will incur \$26.73 million in

²² See OSBA Statement No 1-S, at 4-5.

universal service costs, or about \$5.56 per month for a typical residential customer

OSBA Statement No. 1-R, at 3.

a) The Pandemic

The Commission's *Order* was entered four months before the COVID-19 Pandemic caused the Commonwealth to go into lockdown. As everyone in the Office of ALJ and Commission knows, small businesses across the Commonwealth have been devastated by the COVID-19 Pandemic and the resulting lockdowns. The ALJ and the Commission can take judicial notice of the publicly available information that shows how small businesses are struggling to financially survive, as well as how many small businesses have failed and may never return.

It is unconscionable for any USP charges to be imposed upon Columbia's small business customers for the foreseeable future.

b) Mr. Knecht's Testimony

OSBA witness Mr. Knecht provides a detailed analysis and response to those parties who would allocate the USP charge to classes other than the residential class in this, or any other, proceeding. *See* OSBA Statement No. 1-R, 2-11.

The OSBA respectfully requests that further consideration of this issue be deferred until such time when Columbia's small business and industrial customers are back on their feet financially. For the purposes of this proceeding, the ALJ and the Commission should adopt the USP recovery mechanism proposed by Columbia.

Nevertheless, if other parties to this proceeding assert that now is the time to tax those small businesses who survive the COVID-19 Pandemic and pay for USP programs that benefit only residential customers, the OSBA will fully respond in its Reply Brief.

D. Rate Design

1. Residential Rate Design

a) Residential Customer Charge

The OSBA is not addressing this issue in this Main Brief.

b) Weather Normalization Adjustment

The OSBA is not addressing this issue in this Main Brief.

c) Revenue Normalization Adjustment

The OSBA is not addressing this issue in this Main Brief.

2. Small C&I Customer Rate Design

Mr. Knecht, in his Direct Testimony, provided a detailed summary of the Company's various non-residential customer classes.²³ For the purposes of rate design, the OSBA's focus is on the SGS1 and SGS2 customer classes.

Mr. Knecht created a Table, setting forth the Company's proposed rate design (at the full revenue request) for the Small General Service customers:

²³ See OSBA Statement No. 1, at 7-9.

Table IEC-6			
Columbia Proposed Small General Service Base Rate Design			
	Current Rate	Proposed Rate	Percent Increase
Rates SGSS and SCD			
Customer Charge < 644Dth/year	\$22.75	\$30.00	31.9%
>644 Dth/year	\$48.00	\$60.00	25.0%
Commodity Charge <644 Dth/year	\$4.4145	\$5.4513	23.5%
>644 Dth/year	\$3.7912	\$4.7478	25.2%
Rate SGDS			
Customer Charge < 644Dth/year	\$22.75	\$30.00	31.9%
>644 Dth/year	\$48.00	\$60.00	25.0%
Commodity Charge <644 Dth/year	\$4.2925	\$5.3428	24.5%
>644 Dth/year	\$3.6691	\$4.6396	26.5%

OSBA Statement No. 1, at 31.

Of course, just like revenue allocation, rate design is dictated by the ACOSS used. In order to overcome the inadequacies of Columbia's ACOSSs and proposed revenue allocation, Mr. Knecht employed his preferred ACOSS as a check of the Company's proposed customer charge increases:

My analysis indicates that the fully loaded customer cost based on my 75/25 weighted average ACOSS approach is \$40 for the Residential class, \$45 for the Small General Service class (under 644 Dth/year) and \$66 for the Small General Service class (over 644 Dth/year). Based on this analysis, I believe that the Company's proposals to increase the SGS1 customer charge to \$30 and increase the SGS2 customer charge at \$48 are cost-justified at the full revenue requirement.

OSBA Statement No. 1, at 32-33.

Consequently, the OSBA supports the Company's proposed rate design increases for the SGS1 and SGS2 customer classes. When the ALJ and Commission award Columbia less than its requested \$80.4 million, those SGS1 and SGS2 rate increases should be scaled back.²⁴ The Company indicates that it agrees with this proposal.²⁵

3. Large C&I Customer Rate Design

The OSBA is not addressing this issue in this Main Brief.

4. Gas Procurement Charge Rider

The OSBA is not addressing this issue in this Main Brief.

E. Bill Impacts

The OSBA is not addressing this issue in this Main Brief.

²⁴ See OSBA Statement No. 1, at 33, for the standard scale-back methodology.

²⁵ Columbia Statement No. 3-R, at 30-31.

XI. Conclusion

Therefore, the OSBA respectfully requests that the ALJ and Commission:

Award Columbia an ROE of 7.63%;

Adopt the OSBA's 75/25 ACOSS;

Adopt the OSBA's revenue allocation based on a 75/25 ACOSS weighting; in the alternative, if the Company's ACOSS methodology is approved, adopt the OSBA's revenue allocation proposal based on a 50/50 ACOSS weighting;

Defer the consideration of the allocation of universal services costs until such time as the COVID-19 Pandemic has abated; and

Adopt Columbia's rate design proposals for the SGS1 and SGS2 customer classes.

Respectfully Submitted,

/s/ Steven C. Gray

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Dated: October 16, 2020

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2020-3018835
	:	
Columbia Gas of Pennsylvania, Inc.	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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