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October 16, 2020

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

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

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer's Main Brief in the above-referenced proceeding.

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

Respectfully submitted,

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

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

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2020-3018835
Office of Small Business Advocate,	:	C-2020-3019702
Office of Consumer Advocate	:	C-2020-3019714
	:	
v.	:	
	:	
Columbia Gas Pennsylvania, Inc.	:	

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Dated: October 16, 2020

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I. INTRODUCTION

A. 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 No. 307) with the Pennsylvania Public Utility Commission (the Commission) to become effective June 23, 2020. Columbia is engaged in the business of furnishing natural gas service to approximately 433,000 residential, commercial, and industrial customers in portions of 26 counties in western, northwestern, southern, and central Pennsylvania. In Supplement No. 307, Columbia is seeking an increase in annual distribution revenues of $100.4 million for a fully projected future test year (FPFTY) ending on December 31, 2021. According to Columbia's filing, the total monthly bill for residential customers using 70 therms per month, will increase from $87.57 to $103.19 (17.84%). Columbia's proposed rate increase, if approved, would produce a 7.98% overall rate of return on its original cost rate base, including a 10.95% return on common equity. Columbia also proposed the following Tariff revisions in its filing: (1) an increase in the residential customer charge from $16.75 to $23.00, or by 37.3%, (2) the elimination of the 3 percent deadband provision of its Weather Normalization Adjustment rider program, and (3) the introduction of a Revenue Normalization Adjustment rider.

The Office of Consumer Advocate (OCA) opposes any increase to Columbia's rates at this time. The Commonwealth as a whole, and particularly throughout Columbia's vast service territory, are still firmly in the grip of the COVID-19 pandemic and the impacts to the health of the citizenry and the local economy are devastating. This is not the time to raise rates on Columbia's customers. The evidence of record in this matter shows that Columbia is not in need of immediate rate relief. Columbia's current and near-term financial outlook is stable. Columbia

currently has sufficient revenues to continue to provide safe and reasonable service, to continue its pipe replacement program, pay all of its expenses and earn a profit. The only thing that would be accomplished by a rate increase for Columbia at this time would be to increase shareholder wealth, at the expense of its customers who are suffering numerous hardships.

As set out in the testimony of OCA witness Scott J. Rubin,[1] the economic impacts of the pandemic on Pennsylvanians have been severe. Over the last several months, the unemployment rates have ranged from 8.3% to 19.5% in the counties served by Columbia. OCA St. 1 at 12. It is also important to recognize that the most severe impacts have been to Columbia's low-income customer population, and particularly to minorities. As further discussed in the testimony of OCA witness Roger D. Colton,[2] these are the very same customers who are least able to deal with any increase in their personal expenses at this time, and yet, they are the exact same customer groups who would be hit the hardest by Columbia's proposed rate increases. The OCA submits that any revenue increase at this time, considering the totality of the situation, will not result in rates that meet the just and reasonable standard.

In the event, however, that the Commission chooses to follow a standard ratemaking path for Columbia at this time, the record is clear that Columbia has no need for a large increase in

---

[1] Mr. Rubin is an independent attorney and public utility industry consultant under contract with the OCA who has testified as an expert witness before utility commissions and courts in seventeen states and the District of Columbia and province of Nova Scotia. OCA St. 1 at 1-3. Since 1984, Mr. Rubin has provided legal and consulting services to a variety of parties interested in public utility regulatory proceedings. A complete description of Mr. Rubin's qualifications is provided in OCA Statement 1, Appendix A.

[2] Mr. Colton is a Principal of Fisher Sheehan & Colton, Public Finance and General Economics in Belmont, Massachusetts. He provides technical assistance to public utilities and primarily works on low income utility issues. Mr. Colton has devoted his professional career to helping public utilities, community-based organizations and state and local governments design, implement and evaluate energy assistance programs to help low income households better afford their home energy bills. He has been involved with the development of the vast majority of ratepayer-funded affordability programs in the nation. A more complete description of Mr. Colton's education and experience is provided in OCA Statement 5, Appendix A.

revenues. As discussed in OCA witness David J. Effron's[3] testimony, the projections Columbia has made in its filing a month after the pandemic began to impact its service territories should not be perceived as accurate given the toll the pandemic has taken on the economy and the impact it may have over the next few years. Additionally, many of Columbia's claimed expenses lack documentation and/or convincing evidence.

According to the Company, the increase requested is based on its expenditures pursuant to the utility's accelerated pipeline replacement program. Columbia St. No. 1 at 5-6. Columbia has not adjusted its request based upon the impacts of the COVID-19 pandemic on the Company's projected future test year, which consists of the 12 months ending December 31, 2021, and has made no attempt to quantify any of these impacts on its filing. As OCA witness David J. Effron testified:

> In OCA Data Request V-3, the Company was asked to describe the expected impact of COVID-19 on capital spending and plant additions for the remaining months of 2020 and for 2021. The Company stated that it "anticipates completing this year's construction projects prior to year's end" but made no representation regarding the impact of COVID-19 on capital spending and plant additions for 2021, the Fully Projected Future Test Year ("FPFTY") in this case.
>
> In OCA Data Request V-13, the Company was asked to describe the expected impact of COVID-19 on operation and maintenance expense for the remaining months of 2020 and for 2021. The Company acknowledged that "it is difficult to quantify the expected impact of the virus on operation and maintenance expense."
>
> I believe that it is inherently difficult to know what the going forward effect of the COVID-19 on plant additions and operation

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[3] Mr. Effron has been a utility regulation consultant for over thirty years, during which he has analyzed numerous electric, gas, telephone and water filings in various jurisdictions. He is a Certified Public Accountant and has a Bachelor degree in Economics (with distinction) from Dartmouth College and a Masters in Business Administration from Columbia University. A complete description of Mr. Effron's qualifications is provided in OCA Statement 2, Appendix 1.

> and maintenance will be with any reasonable degree of certainty. Therefore, in addition to particular costs that I identify in this testimony as being speculative, the forecast of rate base and expenses for 2021 must be considered speculative as a general matter. OCA Witness Rubin concludes that it would not be just or reasonable to impose a rate increase on customers at this time and recommends that the Commission deny any rate increase to Columbia in this case.

OCA St. 2 at 3-4. The financial impacts of the pandemic will affect every aspect of the projected test year including revenues, operating expenses, capital expenditures, and the cost of short- and long-term debt.

Nonetheless, assuming some of Columbia's FPFTY projections are valid, (which they have not been shown to be) Mr. Effron found that, with reasonable and well-supported adjustments to Columbia's claimed expenses, Columbia's current revenues should only be increased by $31 million rather than $100 million. OCA. St. 2-S, p. 2. Further, OCA witness Kevin O'Donnell[4] found that the return on equity of 10.95% recommended by Columbia's Witness Moul to be excessive, unreasonable, and not indicative of current market conditions. Moreover, Mr. O'Donnell found that the 20-basis point return on equity (ROE) adder for "exemplary management" as advanced by Columbia Witnesses Moul and Huwar[5] to be unsupported and unwarranted. Columbia's insistence on seeking a "bonus" of any type, considering the hardships being faced by its customers, is simply not reasonable.

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[4] Mr. O'Donnell is the President of Nova Energy Consults, a utility consulting firm. He has worked in utility regulation for over 35 years. He has previously been accepted as an expert witness in the fields of rate of return, cost of capital, capital structure, cost of service, rate design, and other regulatory issues in general rate cases, fuel cost proceedings, and other proceedings before utility commissions in North Carolina, South Carolina, Wisconsin, Virginia, Minnesota, New Jersey, Colorado, the District of Columbia, and Florida. He holds a Bachelor's degree in civil engineering from North Carolina State University and a Master's degree in business administration from Florida State University. He is a certified Chartered Financial Analyst (CFA). A complete description of Mr. O'Donnell's qualifications is provided in OCA Statement 3.

[5] Mr. Huwar submitted Direct Testimony on behalf of Columbia, but then subsequently left the Company. Mr. Andy Tubbs then adopted Mr. Huwar's Direct Testimony and replaced him as a Company witness going forward.

As previously mentioned, Columbia has proposed a nearly 40% customer charge increase from $16.75 to $23.00. As discussed in OCA witness Jerome Mierzwa's[6] testimony, this proposed increase is unreasonable as Columbia's current customer charge is the highest in Pennsylvania, and it is inconsistent with the Commission's general goal of fostering energy conservation. OCA St. 4 at 37-38. In addition, Mr. Mierzwa presents a cost of service study (COSS) that more accurately identifies the costs to serve and more equitably allocates any increase to the various customer classes than that presented by the Company.

Any revenue increase that is granted in this proceeding must result in rates that are constitutionally just and reasonable. The OCA submits that a critical consideration in determining whether such rates are just and reasonable, involves an analysis as to the affordability of such enacted rates on the ratepayers who will bear the brunt of any increase. In the matter at hand, Columbia's near-term needs are already being adequately met through its existing rates. Conversely, Columbia's customers continue to suffer the severe health and financial impacts of the Covid-19 pandemic. The OCA submits that at no time in recent memory has the need to protect the public and consumers been more urgent and necessary than it is right now. Columbia's $100.4 million revenue increase must be rejected.

B. Procedural History.

On April 24, 2020, Columbia filed Tariff Supplement No. 307 to Tariff Gas Pa. P.U.C. No. 9, with the Commission) to become effective January 23, 2021. On April 27, 2020, the Bureau of

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[6] Mr. Mierzwa is a principal at and the President of the utility consulting firm, Exeter Associates Inc., and has been affiliated with the firm since April 1990. During his tenure with Exeter, Mr. Mierzwa has specialized in, among other things, evaluating the gas purchasing practices of natural gas utilities, utility cost of service and rate design analysis, performance-based incentive regulation and revenue requirement analysis. Mr. Mierzwa has testified in more than 300 utility regulatory proceedings in 13 states, including Pennsylvania. He holds a Bachelor's degree and a Masters of Business Administration degree from Canisius College. His full background and qualifications are provided in Appendix A, attached to OCA Statement 4.

Investigation and Enforcement (I&E) filed a Notice of Appearance. On May 4, 2020 the Office of Small Business Advocate (OSBA) filed a Notice of Appearance, Formal Complaint and Public Statement. On May 5, 2020, the OCA filed a Formal Complaint and Public Statement. On May 14, 2020 the Community Action Association of Pennsylvania (CAAP) filed for a petition to intervene. On May 15, 2020, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) filed a petition to intervene. On May 29, 2020, Columbia Industrial Intervenors (CII) also filed a Formal Complaint.

Pursuant to the Commission's Suspension Order entered May 21, 2020 the Commission suspended Tariff Supplement No. 307 until January 23, 2021, and initiated an investigation into the lawfulness, justness, and reasonableness of the existing and proposed rates, rules, and regulations for the Company. Subsequently, the matter was assigned to Administrative Law Judge Katrina Dunderdale (Judge Dunderdale).

On May 29, 2020, I&E filed the Expedited Motion of the Bureau of Investigation and Enforcement to Extend the Statutory Suspension Period During the Emergency Interruption of Normal Operations of the Pennsylvania Public Utility Commission (Motion to Extend). In the Expedited Motion, I&E requested the Commission issue an order granting an extension of the statutory suspension period from January 23, 2021 until February 4, 2021, citing the interruption of normal operations of the Commission due to the COVID-19 pandemic.

During a telephonic Prehearing Conference on June 3, 2020, Chief Administrative Law Judge Charles E. Rainey, Jr. (Chief ALJ Rainey) listened to oral arguments from the parties (Columbia, OCA, OSBA, I&E, CII, CAAP, and CAUSE-PA) on I&E's Motion to Extend. Chief ALJ Rainey noted the Commission's Emergency Order dated March 20, 2020, authorizing Chief ALJ Rainey to establish reasonable deadlines under the circumstances, after consideration of the

positions of the parties and the presiding ALJ, if necessary in response to the obstacles created by the COVID-19 pandemic. Chief ALJ Rainey found I&E's request to be reasonable under the circumstances, and granted I&E's request to extend the statutory suspension period by twelve days, until February 4, 2021.

On June 23, 2020, Columbia filed a Petition for Reconsideration from Staff Action (Petition for Reconsideration) and sought a reversal of the June 3, 2020 Order issued by Chief ALJ Rainey. The Commission considered the Petition for Reconsideration during a Public Meeting held on August 6, 2020 and Vice Chairman David Sweet sponsored a Motion which denied in part and granted in part Columbia's Petition for Reconsideration. The Motion affirmed the ALJ's decision to grant I&E's 12-day extension request, but also reestablished the effective suspension date of January 23, 2021. Additionally, the Office of the ALJ was directed to issue a Recommended Decision by November 20, 2020.

On July 8, 2020, Judge Dunderdale conducted a telephonic public input hearing. Two witnesses signed up to testify at the public input hearing. The first witness scheduled to testify was Richard C. Culbertson. Prior to being sworn in as a witness, Columbia objected to the testimony of Mr. Culbertson. Columbia argued that Mr. Culbertson did not qualify as a witness and should not be permitted to testify because he was neither a party nor a current ratepayer. Judge Dunderdale permitted Mr. Culbertson to testify and advised Columbia that they could file written objections to his testimony being admitted into the record, and the other Parties could respond to such objections. On July 15, 2020, Columbia filed extensive written objections to the admission of Mr. Culbertson's written testimony and exhibits. Oral arguments were scheduled for July 31, 2020, to address Columbia's objections. On July 31, 2020, the OCA, Columbia and other parties participated in the oral arguments. On August 13, 2020, Judge Dunderdale issued the Third Interim

Order denying all of Columbia's objections and admitting the written statement and exhibits of Mr. Culbertson into the record.

On July 27, 2020, the OCA filed the Direct Testimony of its witnesses: Scott Rubin, David Effron, Kevin O'Donnell, Jerome Mierzwa, and Roger Colton. On August 7, 2020, Judge Dunderdale issued the First Interim Order, amending the litigation schedule in light of the Commission's decision on August 6. On August 11, 2020 the parties notified the presiding officer that an agreement had been reached among the parties which would move the date for the Commission to decide this matter at Public Meeting to February 25, 2021, maintain the effective date of January 23, 2021, and move the due date for the Recommended Decision from November 20, 2020 to December 6, 2020. On August 12, 2020, ALJ Katrina Dunderdale issued an Order with an amended litigation schedule, an effective date of January 23, 2021, and affirming the dates of telephonic hearings as being September 22, 2020 to September 24, 2020.

On September 24, 2020, ALJ Dunderdale presided over a telephonic hearing that dealt with preliminary matters, admitting evidence, and taking the testimony of witnesses under oath. Columbia and Penn State University stated that they reached an accommodation that would avoid the need for cross examination of specific witnesses and that would result in the redaction of specific testimony before it would be submitted for the record. The OCA's witnesses' testimonies were all entered into the record through agreement of the Parties, with no cross examination of the witnesses. Additionally, Judge Dunderdale instructed the Parties to develop and present a common brief format for all Parties to strictly adhere to.

The OCA has attached to this Main Brief: Attachment 1, Two sets of Rate Case Tables, one set for "Traditional Ratemaking" and one set for "Zero Increase"; Appendix A, Proposing Findings of Fact; Appendix B, Proposed Conclusions of Law; Appendix C, Proposed Ordering Paragraphs;

and Appendix D, List of the OCA's Testimony and Exhibits entered into the record. In accord with the revised procedural schedule, the OCA hereby submits its Main Brief in support of its positions.

C. Legal Standards.

The Company bears the burden of proof to establish the justness and reasonableness of every element of its requested rate increase. In this regard, Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315 (a), provides as follows:

> Reasonableness of rates – In any proceeding upon the motion of the Commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

66 Pa. C.S. § 315 (a). The Commonwealth Court has interpreted this principle in stating that:

> Section 315(a) of the Public Utility Code, 66 Pa. C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the utility. It is well-established that the evidence adduced by a utility to meet this burden must be substantial.

Lower Frederick Twp. V. Pa. P.U.C., 409 A.2d 505, 507 (1980) (citations omitted); *see also*, Brockway Glass v. Pa. P.U.C., 437 A.2d 1067 (1981).

The "term 'burden of proof' is comprised of two distinct burdens, the burden of production and the burden of persuasion." Hurley v. Hurley, 754 A.2d 1283, 1285 (Pa. Super. 2000). The burden of production dictates which party has the duty to introduce enough evidence to support a cause of action. *Id* at 1286. The burden of persuasion determines which party has the duty to convince the finder-of-fact that a fact has been established. *Id*. "The burden of persuasion never leaves the party on whom it is originally cast." Hurley at 1286; *see also* Pa. PUC v Equitable Gas Co., 57 Pa. PUC 423, 471 (1983).

The Pennsylvania Supreme Court has stated that the party with the burden of proof has a formidable task to show that the Commission may lawfully adopt its position. Even where a party has established a prima facie case, the party with the burden must establish "the elements of that cause of action to prevail, precluding all reasonable inferences to the contrary." Burleson v. Pa. P.U.C., 461 A.2d 1234, 1236 (Pa. 1983) (Burleson). Thus, a utility has an affirmative burden to establish the justness and reasonableness of every component of its rate request.

The OCA notes that Pennsylvania law is clear that there is no similar burden for a party proposing an adjustment to a utility base rate filing. *See e.g.* Berner v. Pa. P.U.C., 116 A.2d 738 (1955). In Berner, the Pennsylvania Supreme Court stated:

> [T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Id. at 744. The Commission recognizes this standard in rate determinations. Pa. P.U.C. v. Equitable Gas Co., 57 Pa. P.U.C., 423, 471 (1983); *see also*, University of Pennsylvania v. Pa. P.U.C., 485 A.2d 1217 (1984); Pa. P.U.C. v. PPL Elec. Corp., 237 P.U.R. 4th 419 (2004). Thus, it is unnecessary for the OCA, or any challenger, to prove that the Company's proposed rates are unjust, unreasonable, or not in the public interest. To prevail in its challenge, Pennsylvania law requires only that the OCA show how the Company failed to meet its burden of proof.

Therefore, the Company must affirmatively establish the reasonableness of every element of its claims and demonstrate that its proposed rates are just, reasonable, and in the public interest. In this Main Brief, the OCA will show that the Company has failed to satisfy its statutory burden in the manner set forth below.

II. SUMMARY OF ARGUMENT

This Commission should not approve any rate increase for Columbia at this time. Columbia's customers, and indeed the entire Commonwealth, remains firmly in the grip of the COVID-19 pandemic. Due to the extreme economic and personal hardships being endured by Columbia's customers, and the public in general, any rate increase at this time would not result in just and reasonable rates. If the Commission should decide, however, that some minimal level of rate increase is needed, then the OCA submits that any increase should be assigned to each customer class through proportionate system average increases to the base rates applicable for each customer class. See, OCA St. 4 at 3. To be clear, in all other respects beyond a minimal rate increase, Columbia's existing tariff including all other rates, rules, regulations and customer charges should remain unchanged.

Alternatively, if the Commission decides that Columbia's filing warrants a "business-as-usual" approach using traditional ratemaking methods, then numerous adjustments must be made to ensure that the resulting rates are just and reasonable. Columbia has not adjusted its request based upon the impacts of the COVID-19 pandemic on the Company's projected future test year, which consisting of the 12 months ending December 31, 2021, and has made no attempt to quantify any of these impacts on its filing. As OCA witness David J. Effron testified:

> In OCA Data Request V-3, the Company was asked to describe the expected impact of COVID-19 on capital spending and plant additions for the remaining months of 2020 and for 2021. The Company stated that it "anticipates completing this year's construction projects prior to year's end" but made no representation regarding the impact of COVID-19 on capital spending and plant additions for 2021, the Fully Projected Future Test Year ("FPFTY") in this case.

OCA St. 2 at 3-4. The financial impacts of the pandemic will affect every aspect of the projected test year including revenues, operating expenses, capital expenditures, and the cost of short- and

long-term debt. In the event that the Commission proceeds to determine this case under the standard principles of ratemaking, Mr. Effron proposes several adjustments to Columbia's projected expense levels and incorporates Mr. O'Donnell's overall rate of return recommendation of 6.50%. Mr. Effron calculated a revenue deficiency of $31,262,000. See, OCA St. 2-S at 2. The OCA also opposes any increase to the return on equity (ROE) for "exemplary management". As testified to by OCA witness Roger Colton, Columbia's management performance in many areas has not been "exemplary". OCA witness Colton also appropriately addresses the issue of universal service cost allocation in this base rate proceeding, consistent with the Commission's Final Cap Policy Statement Order.[7] As Mr. Colton testified, these costs are not "caused" by the residential class and accordingly should not continue to be allocated solely to residential customers.

As to rate structure, Columbia has proposed two different cost of service studies (COSS) that both contain flaws, are inconsistent with Commission precedent and lead to an over allocation of costs and revenues to the residential class. OCA witness Mierzwa presented a Peak & Average COSS that more accurately captures cost allocation to the various classes and should be used as a guide to revenue distribution in this matter. Columbia's nearly 40% customer charge increase to the residential class is unsupported and should be rejected. Columbia's proposal to eliminate the 3% deadband from the Weather Normalization Adjustment (WNA) is unreasonable, unnecessary, and is unsupported on this record. Similarly, Columbia's Revenue Normalization Adjustment (RNA) proposal fails to comply with the Commission's guidance and directives as to alternative ratemaking mechanisms, has not been shown that it is needed, and should not be considered during the uncertainty of future usage caused by the COVID-19 pandemic.

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[7] 2019 Amendments to Policy Statement on Customer Assistance Program, 52 Pa. Code §§ 69.261-69.267, Docket No. M-2010-3012599, Order at 72-73 (Order entered Nov. 5, 2019) (Final CAP Policy Statement Order).

III. OVERALL POSITION ON RATE INCREASE

A. Introduction.

The OCA strongly urges that the Commission deny Columbia's rate increase to protect the ratepayers of Columbia's service territory who are, and will be, experiencing unemployment and income loss due to the unprecedented and continuing COVID-19 pandemic. The OCA is not recommending that Columbia should have rates that are inadequate to ensure the provision of safe and reliable service to its customers. OCA St. 1 at 24. As described in this Main Brief, Columbia could continue operations, recover all of its expenses, and earn a profit with no revenue increase. Id. In these extraordinary times, denying Columbia's rate increase is a reasonable—and temporary—outcome until fewer customers are suffering financially and the future is more ascertainable for ratemaking.

While perhaps not as much profit as Columbia would like, or as much as the Commission may have awarded under normal circumstances, the overall rate of return of 5.52% without any change in rates is more than adequate. See, OCA Attachment 1, Rate Case Table, Zero Increase. As OCA Witness Rubin stated: "[m]ost of Columbia's customers would be absolutely thrilled if they could pay all their bills (including various increases in expenses that may or may not occur next year), make all of their debt payments, and still have enough left over to earn a profit on their equity investment." OCA St. 1 at 24.

Further, the OCA submits that the Commission should not rely on Columbia's FPFTY projections and related assumptions which were developed before the pandemic emerged and are ever-changing as the effects of this pandemic continue to unravel. OCA St. 1 at 25. If Columbia is concerned about operating revenues during this uncertain time and moving forward, Columbia could defer new construction projects that are not necessary to ensure the current provision of safe

and reliable service to existing customers. Id. at. 26. Additionally, Columbia could file another rate case after the pandemic once the "dust settles" and reliable and complete evidence of the full effect of the pandemic will be available to determine just and reasonable rates.

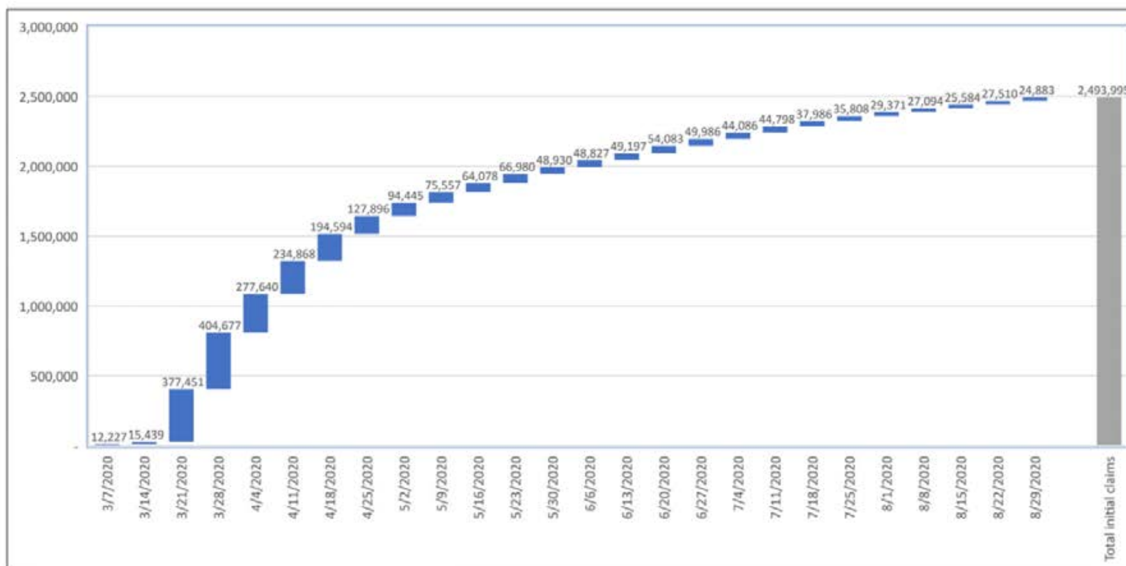
There is precedent supporting the Commission's authority to determine that raising rates would not be just and reasonable during this time of extreme economic hardship for ratepayers. OCA St. 1-S at 7-8. In addition, the reasonable rate of return that a Company is awarded within the constitutional parameters is within the Commission's discretion and must reflect current economic circumstances. The OCA therefore submits that increasing Columbia's rates during the COVID-19 pandemic is not only unnecessary at this time, but would not lead to just and reasonable rates given Columbia ratepayers' reduced incomes and ability to pay and the economic uncertainties of Columbia's FPFTY projections in its rate increase filing.

B. The Economic Hardships of Columbia's Ratepayers During and After This Pandemic Should Play a Prevalent Role in the Commission's Decision on Increasing Rates.

The economic repercussions of the COVID-19 pandemic—to the extent yet known—are real and significant in Columbia's service territory and the OCA submits that the Commission must give great weight to the circumstances of consumers during these extraordinary times. As of mid-July, the unemployment rates in the counties served by Columbia ranged from 8.8% in Centre County to 19.2% in Fulton County. OCA St. 1-S, Schedule SJR-1. In all counties served by Columbia combined, the unemployment rate as of July 2020 was 13.1%, which constitutes a 186% increase from February 2020 to July 2020. Id. OCA witness Scott J. Rubin testified, "[o]verall in the space of less than six months (from mid-March through late August), approximately 38 percent of Pennsylvania's workforce filed an unemployment claim." Id. at 2.

As a consequence of the massive job losses across Pennsylvania, there were 30 times as many initial unemployment claims during the week ending March 21, 2020 and 33 times as many

during the next week ending March 28, 2020 than the amount during the week ending March 7, 2020 as shown in shown in OCA St. 1-S, Schedule SR-6S at 1, Figure 3 (Updated) below.



Schedule SJR-6S at 1, Figure 3 (Updated). Initial Unemployment Claims in Pennsylvania: Weeks Ending March 7 to August 29, 2020

In mid-September 2020, Mr. Rubin testified:

> "[i]nitial unemployment claims in Pennsylvania have declined since peaking in late March at more than 400,000 claims in one week. For the past four weeks, between 25,000 and 30,000 Pennsylvania workers have filed initial unemployment claims each week. This is a significant reduction in initial claims, but the current level is still almost twice as high as it was in February."

Id. at 2. According to a survey conducted by the U.S. Census Bureau, roughly 50% of Pennsylvania households experienced wage loss from March 13, 2020 through July 21, 2020 as shown in Figure 5 below. OCA St. 1-S, Schedule SJR-6S at 3, Figure 5 (Updated).

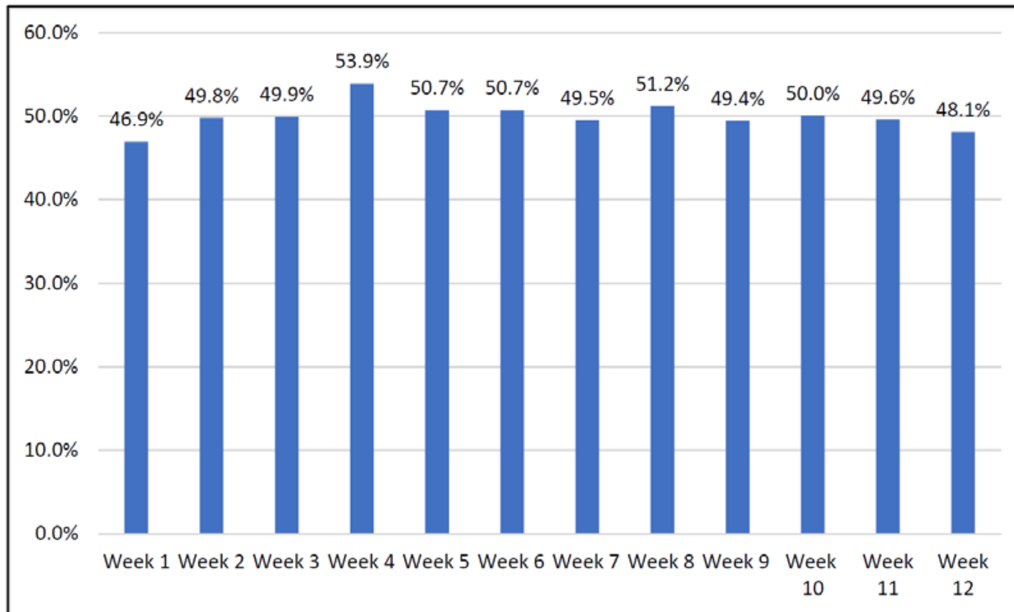


Figure 5 (Updated): Percentage of Pennsylvania Households Experiencing Loss in Employment Income Since March 13, 2020.

Given the substantial reductions in employment and wages, there is an unusually large pool of ratepayers unable to afford utility bills. To address the prospect of Pennsylvanians experiencing job and wage loss to afford bill payments, Mr. Rubin cites the U.S. Census Bureau's Household Pulse Survey, testifying:

> Only 56% of Pennsylvanians who lost income said they used their normal source of income to pay bills in the previous week. About 24% cited unemployment benefits and 29% referred to the CARES Act stimulus payments. More people, however, relied on credit card debt or loans (including loans from family or friends) (48%) or money from savings or asset sales (31%) than relied on short-term government benefits.

OCA St. 1 at 15. For utility bills specifically, Mr. Rubin testified:

> A recent survey conducted by the Electric Power Research Institute ("EPRI") found that about two-thirds of people who lost their jobs during the pandemic are concerned about being able to pay their energy bills. Moreover, more than 20% of survey respondents reported that their energy bills were higher because of the pandemic. Interestingly, the survey also found that more than 25% of people

> who lost their jobs are planning to skip at least one utility bill payment, but a much lower percentage were planning to contact their utilities for assistance.

Id. at pp. 15-16 (footnote omitted). The OCA submits that Columbia's customers, a significant portion of whom it is reasonable to assume are experiencing a situation that aligns with the pandemic-related job and wage loss mentioned in Mr. Rubin's testimony, cannot reasonably withstand a rate increase at this time. It should be further recognized that the economic repercussions of the pandemic are affecting minorities and individuals of lower income the most. In highlighting this disparity, Mr. Rubin testified:

> …the lower a household's income, the greater the impact of the pandemic on income loss. Similarly, households headed by a person who the Census Bureau categorizes as being Black, Hispanic, or Asian are much more likely to have experienced an income loss -- and to expect additional income loss during July and into August -- than are households headed by a White, Non-Hispanic person.

Id. The OCA submits that a natural gas rate increase in the Columbia service territory will not only increase the financial burden faced by customers experiencing job and wage loss due to the pandemic, but it will likely increase that burden particularly on those individuals belonging to low-income and Black, Hispanic, or Asian households.

In addition to residential customers, businesses in Columbia's service territory have also been impacted substantially from the pandemic. Mr. Rubin testified:

> The outlook for small business is slightly worse than it was when I prepared my initial testimony. On pages 16-17 of OCA Statement 1, I summarized the results of the Census Bureau's Small Business Pulse Survey for Pennsylvania. At the end of June, that survey reported that 41% of Pennsylvania's small businesses expected it to take six months or more to return to a normal level of operations, with another 12% saying their business would never fully recover. The Census Bureau stopped the initial round of data collection with the week ending June 27, but it started a new survey with similar questions on August 9. In the week ending September 5, 44.7% of Pennsylvania's small businesses said they would take at least 6

> months to recover, with another 10.1% saying they would never fully recover from the pandemic.

OCA St. 1-S at 2 (emphasis added); see also, OCA St. 1 at p. 16.

From the above information, drawn from surveys and reports on the economic well-being of households and businesses both in Columbia's service territory and in Pennsylvania from the start of the pandemic, Mr. Rubin recommends that rates in Columbia's service territory not be raised at this time. OCA St. 1 at 22-23. This data, collectively, demonstrates why the economic hardships faced by customers in Columbia's service territory should not be added to by any increase in Columbia's rates at this time.

Raising rates on Columbia's customers while many are experiencing job and wage loss would only serve to further diminish their currently-reduced incomes and financial resources. The OCA submits that the unprecedented situation at hand provides ample basis for the Commission to deny such an increase during this time.

C. Rejecting Columbia's Rate Increase Request During An Unprecedented and Economically Devastating Pandemic Would Result In Just And Reasonable Rates.

Mr. Rubin recommends that the Commission not focus, in this proceeding, on Columbia's historic costs, or on cost projections prepared before the pandemic, but rather, to determine "what rates are reasonable for consumers to pay under these extraordinary conditions." Id., p. 19. While this is not the Commission's standard approach to ratemaking, these ratemaking conditions are not standard by any means. Based on the reasons discussed below, it is both legal and practical for the Commission to consider the grave economic environment and financial hardships faced by Columbia's customers in denying Columbia a rate increase at this time. Such consideration will

still result in just and reasonable rates and indeed, is necessary to determining just and reasonable rates at this time.[8]

1. Columbia Does Not Need to Increase Rates Right Now.

OCA witness Rubin found that, not only are Columbia's projections suspect due to the drastic change in the economic environment, but Columbia would have enough revenue to continue safe and reliable operations if its rates were to remain unchanged. On the topic of Columbia's alleged need to increase rates, Mr. Rubin testifies:

> In the pro forma historic test year (twelve months ending November 30, 2019), under its existing rates, Columbia had net income of

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[8] In further support of his recommendation against the rate increase requested by Columbia, Mr. Rubin also cites many examples where utilities have either withdrawn or deferred filing rate increase requests to provide relief to their customers who are likely spending more time at home and/or experiencing some level of income loss during this pandemic. OCA St. 1 at 21-22. Other public utilities, including some in Pennsylvania, have recognized the increased hardships that would be placed on their customers if they were to charge higher rates at the time. Mr. Rubin provides some examples in his testimony:

> Minnesota Power significantly reduced its requested rate increase and is refunding more than $12 million to customers to help alleviate pandemic-related financial concerns.
>
> California Water Service Co. is eliminating all scheduled rate increases during 2020.
>
> The City of Austin (Texas) reduced its electricity rates by about 4%, eliminated the residential price increment for usage in excess of 1,000 kilowatt-hours per month, and reduced rates for residential water and wastewater consumption by 10%.
>
> PEPCO, the electric utility serving the District of Columbia and surrounding areas, announced on June 1st that it would forego a $25 million rate increase scheduled for this year in D.C., make a shareholder donation to its low-income assistance fund, and take other actions to assist customers during the pandemic.
>
> Most recently, Philadelphia Water Department withdrew its pending request for increases in water, wastewater, and stormwater rates that would have become effective in September 2020 and September 2021. In a June 2020 filing, the utility cited "the on-going pandemic and the uncertainty over the anticipated duration of continuing emergency measures."

Id.

> $131.9 million. By my estimation, this was equivalent to a return on common equity of approximately 9.4%.[9]

OCA St. 1 at 25. Even assuming some of Columbia's FPFTY projections are accurate, OCA Witness David J. Effron concluded that Columbia should only receive a $31 million increase under traditional ratemaking, but that number remains speculative given the uncertainty of the projections and future operations. OCA St. 2-S at 2. Simply put, in the near term, Columbia's rates are adequate at this time. After the COVID-19 pandemic has passed, Columbia can file again for a rate increase[10] when the Company's financial projections will be founded on more stable, and thus predictable, economic conditions.

The current and projected ratepayer affordability of rates gives strong weight to the conclusion that granting Columbia's rate request in this proceeding would unnecessarily harm ratepayers and not result in just and reasonable rates. If, however, the economic situation worsens significantly and cash flow becomes a concern for Columbia, the Company could preserve cash by deferring for several months certain construction projects, such as growth-related projects or longer-term system rehabilitation activities, which are not needed to ensure the current provision of safe and reliable service to existing customers. OCA St. 1 at 26. Given the vast uncertainty and lack of support for Columbia's claimed costs, the OCA submits that a rate increase at this time is not necessary.

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[9] Mr. Rubin explains his calculation in a footnote on the bottom of page 23 of his Direct Testimony:

"According to Columbia Exh. 2, Sch. 2, its overall rate of return for the pro forma historic test year was 7.13%. Using the Company's proposed capital structure for the FPFTY (Columbia St. 8, p. 2), this would have resulted in a return on equity of approximately 9.37%, calculated as follows: overall return of 7.13% - 2.05% weighted cost of debt = 5.24% weighted return on equity. 5.08% ÷ 54.19% equity capitalization = 9.374% return on equity." OCA St. 1 at 23, footnote 30.

[10] As the Commission is well aware, Columbia frequently files base rate cases. In this proceeding, Columbia witness Miller testified in rebuttal that Columbia plans to file annual rate cases every year for the foreseeable future. Company St. 4-R at 8.

2. Case Law From Similar Economic Circumstances Provides Precedent For the Commission to Deny A Rate Increase Due to Extreme Customer Hardships.

A rejection of Columbia's rate increase due to the economic hardships and uncertainties accompanying the COVID-19 pandemic as well as the uncertainties surrounding the FPFTY projections, while not common by any means, would be a legally viable and not an unprecedented ratemaking solution during this abnormal time. OCA St. 1 at 19-20. When it comes to ratemaking, "[a]ll that is protected against, in a constitutional sense, is that the rates fixed by the Commission be higher than a confiscatory level."[11] On the topic of rate of return, the U.S. Supreme Court has held:

> "[t]he return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally."[12]

The Court has also held that, "whether a particular rate is 'unjust' or 'unreasonable' will depend to some extent on what is a fair rate of return given the risks under a particular rate setting, and on the amount of capital upon which the investors are entitled to earn on that return."[13] "The rate-making process…, *i.e.*, the fixing of 'just and reasonable' rates, involves a balancing of the investor and consumer interests . . . and does not insure that the business shall produce revenues."[14] "The

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[11] Federal Power Comm'n v. Texaco, Inc., 417 U.S. 380, 392-92 (1974) (citing FPC v. Natural Gas Pipeline Co., 315 U.S., at 585).

[12] Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n, 262 U.S. 679, 693 (1923).

[13] Duquesne Light Co. v. Barasch, 488 U.S. 299, 310 (1989) (Duquesne).

[14] Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944) (Hope).

owners of a property dedicated to the public service cannot be said to suffer injury if a rate is fixed for an experimental period, which probably will produce a fair return on the present fair value of their property."[15]

During the last large-scale nationwide pandemic, the Influenza of 1918, the Supreme Judicial Court of Massachusetts upheld a public service commission ratemaking order that was not expected to permit the utility to earn a profit due to the abnormal times.[16] The court's decision read:

> To be just and reasonable, within the meaning of the constitutional guaranty, the rates must be prescribed with reasonable regard for the cost to the carrier of the service rendered and for the value of the property employed therein; but this does not mean that regard is to be had only for the interests of the carrier, or that the rates must necessarily be such as to render its business profitable, for reasonable regard must also be had for the value of the service to the public. And where the cost to the carrier is not kept within reasonable limits, or where for any reasons its business cannot reasonably be so conducted as to render it profitable the misfortune must fall upon the carrier, as would be the case if it were engaged in any other line of business.[17]

Although the utility was facing hardships of its own, the court noted that it did not deprive the commission of its regulatory responsibility to "exercise its judgment for the protection of the public interests when it does not reduce substantially the revenue proposed to be exacted from the

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15 Market St. R. Co. v. Railroad Comm'n of California, 324 U.S. 548 (1945).

16 Donham v. Public Service Commission, 232 Mass. 309, 317 (1919).

17 Id. (emphases added; quoting from Missouri, Kansas & Topeka Railway Co. v. Interstate Commerce Commission, 164 Fed. 645 (1908)).

public by the owners of the public utility."[18] In addition, the court emphasized that the rates were "likely to be impermanent and experimental."[19] In reference to this case, Mr. Rubin testified that:

> [t]he idea that ratemaking must adapt to extraordinary conditions is neither new nor novel. A century ago during another serious pandemic, regulators adapted, took actions that provided relief to the public, and did not inflict long-term harm on the utility.

OCA St. 1 at 20.

Here in Pennsylvania during the Great Depression, the Public Service Commission (PSC) called on utilities to reduce rates so that they would earn no more than 6% on their rate base.[20] In recognition that societal economic conditions should affect utility ratemaking, the PSC stated, "this Commission should take cognizance of the present economic conditions prevailing in the United States and as such economic conditions particularly affect the welfare of the people of this commonwealth."[21] Similar to the result of the case in Massachusetts during the Influenza and the PSC's action in response to the Great Depression, the OCA's proposal to deny Columbia's increase in rates reflects both a viable and reasonable solution to the abnormal and unexpected set of circumstances under which the Commission is currently tasked with developing just and reasonable rates for a population of ratepayers financially distressed by a nationwide pandemic.

Denying Columbia's requested rate increase due to the current societal economic conditions would be an appropriate and valid exercise of the Commission's authority in this proceeding. Section 315(a) of the Public Utility Code places the burden of proving the

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[18] Id. at 405.

[19] Id.

[20] Re Utility Rates During Economic Emergency, 3 P.U.R. NS 123 (Pa. P.S.C. 1934).

[21] Id. at 124.

reasonableness of a proposed rate on the utility. 66 Pa. C.S. § 315(a). The evidence necessary to meet that burden must be substantial.[22] In this case, Columbia has not proven that a rate increase would be just and reasonable at this time.

The Commission would be fully within its authority to reject Columbia's rate increase request due to the current economic conditions because (1) rates would not be confiscatory as it is projected that the Company would continue to earn a profit in the near future and (2) simply put, it is only the opportunity to earn a fair return that a utility is entitled to. As the U.S. Supreme Court held in Hope, the "lowest reasonable rate" is one that is not confiscatory in the constitutional sense.[23] The OCA's calculations demonstrate that, at Columbia's current rates, it will still earn a 5.52% rate of return. See, OCA Attachment 1, Rate Case Table, Zero Increase. While this may not be a desirable rate of return for the Company, it is sufficient compensation in the constitutional sense and fully within the Commission's authority.

3. The Principles of Public Utility Regulation Lend Support to the OCA's Claim That Increasing Rates During This Financially Challenging Time For Ratepayers Would Not Lead to Just and Reasonable Rates.

To understand how just and reasonable rates are affected by a major economic event such as the COVID-19 pandemic, Mr. Rubin presents a valuable review of the regulated-monopoly arrangement of public utilities in this country and the determination of just and reasonable rates. OCA St. 1 at 4-8. Mr. Rubin testified that, "[a]t its core, regulation is designed to protect utility consumers from what otherwise would be the unfettered power of a monopoly to set prices and the conditions of service." OCA St. 1 at 4. Mr. Rubin explains that utility regulators should attempt

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[22] Lower Frederick Twp. Water Co. v. Pa. Pub. Util. Comm'n, 48 Pa. Commw. 222, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

[23] Hope, 320 U.S. at 586.

to set rates within the "zone of reasonableness" which captures the interests of the ratepayers, the utility's investors, officers and employees, and local governments whose residents are served by the utility. Id. at 5-6. Mr. Rubin explains that, under normal conditions, there is often an area of overlap of interests between utility customers and the utility, including its investors. Id. Within that area, regulators are provided a range of rates that utility customers would be willing and able to pay for service and investors would consider a reasonable return on their investment. Id.

However, Mr. Rubin testifies, under certain conditions the two ranges may not overlap—creating no "zone of reasonableness" at all. Id. When this occurs, regulators are tasked with setting rates outside of one of the ranges, or both. Id. Under the above-described economic conditions faced by Columbia's customers brought on by the pandemic, the range of rates the customers would be willing and able to pay for service has shifted away from the range of rates which would, in the eyes of the utility, provide a reasonable return on investment.

In his Rebuttal Testimony, Columbia Witness James H. Cawley's mischaracterizes Mr. Rubin's recommendation as one proposing that utility rates should "yo-yo" with changing economic conditions. Columbia St. 16-R at14-15. To the contrary, Mr. Rubin's recommendation simply calls for rate stability during a time of severe economic dislocation for many of Columbia's customers. OCA St. 1-S at 4. Mr. Cawley also cites to the U.S. Supreme Court's *Hope* decision in stating that, for rates to be just and reasonable, they must balance the interests of both the consumers and the investors. CGP St. 16-R at 5. Given the description of significant income loss experienced in Columbia's service territory discussed in Section III (B) above, the OCA submits that keeping rates constant—at which the Company will still enjoy a 5.52% overall rate of return—is a reasonable balance and completely lawful exercise of Commission authority. See, OCA Attachment 1, Rate Case Table, Zero Increase. While this is not the profit Columbia would prefer,

a 5.52% rate of return is higher than the cost of debt and there is no reasonable basis for the Company to have a higher return at this time. Id. The OCA re-emphasizes that this is a temporary measure until future conditions are known.

As Mr. Rubin explained, regulation must always consider current economic conditions. Mr. Rubin testifies:

> "If regulation is supposed to be a substitute for market forces, then we must recognize that except for those commodities experiencing significant imbalances of supply and demand due to the pandemic, competitive businesses cannot sustainably raise prices when their customers' incomes have decreased significantly…Simply stated, what may have been a "just and reasonable" rate earlier this year may be unreasonable today."

OCA St. 1, p. 9 (emphasis added). Mr. Rubin also states:

> [i]mportantly, though, regulation is not designed to insulate the utility or its investors from normal market forces, technological improvements, or general economic conditions. If market forces (such as technological change) result in significant reductions in the demand for service, then the utility may not be able to recover its costs. That is not a failure of regulation, but a natural evolution of the market -- businesses fail if they cannot keep up with changes in consumers' preferences or respond to technological innovations.
>
> Similarly, if economic conditions change such that rates become unaffordable to many customers, rates may need to be reduced in order to remain "just and reasonable from the perspective of customers.

Id. at p. 5 (emphasis added). Thus, rejecting Columbia's requested rate increase at this time is an appropriate result during the COVID-19 pandemic and an appropriate response to the market imbalance caused by Columbia's customers' reduced ability to pay utility bills. As explained above, this can be done and Columbia would still have sufficient income.

4. The Projections in Columbia's Mid-Pandemic Filing Cannot Be Given Any Credence In Determining Future Rates in a Vastly Different Economic Environment.

The OCA submits that the lack of reliability of Columbia's FPFTY projections in its filing submitted just weeks after the pandemic reached its service territory is another basis for Columbia's rate increase to be rejected. Mr. Rubin testified:

> Columbia filed this case on April 24, 2020, when its service area -- indeed the entire world -- was being devastated with the worst pandemic in a century. While I understand that it takes months to prepare a rate filing, and that Columbia prepared this case assuming "business as usual," there was nothing that compelled it to actually file the case. To state the obvious, life and business in the Company's service territory are now anything but normal.

OCA St. 1 at 9. The OCA submits that the changes and uncertainties in FPFTY assumptions, including interest rates, oil prices, inflation, and how much natural gas Columbia will sell to which customer classes, could not be accurately projected in the months leading up to Columbia's April filing. Id., p. 25. Additionally, the use of the FPFTY is discretionary and, the Commission may, at its discretion, adjust the Company's rates on the basis of it FPFTY data evidencing the accuracy of its estimates. [24] Mr. Rubin testified:

> …I conclude that the Commission cannot have any confidence in the projections made by Columbia for the FPFTY; there is simply too much uncertainty. It would be neither just nor reasonable to set rates based on the assumptions Columbia made when it filed this case in late April. Virtually every assumption is changing as a result of the pandemic. As a consequence, it is my opinion that it is reasonable -- I would go so far as to say required -- for the Commission to reject Columbia's request to increase its rates. The Commission cannot have any certainty about the appropriate, ongoing level of expenses, interest rates, consumption patterns, and the numerous other factors that affect the determination of an appropriate level of rates.

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[24] Section 66 Pa.C.S. 315(e) provides:

Whenever a utility utilizes a future test year or a fully projected future test year in any rate proceeding and such future test year or a fully projected test year forms a substantive basis for the final rate determination of the commission, the utility shall provide, as specified by the commission in its final order, appropriate data evidencing the accuracy of the estimates contained in the future test year or a fully projected future test year, and the commission may after reasonable notice and hearing, in its discretion, adjust the utility's rates on the basis of such data. 66 Pa.C.S. 315(e) (emphasis added).

Id. (emphasis added). Given the devastating financial impacts on customers and the uncertain economic future of the next few years and the unreliability of the projections, Mr. Rubin concluded:

> Faced with this unprecedented public health and economic crisis, I respectfully submit that the Commission cannot treat this case as "business as usual." Almost no other business in Columbia's service area is conducting business as usual; residential consumers are using Columbia's services differently than they do during normal circumstances (few if any people are usually at home 24 hours per day, 7 days a week, preparing every meal at home, and so on). Respectfully, the Commission cannot focus on Columbia's historic costs, or on cost projections prepared before the pandemic, and assume that the resulting rates will be "just and reasonable." The Commission must focus on what rates are reasonable for consumers to pay under these extraordinary conditions.

Id. at pp. 18-19. This rate increase was requested at a time of extreme uncertainty not only in terms of the economy at large, but also in terms of projected customer usage, projected expenses, projected capital expenditures, and revenue required to provide service. In addition to the effect of the COVID-19 pandemic on the Company's projections, OCA Witness David J. Effron has also identified that the lack of documentation and/or lack of convincing evidence adds a separate layer of speculation to the Company's claimed costs. OCA St. 2-S at 3. The OCA therefore submits that the Commission should not accept Columbia's projections and deny Columbia's requested rate increase.

D. Conclusion.

With an unprecedented number of ratepayers unemployed and/or experiencing income loss—during this pandemic and in the foreseeable future—it is not reasonable to expect ratepayers currently struggling to pay utility bills to have the income to cover increased natural gas bills if higher rates go into effect, especially as we approach the winter months. Ratepayers are suffering

during this pandemic and granting a request for an increase in rates, as if Columbia should be shielded from the economic impacts caused by this pandemic, would not be just and reasonable. As stated before, the OCA calculations present that Columbia could continue operations, recover all of its expenses at present rates, and earn a profit in the near term with a 5.52% rate of return. <u>See,</u> OCA Attachment 1, Rate Case Table, Zero Increase. The OCA respectfully requests the Commission find that rates at present rates will provide the Company sufficient compensation for the near future and deny this rate increase as it not an appropriate time to raise the rates paid by Columbia's customers who are currently struggling to navigate these turbulent economic times.

IV. RATE BASE

A. <u>Plant in Service FPFTY Plant Additions</u>.

Columbia is projecting net plant additions (gross plant additions less retirements) of $280,735,000 in 2020 and $338,559,000 in 2021. Columbia Exhibit 108, Schedule 1. The OCA submits that, while the forecasted plant additions for 2020 are in line with the plant addition amounts in 2018 and 2019, the projected cost of plant additions for 2021 is significantly higher in comparison. OCA witness David J. Effron recommends:

> The average of plant additions for the years 2018-2020 is $261,776,000. I am proposing to use that as the estimate of plant additions in 2021. This is $76,783,000 less than the net plant additions forecasted by the Company (my Schedule B-1). Therefore, I recommend that the plant in service included in the 2021 FPFTY rate base be reduced by $76,783,000. Consistent with this adjustment to plant, I am also proposing to reduce the related test year balances of depreciation reserve and accumulated deferred income taxes.

OCA St. 2 at 7; see also, OCA St. 2-S, Schedules B and B-1. Mr. Effron's adjustment results in a net reduction to the test year rate base of $72,303,000[25] as well as a reduction to test year depreciation expense of $1,958,000. Id.

Columbia witness Nancy J.D. Krajovic's statement that "Mr. Effron's adjustments would jeopardize the Company's ability to maintain a safe and reliable system and jeopardize the Company's ability to meet its LTIIP commitments" overlooks the availability of the Distribution System Improvement Charge (DSIC) for the Company to recover infrastructure investments that go beyond Mr. Effron's projection. Columbia St. 14-R at 7. It also overlooks the actual level of expenditures the Company has achieved even before the COVID-19 pandemic. Given the fact that the Company's 2021 forecasted plant additions expenditures are significantly higher than the previous three years, the OCA submits that Mr. Effron's proposed reduction is reasonable as it would guarantee the Company a recovery of plant additions in base rates that is more aligned with the Company's historic spending and, if the Company in fact spends more than that in investments, the DSIC is available to recover those expenses as necessary. This recommendation also prevents customers from paying for plant that is not in service if the Company's actual additions in the FPFTY are short of its forecast. Therefore, the OCA submits that the Company's forecasted Plant Additions costs be decreased by $76,783,000 as shown in OCA St. 2-S, Schedules B-1 and C-2 and result in a net reduction of $72,303,000 to the test year rate base as shown in OCA St. 2-S, Table II.

B. Cloud-Based Computing.

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[25] This net reduction to the test year rate base was offset by the related test year balances of depreciation reserve and accumulated deferred income taxes. OCA St. 2 at 7.

The Company has proposed to change the accounting of its Cloud-Based Computing expense to record the investments at Plant & Equipment accounts in 2020. Columbia St. No. 6 at 11-12. The OCA is not briefing this issue, but reserves the right to respond in Reply Brief if necessary.

C. Depreciation Reserve.

The only OCA adjustment to the Company's depreciation reserve is a derivative adjustment relating to the Mr. Effron's adjusted plant in service. See OCA St. 2 at 7; see also OCA St. 2-S, Schedule B-1.

D. ADIT.

The OCA recommends that the Company's ADIT be reduced by $2,522,000 as shown in OCA St. 2-S, Schedule B-1, line 5. The ADIT adjustment is related to Mr. Effron's adjusted plant in service. See, OCA St. 2 at 7. This adjustment also assumes changes in ADIT are proportional to changes in plant additions.

V. REVENUES.

The OCA did not propose any adjustments to the Company's FPFTY revenues under present rates. The OCA is not briefing this issue, but reserves the right to respond in Reply Brief if necessary.

VI. EXPENSES.

Mr. Effron proposed several adjustments to the Company's projected operating expense levels. These adjustments are as follows:

A. Labor and Benefits;
B. Incentive Compensation;
C. Stock Rewards;
D. Outside Services;
E. Rate Case Expense;
F. Safety Initiatives;

G. Compensation Adjustments; and
H. Budget Billing Adjustment.[26]

OCA St. 2, passim; see also, OCA St. 2-S, Exhibit C-1. The combined impact of the recommendations on the Company's requested revenue requirement is set forth in the table below:

C. Columbia's Requested Increase in Base Rates ($000)	CI. $100,437
CII. OCA Adjustments	CIII.
CIV. Labor and Benefits Expense	CV. $(1,114)
CVI. Incentive Compensation	CVII. ($775)
CVIII. Stock Rewards	CIX. (2,300)
CX. Outside Services	CXI. (1,757)
CXII. Rate Case Expense	CXIII. (530)
CXIV. Safety Initiatives	CXV. (3,776)
CXVI. Compensation Adjustment	CXVII. (432)
CXVIII.	CXIX.
CXX. Net Adjustments	CXXI. $(10,714)

OCA St. 2-S, Schedule C-1. Based on the OCA's analysis discussed below in Section VI, the Company's proposed revenue increase is inflated, largely unsupported by documents, and is not needed to satisfy its expenditures in the near-future.

A. Labor Expense.

Salaries and wages of $39,528,000 are included in the Company's FPFTY expenses. Columbia Exhibit 104, Schedule 1. This expense includes the effect of the Company's proposal to add 59 employees in the future test year ("FTY") and 17 employees in the FPFTY. The OCA recommends a total reduction of $1,144,000 to the Company's FPFTY labor and benefits expense

[26] Columbia originally included $280,000 in the FPFTY O&M expense budget for budget billing modification adjustment costs. Columbia Exhibit 104, Schedule 2 at 18. Subsequently, the Company corrected its treatment of costs associated with modification of its budget billing system and the OCA's concerns have been addressed. OCA St. 2-S at 16.

to reflect the Company's historic and actual employee complement in 2020. OCA St. 2-S, Schedule C-1.1.

1. Annualization Adjustment.

Columbia claimed a $497,691 annualization adjustment for pay increase annualization in the FPFTY. Columbia St. No. 9 at 8-9; See also, Columbia Exhibit 104, Schedule 2 at 1. Through this annualization adjustment, the Company claims a full year of pay increases for the Company's projected pay increases to occur at some point in the FPFTY. Id. The OCA is not briefing this issue, but reserves the right to respond in Reply Brief if necessary.

2. Employee Complement.

The Company forecasted FPFTY Payroll Expense of $39,536,000 associated with the Company's proposal to add 59 employees in the FTY. Columbia St. No. 9-R, Exhibit NJDK-5R at 3. This, however, does not reflect the Company's actual hiring experience in the FTY, 2020. OCA St. 2-S at 5-6. From the end of the HTY, when the employee headcount was 763, the Company's actual employee complement peaked in April at 782, decreased in June and July, and was flat in August. Id. As of August 2020, the employee complement stood at 773. That constitutes an increase of only 19 employees since the end of the HTY compared to the Company's projection at 59. Mr. Effron's adjustment reflects an employee complement of 782—the high point of the Company's employee complement in 2020 recorded in April. Id.

Company witness Ms. Krajovic contends that, "[t]hese positions are most often filled from within the Company's existing employee ranks and bargaining unit agreement provisions can affect the bidding and selection process so that vacancies are held open for certain periods while applicants temporarily occupy a position before making a final decision." Columbia St. 9-R at 9. Ms. Krajovic then claims that, once the existing employees take the new positions, new employees

take the existing employee's old positions. Id. This explanation, however, fails to explain the large disparity between the 59 additional positions requested by the Company and the—at most—19 actual additional employees hired by the Company in 2020. The Company's proposal is disproportionate compared to its actual employee complement experience in 2020 and Mr. Effron's reduction of 40 positions to reflect the Company's actual employee additions peak of 19 in 2020 is reasonable and should be accepted.

The Company's forecast of 59 additional employees in the FTY is unreasonable and unsupported by the historic data relevant to employee complement. OCA Witness Effron is correct in basing the employee complement on actual historic data, which show no significant changes in the number of employees over the course of the FTY. Therefore, the Commission should accept Mr. Effron's reduction to the FPFTY O&M expenses by $1,144,000, based on adjustments to new employee headcounts and benefits expense as shown in OCA St. 2-S, Schedule C-1.1.

B. Other Employee Benefits.

Columbia requests $7,779,000 in Other Employee Benefits expenses. Columbia Exhibit 104, Schedule 1 at 4. Company witness Krajovic claims that this increase relates specifically to increases in medical expenditures and in 401(k) cost increases commensurate with merit increases and additional headcount. Columbia St. 9 at 14. The OCA's adjustment to employee benefits is included in the labor adjustment above in Section VI (A).

C. Incentive Compensation and Stock Rewards.

Columbia's claimed costs for incentive compensation in the FPFTY lacks any documentation pertaining to its calculation and, therefore, the OCA recommends this cost be adjusted by Mr. Effron's recommended level of $1,492,000 obtained through applying the ratio of the Company's normalized HTY incentive compensation expense to the HTY payroll expense to

the Company's FPFTY payroll expense. OCA St. 2, p. 10-11. The OCA also recommends that the $2,300,000 of stock rewards expense be eliminated from the FPFTY O&M expenses because stock rewards are a shareholder-oriented goal, not a customer service-oriented goal. OCA St. 2 at 12.

1. Incentive Compensation.

In the FPFTY ending December 31, 2021, the Company includes $2,267,000 in incentive compensation expense, a 53% increase over the incentive compensation actually incurred in the normalized HTY, without any workpapers or documentation to establish how the FPFTY incentive compensation was determined. See, OCA St. 2 at 10-11. This incentive compensation amount represents payments to all classes of employees, and not executive bonuses. Id. To adjust the unsupported 53% increase in the Company's incentive compensation amount, Mr. Effron proposed to apply the ratio of 3.77% to the Company's FPFTY payroll expenses of $39,536,000 to reach a calculated incentive compensation of $1,492,000. Id. This is $775,000 less than the $2,267,000 requested by the Company in its filing. Id. Regarding the Company's unsupported 53% increase in incentive compensation, Mr. Effron testified:

> [g]iven the lack of documentation to support the projected 53% increase in incentive compensation, I believe that it is more reasonable to assume that the ratio of incentive compensation to payroll expense in the FPFTY will be the same as the ratio of incentive compensation to payroll expense in the normalized HTY.

OCA St. 2 at 11.

In Rebuttal, the Company's witness Ms. Krajovic testified that the Company's Incentive Compensation plan is based on many factors and that, although the target levels of performance were not achieved in the HTY, the payout level was at or above target for all but two years since 2008. Columbia St. 9-R at 12. Ms. Krajovic also explains that "[w]hile the Company's annual budget projects Incentive Program expense calculated on the anticipated base salary of employees

during the period and the assumption of achieving the target performance levels described in the Incentive Plan, actual Incentive Compensation can be awarded at, above or below target corresponding to actual results." Id. Finally, Ms. Krajovic contends that Mr. Effron's adjustment is based on HTY principles rather than the FPFTY. Id. In response, Mr. Effron testified:

> I did not simply propose that the HTY incentive compensation expense be used as the FPFTY expense. Rather, I calculated the ratio of incentive compensation to payroll expense in the normalized HTY and applied that ratio to payroll expense in the FPFTY to calculate the FPFTY incentive compensation expense. Given the utter lack of any workpapers or documentation to support the Company's projected FPFTY incentive compensation, I believe that this is a reasonable and unbiased method to determine the incentive compensation to be included in the Company's revenue requirement.

OCA St. 2-S at 7.

The Company's proposal to increase incentive compensation by 53% is unsupported by any workpapers or detailed calculations. Given the complete lack of any workpapers or documentation to support the Company's projected FPFTY incentive compensation, Mr. Effron's adjustment of $775,000 represents a reasonable method to determine the incentive compensation to be included in the Company's revenue requirement because it is the same ratio of incentive compensation to payroll expense in the FPFTY as in the normalized HTY. Thus, the Commission should accept the OCA's adjustment of $775,000 to a level of $1,492,000 for incentive compensation expense. The OCA's adjustment is shown on OCA St. 2-S, Schedule C-1 and Table II.

2. Stock Rewards.

Columbia includes $2,300,000 in stock rewards in the FPFTY O&M expenses. OCA St. 2 at 11. This includes $570,765 of stock rewards in Labor Expense and $1,728,531 of stock rewards in NiSource Corporate Services Company (NCSC) Shared Services Expense. Id. Regarding stock

rewards, Mr. Effron proposed an elimination of the $2,300,000 of stock rewards expense from the O&M expenses. This elimination recognizes that stock rewards are a shareholder-oriented goal, not a customer service-oriented goal. OCA St. 2 at 12. Concerning consumers bearing the costs of stock rewards, OCA witness Effron testified:

> Appreciation in the value of common stock is a shareholder-oriented goal, not a customer-oriented goal. For example, if all else is equal, higher rates will result in higher revenues, which in turn will result in higher earnings that increase the value of common stock? Thus, including such incentive compensation in the revenue requirement would, in effect, require customers to reward company management on a contingency basis for getting them to pay higher rates. If the incentive compensation program is successful in increasing earnings and common stock values, the shareholders should be happy to reward management accordingly and absorb the cost of the program. As shareholders are the beneficiaries of increases to common stock valuations, it should be those shareholders, not customers, who bear the cost of the stock rewards.

OCA St. 2 at 12. In Rebuttal, Company witness Kimberly K. Cartella testified, "Mr. Effron's claim that stock compensation is solely related to Columbia's financial goals is incorrect." Columbia St. 15-R at 5. In Surrebuttal, Mr. Effron clarified that what he said was "[s]tock rewards are a form of incentive compensation whose ultimate value is based solely on the attainment of financial goals by the parent company" and he added that Ms. Cartella did not dispute this description of the Company's stock rewards program. OCA St. 2-S at 8; see also, OCA St. 2 at 11. Ms. Cartella also contended that, "denial of recovery of stock award compensation means that fixed base pay without incentives would become the preferable means to attract, motivate, and retain talented employees" Columbia St. 15-R at 7. In response, Mr. Effron stated:

> This statement does not establish that stock based compensation is appropriately recoverable from ratepayers. I am not taking the position that stock rewards should not be a component of the employees' total compensation package. The issue is whether it is the customers or shareholders that should bear the cost of the stock rewards program. As shareholders are the beneficiaries of increases

> to common stock valuations, it is not unreasonable for shareholders
> to bear the costs of the stock rewards program.

OCA St. 2-S at 8. The OCA submits that it is not reasonable that ratepayers bear these costs.

The OCA recommends all $2,300,000 of stock rewards expense be eliminated from the FPFTY O&M expenses in recognition that this expense is not a customer service-oriented goal. Since shareholders are the beneficiaries of increased stock prices, they should bear the costs of this expense. This expense is further inappropriate given the hardships faced by customers due to the COVID-19 pandemic. The OCA submits that the Company's stock rewards expense be eliminated as shown on OCA St. 2-S, Schedule C-1 and Table II.

D. PUC, OCA, OSBA Fees.

Columbia's claim for PUC, OCA, and OSBA assessment fees for the FPFTY is $2,262,000. Columbia Exhibit 104, Schedule 1 at 4. The OCA is not briefing this issue, but reserves the right to respond in Reply Brief if necessary.

E. Rate Case Expense.

The Company claims $1,060,000 of rate case expense normalized over 12 months. Columbia Exhibit 4, Schedule 2 at 27. The OCA has not recommended any adjustment to the level of expense claimed, but does recommend that the 12-month normalization period proposed by the Company be adjusted to a 24-month normalization period to reflect the timing of Company's last three rate case filings. OCA St. 2 at 15. With this adjustment, the OCA recommendation lowers Columbia's annual rate case expense to $530,000. OCA St. 2, p. 15.

OCA witness Effron recommends the 24-month normalization period, noting that the three most recent rate cases prior to the current one were filed in March of 2015, March of 2016, and March of 2018. Id.

Company witness Kelley K. Miller contends that Mr. Effron's recommendation for the 24-month normalization period is biased and that Mr. Effron incorrectly determined that the Company has a history of filing rate cases every two years. Non-Proprietary Columbia St. 4-R at 9. This is, however, not accurate. In response, Mr. Effron's defends his 24-month normalization period as reasonable because, although the 2015 and 2016 cases were filed in consecutive years, the periods for the cases since then, the 2018 case and the present 2020 case, have been two years. OCA St. 2-S at 10.

The Commission has consistently held that rate case expenses are normal operating expenses, and normalization should be based on the historical frequency of the utility's rate filings. Popowsky v. Pa. PUC, 674 A.2d 1149, 1154 (Pa. Commw. 1996); Pa. PUC v Columbia Water Co., 2009 Pa. PUC LEXIS 1423 (2009); Lancaster Sewer, 2005 Pa. PUC LEXIS *84; Pa. PUC v. National Fuel Gas Distribution Corp., 84 Pa. PUC 134, 175 (1995); Pa. PUC v Roaring Creek Water Co., 73 Pa. PUC 373, 400 (1990); Pa. PUC v. West Penn Power Co., 119 PUR4th 110, 149 (Pa. PUC 1990). By adjusting the normalization period from 12-months to 24-months, Columbia's rate case expense will be normalized based on its historic frequency of rate filings. The OCA therefore submits that the Company's rate case expense should be reduced by $580,000 as shown in OCA St. 2-S, Schedule C-1 and Table II.

F. Outside Services.

The Company projects $24,051,727 of Outside Services expenses in FPFTY O&M expense. Columbia Exhibit 104, Schedule 1 at 2. The outside services expense during the HTY ending November 30, 2019 was $22,749,799. Id. The FPFTY outside services expenses represents an increase of $1,301,928 over the HTY. Columbia projected the outside services expense from the FTY to the FPFTY by adjusting the budget related to various activities by $2,221,225 as

summarized by Exhibit 104. Columbia Exhibit 104, Schedule 1 at 2; see also, Columbia Exhibit 104, Schedule 11 at 2.

The OCA sought justification from Columbia for the Outside Services budget adjustments found in Columbia Exhibit 104, Schedule 10-13, including the $2,221,225 adjustment for "[i]ncreased funding for incremental AOC remediation, company owned field assembled riser replacement, restoration contracts and underground facility audit and remediation," however the support provided did not include any workpapers or calculations to support these projections. OCA St. 2 at 13-14; see also, OCA St. 2-S at 9.

In Rebuttal, Company witness Ms. Krajovic claims that "the budget for Outside Services is developed reflective of specific needs, plans and the realities of the day to day variability in work and resources." Columbia St. 9-R at 14-15. This further explanation, however, does not compensate for the total lack of documentation to establish just how those "specific needs, plans and the realities of the day to day variability in work and resources" translate into the FPFTY outside services expense proposed by the Company. OCA St. 2-S at 9. Therefore, Mr. Effron recommends the elimination of the $2,221,225 adjustment due to the lack of support associated with the budget adjustment. Id. Columbia also included an expense reduction of $464,212 for "all other variances" in the FTY in its transition of outside services from the HTY to the FPFTY, however, Mr. Effron removed the effect of this expense reduction because there was no support provided for it and to be consistent in his positions. OCA St. 2 at 14; see also, Columbia Exhibit 104, Sch. 11 at 1. The resulting net effect of eliminating the $2,221,000 of FPFTY expense increases and $464,000 of FPFTY expense reductions is to reduce FPFTY Outside Services expenses by $1,757,000, which should be eliminated from the FPFTY O&M expenses as shown in OCA St. 2-S, Schedule C-1 and Table II.

G. Other Adjustments.

1. Adjustments for Safety Initiatives.

The company has adjusted FPFTY expenses by $3,896,000 for certain safety initiatives it expects to implement in the FPFTY. OCA St. 2 at 15. This expense consist of a $1,400,000 increase in spending on the Company's cross bore program initiated in 2013, a $185,000 increase in workforce transition, a $491,000 increase in legacy service line enhancement program, a $1,700,000 increase in the customer owned field assembled risers replacement program, and a $120,000 increase in the enhanced leak detection program. Columbia St. No. 7 at 21-26.

While the Company has provided some supplemental support for the $3,896,000 of safety initiative costs that the Company is proposing to include in the FPFTY expenses, Mr. Effron found that the Company's supporting documents were insufficient to "establish that these programs will be implemented in 2021 with some reasonable degree of certainty." OCA St. 2 at 18. As a result, Mr. Effron has reduced the Company's forecasted safety initiatives costs, and more broadly, the Company's O&M costs, by $3,776,000. OCA St. 2-S at 15 and Schedule C-1. Specifically, the OCA submits that the increases associated with workforce transition and legacy service line enhancement programs, the forecasted spending increase associated with the cross-bore program, and the forecasted spending increase associated with the customer-owned field assembled risers program should be eliminated from the Company's pro forma FPFTY expenses. OCA St. 2 at 17-18.

Company witness Ms. Krajovic contends that Mr. Effron's adjustments ignore the principles of FPFTY ratemaking because they are based off of his modified employee headcount to reflect the Company's actual employee complement experience in 2020. Columbia St. No. 9-R

at 15-16. Ms. Krajovic also claims that Mr. Effron's adjustments are based off historic spending and should be rejected. Id. In response, Mr. Effron testified:

> At the time of my Direct Testimony, the Company had not hired any of the incremental employees related to the workforce transition and legacy service line enhancement programs (response to OCA Data Request VIII-06). Based on the response to OCA Data Request X-06, served on September 8, 2020, it still has not done so. Nor has the Company provided any evidence that it has commenced the process of filling these incremental positions.

OCA St. 2-S at 11. Mr. Effron's adjustments according to his modified employee headcount accounts for the actuality that the Company has not hired any of the incremental employees related to these expenses. Also, Mr. Effron's elimination of the Company's projected spending increases on these safety initiatives are reasonable as the Company's spending has, broadly speaking, actually decreased from the HTY to the FTY and documentation has not been provided to support the Company's proposed increase in spending on these programs. Id. at 12-14. Altogether, the OCA submits that the Commission should accept Mr. Effron's total adjustment of $3,776,000 for the Company's claimed safety initiatives costs as shown in OCA St. 2-S, Schedule C-1 and Table II.

a. Cross Bore Identification.

Columbia has proposed spending $2,700,000, equivalent to an additional $1,400,000, on the cross bore program in 2021. OCA St. 2 at 17. This represents a significant increase as spending on the cross bore program in 2019 and 2020 was $1,300,000. Id. The spending levels in 2019 and 2020 were below the spending of any year in the four year period 2015-2018. Id. OCA witness Mr. Effron concludes, "[i]t is not clear why the spending on the cross bore program must more than double from 2020 to 2021 after having been at reduced level from previous years in both 2019 and 2020." Id. Mr. Effron further testifies, "[u]nless the Company can better support the costs

associated with the safety initiatives and establish that these programs will be implemented in 2021 with some reasonable degree of certainty, these expenses should be eliminated from the determination of the Company's FPFTY revenue requirement." Id. at 18.

In Rebuttal, Company witness Michael J. Davidson noted that the cross bore program spend levels in 2015 through 2018 were higher than 2019 and 2020 because the Company reallocated resources from other work activities to address this high risk concern in those years. Company St. 7-R at 21. In Surrebuttal, Mr. Effron points out that Mr. Davidson did not provide an explanation as to why that high risk concern did not exist in 2019 and 2020. OCA St. 2-S at 11. In relation to the Company's actual spending on the cross bore program in 2020, Mr. Effron testified:

> …the Company provided a comparison of actual spending by month in 2020 through July and for the corresponding months in 2020. In January and February, the spending in 2020 was well below the spending 6 in 2019, despite the mild 2020 winter weather referenced in the response to OCA 7 Data Request V-03. Spending on the cross bore program was suspended from March 8 20, 2020 through May 17, 2020, so a comparison of spending for those months in 2020 to the prior year is not meaningful.
>
> For June and July, the spending was somewhat higher in 2020 than in 2019. However the total for the months of January, February, June, and July in 2020 was less than the total spending for those months in 2019. I do not believe that this establishes an increasing level of spending on the cross bore program.

Id. at 12. Thus, for the months of 2020 when the Company's cross bore program was not suspended—January, February, June, and July—total spending for those months combined was less than the total spending for those months combined in 2019.

Given the lack of justification for the $1,400,000 increase in the cross bore program in 2021 for after a two year period of reduced spending levels, and the actual total spending experience in 2020 compared to 2019, the OCA submits that the $1,400,000 increase in spending

for the cross bore program should be eliminated from the Company's total requested expense amount for safety initiatives as shown in OCA St. 2-S, Schedule C-1, line 6 and Table II.

b. Gas Qualification Specialists.

Columbia has also proposed increasing spending by $185,000 on the workforce transition safety initiative. According to OCA witness Effron, "the costs associated with workforce transition… [is] attributable entirely to incremental employee headcount." OCA St. 2 at 16. The proposed $185,000 is based on the headcount Columbia supplied, and as stated in VI (A), the OCA submits that a modification of that headcount is proper in this case. In Rebuttal, Company witness Ms. Krajovic contends that "[t]his work is incremental to the body of work contained in the existing Work Plan" and that "[t]he Work Plan is designed to utilize the 822 currently authorized positions." Columbia St. 9-R at 15-16. Ms. Krajovic continues to explain that, without incremental funding for the workforce transition, there would be no employees to do the work. Id.

In Surrebuttal, Mr. Effron points out in reply that, as of September, the Company has not hired any of the incremental employees related to the workforce transition and legacy service line enhancement program. OCA St. 2-S at 11. Further, the Company has not indicated that it has commenced the process of filling these positions. Id. Given that the Company has not filled these positions and has not provided any indication that they are actively hiring for these positions, the OCA submits that the increased spending of $185,000 on the workforce transition safety initiative be removed from the Company's total requested expense amount for safety initiatives as shown in OCA St. 2-S, Schedule C-1, line 6 and Table II.

c. Legacy Service Line Records.

Columbia has proposed increasing spending by $491,000 on the legacy service line enhancement program. Columbia St. No. 7 at Pages 21 – 26. According to OCA witness Effron,

"the costs associated with [the] legacy service line enhancement program… [is] attributable entirely to incremental employee headcount." OCA St. 2 at 16. In Rebuttal, Company witness Krajovic states that the incremental costs associated with this program are necessary to fill the positions within the Company's 822 currently authorized positions or the work will not be done unless another employee abandons other tasks to do it. Columbia St. No. 9-R at 15-16.

Similar to the increase in spending on the gas qualification specialists, the proposed $491,000 increased spending on the legacy service line enhancement program is based on the headcount Columbia supplied, and as stated in VI (A), this increase should be eliminated to reflect Mr. Effron's modified headcount to reflect the Company's actually hiring experience in 2020. OCA St. 2-S at 11. As a result, the increased spending amount of $491,000 on the legacy service line enhancement program should be eliminated from the Company's total requested expense amount for safety initiatives as shown in OCA St. 2-S, Schedule C-1, line 6 and Table II.

d. Customer-owned Field Assembled Risers Replacement.

The Company proposes increasing the spending on the customer-owned field assembled riser replacement program by $1,700,000. Columbia St. 7 at 24-25. According to the Company, it projects to replace 2,712 customer-owned field assembled risers in the FPFTY at a cost of $625 per unit. OCA St. 2 at 17. The Company requests this $1,700,000 incremental cost from the HTY cost in which the Company replaced 1,279 customer-owner field assembled risers. Id. The OCA submits that the increase is no longer necessary given that the COVID-19 pandemic temporarily impacted the Company's ability to replace the customer-owned risers and, as a result, the Company has not established that the replacement of customer-owned field assembled risers in the FPFTY will be any greater than it was in the HTY. Id. OCA Witness Effron stated:

> …even after the restart, the monthly rate of the replacement of risers in 2020 will be no greater than it was in the HTY. The Company has

> presented no evidence that customer owned field assembled risers replaced in the FPFTY will be any greater than the customer owned field assembled risers replaced in the HTY.

Id. The Company explained that the FPFTY expense is incremental not to the HTY expense, but rather to the FPFTY budget. OCA St. 2-S at 13-14. Mr. Effron, however, points out that the Company replaced 1,279 customer-owned assembled risers in the HTY and presumably there was some expense associated with those replacements. Id. Mr. Effron therefore concludes,

> …it would appear that even if FPFTY budget does not include incremental funding for replacement of customer-owned field assembled risers, there is some amount for that expense implicitly included in the O&M expenses for the FPFTY, even before the Company's pro forma adjustments on Exhibit 104, Schedule 2, Page 18. The Company has still not established the extent to which the expense for the replacement of customer-owned field assembled risers in the FPFTY will be greater than that expense in the HTY.

Id. Without further evidence to support the $1,700,000 increase to the customer owned field assembled risers replacement program, the OCA recommends that it be removed from the FPFTY expenses for safety initiatives as shown in OCA St. 2-S, Schedule C-1, line 6 and Table II.

2. Compensation Adjustments.

Columbia has included $432,000 in the FPFTY budget for compensation adjustment amounts. Columbia Exhibit 104, Schedule 2 at 18. According to Company witness Ms. Krajovic, compensation for certain employees was below market levels, and, in addition certain salaried employees should be compensated for overtime work. Company St. No. 9 at 17-18.

The Commission has disfavored speculative estimates of spending in the past. For example, in PUC v. Pa. Power & Light Co., 85 Pa. PUC 306 (1995), the Commission found, "the parties have correctly cited our precedent for the proposition that a speculative estimates, based on estimated totals of future costs, are not a preferred method for billing future expenses." Pa. PUC

v. Pa. Power & Light Co., 85 Pa. PUC 306 at 115 (1995). OCA St. 2 at 18. OCA Witness Effron testified:

> Given that the compensation modifications have not been implemented and the Company has not provided any indication that it will commence implementation any time soon, I believe that the Company's proposed adjustment must be considered speculative. Therefore, I recommend that this adjustment be eliminated from pro forma FPFTY operation and maintenance expense.

OCA St. 2 at 19. Company witness Ms. Kajovic contends that Mr. Effron's adjustment is inconsistent with the use of the FPFTY and that the expense should not be eliminated simply because it has not yet occurred. Columbia St. 9-R at 17-18. OCA Witness Effron, however, rightly establishes that this compensation adjustment is speculative given that "the Company had not presented any evidence that the compensation adjustments are in the process of being implemented or that such implementation is imminent." OCA St. 2-S at 16. The Commission should accept the OCA's recommendation to eliminate the proposed compensation adjustment of $432,000 from the FPFTY O&M expense because the Company has not affirmatively established that the adjustment is anything more than speculation. OCA St. 2-S, Schedule C-1, line 7 and Table II.

H. Depreciation.

Consistent with the FPFTY plant in service adjustment above, OCA witness Effron proposes an adjustment of $1,958,000 to depreciation expense as shown in OCA St. 2-S, Schedules B-1 and C-2 and Table I.

VII. TAXES

A. Taxes Other Than Income Taxes.

Consistent with the FPFTY labor expense adjustment above, OCA witness Effron proposes an adjustment of $111,000 to non-income payroll taxes. OCA St. 2 at 20 and Schedule C-3. The OCA submits that this adjustment of $111,000 should be accepted by the Commission as it

coincides with Mr. Effron's appropriate labor expense adjustments described in Section VI (A) above and as shown in OCA St. 2-S, Schedules C, C-3, C-4, and Table I.

B. Income Taxes.

OCA Witness Mr. Effron proposes to modify the Company's method of calculating the Pennsylvania Corporate Net Income Tax (CNIT or state income tax) to be included in the calculation of pro forma operating income under present rates and the revenue deficiency. OCA St. 2 at 21-23. While the resulting calculation does not produce an end result different from that of the Company, Mr. Effron offers a simpler method of calculation that avoids the necessity of having to recalculate a new "State Income Tax Effect Tax Rate" and a new Revenue Conversion Factor for changes in the revenue requirement. Id. at 22-23. Mr. Effron utilizes a CNIT of 5.994% in the calculation of the Revenue Conversion Factor to reflect the statutory CNIT rate of 9.999% and the Net Operating Loss Deduction which decreases the effective CNIT tax rate. OCA St. 2-S at 16-17. As a result, Mr. Effron calculated an adjusted state income tax expense of $988,000 and a Revenue Conversion Factor of 1.3620. Id. at Schedules A and C-4. The Commission should adopt Mr. Effron's simplified method of calculating the CNIT along with his adjusted state income tax expense for the FPFTY based on his reasonable expense adjustments described in Section VI.

VIII. RATE OF RETURN

A. Introduction.

1. Overview of the Cost of Capital Recommendations.

Columbia seeks an 8.00% overall rate of return, including a 10.95% return on common equity. CPA St. 8 at 1-2; CPA Exh. No. 400 (Updated), Sch. 1. The Company's proposed capital structure is 54.19% common equity, 42.22% long-term debt, 3.59% short-term debt. CPA St. 8-R at 5; CPA Exh. No. 400 (Updated), Sch. 1. The Company prepared its direct case based upon financial and market data through December 2019. CPA St. 8R at 7. The Company's 10.95%

return on common equity includes a 20 basis point premium for management performance. See, CPA St. 8 at 5, 43; CPA St. 1 at 8-9, 11-17, 18-39.

The Company's proposed cost of capital is excessive as the testimony of OCA witness Kevin O'Donnell and the following discussion demonstrate. Mr. O'Donnell's testimony demonstrates that under a traditional ratemaking approach a fair cost of common equity is 8.50% and a fair overall rate of return is 6.51%, based upon a capital structure of 50% debt and 50% common equity. OCA St. 3 at 4; OCA St. 3S at 1, Table 1S. The OCA submits that Mr. O'Donnell has presented a reasonable cost of capital proposal that accurately portrays the current low cost capital environment and reflects reasonable returns for investors, balanced with the concern for Columbia consumers who will be paying the increased rates. As Mr. O'Donnell noted, with consumers and small businesses struggling to pay their bills, higher unemployment levels, and periods of business shutdowns, utility rate increases would only exacerbate adverse financial circumstances. OCA St. 3 at 11.

I&E witness Keller has recommended a 9.86% equity cost rate and 7.41% overall cost of capital. I&E St. 2S at 37. Mr. Keller has demonstrated that the Company's proposed cost of capital is excessive. However, the I&E cost of capital recommendation would also provide the Company an opportunity to over-earn, as addressed by OCA witness O'Donnell.

Columbia presented the testimony of Paul R. Moul to support its rate of return request. The following table summarizes the Company's request:

Capital Type	Capital Structure Ratio (%)	Cost Rate (%)	Weighted Cost (%)
Long-Term Debt	42.22	4.73	2.00
Short-Term Debt	3.59	2.06	0.07
Common Equity	54.19	10.95	5.93
Total	100		8.00

CPA Exh. No. 400 (Updated), Sch. 1. Mr. Moul's cost of capital analyses include a leverage adjustment and size adjustment, which increase the models' result. CPA St. 8 at 26-30, 39-40. Mr. Moul has then added a 20 basis point increment to his indicated cost of equity to recognize management performance. CPA St. 8 at 5.

The OCA presented the testimony of Mr. Kevin O'Donnell, an expert economic consultant specializing in utility regulation, to support its rate of return allowance. In determining an appropriate cost of capital OCA witness O'Donnell rejected the Company's capital structure as comprised of too much equity and unfair to consumers. OCA St. 3 at 3-4, 29-37. Mr. O'Donnell recommends a capital structure of 50% debt / 50% common equity. Id. The OCA recommends an 8.50% return common equity and an overall return on rate base of 6.51%:

Capital Type	Capital Structure Ratio (%)	Cost Rate (%)	Weighted Cost (%)
Debt	50.00	4.52	2.26
Common Equity	50.00	8.50	4.25
Total	**100**		**6.51**

OCA St. 3S at 1 (Table 1S). The 8.50 % cost of equity recommended by Mr. O'Donnell is the result of his Discounted Cash Flow (DCF) analysis, and consideration of his Capital Asset Pricing Model (CAPM) and Comparative Earnings analyses. OCA St. 3 at 69-71.

I&E presented the testimony of Christopher Keller, Fixed Utility Financial Analyst with I&E to support its rate of return recommendation. The recommendation of Cost of Capital by I&E is as follows:

Capital Type	Capital Structure Ratio (%)	Cost Rate (%)	Weighted Cost (%)
Long-term Debt	42.22	4.73	1.98
Preferred Stock	3.59	2.06	0.07
Common Equity	54.19	9.86	5.93
Total	100		7.41

I&E St. 2S at 37.

The OCA submits that the Company's 10.95% cost of common equity request is well in excess of an objective assessment of investor market requirements in the current economic environment and should be rejected. The Company's cost of equity request of 10.95%, inclusive of 20 basis points for management performance, is the same rate requested by the Company in its previous 2018 base rate case. OCA St. 3 at 6, 12. In the interim, long-term interest rates have fallen and the economic impact of the COVID-19 pandemic and extraordinary public safety measures have manifested in higher unemployment and reduced household income to pay for basic necessities. OCA St. 3 at 6-19. The Company's recommendation is based on a flawed DCF analysis. In addition, both OCA witness Mr. O'Donnell and I&E witness Keller testified the return on equity (ROE) adjustments proposed by Mr. Moul are inappropriate, unnecessary and only serve to inflate the Company's equity cost estimate. If included in the cost of equity determination, these adders will substantially and unreasonably increase costs for ratepayers. See, OCA St. 3 at 85-88, 78-80, 90-92; see also, I&E St. 2 at 37-51. The OCA opposes the inclusion of these adjustments.

The OCA recommends the Company be given the opportunity to earn 8.50% on a common equity ratio of 50%, resulting in an overall allowed return on rate base of 6.51%. OCA St. 3S at 1 (Table 1S). When applied to the OCA's recommended rate base, this will provide the Company an opportunity to earn a fair rate of return while benefiting consumers with public utility service at reasonable rates, consistent with Pennsylvania law and public policy as set forth in the Public Utility Code. The Commission should adopt the recommendations of the OCA as to capital structure, return on equity, and cost of capital. The OCA recommendation better reflects a balancing of the needs of the Company's consumers and investors, particularly necessary in these times of uncertainty and hardship for consumers.

2. The Legal Framework for Determining What Rate of Return is Fair to Columbia Gas Consumers and the Company's Investors.

The law charges the Commission with the duty of protecting the rights of the public. City of Pittsburgh v. Pa. PUC, 126 A.2d 777, 785 (Pa. Super. 1956) (City of Pittsburgh II). As a general rule, a public utility whose facilities and assets have been dedicated to public service, is entitled to no more than a reasonable opportunity to earn a fair rate of return on shareholder investment. Discussing rate of return, the City of Pittsburgh II court wrote "[i]t is the function of the commission in fixing a fair rate of return to consider not only the interest of the utility but that of the general public as well. The commission stands between the public and the utility." Id.

Typically, cost of capital is the basis for determining a fair rate of return. Pa. PUC v. Philadelphia Suburban Water Co., 71 Pa. PUC 593, 623 (1989) (PSWC 1989). The Commission has defined an appropriate rate of return as:

> [T]he amount of money a utility earns, over and above operating expenses, depreciation expense and taxes, expressed as a percentage of the legally established net valuation of utility property, the rate base. Included in the 'return' are interest on long-term debt, dividends on preferred stock, and earnings on common stock equity.

> In other words, the return is the money earned from operations which is available for distribution among the capital. In the case of common stockholders, part of their share may be retained as surplus.

Pa. PUC v. Emporium Water Co., 95 Pa. PUC 191, 196, 208 PUR4th 502, 507 (2001) (EWC 2001) (quoting Public Utility Economics, Garfield and Lovejoy, 116 (1964)). Further, "[t]he return authorized must not be confiscatory, and must be based upon the evidence presented." PSWC 1989, 71 Pa. PUC at 623 (citing Pittsburgh v. Pa. PUC, 165 Pa. Super. 519, 69 A.2d 844 (1949) (Pittsburgh)).

A public utility with facilities and assets used and useful in the public service is entitled to no more than a reasonable opportunity to earn a fair rate of return on its investment. Pa. PUC v. Roaring Creek Water Co., 87 Pa. PUC 826, 844 (1997) (Roaring Creek 1997). The United States Supreme Court established the standard with which to evaluate whether a rate of return is fair in Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of West Virginia, 262 U.S. 679 (1923) (Bluefield), stating:

> The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management. . .to raise the money necessary for the proper discharge of public duties.

Bluefield, 262 U.S. at 693. The Court also said that allowed rates of return should reflect the following:

> [A] return on the value of the [utility's] property which it employs for the convenience of the public equal to that. . .being made at the same time… on investments in other business undertakings which are attended by corresponding risks and uncertainties.

Bluefield, 262 U.S. at 692. Twenty-one years later, the Court reviewed the issue of fair rate of return in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944) (Hope). In Hope, the Court held that a fair rate of return "should be commensurate with returns on investments

in other enterprises having corresponding risks" while being sufficient "to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital." Hope, 320 U.S. at 603. The Court noted that "[t]he rate-making process under the Act, *i.e.*, the fixing of 'just and reasonable' rates, involves a balancing of the investor and consumer interests . . . and does not insure that the business shall produce revenues." Id. More recently, the Court stated that consumers are obliged to rely upon regulatory commissions to protect them from excessive rates and charges. See Permian Basin Area Rate Cases, 390 U.S. 747, 794-95 (1968) (*citing* Atlantic Refining Co. v. Public Service Comm'n, 360 U.S. 378, 388 (1959)).

Finally, in Duquesne Light Co. v. Barasch, the Court stated

> whether a particular rate is 'unjust' or 'unreasonable' will depend to some extent on what is a fair rate of return given the risks under a particular rate setting, and on the amount of capital upon which the investors are entitled to earn on that return.

Duquesne Light Co., 488 U.S. at 310. In determining a fair rate of return this Commission has described its task as follows:

> A fair rate of return for a public utility, however, is not a matter which is to be determined by the application of a mathematical formula. It requires the exercise of informed judgment based upon an evaluation of the particular facts presented in each proceeding. There is no one precise answer to the question as to what constitutes the proper rate of return. The interests of the Company and its investors are to be considered along with those of the customers, all to the end of assuring adequate service to the public at the least cost, while at the same time maintaining the financial integrity of the utility.

Pa. PUC v. Pennsylvania Power Co., 55 Pa. PUC 552, 579 (1982) (Penn Power) (emphasis added). See Pa. PUC v. National Fuel Gas Distribution Corp., 73 Pa. PUC 552, 603-605 (1990).

In the present matter, the OCA's recommended rate of return, including its 8.50% cost of common equity applied to a 50% common equity ratio, represents a fair rate of return for the Company. The OCA's proposed rate of return will provide the Company's shareholders with a

reasonable opportunity to earn a market-based return on their investment, will provide for the financial integrity of the Company and will protect ratepayers from excessive and unjustified rates as case law dictates.

B. Capital Structure Ratios.

1. Introduction.

The Company's estimated December 31, 2021 capital structure is comprised of 54.19% common equity, 42.22% long-term debt, and 3.59% short-term debt.[27] CPA St. 8R at 6; CPA Exh. No. 400 (Updated), Sch. 1, p. 1; Sch. 5. On a total debt basis, this estimated capital structure is 54.19% common equity and 45.81% total debt. OCA St. 3 at 30.

OCA witness O'Donnell reviewed the Company's proposed capital structure and asked two basic questions. First, "How did Columbia develop the requested common equity ratio of 54.19%?" OCA St. 3 at 34. Second, whether Mr. O'Donnell "believe[s] that the capital structure proposed by Columbia Gas in this case is appropriate for ratemaking purposes?" Id. at 33. For the first question, Mr. O'Donnell found minimal and unsatisfactory information in Mr. Moul's testimony and supporting schedules. Id. at 35-37. For the second question, Mr. O'Donnell concluded the answer is "no." Id. at 25-38. To replace the Company's unsupported, estimated capital structure ratios for the end of the FPFTY, Mr. O'Donnell has recommended that the Commission adopt for ratemaking a capital structure of 50% equity and 50% debt.

2. Identification of the Appropriate Equity and Debt Ratios is Important to Ratepayers.

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[27] The Company updated its Summary of Cost of Capital in rebuttal, to reflect a March 2020 issuance of debt. CPA St. 8R at 6. The Company's cost of long-term debt changed, but there was no change in the Company's capital ratios. Compare, CPA Exh. No. 400, Sch. 1, p. 1, CPA Exh. 400 (Updated), Sch. 1, p.1.

The question of what ratio of equity and debt the Commission should approve for setting rates in this proceeding is of vital concern to the Company's ratepayers who will pay the increased rates. At its most basic, Mr. O'Donnell noted that "[r]eturns on common equity, which in part take the form of dividends to stockholders, are not tax deductible which, on a pre-tax basis alone, makes this form of financing about 21% or more expensive than debt financing." OCA St. 3 at 25. The utility's capital structure impacts the calculation of total return. "Costs to consumers are greater when the utility finances a higher proportion of its rate base investment with common equity and preferred stock versus long-term debt." Id. at 27. Mr. O'Donnell explained further that "if a utility is allowed to use a capital structure for ratemaking purposes that is top-heavy in common stock, customers will be forced to cover the higher income tax burden, which can result in unjust, unreasonable, and unnecessarily high rates." Id.

As a matter of sound ratemaking, Mr. O'Donnell emphasized that "[r]ate-regulated utilities should only be allowed to recover in rates a revenue requirement derived from a capitalization ratio that allows the utility to provide reliable service at the least cost." OCA St. 3 at 28. The task of finding the right balance of debt to equity ratios is critical. Id.

3. The Company's Estimated Capital Structure for the FPFTY Is Not Supported by Substantial Evidence.

Mr. O'Donnell is generally skeptical of projected common equity ratios. OCA St. 3 at 37. "Most projections tend to set common equity at too high a value given the inherent subjectivity and erratic nature of where the common equity ratios may actually fall out in the future years." Id.

Mr. O'Donnell examined Mr. Moul's direct testimony and found no substantive explanation of how Columbia developed their projected common equity ratio of 54.19%. OCA St. 3 at 34-36. Mr. O'Donnell found two short discussions in Mr. Moul's direct testimony. Id. at

34-35. Mr. Moul stated in his direct testimony that he would adopt the capital ratios provided by the Company:

> Since ratesetting is prospective, the rate of return should, at a minimum, reflect known or reasonably foreseeable changes which will occur during the course of the FPFTY (Fully Projected Future Test Year). As a result, I will adopt the Company's FPFTY capital structure ratios of 42.22% long-term debt, 3.59% short-term debt, and 54.19% common equity at December 31, 2021.

Id., quoting CPA St. 3 at 16. OCA witness O'Donnell found only one other reference in Mr. Moul's direct testimony providing context for the Company's proposed 54.19% common equity ratio:

> The five-year common equity ratios, based upon permanent capital were 55.5% for CPA, 53.2% for the Gas Group, and 43.0% for the S&P Public Utilities. The Company's common equity ratio was fairly similar to the Gas Group, thereby indicating similar financial risk.

OCA St. 3 at 35, quoting CPA St. 3 at 13.

Mr. O'Donnell reviewed CPA Exhibit No. 400, as sponsored by Mr. Moul. OCA St. 35-36. Mr. O'Donnell examined Schedule 5, captioned "Investor-provided Capitalization: Actual at November 30, 2019, Estimated at November 30, 2020, and Estimated at December 31, 2021." Id.; see CPA Exh. No. 400, Sch. 5. In that CPA Schedule 5, Mr. O'Donnell observed the 54.19% equity ratio as part of the "estimated December 31, 2021" information. OCA St. 3 at 36. However, the source for the information contained in Schedule 5 was simply "Company provided data." Id.

As Mr. O'Donnell summarized:

> [t]here was flatly little or no substantive discussion provided by Mr. Moul within his testimony supporting his election to use 54.16% as the common equity ratio for Columbia Gas ….

OCA St. 3 at 36.

The OCA submits that the Company has not met its burden of proof with regard to the projected end of the FPFTY capital structure with a 54.16% equity ratio, to support its application

in setting just and reasonable rates. Mr. O'Donnell testified that he was unable to find within the Company's cost of capital presentation a "substantive discussion" to justify Mr. Moul's inclusion of the 54.16% equity ratio. OCA St. 3 at 36. As Mr. O'Donnell indicated, his skepticism of projected capital structure was based upon long experience. Id. at 37.

Mr. O'Donnell had additional good cause to question the Company's projected end of FPFYP capital structure ratios. The Company filed its rate request in April 2020, but the content of the Company's rate filing did not account for the already evident impacts of the Coronavirus pandemic on the economy, consumers, and the capital markets. OCA St. 3 at 6-9, 12-16. Yet, Mr. Moul's direct testimony was largely based upon 2019 information, for a base rate case with a FPFTY ending December 31, 2021. Id.; see, CPA St. 8R at 7.

Mr. O'Donnell challenged the sufficiency of the record support of the Company's projected end of the FPFTY capital structure ratios and the 54.19% ratio in particular. The OCA submits that the Company has the burden of supporting this element of its rate request – a burden which the Company has not met. The Commission should not set rates for Columbia based upon projected capital structure ratios which the Company has not supported with substantial evidence.

4. The Commission Should Adopt a Capital Structure of 50% Equity and 50% Debt to Set Rates for Columbia.

Mr. O'Donnell proposed the adoption of a 50% common equity and 50% total debt capital structure to set rates for Columbia, in replace of the Company's estimated but unsupported end of the FPFTY capital structure ratios. OCA St. 3 at 30-34, 36-37; OCA St. 3S at 7-8. Mr. O'Donnell examined whether the Company's requested ratios were reasonable. OCA St. 30-34. Mr. O'Donnell compared Columbia's projected end of the FPFTY 54.19% equity ratio to the average equity ratios for gas utilities in his proxy group. Mr. O'Donnell also presented the average annual common equity ratio presented by state regulators in past years. Based on the results, Mr.

O'Donnell considered any possible risk differences on Columbia's part. As a result of these considerations, Mr. O'Donnell recommended a capital structure of 50% equity, 50% total debt. Id. at 34; OCA St. 3S at 7-8.

5. The Company's Rebuttal Position Does Not Meet Its Burden of Proof.

In rebuttal, the Company did not provide an explanation of how it arrived at the estimate of a 54.19% equity ratio for the end of the FPFTY on December 31, 2021 or update its proposed capital structure ratio.

Instead, Mr. Moul faulted the OCA for not paying attention to "data in support of the Company's capital structure ratio" provided in a discovery reply, which Mr. Moul attached as Exhibit PRM-1R. CPA 8R at 5-6; Exh. PRM-1R. Exhibit PRM-1R contains the Company's reply to OCA-III-15, with an attachment that sets forth the Company's *actual* level of capitalization, percentage of total, and effective cost rate for December 2018, December 2019, and March 2020.[28] Mr. Moul's rebuttal exhibit does not provide any information specific to the Company's projected capital structure for December 30, 2021.

In fact, Mr. O'Donnell had already viewed the Company's actual level of capitalization from November 30, 2019, plus estimated for November 30, 2020 and estimated at December 31, 2021. OCA St. 3 at 35-36, citing CPA Exh. No. 400, Sch. 5, page 10. The question Mr. O'Donnell raised is whether the Company's *estimated* capital structure ratios for December 31, 2021, which includes the 54.19% equity ratio, are supported and reasonable for ratemaking. Mr. Moul's rebuttal did not provide evidentiary support for the Company's ratemaking request.

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[28] The Company's equity ratios were 53.79% (December 2018), 53.64% (December 2019), and 53.31% (March 2020). CPA St. 8R, Exh. PRM-1, p. 2.

In rebuttal, Mr. Moul did not acknowledge the distinction, presuming that the Company's estimated capital structure ratios for December 31, 2021 are "actual capital structure ratios." CPA St. 8R at 4. Mr. Moul suggested that it is the OCA's recommendation which is "hypothetical," contrary to Commission policy, and may be overcome if the Company provides some evidence of the reasonableness of the 54.19% equity ratio. Id. at 4-5. To that end, Mr. Moul proposed that the Commission should accept the Company's 54.19% equity ratio as "reasonable" when compared to the Commission's 2018 decision in UGI Electric, "which adopted a 54.02% common equity ratio" for the electric utility. Id. at 4. Mr. Moul pointed to other barometer group information, to show that the Company's "actual" 54.19% equity ratio should be accepted by the Commission for ratemaking. Id. at 5.

Mr. O'Donnell succinctly disagreed with Mr. Moul. Mr. O'Donnell disagreed that Commission's decision in UGI Electric from 2018 with 54.02% common equity is a relevant benchmark "and justifies use of the Company's higher equity ratio." OCA St. 3S at 7. Mr. O'Donnell encouraged the Commission to evaluate the Company's requested capital structure to assure that it "is reasonable and fair to determine an appropriate cost of capital in this proceeding which does not overburden ratepayers." OCA St. 3S at 7. Mr. O'Donnell noted again that "equity is more costly as dollars collected in rates are subject to taxes." Id.

The Commission should deny the Company's request to set rates based upon capital structure ratios which are projected to exist by the end of the FPFTY. The Company has not met its burden of providing sufficient information to support the Company's claim. Mr. Moul's labelling of the Company's proposed capital structure ratios as "actual capital structure ratios" is inaccurate. The Company's proposed capital structure ratios are estimates of what the Company's

capital structure ratios may be on December 31, 2020, subject to the Commission's discretion under the provisions of Section 315(e).

The Commission should adopt the recommendation of OCA witness O'Donnell and develop any allowed rate increase for Columbia based upon a capital structure of 50% equity and 50% total debt, in place of the Company's estimated end of the FPFTY capital structure ratios. See, OCA St. 3 at 34, Table 6; OCA St. 3S at 7-8.

C. Debt Cost Rate.

The OCA accepted the Company's overall cost of debt rate as revised by Company witness Moul in rebuttal. OCA St. 3S at 1, 9; see CPA St. 7 at 6, CPA Exh. No. 400, Sch. 6, p. 3 (Updated). When the Company filed its rate case in April 2020, Mr. Moul's direct testimony did not reflect the actual cost rate of a new issue of promissory notes that were issued in March 2020. CPA St. 8R at 6. Mr. Moul updated Exhibit No. 400 to reflect the actual cost rate of the March 2020 issuance and to value the debt cost of the FPFTY planned issuance of Senior Notes. Id. In surrebuttal, OCA witness O'Donnell accepted the revised debt cost rate and included it in his revised overall cost of capital recommendation as set forth in Table 1S. OCA St. 1S at 1, 9 (Table 1S). Mr. O'Donnell's overall rate of return recommendation of 6.51% includes the Company's updated overall cost of debt of 4.52%. Id. at 1, fn. 2.

D. Return On Common Equity.

1. Columbia Proposal.

Company witness Moul recommended a 10.95% return on equity, which includes 20 basis points for management efficiency. CPA St. 8 at 5. Mr. Moul's 10.75% equity return (minus the performance adder) is based in part upon application of three analyses – a DCF, CAPM, and Risk Premium (RP) – to a selected group of companies. Additionally, Mr. Moul conducted a Comparable Earnings (CE) analysis, applied to Columbia and an assortment of non-utility

companies. Mr. Moul based his cost of equity recommendation on the 11.91% result of his DCF analysis, inclusive of a leverage adjustment; a 10.19% CAPM based result, inclusive of a size adjustment; and a 12.75% rate based upon his CE. Mr. Moul based his recommendation on data through December 2019. CPA St. 8R at 7; OCA St. 3 at 13. In rebuttal, Mr. Moul presented more current financial data for his Gas Group companies. Mr. Moul explicitly did not repeat his DCF cost analysis in the same manner as his direct testimony. CPA St. 8R at 8. Instead, Mr. Moul used a three-month average to measure dividend yields in his new DCF analysis and an unchanged growth rate, to provide the Commission with "recession market data." Id. at 7-8. Mr. Moul averaged the results of his atypical DCF and his other three cost model results, as updated. Based on these calculations, Mr. Moul stated the Gas Group cost of equity has increased 0.72%. Id. at 10. Mr. Moul did not change his 10.95% cost of equity recommendation for the FPFTY. Id.

The OCA submits that the Company's proposal for a common equity cost rate of 10.95% is excessive under normal conditions and is especially overstated in consideration of the current pandemic and financial hardships confronting consumers who have lost employment and income. OCA St. 3 at 11, 13-14, 18-19; see, OCA St. 3S at 13. The Commission's "exercise of informed judgment" should be "based upon an evaluation of the particular facts presented" in this proceeding, with an eye towards assuring adequate service to the public at the least cost. Penn Power, 55 Pa. PUC at 579. Grant of an excessive rate of return would burden consumers and provide a windfall to current investors, further leading to rates that are unjust and unreasonable. OCA St. 3 at 18.

As OCA witness Mr. O'Donnell testified, profits for the provision of utility services are regulated because the services tend to be produced under conditions that approximate a natural monopoly. OCA St. 3 at 3. Since the Company's last base rate case, the cost of debt financing has

declined, with the 30-year U.S. Treasury bond rate closing at 1.33% on July 17, 2020. OCA St. 1S at 10. Over a similar period of time the Dow Jones Utility Index Average (DJUA) increased by about 10.6%, indicative of investors accepting a lower cost of capital on their investments. Id. at 11.

As will be discussed in the following sections, Company witness Moul's DCF analysis is flawed, and he has artificially inflated his ROE recommendation in this matter through a variety of methods and adjustments. The OCA submits that such unnecessary and unsupported "adjustments" should not be considered.

a. Mr. Moul's Gas Group and Comparable Earnings Analysis Comparable Group Do Not Provide The Best Basis To Identify An Appropriate Cost Of Equity For Columbia.

Mr. Moul's proxy group or "Gas Group" is comprised of Atmos Energy Corp., Chesapeake Utilities Corporation, New Jersey Resources Corp., NiSource, Inc., Northwest Natural Holding Co., ONE Gas, Inc., South Jersey Industries, Inc., Southwest Gas Holdings, and Spire, Inc. CPA St. 8 at 10-11. Mr. Moul expected that the cost of equity measured with the Gas Group data "will provide a reasonable representation of the Company's cost of equity." Id. at 15.

Mr. O'Donnell disagreed with Mr. Moul's proxy group. OCA St. 3 at 21-24, 73-74. First, Mr. Moul excluded UGI Corp. from his Gas Group and so from any consideration in his cost of equity analyses. The nine companies in Mr. Moul's Gas Group *and* UGI Corp. are all included in Value Line's Natural Gas Utility industry. OCA St. 3 at 23. As Mr. O'Donnell explained, Mr. Moul's decision to exclude UGI Corp. was conceptually inconsistent. Id. at 23-24. Mr. Moul excluded UGI Corp. due to its "diversified businesses," which include six reportable segments, including propane, two international liquid propane gas (LPG) segments, UGI Utilities – Gas Division, UGI Utilities – Electric Division, and energy services. Id.; see CPA St. 8 at 4. Yet, Mr.

Moul's Gas Group already included Chesapeake Utilities, which also operates a diverse set of businesses including gas and electric distribution operations, propane distribution, energy marketing operations, and real estate operations. OCA St. 3 at 23.

Second, Mr. O'Donnell disagreed with how Mr. Moul considered NiSource, Inc. financial data, as part of the determination of an appropriate cost of equity for Columbia. Mr. Moul included NiSource in his nine company Gas Group. Mr. O'Donnell did not include NiSource in his proxy group. Instead, Mr. O'Donnell performed a separate cost of equity analysis of NiSource, in parallel with his cost of equity analysis of his proxy group. OCA St. 3 at 21, 24. Mr. O'Donnell's approach captures information available from Value Line's Natural Gas Utility industry group for all ten companies, including UGI Corp. By conducting a separate analysis of NiSource financial data, Mr. O'Donnell avoided the problem of circularity inherent in Mr. Moul's Gas Group inclusion of NiSource. OCA St. 3S at 15. Mr. O'Donnell's separate analysis of NiSource provides useful information since the NiSource cost of capital is closed related to that of Columbia. Id. For example, a utility subsidiary credit ratings are often closely linked to the credit rating of their parent company's credit rating. Id.

Mr. Moul's cost of equity analyses of his Gas Group does not include useful financial information about UGI Corp, a diversified company which Value Line does include in its Gas Utility Industry group. While the OCA agrees that NiSource financial information should be considered, Mr. Moul's inclusion of NiSource in his Gas Group dilutes consideration of information most connected to Columbia.

As part of his Comparable Earnings Analysis, Mr. Moul used a non-utility comparable proxy group, to avoid a perceived circularity problem. CPA St. 3 at 42; OCA St. 3 at 22. Mr. O'Donnell disagreed with Mr. Moul's approach, as "such non-regulated companies are not truly

comparable to Columbia Gas …." Id. UGI Utilities, at 105 (Utility CE results rejected in part due to proxy group of companies that "operate in industries that are very different from a utility company….")

b. Mr. Moul's DCF Model Results Are Overstated, Include Unnecessary Adjustments, And Should Be Rejected.

In his direct testimony, Mr. Moul conducted a DCF analysis of his Gas Group based on financial data for January 2019 to December 2019. Mr. Moul used the six-month average of Gas Group dividend yields of 2.59% as an input in his determination of a DCF dividend yield of 2.69%. CPA Exh. 400, Sch. 2, p.1, Sch. 7. Mr. Moul combined the forward looking dividend yield of 2.69% with a 7.50% growth rate and 1.72% leverage adjustment to identify a DCF based cost of equity estimate of 11.91%. CPA St. 8 at 18-31; CPA Exh. 400, Sch. 2, p.1.

In rebuttal, Mr. Moul presented financial data for his Gas Group for August 2019 to July 2020. CPA St. 8R at 7; see CPA Exh. 400, Sch. 7 (Updated). However, Mr. Moul did not duplicate his direct testimony DCF analysis to provide an updated DCF result. In Mr. Moul's view, the events around the COVID-19 pandemic are "extraordinary," there was turmoil in the stock and bond markets in the February-May 2020 time frame, "we entered a recession in February 2020," and the Fed Funds rate has moved "to near zero." CPA St. 8R at 7. Mr. Moul did not oppose consideration of these developments, but he stated that "[r]esetting the cost of equity based upon the extraordinary and non-recurring conditions that exist today is not appropriate, in my opinion." Id. at 8.

Instead, Mr. Moul offered the Commission a revised DCF estimate to capture the "conditions associated with the economic recession," by "using a three-month average period." CPA St. 8R at 8. The three-month average of Gas Group dividend yields for the August 2019 to July 2020 period was 3.27%, which Mr. Moul used as an input to determine a DCF dividend yield

of 3.39%. CPA Exh. No. 400 (Updated), Sch. 2, p.1, Sch. 7. Mr. Moul combined the 3.39% forward looking dividend yield with a 7.50% growth rate and 1.72% leverage adjustment to identify a DCF based cost of equity estimate of 12.91%. CPA St. 8R at 8; CPA Exh. No. 400 (Updated), Sch. 2, p.1.

The OCA submits that the Company's two, different DCF-based cost of equity analyses do not support Commission approval of the Company's 10.95% cost of equity request, as part of a determination of just and reasonable rates.

OCA witness O'Donnell faulted the Company's direct case as limited to 2019 financial information, even though more recent information was available when Mr. Moul's direct testimony was filed in April 2020. OCA St. 3 at 13; OCA St. 3S at 19; see CPA St. 8R at 7. Mr. O'Donnell acknowledged that Mr. Moul provided more recent financial information for the Gas Group companies through July 2020. Id. However, as Mr. O'Donnell observed, "[u]sing the same cost of capital analyses and adjustments with more current data does not improve the reliability of [Mr. Moul's] results." Id. at 17.

Critically, Mr. Moul did not calculate an updated dividend yield for his DCF, based upon more current Gas Group financial data, using his declared "long-standing approach of using six-month data." OCA St. 3S at 20; see, CPA St. 8 at 8. Mr. Moul's rebuttal testimony DCF analysis, with a dividend yield based upon a three-month average, does not provide the Commission with a simple update to reflect the most recent available observations. OCA St. 3S at 20. The Commission has highlighted the importance of a dividend yield "based on the most recent available observations in the record." UGI Electric at 92. Mr. Moul's direct testimony and rebuttal testimony do not meet this Commission requirement. In contrast, the OCA DCF cost analysis set

forth in Mr. O'Donnell's direct testimony "already captured and incorporated financial and market data available as of July 17, 2020." OCA St. 3S at 20.

Further, the Commission should not rely upon the Company's DCF analyses based on how Mr. Moul applied the DCF model. OCA witness O'Donnell identified Mr. Moul's original DCF analysis as flawed and materially different from the OCA's application of the DCF as follows:

1) Mr. Moul's 10 basis point adjustment to the average dividend yield for Mr. Moul's Gas Group (see, CPA St. 8 at 20; CPA Exh. No. 400, Sch. 7);

2) Mr. Moul only utilizes forecasted growth rates (see, CPA St 8 at 20, Exh. No. 400, Sch. 9); and

3) Mr. Moul applies applies a 'unique' 172-basis point financial risk adjustment (see, CPA St. 8 at 29, Exh. No. 400, Sch. 10).

OCA St. 3 at 75. Mr. Moul's DCF analysis in rebuttal carriesy forward these same flaws. OCA St. 3S at 17. The OCA will address each point, below.

i. <u>Mr. Moul's Dividend Yield Adjustment Is Unsupported</u>.

As part of his DCF analysis, Mr. Moul has calculated the twelve-month, six-month, and three-month average dividend yields for his Gas Group. In his direct testimony, Mr. Moul followed his "long-standing approach of using six-month data." CPA St. 8 at 20; CPA Exh. No. 400, Sch. 7; CPA St. 8R at 8. As OCA witness O'Donnell noted, Mr. Moul made three adjustments to the Gas Group six-month average dividend yields which Mr. Moul characterized as "generally accepted." OCA St. 3 at 76; see CPA St. 8 at 20. In direct, these adjustments resulted in a 10 basis point addition to the 2.59% Gas Group average dividend. OCA St. 3 at 76.

Mr. O'Donnell opposed the three adjustments as unsupported. Mr. Moul's "generally accepted" claim lacked any back-up. <u>Id</u>. Mr. O'Donnell opposed the addition of 10 basis points "atop the 2.59% … average dividend yield" that Mr. Moul calculated for his Gas Group in direct

testimony. Id. In rebuttal, Mr. Moul made the same three adjustments, but to Mr. Moul's chosen three-month average dividend yield calculated for the Gas Group on more recent data. OCA St. 3S at 17; see CPA Exh. No. 400 (Updated), Sch. 7. As result of these three adjustments, Mr. Moul's DCF dividend yield in rebuttal is 3.39%, which is 12 basis points higher than the actual 3.27% three-month average dividend for his Gas Group, based upon updated data. CPA St. 8R at 8; see, CPA Exh. No. 400 (Updated), Sch. 2, p.1, and Sch. 7.

Mr. Moul's adjustments to increase the average dividend yield to a higher dividend yield number for use in his DCF analyses are not supported and contribute to the Company's overstated DCF based cost of equity estimate.

ii. Mr. Moul's Reliance On Only Forecasted Growth Rates Excludes Information Which Is Available And Useful In A DCF Analysis.

In direct testimony, Mr. Moul used a 7.50% growth rate in his DCF model, based upon consideration of the range of "Analysts' Five-Year Projected Growth Rates" for his Gas Group, sourced from analysts' reports dating August 30, 2019 or October 30, 2019. CPA St. No. 8 at 27; CPA Exh. No. 400, Sch. 9. From the range of 5.24% to 10.17% of average projected growth rates, Mr. Moul adopted 7.50% as an estimate of investor expected growth, for use in his DCF analysis. CPA St. No. 8 at 27; CPA Exh. No. 400, Sch. 2. In rebuttal, Mr. Moul updated his Schedule 9 "Analysts' Five-Year Projected Growth Rates" for his Gas Group, sourced from analysts' reports dating May 29, 2020 or June 30, 2020. CPA Exh. No. 400 (Updated), Sch. 9. The updated Schedule 9 shows a range of average projected growth rates for the Gas Group from 4.50% to 10.06%. Id. Both end points in the range are lower than Mr. Moul's original range. In rebuttal, Mr. Moul did not change the growth rate in his recalculated DCF, using the same 7.50% value. CPA St. 8R at 8; CPA Exh. No. 400 (Updated), Sch. 2.

Mr. O'Donnell criticized the Company's initial request for a 10.95% cost of equity (including 20 basis points for management performance) as based on older data from 2019 and not reflective of the impacts of the pandemic, state-wide disaster proclamation, and changes in the capital markets. OCA St. 3 at 12-16, 54-55; OCA St. 3S at 11-13, 28-29. Mr. O'Donnell noted that the April 2020 decline in prices for utility equities has caused a drop in expected growth rates. OCA St. 3 at 15. Yet, Mr. Moul's choice of a 7.50% growth rate for his DCF analysis did not change in rebuttal, even with the presentation of updated financial data for his Gas Group, and even with both end points of the range lower.

Apart from the importance of using the most current data, Mr. O'Donnell stated that Mr. Moul's growth rate determination is flawed by Mr. Moul's reliance on forecasted growth rates. OCA St. 3 at 48-49, 75. Mr. Moul's approach is inconsistent with academic journals and articles which question the accuracy of earnings predictions and forecasts. OCA St. 3S at 22-23; see, e.g. Chan, Louis K.C., Karceski, Jason, Lakonishok, Josef, "Analysts' Conflict of Interest and Biases in Earnings Forecasts," *Journal of Finance* (2003), at 683 ("Over long time horizons, however, there is little forecastability in earnings, and analysts; estimates tend to be overly optimistic"). Mr. O'Donnell noted that Mr. Moul's Exh. No. 400, Schedule 8 included a variety of historic growth rates reported for the Gas Group companies. OCA St. 3 at 49. Yet Mr. Moul did not factor any historic growth rates into his determination of an appropriate growth rate for the DCF model. Id. Mr. Moul's growth rate and DCF analysis is flawed by his failure to factor in "the full extent of information on which investors base their expectations." Id.; OCA St. 3S at 23. A proper analysis should include "both historical growth rates and forecasted growth rates" which "provide valuable data for what one can expect the ultimate growth rate for an individual stock will be." OCA St. 3 at 49.

Mr. Moul's DCF analyses, as set forth in his direct testimony and CPA Exh. No. 400 and in rebuttal and CPA Exh. No. 400 (Updated), are flawed by Mr. Moul's narrow focus on forecasted growth rates for his growth rate determination.

As discussed below, Mr. O'Donnell's identification of a growth rate range of 4.0% to 6.0% is better supported and is based upon financial data for the OCA proxy group and NiSource through July 2020. Mr. Moul's 7.50% growth rate is not appropriate for use in a DCF analysis in this proceeding.

iii. Mr. Moul's Proposed Leverage Adjustment To His DCF Analysis Is Unneeded, Unsupported, And Would Unreasonably Increase The Cost Of Service To Consumers.

Mr. Moul's DCF indicated cost of equity of 11.91% is based upon a 2.69% dividend yield, 7.50% growth rate, plus a 1.72% "leverage modification" or adjustment. CPA St. 8 at 30. Mr. Moul describes the leverage adjustment as necessary "[i]n order to make the DCF results relevant to the capitalization measured at book value (as is done for rate setting purposes), the market-derived cost rate must be adjusted to account for this difference in financial risk." Id. at 27. Mr. Moul stated that the "adjustment is developed through precise mathematical calculations, using well recognized analytical procedures that are widely accepted in the financial literature." Id. Mr. Moul's calculation of the 172-basis point adjustment is set forth in CPA Exh. No. 400, Sch. 10.

In rebuttal, Mr. Moul's Exh. No. 400 (Updated), Sch. 10 reflects a calculated leverage adjustment of 203-basis points. See, CPA Exh. No. 400, Sch. 10. This higher leverage adjustment is part of Mr. Moul's recalculated DCF using an atypical (for Mr. Moul), adjusted three-month average dividend yield of 3.39%, a 7.50% growth rate, plus the 203-basis point leverage adder for a new 12.92% DCF cost rate. See, CPA Exh. No. 400, Sch. 2. As noted above, Mr. Moul calculated this updated DCF, using the three-month average dividend yield, to provide the

Commission with "recession market data" tied to the pandemic and economic changes. CPA St. 8R at 8. Not to revise the Company's requested 10.95% equity return. Id.

The Commission should deny the Company's proposed inclusion of a leverage adjustment in the determination of an appropriate cost of equity for Columbia. Both OCA witness O'Donnell and I&E witness Keller oppose Mr. Moul's leverage adjustment conceptually and as a type of adjustment which the Commission has not approved in more than a decade. OCA St. 3 at 75, 78-80; OCA St. 3S at 24-26; I&E St. 2 at 21, 28-29, 39-44; I&E St. 2S at 10, 18-22. OCA witness O'Donnell criticized Mr. Moul's leverage adjustment as based on a "belief that investors are unaware of debt on the Company's books and, therefore, they must be compensated for the additional risk." OCA St. 3 at 78; OCA St. 3S at 25. Mr. O'Donnell stated that it is irrational to believe, as Mr. Moul does, "that investors, when purchasing an equity, are unaware that the market price of a security is different than the book value of the underlying security." Id. at 25-26. I&E witness Keller disagreed with Mr. Moul's position that such a leverage adjustment is supported by academic research and journals. I&E St. 2 at 40. Mr. Keller also opposed Mr. Moul's adjustment as an inappropriate characterization of financial risk and other reasons. Id. at 43-44. As part of the Company's proposed DCF cost of equity measure, Mr. Keller estimated that the 172-basis point adjustment "would force ratepayers to fund an unwarranted additional amount of $22,382,933."[29] I&E St. 2 at 41.

The Commission should deny the Company's leverage adjustment as unsound and unnecessary. In discovery, Mr. Moul stated that he has proposed this adjustment in some 30 cost of capital testimonies before the Commission in the past decade, and that Mr. Moul was unaware

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[29] I&E witness Keller calculated this impact based upon the Company's direct case equity percentage (54.19%) and claimed rate base of $2.401M. I&E St. 2 at 48. The value would differ based upon the OCA's recommended equity percentage of 50%. Additionally, the Company revised it claimed rate base in rebuttal.

of a Commission decision approving his proposed adjustment in that time. OCA St. 3 at 79; OCA St. 3S at 26, Exh. KWO-3S, KWO-4s. As both Mr. O'Donnell and Mr. Keller noted, the Commission has expressly denied such a leverage adjustment previously. OCA St. 3 at 79; I&E St. 2 at 42; I&E St. 2S at 18-22.

For example, in UGI Electric, the utility claimed that an unadjusted DCF would understate the cost of common equity and so the leverage adjustment for financial risk was needed. UGI Electric at 86, 91. The Commission denied the utility's requested leverage adjustment as "not reasonable," concluding that "an artificial adjustment in this proceeding is unnecessary and contrary to the public interest." Id. at 93-94. The OCA submits that Columbia has failed to justify that an upward adjustment to a proper DCF based cost of equity estimate is necessary and reasonable. As I&E witness Keller calculated, Mr. Moul's 172-basis point adjustment would unreasonably burden consumers with some $22 million in higher revenue requirement.

c. Company Witness Moul's Risk Premium And CAPM Analyses Are Flawed And Not Appropriate To Determine The Cost Of Equity For Columbia.

Mr. Moul applied a risk premium approach and a CAPM analysis to develop his cost of equity recommendation for Columbia. CPA St. 31-40. Based upon his Risk Premium approach, Mr. Moul determined a Gas Group cost of equity of 10.50% as the sum of 4.00% (prospective yield for long-term public utility debt) and 6.50% as the equity risk premium. Id. at 35. Mr. Moul's CAPM analysis used a "2.75% risk-free rate of return, the leverage adjusted beta of 0.83 for the Gas Group, the 7.74% market premium, and the 1.02% size adjustment," for a resulting 10.19% cost of equity. Id. at 40.

In rebuttal, Mr. Moul stated that his re-calculated Risk Premium approach "shows a downward change in the cost of equity…." CPA St. 8S at 9. Mr. Moul described the 12.49% result as reflective of "a significant increase in the cost of equity." Id.

Mr. Moul revised his CAPM in rebuttal as well, showing a result of 12.49%, an increase from his direct testimony measure of 10.19%. CPA 8S at 9. Mr. Moul referenced changes in the federal funds rate in 2019 and then reductions to support financial markets during the coronavirus pandemic. Id. In his opinion, 1.75% is the appropriate risk-free rate of return to use in his revised CAPM and a leverage adjusted beta of 1.05, indicative of increased systemic or market risk for the Gas Group. Id.

For the reasons set forth in the testimony of Mr. O'Donnell and Commission practice, the Commission should not accord any weight to the results of Mr. Moul's Risk Premium analysis or CAPM. First, the Commission has a long-stated policy of relying primarily on the DCF method to estimate the appropriate cost of equity, with consideration of the results of a CAPM for comparison. See, e.g. UGI Electric, at 106 ("[T]he use of the DCF model has historically been our preferred methodology.") In UGI Electric, the Commission rejected the utility's RP analysis because the model depends on indirect observations, where, in contrast the DCF model "measures equity more directly through the stock information, using equity information." Id. at 105; see also, Pa. PUC v. Valley Energy, Inc., Docket No. R-2019-3008209, Order at 103 (2020)(Valley Energy) (No weight given to utility's RP method results).

Second, Mr. Moul's Risk Premium and CAPM analyses are flawed by Mr. Moul's choice of inputs. Mr. Moul's CAPM is further overstated by the inclusion of a size adjustment. Mr. Moul's recalculation of these analyses in rebuttal to reflect data more current than from 2019 does

not improve the reliability of the results, where based upon the same flawed concepts, inputs, and adjustments. OCA St. 3S at 17.

Mr. O'Donnell noted that the Risk Premium and CAPM are both essentially risk premium models, where the CAPM is more company-specific due to its use of beta to measure systemic risk. OCA St. 3 at 88. Both models compare market returns (either total market or utility markets) to bond yields. Id.

Mr. O'Donnell criticized Mr. Moul's Risk Premium approach and use of forecasted bond yields. OCA St. 3 at 89. "The best predictor of future yields is the current yield curve." Id. However, Mr. Moul ignored this most important predictor of future bond yields in favor of using Mr. Moul's "own estimate of future bond yields." Id. In Chart 6, Mr. O'Donnell put a prior estimate used by Mr. Moul in another proceeding to the test, comparing it to actual 30-year U.S. Treasury bond rates for the few years after Mr. Moul's future bond yield estimate. Id. at 81. Mr. Moul's self-selected estimate of future bond yields presented in January 2019 testimony in another case was 3.75%. Id. at 80-81. In the following period, actual yields barely topped 3.00% in the early quarters and have overall declined through June 2020. Id. The Risk Premium approach is not generally accepted by the Commission and Mr. Moul's choice of input does not provide useful information.

Mr. O'Donnell determined that Mr. Moul's CAPM is equally flawed due to Mr. Moul's choice of inputs and adjustments for size and leverage. OCA St. 3 at 80-88. As discussed above, the reliability of Mr. Moul's forecasted risk-free rate (2.75% in direct, 1.75% in rebuttal) is questionable. Id. at 80-81. The yield curve is a better predictor of future yields. Id. at 89.

Mr. O'Donnell identified two concerns with Mr. Moul's market premium analysis. First, Mr. Moul's use of the median of Value Line's "18-month appreciation potential" measure does

not provide useful information. Such price appreciation potentials vary widely and so such a short-term, highly variable component is ill-suited for use in a cost of capital determination. Id. at 83. Second, Mr. O'Donnell identified an apparent error in Mr. Moul's application of the CAPM in which he determined the historic market premium from 1926-2018 was 7.84% whereas the well-respected 2017 Stocks, Bonds, Bills Inflation (SBBI) Yearbook provide data that, when calculated, showed a 6.0% historical market premium over such a long period of time. Id.

As to Mr. Moul's calculated market risk premium of 7.74%, Mr. O'Donnell determined that Mr. Moul's premium implies a forecast that U.S. utilities will produce double-digit returns of 10.50%, an exorbitantly high expectation. OCA St. 3 at 84. Fed Chairman Powell's expectation that the U.S. economy will take more than a year to return to pre-Coronavirus levels further undermines the usefulness of Mr. Moul's expected market return measure. Id.

Mr. O'Donnell disagreed with Mr. Moul's CAPM mid-cap size adjustment of 102-basis points to his end CAPM result. OCA St. 3 at 85-86. Mr. O'Donnell noted his opinion that "the CAPM is inferior to the DCF in determining the market required return on equity." Id. at 86. Mr. Moul's injection of a size adjustment further lessens the usefulness of the CAPM. Mr. O'Donnell noted that Mr. Moul did not precisely identify whether NiSource, Inc. or Columbia is the "mid-cap sized" entity. Id. at 86. Under either scenario, Mr. O'Donnell explained that there would be no reason for such a 102-basis point adder. Id. at 86-87. Investors already have access to information about the size of the utility or holding company and can price that premium into the current stock price. Id.

I&E witness Keller also opposed Mr. Moul's reliance on technical literature to defend his size adjustment, literature which is not specific to the utility industry. I&E St. 2 at 45-46. In UGI Electric, the Commission rejected the utility's request for "a size adjust in the calculation of the

CAPM cost of equity" as without basis, regardless the utility's reference to technical literature. UGI Electric, at 100; OCA St. 3 at 87; I&E St. 2 at 46.

d. Company Witness Moul's Comparable Earnings Analysis Does Not Provide Meaningful Information To Determine The Cost Of Equity For Columbia.

Mr. Moul presented a CE analysis or approach to provide a comparison between returns realized by non-regulated companies to returns that a public utility with similar risk characteristics would need to realize. CPA St. 8 at 40-43. Mr. Moul selected a proxy group of companies based upon risk factors from Value Line sources and examined historical realized and forecasted returns for these companies. Id. at 41-42. Mr. Moul averaged certain of these data points to determine a CE result of 12.75%. Id. at 42. In rebuttal, Mr. Moul stated that his CE analysis fulfills a necessary comparability standard for rate of return determinations. CPA St. 8R at 35. Mr. Moul used the same procedures when he updated his CE result in rebuttal. Id. at 8.

The Company's CE results, whether from direct testimony or rebuttal, do not provide information about the appropriate cost of equity for Columbia. Mr. O'Donnell disagreed with Mr. Moul's evaluation of non-regulated firms, because "the operation of a regulated utility is inherently different from entities that operate in a truly competitive markets." OCA St. 3R at 90. Even if they passed certain screens applied by Mr. Moul, a proxy group of non-regulated firms such as of The Cheesecake Factory and Tootsie Roll are simply not comparable to Columbia as a regulated utility. Id.; see also I&E St. 2 at 29-30. Mr. O'Donnell further objected to Mr. Moul's CE as bringing a comparison of book value with market value into the question of determining the appropriate cost of equity for Columbia. OCA St. 3R at 90.

The Commission has rejected a similar CE approach in UGI Electric for reasons similar to those identified by OCA and I&E. UGI Electric, at 105-06. The utility's identification of the non-

regulated firms to analyze as comparable was entirely subjective; the resulting proxy group companies were still very different from a utility company; and the utility's CE focused on returns on book value, not the cost of equity. Id. at 105.

Mr. Moul's CE analysis and results should be rejected by the Commission.

e. Summary of Reasons Why the Commission Should Deny Columbia's Request for a 10.95% Cost of Equity.

The Company has the burden of providing substantial evidence in support of its request for a 10.95% cost of equity. The Company has not met that standard. The OCA arguments and dissection of the record are set forth above and in the section below responding to the Company's request to receive an additional 20 basis points in equity for exemplary management performance.

When the Company made its base rate filing in April 2020, the Coronavirus pandemic and state wide disaster emergency were already underway. In direct testimony, Mr. Moul and Mr. Tubbs emphasized the Company's future spending on infrastructure. Mr. Moul asked the Commission to recognize "the need for supportive regulation at a time of increased infrastructure improvements now underway…." CPA St. 8 at 1.

In rebuttal, Mr. Moul acknowledged the Coronavirus pandemic, the start of a recession, and turmoil in the stock and bond markets in the February to May 2020 period. CPA St. 8R at 7. Yet, Mr. Moul opined that rate-setting should not account for the impact of such extraordinary and non-recurring developments, in setting a proper cost of capital. Id. Mr. Moul cautioned against adoption of the OCA or OSBA cost of equity recommendations of 8.50% or lower. According to Mr. Moul, "[i]f the Commission were to follow the proposals of the OCA or OSBA, the regulatory ranking of the Pennsylvania [by the Regulatory Research Associates] would certainly be jeopardized." Id. at 12-13.

The OCA disagrees with the Company's priorities. The Commission must look beyond the interests of Columbia's investors and expressly consider the impact of any rate increase on Columbia's customers. As noted above, "[i]t is the function of the commission in fixing a fair rate of return to consider not only the interest of the utility but that of the general public as well. The commission stands between the public and the utility." City of Pittsburgh II, 126 A.2d at 785.

The OCA primary recommendation for resolution of this entire rate request is set forth above. In the event that the Commission engages in a more standard review of the Company's base rate request, the Commission should exercise its informed judgment in determining an appropriate cost of capital and cost of equity for Columbia which takes into account the realities of current conditions including the Coronavirus pandemic and corresponding impacts on the employment, income, of Columbia's consumers. The recovery of the U.S. economy is expected to be slow and prolonged. OCA St. 3 at 54-55. Yet, the upward change in the Dow Jones Utility Index Average from December 2018 to July 2020 reflects a rough 10.6% increase, indicative of investors accepting a lower cost of capital return on their investments. OCA St. 3S at 11. There is ample support in the record for the Commission to determine: 1) that Columbia's 10.95% cost of equity request is overstated and unreasonable; and 2) that the OCA's overall cost of capital recommendation, inclusive of an 8.50% return on equity is appropriate to set just and reasonable rates.

2. Other Parties' Proposals.

a. The OCA's 8.50% Cost Of Equity Recommendation Is Supported By Sound Cost Of Equity Analyses And Recent Data Observations.

The OCA cost of equity recommendation presented by Mr. O'Donnell is based upon the DCF method. OCA St. 3 at 69. Mr. O'Donnell also performed a CAPM analysis, which he used

as check or comparison to his DCF indicated results. Mr. O'Donnell conducted CE analyses, as well. OCA St. 3 at 57-61. Mr. O'Donnell's cost of equity analyses are based upon data through June or July 2020, providing the Commission with meaningful observations from months before and through the Coronavirus pandemic and impacts on the economy and financial markets. OCA St. 3S at 10. Mr. O'Donnell's recommended 8.50% common equity cost rate is the middle of his DCF range and above the CAPM range. OCA St. 3 at 69-70.

As part of his recommendation, Mr. O'Donnell stressed the importance of recognizing "the negative impact the Coronavirus pandemic has had on the United States and world economy." OCA St. 3 at 71. "Long term growth prospects have faced a sudden shock that have forced investors to re-examine their expectations for the future." Id. at 71-72. The Dow Jones Utility Average (DJUA) from December 2018 through early July 2020 reflects a sharp drop when the Coronvirus took over the news cycle in March 2020, followed by some recovery. Id. at 72. Fed Chairman Powell has indicated the economic recovery will take longer than anticipated. Bond yields have languished into a period of lower yields, indicating a long recovery time period. Id. Against this backdrop, Mr. O'Donnell emphasized that his "point of estimation of 8.50% is the middle of my DCF range, which I believe is the most accurate model in use by practitioners today." Id.

The OCA submits that its 8.50% cost of common equity recommendation is reasonable. The Commission should adopt an 8.50% cost of equity over the Company's recommendation of 10.95%, because an 8.50% cost is in line with the results of the Mr. O'Donnell's DCF analyses and with current economic conditions. OCA St. 3 at 54-55, 70-72. These current economic realities include the impact of the Coronavirus pandemic on the economy, employment, and

household income. Demand for utility equities has been more steady than the market at large. OCA St. 3S at 10-13.

Considering these facts, it would be unreasonable to burden Columbia ratepayers with higher costs based on the Company's 10.95% ROE proposal. As addressed below, the OCA also opposes I&E witness Keller's recommended 9.86% cost of equity rate, as not reflective of current market conditions. OCA St. 3R at 3-12. OCA witness O'Donnell properly applied a DCF analysis checked by the Capital Asset Pricing Model (CAPM) in this proceeding to arrive at a reasonable rate of return. The OCA recommended 8.50% cost of equity for Columbia should be adopted by Commission based upon the record and informed judgment.

i. The Commission's Preferred Method Of Setting Common Equity Cost Rates Is The Discounted Cash Flow Model For Sound Reasons.

Mr. O'Donnell has developed a market-based cost of common equity recommendation using the DCF model, which is the method primarily relied upon by this Commission. In this proceeding, Mr. O'Donnell has conducted DCF, Capital Asset Pricing Model (CAPM), and Comparable Earnings (CE) analyses. OCA St. 3 at 39-72. However, Mr. O'Donnell's recommended 8.50% return on common equity for Columbia is based primarily on the results of his DCF analyses, using the CAPM method as a check, and has recommended an 8.50% return on common equity. Id. at 69.

As reviewed below, the Commission has historically relied on the DCF methodology. The framework of the DCF model and implementation, as described in the work of leading public utility treatises, is the underpinning of the Commission's approach. Mr. O'Donnell has affirmed his professional opinion that the DCF model is superior to other cost models such as the CAPM, is straightforward, and is actually used in cost of capital determinations.

The Commission has long relied upon the DCF method to determine a market-based common equity cost rate. As the Commission noted in PAWC 2004:

> Historically, we have primarily relied on the DCF methodology in arriving at our determination of the proper cost of common equity. We have, in many recent decisions, determined the cost of common equity primarily based upon the DCF method and informed judgment. [citations omitted] We determine that the DCF method is the preferred method of analysis to determine a market based common equity cost rate.

Pa. PUC v. Pennsylvania American Water Company, 99 Pa. PUC 38, 42 (2004) (PAWC 2004), aff'd on other grounds, Popowsky v. Pa. PUC, 868 A.2d 606 (Pa. Commw. Ct. 2004); accord Pa. PUC v. Aqua Pa, Inc., 99 Pa. PUC 204, 233 (2004). In its 2018 UGI Electric decision, the Commission affirmed its primary reliance on the DCF method, stating that it has "found no reason to deviate from the use of this method in the instant case." UGI Electric, at 106; accord, Valley Energy, at 102, 104.

The Commission has stated that determining a fair rate of return is an exercise of informed judgment, based upon the facts of each case. Penn Power Co., 55 Pa PUC at 579. "The interests of the Company and its investors are to be considered along with those of the customer, all to the end of assuring adequate service to the public at the least cost, while at the same time maintaining the financial integrity of the utility involved." Id.

In coming to this informed judgment, the Commission may consider the results of the CAPM as a comparison to DCF results. See, UGI Electric, at 105-106; Valley Energy, at 102-104. "[W]here evidence based on other cost of equity methods indicates that the DCF-only results may understate the utility's current cost of equity capital, we will consider those other methods, to some degree, in evaluating the appropriate range of reasonableness for our equity return determination." UGI Electric at 105. The utility must present substantial evidence to convince the Commission to

depart from use of the DCF method as the primary methodology for determination of a cost of equity. Valley Energy, at 104.

ii. Mr. O'Donnell Views The DCF Model As Superior To Other Methods.

Mr. O'Donnell explained why it is appropriate to rely on the DCF model in this proceeding, as superior to CAPM and CE approaches. Mr. O'Donnell testified as follows:

> The DCF model is an investor-driven model that incorporates current investor expectations based on daily and ongoing market prices. When a situation develops in a company that affects its earnings and/or perceived risk level, the price of the stock adjusts to reflect those developments. Since the stock price is a major component in the DCF model, the change in risk level and/or earnings expectations is captured in the investor return requirement with either an upward or downward movement.

OCA St. 3 at 40-41. Mr. O'Donnell noted the broad acceptance and reliance on the DCF method as a widely used method for estimating an investor's required return on a firm's common equity. Id. at 42. The DCF model allows analysts and investors to factor in a company's financial fundamentals over the long term. Id. at 44. In particular, the DCF model accommodates analysts' focus on earnings, dividend and book value growth. Id. An advantage is that the DCF model is straightforward and easy to understand. Id. at 45. "To determine the total rate of return one expects from investing in a particular equity security, the investor adds the dividend yield, which they expect to receive in the future, to the expected growth in dividends over time." Id. at 45.

Mr. O'Donnell's reliance on the DCF model is well-grounded.

iii. Mr. O'Donnell's Proxy Group Approach Provides The Commission With Useful Observations From All Ten Companies Followed By Value Line's Gas Utility Industry.

To estimate the cost of equity, a proxy group of similar companies is needed. A proxy group is generally preferred over the use of data exclusively from any one company because it has

the effect of smoothing out potential anomalies associated with a similar company and is therefore a more reliable measure. See UGI Electric at 82. In developing his recommendation, Mr. O'Donnell chose to use the full group of gas utilities compiled and followed by *Value Line*. OCA St. 3 at 21. The OCA proxy group includes each of the companies in Mr. Moul's proxy group, with two differences. Id. First, Mr. O'Donnell included UGI Corporation in his proxy group, a company excluded by Mr. Moul from the Company's proxy group. Id. at 23-24. Mr. O'Donnell and Mr. Moul each included Chesapeake Utilities in their respective proxy groups, as a utility followed by the *Value Line's* Natural Gas Utility industry. As Mr. O'Donnell noted, Chesapeake Utilities operates a diverse set of businesses that include natural gas distribution, natural gas transmission, electrictric distribution operations, propane distribution and other lines of business. Id. at 23. UGI Corp. is similar as its diversified business portfolio includes natural gas utility service, as well as propane, international liquid propane gas (LGP), energy service, and electric generation. Id. Mr. O'Donnell has included UGI Corp. in his proxy group, disagreeing with Mr. Moul's decision to include one diversified company (Chesapeake Utilities) while excluding another (UGI Corp.) Id. at 23-24.

Second, both Mr. O'Donnell and Mr. Moul include NiSource among the companies covered by their DCF and CAPM cost analyses. However, Mr. O'Donnell's proxy group is comprised on the nine companies other than NiSource as followed by Value Line. Mr. O'Donnell performed a cost of equity analysis separately on NiSource because Columbia is owned by NiSource. As the owner of Columbia, NiSource represents the most direct link to Columbia Gas. OCA St. 3 at 24. "[A]n analysis performed specifically on NiSource helps to provide a large body of knowledge of investor expectations." Id.; OCA St. 3S at 15-16. For example, a utility subsidiary's credit rating is often closely linked to the credit rating for the parent company. A

similar link between equity cost of capital for NiSource and for Columbia is logical. Id. at 15. It is not possible to conduct a cost of equity directly on Columbia, but it is possible to do so for NiSource as a publicly traded company followed by Value Line and others. OCA St. 3 at 41-42.

Mr. O'Donnell's approach provides the Commission with information from all ten gas utility companies followed by Value Line and provides a sound basis for Mr. O'Donnell's cost of equity analyses.

iv. Mr. O'Donnell's DCF Analyses Provide a Robust, Well Supported Basis for His Cost of Equity Recommendation.

Mr. O'Donnell relied primarily on the DCF model to identify an appropriate market-based cost of equity for Columbia. OCA St. 3 at 69-72. Mr. O'Donnell explained the DCF equations as follows:

> The DCF method is based on the concept that the price which the investor is willing to pay for a stock is the discounted present value (*i.e.,* its present worth) of what the investor expects to receive in the future as a result of purchasing that stock. This return to the investor is in the form of future dividends and price appreciation. However, price appreciation is only realized when the investor sells the stock, and a subsequent purchaser presumably is also focused on dividend growth following his or her purchase of the stock.

OCA St. 3 at 43.

Mathematically, the relationship is:

Let D = dividends per share in the initial future period

g = expected growth rate in dividends

k = cost of equity capital

P = price of asset (or present value of a future stream of dividends)

$$\text{then } P = \frac{D}{(1+k)} + \frac{D(1+g)}{(1+k)^2} + \frac{D(1+g)}{(1+k)^3} + \ldots\ldots + \frac{D(1+g)}{(1+k)^t}$$

> This equation represents the amount (P) an investor will be willing to pay *today* for a share of common equity with a given dividend stream over (t) periods.
>
> Reducing the formula to an infinite geometric series, we have:
>
> $$P = \frac{D}{k - g}$$
>
> Solving for k yields:
>
> $$k = \frac{D}{P} + g$$

OCA St. 3 at 42-43.

As discussed below, Mr. O'Donnell applied this DCF approach to his proxy group and separate analysis of NiSource in a systematic way, combining his professional judgment and consideration of the impact of the Coronavirus on the economy and long-term growth prospects for natural gas industry and Columbia. See, OCA St. 3 at 45-57; OCA St. 3R at 5-9.

In rebuttal testimony, Mr. O'Donnell provided this concise summary of his application of the DCF model and development of an appropriate dividend yield and growth rate:

> I derived my DCF results by first utilizing Forecasted Annualized Dividend Yields based on three separate time periods (*i.e.,* 13-weeks, 4-weeks, and 1-week) provided by *Value Line*, plus the following growth rates for my 10 company comparable proxy group:
>
> - Historical EPS, DPS, and BPS growth rates over a 10-year period and a 5-year period provided by *Value Line*;
> - Forecasted EPS, DPS, and BPS growth rates from *Value Line*;
> - Average plowback growth rate (*i.e.,* percent retained to common equity) provided by *Value Line*;

- 3-year projected EPS growth rate provided by the *Center for Financial Research and Analysis*; and

- 3 to 5-year EPS growth rate provided by *Charles Schwab*.

> My DCF results are presented within **Exhibit KWO-1** and **Exhibit KWO-4** to my originally pre-filed direct testimony.[30]

OCA St. 3R at 7-8.

a1. Mr. O'Donnell's Dividend Yield Approach, Based On Current Data.

Mr. O'Donnell calculated the appropriate dividend yield by averaging the dividend yield expected to be paid over the next 12 months for each for each comparable company, as reported by the Value Line Investment Survey. OCA St. 3 at 45. As noted previously, Mr. O'Donnell's cost of equity analyses presents data through July 2020. The period covered by the *Value Line* reported data is from May 1, 2020 through July 24, 2020. Mr. O'Donnell examined the 13-week, 4-week, and 1-week dividend yields for his comparable proxy group. Id. at 45, Exh. KWO-1. Mr. O'Donnell obtained an average dividend yield for the nine company proxy group for each of the three time periods – 3.3%, 3.5%, and 3.5%, respectively. Id. Mr. O'Donnell determined the average dividend yield value for NiSource for the 13-week period as 3.5%, the 4-week period as 3.6%, and the value for the 1-week period as 3.5%. Id.

Mr. O'Donnell developed these dividend yield ranges, as set forth in Exhibit KWO-1 to this direct testimony, and summarized above "by averaging each company's Value Line forecasted 12-month dividend yield over the above-stated periods, as well as examining the most recent forecasted 12-month dividend yield reported by *Value Line* for each company." OCA St. 3 at 46.

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[30] The abbreviations in Mr. O'Donnell's testimony include: "EPS" for "earnings per share," "DPS" for "dividends per share," and "BPS" for "book value per share."

Mr. O'Donnell employed this averaging approach over multiple time periods "in order to minimize the possibility of an isolated event skewing the DCF results." Id.

Mr. O'Donnell's dividend yield range is based upon current information from Value Line through July 2020, is based upon multiple observations for each of the ten gas companies followed by Value Line including UGI Corp. and NiSource, and is developed to moderate the impact of isolated events, to avoid skewed DCF results. Mr. O'Donnell factored these dividend ranges into his DCF analyses as set forth in Exhibit KWO-4. CPA St. 3 at 56, see Exh. KWO-4. Mr. O'Donnell's dividend yield range of 3.3% to 3.5% provide a sound basis for Mr. O'Donnell's DCF range of 7.3% to 9.5% for his nine-company proxy group, and the NiSource dividend range of 3.5% to 3.6% is factored into Mr.' O'Donnell's DCF range for NiSource of 7.5% to 9.6%. Id.

a2. Mr. O'Donnell's Growth Rate.

Mr. O'Donnell used several methods to identify a measure of the growth in dividends that investors expect. OCA St. 3 at 46. A summary of the five sources and types of financial data examined by Mr. O'Donnell to develop his growth rate is outlined above. Mr. O'Donnell also considered both long-term demand for natural gas as a fuel supply and the impact of the Coronavirus and economic downturn in selecting what weight to give to historic growth rate and forecasted growth rate information.

Mr. O'Donnell's first method is commonly referred to the plowback ratio method. Under this approach, if a company is earning of a rate of return or "r" on the company's common equity, and it retains a percentage of these earnings or "b", then each year of the earnings per share (EPS) are expected to increase by the product (stated as "b x r" or simply "br") of its earnings per share in the previous year. OCA St. 3 at 46. Thus, "br is a good measure of the growth in dividends per

share." (DPS). Id. at 46-47. These "br" or plowback ratios are reported by *Value Line* for the proxy group companies under the title "percent retained in common equity." Id. at 47.

Mr. O'Donnell also focused on development of a growth rate measure that "consider[s] how dividends are created." OCA St. 3 at 47. This leads to the need to analyze "what if any growth can be expected in dividends." Id. at 48. Review of book value growth is one part of the inquiry. To analyze the expected growth in dividends, Mr. O'Donnell believes that an analyst should also examine the historical record of past earnings, dividends, and book value. Id.

Mr. O'Donnell acknowledged that some analysts – and Mr. Moul – do not present historical growth rates in their DCF analyses. OCA St. 3 at 48. As discussed above, Mr. Moul exclusive use of "forecasted growth rates" in his DCF analysis is a flaw which contributes the Company's overstated DCF results. Id.; OCA St. 3S at 22. Mr. O'Donnell emphasized that information about historical growth rates and forecasted growth rate are widely available to investors to use in development of their expectations and would be used by prudent investors. Id. Both historical growth rates and forecasted growth rates provide valuable data for what one can expect the ultimate growth rate for an individual stock will be. OCA St. 3 at 48.

Mr. O'Donnell's third method to assist in development of a growth input for his DCF analyses is to use forecasted growth rates, specifically "the *Value Line* forecasted compound annual rates of change for earnings per share, dividends per share, and book value per share." OCA St. 3 at 50. Fourth, Mr. O'Donnell used the forecasted rate of change for earnings per share, from a publication issued by S&P Global Market Intelligence. OCA St. 3 at 50. Fifth, Mr. O'Donnell used forecasted earnings growth rate sourced from Charles Schwab & Co. (Schwab), which provides a compilation for forecasts by industry analysts. OCA St. 3 at 50.

Mr. O'Donnell did not limit his growth rate examination to only earnings growth rates. "Since the DCF formula is dependent on future dividend growth, it would be inaccurate to use only earnings growth rates." OCA St. 3 at 56 (emphasis in original). The use of only earnings growth rates would produce unrealistically high return on equity numbers that cannot be sustained indefinitely. Id. Mr. O'Donnell analyzed earnings per share, dividends per share, and book value per share earnings growth rates to provide a robust, systematic analysis of available financial information. Id.

Mr. O'Donnell's Exhibit KWO-4 presents the calculations and results of his application of these growth rates as added to the dividend yield averages for his comparable proxy group. Mr. O'Donnell determined that the proxy group's forecasted earnings per share, dividends per share, and book value per share growth rates are between approximately 5.0% to 7.0%, based on the analyzed data. Id. at 53; Exh. KWO-1.

This description of the sources and Mr. O'Donnell's application of the various growth rate data to the proxy group companies and NiSource is only one part of Mr. O'Donnell's process for determining the appropriate growth rate inputs for his DCF analysis. Mr. O'Donnell considered the fact that over the past ten years, natural gas utilities have achieved solid growth as natural gas demand is high across the country. OCA St. 3 at 51. Indeed, electric utilities have expanded through the acquisition of natural gas utilities, which supply fuel for electric generation. Id. Mr. O'Donnell made qualitative assessments of both the 10-year and 5-year historical growth rates for the proxy group. Id. at 52. "The forecast of the proxy group's various growth rates is consistent with the understanding that natural gas is growing in prominence in the energy industry around the country." Id. Mr. O'Donnell addressed the outlier EPS growth rates, historic and forecasted, for Northwest Natural Gas of -11.00% and 26.5%, respectively. Id. at 52-53.

Mr. O'Donnell also recognized that the Coronavirus pandemic has had a dramatic impact on the equity market as well as long-term growth prospects for Columbia and the gas industry. OCA St. 3 at 4, 54. The remarks of Federal Reserve Chairman in Jerome Powell from May 2020 set forth the expectation that the U.S. economy faces a long recovery of over a year. Id. In the current climate, investor expectations of a quick and lasting recovery should be tamped down.

Since Mr. O'Donnell's cost of capital analyses included financial analyst information from after the onset of the Coronavirus pandemic, "any decrease in the growth rates for the gas utility comparable group are already reflected in the sources, thereby recognizing that the U.S. economy has significant headwinds ahead." See, e.g. OCA St. 3 at 9-10.

In his final assessment of the appropriate range of growth rates to include in his DCF analyses, Mr. O'Donnell considered these factors and determined it would be "proper to place more weight on forecasted figures than historical figures in estimating the cost of equity for the comparable group." OCA St. 3 at 55. He stated the proper growth range for the comparable group of companies is 4.0% to 6.0%. Id. at 55-56.

v. Mr. O'Donnell's Final DCF Recommendation.

Mr. O'Donnell's DCF analyses are based upon examination of data through July 2020 for the full group of ten gas utilities followed by *Value Line* and development of a range of dividend yields and growth rates (based upon historic growth rates and forecasted growth rates). Mr. O'Donnell identified a dividend yield range of 3.3% to 3.5%, which combined with the growth rate range of 4.0% to 6.0% produces a DCF range of 7.3% to 9.5%, for the nine company proxy group. OCA St. 3 at 56. Additionally, for NiSource, Mr. O'Donnell identified the dividend yield range of 3.5% to 3.6%, combined with the growth rate range of 4.0% to 6.0%, which produces a range of 7.5% to 9.6%. Id.

Based on this DCF analysis, Mr. O'Donnell selected a range of 7.50% to 9.50% as the cost of equity for his comparable group. OCA St. 3 at 57. Mr. O'Donnell's final cost of equity recommendation for Columbia is 8.50%, based upon the middle of this range. Id. at 69.

The OCA submits that Mr. O'Donnell's DCF analyses provide a sound foundation for his DCF based cost of equity recommendation for Columbia of 8.50%.

b. Mr. O'Donnell's Capital Asset Pricing Model (CAPM).

Mr. O'Donnell performed CAPM analyses to provide the Commission with additional information, based upon market and financial data for the proxy group companies and NiSource. OCA St. 1 at 61. However, Mr. O'Donnell expressed his reservations regarding the usefulness of the CAPM approach. Specifically that the application of the CAPM in an erroneous manner, such as when forecasted risk premiums or forecasted interest rates are employed, can lead to erroneous results. Id.

The CAPM is "a measure of firm-specific risk, known as unsystematic risk and measured by beta, as well as overall market risk, otherwise known as systemic risk and measured by the expected return on the market." OCA St. 3 at 62. The CAPM formula requires identification of the risk-free rate, beta as the risk of the studied company relative to the overall market, and the expected return on the market. Id.

The risk free rate is designated as the yield on United States government bonds as the risk of default is seen as highly unlikely. OCA St. 3 at 63. In his CAPM analyses, Mr. O'Donnell developed risk premiums relative to the 30-year US Treasury bonds, "as this time period is the longest available in the marketplace, thereby affording consumers the longest protection at the risk-free rate." Id. In specific, Mr. O'Donnell "utilized historical 30-year treasury bond yields over the previous one-year period from July 17, 2019 to July 17, 2020 as shown in Exhibit KWO-

5." OCA St. 3R at 9-10. Mr. O'Donnell also considered changes in the federal funds rate from late 2019 and in response to the impact of the Coronavirus pandemic in March 2020. Id. at 6-8, 63-64. The outlook now suggests more turbulence and variability for the rest of 2020. OCA St. 3 at 63. Mr. O'Donnell affirmed the reasonableness of his risk free rate of 1.89% in rebuttal, based on a strategy change by the Federal Reserve likely to keep interest rates at their low levels for a long time. OCA St. 3S at 27-28.

Beta is a statistical calculation of a company's stock price movement relative to the overall stock movement. Betas below 1.0 indicate less volatility in stock price. Betas above 1.0 indicates a company with a stock price that is less volatile than the overall market. OCA St. 3 at 64. As generally conservative equity investments, utility betas are almost always less than 1.0. Id.

Mr. O'Donnell developed his current market risk premium from the Ibbotson database published by Morningstar. OCA St. 3 at 655. Mr. O'Donnell provided an overview of the market return forecasts – equity risk premium as well as total market returns – published by Morningstar on January 16, 2020, information which reflected range of expectations. Id. at 65-66. Mr. O'Donnell concluded, using historical data as well as ex ante (forecasts) data, "the evidence suggests the equity risk premium is clearly within the range of 4% to 6%." Id. at 67.

Mr. O'Donnell used the Value Line derived beta sources from the most recent Value Line editions for each company in the comparable proxy group. Id. at 67. Mr. O'Donnell used the current quarter betas for the ten companies in his proxy group, inclusive of NiSource. See, OCA St. 3R at 9-10.

Mr. O'Donnell presented the calculations for his CAPM for both the comparable group and for NiSource in Exhibit KWO-5. Mr. O'Donnell:

> developed a range from which I determined my CAPM results by utilizing a one year period of 30-year treasury bonds for a risk-free

> rate averaging 1.89% (*i.e.,* with a high value of 2.61% and a low value of 0.99% over the previous annual period examined), an equity risk premium range from 4.0% to 6.0%, and an average beta value for my proxy group comprised of the average beta provided for my 10 company proxy group over the most recent quarter (*i.e.,* 0.85).

OCA St. 3R at 9-10.

Mr. O'Donnell concluded the proper return on equity from the CAPM is in the range of 5.50% to 7.50%. OCA St. 3 at 68. The 5.50% is above the average of the comparable proxy group CAPM results, with the use of the 4.0% equity risk premium. Id. The 7.50% or top of the range is above the average of the comparable proxy group CAPM results, using the 6.0% equity risk premium. Id.

In identifying his final recommendation of an appropriate cost of equity for Columbia, Mr. O'Donnell considered this CAPM range (5.50% to 7.50%) as a check on his DCF results range (7.50% to 9.50%). OCA St. 69.

The OCA submits that Mr. O'Donnell's CAPM results reflect a careful examination of available information from analysts, use of a reasonable risk free rate, Value Line betas, and consideration of changes in the economy in general and current and future expectations for federal fund interest rates, in the context of the Coronavirus pandemic and its impact on the economy.

c. Mr. O'Donnell's Comparable Earnings Analysis.

Mr. O'Donnell conducted two different Comparable Earnings Analyses (CE). OCA St. 3 at 57. One examined returns on book value equity for the comparable group. The second examined allowed natural gas utility returns over an extended period of time to evaluate trends in returns for companies of similar risk. Id.

Mr. O'Donnell applied his first Comparable Earnings Analysis to companies of similar risk to Columbia, specifically his proxy group of gas utilities followed by Value Line. OCA St. 3 at

57. Mr. O'Donnell examined "historic and forecasted earned returns *on book value equity* of the proxy group over the period of 2018 through 2025E" and similar information for NiSource. Id. 57-58. (emphasis in original). However, the level of return suggested by this type of analysis is not directly comparable or relatable to a DCF result. Id. at 69-70. This is because this type of Comparable Earnings Analysis focuses on the return on book value and not a return on market value. Id.

Mr. O'Donnell evaluated the history and trend of what state utility commissions across the country are allowing for authorized returns on equity. OCA St. 3 at 58. Mr. O'Donnell's Chart 4 shows "the ROEs authorized for natural gas utilities by state regulators across the United States from 2005 through 2019." Id. at 58-59. Mr. O'Donnell noted that the average allowed ROE for the first three months of 2020 for natural gas utilities had declined to 9.35%. Id. at 59. Mr. O'Donnell noted that his study and Chart 4 provided useful evidence that utility regulators are acknowledging the declining trend in the cost of capital for gas utilities. Id. at 70. "Regulators may not move at the pace of the general market in terms of the decline in the market cost of capital, but regulators are, without a doubt, moving in that direction." Id.

Mr. O'Donnell did combine some of the observations from this two different Comparable Earnings Analyses into a range of returns, 9.25% to 10.25%. OCA St. 3 at 60. With several strong statements of reservation as to the usefulness of the Comparable Earnings Analyses, in addition the shortcomings discussed above. First, Mr. O'Donnell noted that the DCF model produces the most reliable results. Id. at 60. Second, the Comparable Earnings model "does not appropriately capture the economic impacts of the pandemic within the output of the Model." Id. at 61.

Mr. O'Donnell has properly based his cost of equity recommendation for Columbia based upon the results of his DCF analyses, based upon the strength of the model. Mr. O'Donnell's

Comparative Earnings Analyses offer some insights for the Commission's consideration, but do not provide useful direct insight in the market cost of equity, particularly in today's economic climate. See, OCA St. 3 at 57-61, 69-70.

d. The OCA's Return on Equity Recommendation of 8.50% for Columbia Is Supported and Appropriate to these Current and Future Market Conditions.

For all the foregoing reasons, the OCA submits that the Company has failed to meet its burden of proof in support of its requested 10.95% return on equity, inclusive of 20-basis points for management performance. While the OCA has agreed with a number of the I&E's criticisms of the Company's cost of equity analyses, the OCA opposes the I&E recommended cost of equity of 9.86% as an unreasonable measure of an appropriate market-based cost of equity for Columbia in these current times, as discussed below.

As the Company's FPFTY is close at hand, the Commission should consider all record evidence and exercise its informed judgment to adopt a cost of equity for Columbia which properly accounts for interests of investors "along with those of the customers, all to the end of assuring adequate service to the public at the least cost…." Penn Power, 55 Pa. PUC at 579 (1982). The Commission should adopt the OCA's recommended rate of return of 8.50% on common equity and an overall allowed return on rate base of 6.51%, applied to an equity ratio of 50%.

3. Increment for Management Effectiveness.

Mr. Moul's recommended return on equity includes an additional 20 basis point premium to reflect the performance of the Company's management, variously characterized as exemplary, outstanding, or effective. CPA St. 8 at 3, 5, 43; CPA St. 8-R at 37. This would result in $2.6 million of additional costs to the Company's ratepayers. I&E St. 2 at 48. Mr. Moul deferred to Columbia Statement 1 (Huwar Direct), later adopted by Company witness Tubbs, for support.

CPA St. 8 at 5. Mr. Tubbs' direct testimony cites to pipeline replacement, gas safety, leak detection, damage prevention and other activities; the Company's performance relative to its peers in Pennsylvania; customer quality of service; process improvements; the volunteerism of Company employees; and efforts to expand the availability of natural gas. CPA St. 1 at 8-9, 11-17, 18-39.

Section 523 permits the Commission to consider a request for an adjustment – upwards or downwards – to a component of the utility's cost of service to recognize the efficiency, effectiveness and adequacy of service. 66 Pa.C.S. § 523(a). Consideration of the request and whether there is specific, substantial record evidence in support is just one part of the Commission's determination of just and reasonable rates. Id.

The OCA has opposed the Company's request both on the merits and as inconsistent with a determination of just and reasonable rates which recognize the public interest during this extended period of pandemic and economic crisis. I&E has also identified factual and policy reasons to deny the Company's request. Information presented by Mr. Richard Culbertson during the public input hearing identified a house explosion linked to Columbia pipeline replacement work. Record evidence presented by OCA witness O'Donnell confirmed the explosion event and Columbia's responsibility. The record does not support the Company's claim of exemplary management performance, sufficient to justify the imposition on consumers of an approximate $2.6 million increase in base rates.[31] See, OCA St. 3 at 90-92; OCA St. 5 at 78-53; I&E St. 2 at 48. The Company's request is not soundly supported, will not result in just and reasonable rates, and is not in the public interest.

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[31] I&E witness Keller calculated the impact of an additional 20 basis points to the Company's cost of equity, based upon the Company's direct case equity percentage (54.19%) and claimed rate base of $2.401M. I&E St. 2 at 48. The value would differ based upon the OCA's recommended equity percentage of 50%. Additionally, the Company revised it claimed rate base in rebuttal.

a. The Public Utility Code Requires That Columbia's Management Performance Be Significantly More Than Efficient, Adequate And Safe, To Merit Additional Cost Of Equity Basis Points For Performance.

Section 523 directs that the Commission consider, "in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates…." 66 Pa. C.S. § 523(a). Upon consideration of such evidence, the Commission shall give effect to Section 523 "by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate." Id. Section 523(a) requires the Commission to make specific findings, when such an adjustment is made pursuant to Section 523. Id.

As part of the Commission's review of the Company's request for a 20 basis point cost of equity premium for performance, Section 523(b) directs the Commission to consider certain criteria, including Columbia's management effectiveness and operating efficiency as evaluated by the Commission's Bureau of Audits (a Section 516 audit), and "[a]ny other relevant and material evidence of efficiency, effectiveness, and adequacy of service." 66 Pa. C.S. § 523(b)(1), (7).

As a regulated fixed utility, Columbia is required to provide safe, adequate, reasonable and efficient service as a matter of law. 66 Pa. C.S. § 1501; Pa. P.U.C. v. Columbia Water Co., Docket No. R-2013-2360798, Order at 50 (Jan. 1, 2014) (CWC 2014). An appropriate rate of return on common equity assumes efficient and reasonable management of a utility. CWC 2014 at 50-51. For example, the Commission will allow a utility less than the indicated rate of return where service does not meet the requirements of Section 1501. See, e.g., Pa. PUC v. Pennsylvania Gas & Water Co., 61 Pa. PUC 409, 415-16, 425, 427, 74 PUR4th 238, 244-45, 254, 256 (1986); Pa. PUC v. Pennsylvania Gas & Water Co., 68 Pa. PUC 191, 195-96 (1988).

A utility must be doing more than providing efficient and reasonable service in order to receive a positive performance adjustment pursuant to Section 523. 66 Pa. C.S. § 523. For example, compliance with quality of service regulations or LTIIP and DSIC regulations[32] may document the provision of adequate, efficient, safe, and reasonable service as required by Section 1501. 66 Pa. C.S. § 1501. Such basic regulatory compliance alone does not support a Section 523 adjustment. Pa. PUC v. Columbia Water Co., Docket No. R-2008-2045157, Order at 91, 93 (June 10, 2009) (CWC 2009)(Compliance with safe drinking water standards did not support adjustment); accord, CWC 2014 at 46, 51; but see UGI Electric, at 114-15. (Utility consistently exceeded multiple benchmark service reliability metrics). Merely "commendable" service does not rise "to the level of supporting an added premium to its rate of return on common equity." CWC 2014 at 50. "[A] utility must be doing *significantly more* than providing efficient and reasonable service to justify the receipt of a performance premium." Id. at 51 (*emphasis added*).

b. The Company's Performance For The Relevant Period Does Not Support An Increase To The Cost Of Equity, As Part Of A Determination Of Just And Reasonable Rates.

OCA witness O'Donnell considered the Company's direct case and Mr. Colton's specific analysis of the Company's performance. OCA St. 3 at 91. Mr. O'Donnell concluded the Company's performance has not been exemplary since the Company's last base rate case sufficient to support the increased cost to ratepayers. Id.; see, CWC 2009 at 91-93 (Commission evaluated the utility's performance since its prior rate case). Columbia's last base rate case was resolved by settlement approved by the Commission in December 2018. OCA St. 3 at 12. Yet, to support its

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[32] To be eligible to have a Distribution System Improvement Charge (DSIC), the utility must have a Commission-approved Long Term Infrastructure Improvement Plan (LTIIP). 52 Pa. Code §§ 121.1, et seq. The utility's LTIIP plan for accelerated replacement of infrastructure "must … be sufficient to ensure and maintain adequate, efficient, safe, reliable and reasonable service to customers." Id., § 121.1. In other words, the LTIIP is a tool to ensure the provision of service sufficient to meet the Section 1501 standard.

performance claim, the Company has cited to initiatives and performance levels spanning six or even thirteen years. See, CPA St. 1 at 18-22; e.g., Figures 4, 5, 6, 7.

As Mr. O'Donnell noted, "[r]atepayers are already paying Columbia Gas' management to perform their jobs to the best of their abilities." OCA St. 3 at 92. The Company's request for an additional 20 basis points for management performance is unwarranted, "especially during a period when much of the paying public has been dealing with financial struggles linked to the Coronavirus…." Id. Mr. Colton focused upon the Company's performance as evaluated by the Commission's most recent Management Audit released to the public in June 2020. Mr. Colton also analyzed data from the Commission's annual reports on Chapter 14. Based upon his review, as discussed in detail below, Mr. Colton concluded that Columbia's management performance is not exemplary in numerous key regards. OCA St. 5 at 78-83; OCA St. 5S at 7-8.

I&E witness Keller also opposed Mr. Moul's proposed 20 basis point adder for management performance. I&E St. 2 at 47-50. Like OCA witness Colton, Mr. Keller determined that the recent Management Audit identified areas of deficient performance. Mr. Keller opposed awarding Columbia "management effective points" which would cost ratepayers for customer service improvements that can and should be made. Id. at 49. Mr. Keller encouraged Columbia to pursue efficient management and operational cost savings, as "especially important" in light of increased unemployment and decreased household income due to the global pandemic. Id. at 50. Mr. Keller opposed the grant of additional basis points, when the utility is already required by Section 1501 "to provide adequate, efficient, safe, and reasonable service." Id., citing 66 Pa.C.S. § 1501.

c. The Commission's June 2020 Management Audit of Columbia Gas and Data from Other Commission Reports Rebut the Company's Exemplary Management Claim.

Section 523(b) directs that the Commission consider management effectiveness and operating efficiency as measured by the Bureau of Audits, when introduced by a party. 66 Pa.C.S. § 523(b)(1). In direct, Mr. Tubbs offered a comparison of certain audit results for Columbia and peer group companies, based upon the most recent available Management Audits for each utility. CPA St. 1 at 23, Figure 8. The Company did not update its chart, to reflect the Bureau of Audit's newer "Management and Operations Audit of Columbia Gas of Pennsylvania" released by the Commission in June 2020.[33]

Both the OCA and I&E reviewed the Columbia 2020 Management Audit and found evidence to rebut the Company's claim of exemplary management. I&E witness Keller highlighted deficits in the Company's customer service as noted in the Management Audit with regard to metering and billing policies and procedures; average arrearages levels, absence of net collection performance goals as part of the Company's revenue recovery process; absence of a documented theft of services program within NiSource Corporate Services Company; and high customer service representative turnover. I&E St. 2 at 49.

OCA witness Colton reviewed the Company's most recent Management Audit, to support Mr. O'Donnell's recommended denial of the Company's management performance claim. OCA St. 5 at 78-83. The Commission's most recent Management Audit of Columbia did not support a determination of exemplary arrearage performance, but instead found "less than average arrearage level performance." See, OCA St. 5 at 82-83. Mr. Colton also independently examined Columbia's collections data, numbers of residential customer disconnections and number of residential customer service restorations to assess the Company's performance. OCA witness

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[33] Management and Operations Audit of Columbia Gas of Pennsylvania Management Audit, Pennsylvania Public Utility Commission Bureau of Audits, Docket No. D-2019-3011582 (June 2020) ("Columbia 2020 Management Audit" or "Management Audit").

Colton reached the same conclusion as the Commission's Management Audit, that Columbia's performance in these areas was below average. Id. Based upon this analysis, OCA witness Colton concluded that Columbia's collections performance data, residential disconnection data, and residential reconnection data demonstrated that the Company has not engaged in "exemplary management."

Mr. Colton took notice of the Commission's Management Audit finding that the Company's arrearage performance is not exemplary. The Commission's Management Audit found:

> CPA's overall average arrearages were compared to a panel of Pennsylvania natural gas distribution companies (NGDCs) for the years 2014-2018, which appear in the Universal Service Programs and Collections Performance Reports (USP & Collections Reports) published by BCS. As shown…, CPA's overall average arrearages were substantially higher than the panel average over the period.

OCA St. 5 at 82, citing Columbia 2020 Management Audit at 53. (emphasis added).

Mr. Colton used the collections data from the Commission's annual reports on Chapter 14 to produce the following Table 19: [34]

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[34] OCA St. 5 at 78-79; The Commission uses this data to prepare its biannual report to the General Assembly regarding the implementation of Chapter 14. Mr. Colton explained how the data is organized as follows:

> In addition to providing each data point, I present CGPA's ranking on that data point amongst Pennsylvania's seven (7) natural gas utilities. The rankings are from highest to lowest. Thus, for example, when CGPA is ranked #4 in 2019 on the number of accounts overdue (43,040), that means that there are three natural gas utilities with a higher number of total accounts overdue. When Columbia gas [sic]is ranked #3 on the number of nonpayment disconnections, that means that there are two natural gas utilities which have more nonpayment disconnections.

OCA St. 5 at 79.

Table 1. Chapter 14 Collection Statistics (Columbia Gas) (Ranking Amongst PA Natural Gas Utilities) (2015 – 2019)					
	2015	2016	2017	2018	2019
Total # accts overdue	45,129 (4)	43,374 (4)	42,999 (4)	43,403 (4)	43,040 (4)
Total $s overdue	$16,115,031 (2)	$12,198,776 (2)	$12,125,514 (3)	$13,855,849 (3)	$14,939,587 (3)
Average arrears	$357.09 (2)	$281.25 (2)	$282.10 (2)	$319.24 (3)	$347.11 (3)
# Disconnections Nonpayment (DNP)	12,664 (2)	9,945 (3)	10,728 (2)	10,859 (3)	10,770 (3)
# reconnections	7,088 (2)	5,199 (3)	5,881 (3)	6,054 (4)	6,153 (5)
% reconnections	55.97% (7)	52.28% (7)	54.82% (7)	55.75% (7)	57.13% (7)
Collection expenses	$2,635,971 (2)	$3,289,73 (2)	$5,072,461 (2)	$4,848,900 (2)	$5,042,206 (2)
Total # customers	387,782 (2)	390,394 (2)	393,410 (2)	396,835 (2)	400,044 (2)

OCA St. 5 at 79. Based on his analysis of the collections data, OCA witness Colton concluded that Columbia "is not amongst the worst performing natural gas utilities in Pennsylvania on collections from residential customers, but neither does the Company's performance reflect "exemplary" management." OCA St. 5 at 79.

In his examination of Columbia's collections data, Mr. Colton reviewed Columbia's total dollars overdue and total accounts overdue. His analysis showed that Columbia has consistently had a greater number of total dollars overdue than many of the other natural gas distribution utilities despite having some of the highest collection expenses in Pennsylvania. OCA St. 5 at 80-81. OCA witness Colton testified:

> CGPA consistently has either the second (2015-2016) or third (2017-2019) most total dollars overdue amongst Pennsylvania's seven gas utilities. At first glance, that may not be surprising, given that the Company has the second most number of residential

> customers. The story, however, is not that simple. While CGPA is the second biggest natural gas utility, over all five periods (2015 through 2019), it has only the fourth highest number of accounts in arrears. CGPA's dollar level of arrears, in other words, cannot be attributed to the fact that it is one of the biggest gas utilities in the state.
>
> The fact that CGPA performs more poorly on collections is reflected in the fact that its ranking by total dollars overdue is higher than its ranking by total number of accounts overdue. If CGPA's were collecting its bills at the same rate as other gas utilities in Pennsylvania, its ranking on both metrics (number of accounts overdue, number of dollars overdue) would be the same. The fact that it is ranked higher in the number of accounts overdue means that CGPA's overdue customers owe, on average, more than is owed by other Pennsylvania utilities. In fact, the data in this Table shows this as well. The data shows that the average arrears (of accounts having arrears) is ranked third highest amongst Pennsylvania's gas utilities. While CGPA has improved its ranking on average arrears (from #2 to #3) from 2017 to 2019, that improvement has occurred because of the performance of other gas utilities (UGI Gas, UGI Penn Natural) has deteriorated rather than because CGPA has improved. As the data shows, in reality, CGPA's average arrears dropped from $357.09 in 2015 to $281.25 in 2016, but has been steadily increasing ever since (increase to $319.24 in 2018 and further increase to $347.11 in 2019). CGPA's 2019 average arrears is nearly the same as the average arrears was in 2015.
>
> CGPA's number of total accounts overdue remained virtually constant from 2017 (42,999) through 2019 (43,040), while its total dollars overdue deteriorated in that same time frame (increasing from $12.125 million in 2017 to $14.940 million in 2019). That performance remained constant (total number of accounts overdue), or deteriorated (total dollars overdue) despite the fact that CGPA was incurring some of the highest collection expenses in Pennsylvania. CGPA spent the second most dollar amount on collection expenses in every year from ($2.636 million) through 2019 ($5.042 million). Nonetheless, its total dollars overdue increased from $12.199 million in 2016 to $14.940 million in 2019.

OCA St. 5 at 80-81. Columbia consistently ranks below most of other natural gas companies in the total dollars overdue and number of total accounts overdue. The data reflects that on average, Columbia's customers owe more dollars than customers at other Pennsylvania natural gas utilities.

OCA St. 5 at 80-81. The OCA submits that the Company's consistent rankings demonstrate that Columbia's collection policies are not exemplary.

In comparison to the other seven natural gas utilities in Pennsylvania, Columbia also disconnected service to a disproportionate number of overdue accounts, but only restored service to a disproportionately small number of residential customer accounts. OCA St. 5 at 81-82. OCA witness Colton testified:

> CGPA disconnects service to a disproportionate number of overdue accounts, when compared to other natural gas utilities in Pennsylvania. As the data in the Table immediately above shows, even though CGPA has only the fourth highest number of overdue accounts in the state, it consistently has either the second or third highest number of nonpayment service disconnections between 2015 and 2019. Despite this large number of nonpayment disconnections, CGPA's average residential arrears remains among the three highest in the state.
>
> A bigger problem from a management perspective is the small number of reconnections CGPA accomplishes after a residential customer has had service disconnected. The data in the Table above shows that CGPA reconnects a percentage of residential customers that is lower than every other gas utility in Pennsylvania. Fewer than three-of-five CGPA customers who have service disconnected subsequently have service reconnected. That ranks CGPA seventh highest out of Pennsylvania's natural gas utilities. A disconnection without a subsequent reconnection not only places collection of the underlying arrears at risk, but it also places future revenue from future sales in jeopardy.

OCA St. 5 at 81-82.

In Rebuttal Testimony, Company witness Tubbs did not dispute that, of those customers who are disconnected, Columbia ranks lowest in the percentage of customers who are reconnected. See, OCA St. 5-S at 8. Company witness Tubbs argued, however, that Columbia "performs well relative to its peers" and discussed Columbia's performance regarding the percentage of customers in debt; percentage of customers on a payment arrangement; the termination rate per customer;

and gross residential write-offs of the Company. CPA St. 1-R at 30-31. The OCA addresses each of these elements below. The OCA submits that Mr. Tubbs' analysis, however, did not address many of the key points raised by Mr. Colton's testimony regarding Columbia's overall collections performance. The Company's analysis has failed to examine the metrics in the full context of the Company's overall collections performance.

In particular, Company witness Tubbs failed to respond to the fact that similar concerns were raised in the Commission's June 2020 Management Audit. OCA witness Colton testified:

> What Mr. Tubbs does *not* address, however, is the June 2020 PUC Management Audit which, after comparing Columbia's performance "to a panel of Pennsylvania natural gas distribution companies (NGDCs) for the years 2014-2018, found that "CPA's overall average arrearages were substantially higher than the panel average over the period." (Management Audit, quoted at OCA St. 5, at 82). Nor did Mr. Tubbs respond to the PUC's own Management report which referred to the Company's "less than average arrearage level of performance." (Id.). Nor did Mr. Tubbs respond to the PUC's own Management Audit report which reported that the Company's management action "resulted in excessive arrearage levels CPA experienced throughout the audit period." (Id.)

OCA St. 5-S at 5.

Company witness Tubbs argued that the Company has the lowest percentage of customers in debt. Columbia St. 1-R at 30. The OCA submits that the percentage of customers in debt viewed in isolation does not provide the complete picture. As OCA witness Colton testified:

> He fails to acknowledge, however, that it has a much higher level of total dollars overdue than would be merited by the number of customers in arrears. (OCA St. 5 at 80). He does not dispute my Direct Testimony that "the fact that it is ranked higher in the number of dollars overdue than it is ranked in the number of accounts overdue means that CGPA's overdue customers owe, on average, more than is owed by other Pennsylvania utilities. In fact, the data…shows this as well. The data shows that the average arrears (of accounts having arrears) is ranked third highest amongst Pennsylvania's gas utilities." (OCA St. 5 at 80).

OCA St. 5-S at 6.

Mr. Tubbs also argued that since the Company has "the highest percentage of debt on payment agreements than any other Pennsylvania utility," "[t]his clearly demonstrates the Company is actively and effectively working with customers that are behind and making payment arrangements." CPA St. 1-R at 31. OCA witness Colton explained why Mr. Tubbs' assessment was inaccurate. Mr. Colton testified:

> However, while Mr. Tubbs cites data on how often the Company is "making payment arrangements," he failed to acknowledge how frequently those payment arrangements are failing. According to the BCS, for example, "A payment troubled customer is a customer who has failed to maintain one or more payment arrangements in a 1-year period." Even if Columbia Gas is "making" lots of payment arrangements, PGW is the only Pennsylvania natural gas utility with more "payment-troubled customers" (again, defined to be "a customer who has failed to maintain one or more payment arrangements…") Moreover, Mr. Tubbs fails to acknowledge that the degree to which Columbia Gas has been making payment arrangements has been trending downward in recent years.

OCA St. 5-S at 6-7.

Columbia witness Tubbs also argued that Columbia "has the lowest termination per customer rate of any utility." CPA St. 1-R at 31. The termination rate per customer must be viewed in the context of the overall number of customers who have lost service due to non-payment and who remain without heat over the cold weather months. OCA witness Colton responded:

> the termination rate is not the most important metric by which to measure shutoffs. It is the number of customers, not the percentage of customers, who have lost service due to nonpayment that is the more important number. In its Cold Weather Survey, for example, the Commission reports the number of customers who have had service disconnected and remain without heating entering the cold weather months, not the percentage of customers. Mr. Tubbs also does not dispute that the Company "disconnects service to a disproportionate number of *overdue* accounts…[E]ven though CGPA has only the fourth highest number of overdue accounts in

the state, it consistently has either the second or third highest number of nonpayment service disconnections…" (OCA St. 5, at 81).

OCA St. 5-S at 7.

Mr. Tubbs also argued that in 2019, Columbia had the lowest gross write-off ratio of any Pennsylvania natural gas utility. CPA St. 1-R at 31, Exh. AST-5-R. Contrary to the Company's argument, the OCA submits that Columbia's history on the gross write-off ratio metric has not been exemplary in recent years. OCA witness Colton testified:

> The 2018 annual BCS report on collections performance, however, reveals that Columbia Gas has not distinguished itself on this metric in recent years. The data for the years 2016 through 2018 is shown in the Table below. The data certainly does not show exemplary management in terms of the control of write-offs. Columbia routinely has higher write-offs than PECO-Gas. It routinely has a performance that is clustered with itself, NFG, Peoples, Peoples-Equitable, UGI South, and UGI North.

Table 2S. Gross Write-Offs Ratio – Residential Natural Gas Customers

(BCS 2018 Report on Collections Performance and Universal Service Programs, at 41)

	2016	2017	2018
Columbia	2.2%	2.0%	1.9%
NFG	3.2%	1.9%	2.8%
PECO-Gas	0.3%	0.6%	0.4%
Peoples	4.4%	3.2%	2.5%
Peoples-Equitable	2.2%	2.6%	2.2%
PGW	15.0%	9.7%	6.4%
UGI South	2.5%	2.5%	3.3%
UGI North	1.9%	2.4%	3.0%

> The gross write-offs data for Columbia supports the fundamental conclusion which I presented in my Direct Testimony. At that point, I stated "that CGPA is not amongst the worst performing natural gas

> utilities in Pennsylvania on collections from residential customers, but neither does the Company's performance reflect 'exemplary' management." (OCA St. 5, at 79).

OCA St. 5-S at 7-8 (footnote omitted).

OCA witness Colton's testimony demonstrated that Columbia's collections performance, residential disconnection rates, and residential service reconnection rates do not support the conclusion that the Company has provided exemplary management. Mr. Colton's analysis of the Commission's June 2020 Management Audit of Columbia is buttressed by consideration of other Commission reports and data on these key areas of performance. I&E witness Keller also cited to these and other related areas of concern highlighted in the Management Audit.

The record evidence of the Company's performance in these critical areas of customer service and payments and cash flow management does not support grant of the Company's request for a 20 basis point management performance premium.

d. The Company's Performance in the Area of Gas Safety Is Not Superior, as Initially Identified by Mr. Culbertson's Public Input Hearing Testimony.

Section 523(b) (7) directs that the Commission also consider "[a]ny other relevant and material evidence of efficiency, effectiveness and adequacy of service." 66 Pa.C.S. § 523(b) (7). Part of the testimony of Mr. Richard Culbertson, presented during the July 8, 2020 telephonic Public Input Hearing (PIH) is squarely within the scope of Section 523(b)(7). Mr. Culbertson's sworn testimony focused in part on the Company's gas pipeline system, gas safety, and directions to improve safety. See, Tr. 79, li. 21-22, 80, li. 2-5 (Public Input Hearing, July 8, 2020); see PIH Exh. 1 at 12-13.

Mr. Culbertson's prepared statement (PIH Exhibit 1) was admitted, over the objections of the Company. Third Interim Order, Denying Objections of Columbia Gas of Pennsylvania, Inc,

Order at 4-5, 7-10 (Aug. 13, 2020). In the Third Interim Order, ALJ Dunderdale also admitted several other exhibits offered by Mr. Culbertson, including PIH Exhibit 5 "Deferred Prosecution Agreement between the United States Attorney for the District of Massachusetts and NiSource, Inc.as Defendant, concerning criminal liability for actions of subsidiary, Columbia Gas of Massachusetts, from over-pressurization event on September 13, 2018 in Merrimack Valley, Massachusetts," and PIH Exhibit 6 "Pipeline Accident Report, related to NTSB Accident ID PLD 18MR003, adopted September 24, 2019 by National Transportation Safety Board, subtitled *Overpressurization of Natural Gas Distribution System, Explosions, and Fires in Merrimack Valley, Massachusetts September 13, 2018*." Third Interim Order at 5; see PIH Tr. 98-99, (exhibits marked for identification). The Third Interim Order reserved for future determination what weight to accord to the admitted PIH Exhibits of Mr. Culbertson. Id., Ordering ¶ 2.

Mr. Culbertson's prepared statement highlighted a summary in the NTSB September 24, 2019 Report (PIH Exh. 6) that addressed a prior "urgent safety recommendation" by the NTSB to NiSource regarding the need to "Review and ensure that all records and documentation of your natural gas systems are traceable, reliable, and complete. (P-18-7) (Urgent)." PIH Exh. 1 at 12. The NTSB September 24, 2019 Report noted that the action item was closed out on July 22, 2019, based upon a May 10, 2019 reply from NiSource stating that "it had completed locating, marking, and mapping control (regulator-sensing) lines at all 2,072 low-pressure regulator runs across its system. NiSource said that these facilities are depicted in isometric drawings and are visible in its GIS. In addition, NiSource contracted with a third-party natural gas engineering firm to verify the assets required to safely operate its low-pressure natural gas systems and ensure these assets are clearly indicated on relevant maps and records." PIH Exh. 1 at 12; see PIH Exh. 6.

The Company testified that "as a result of the Merrimack Valley event, the Company's policies and procedures relative to work on low pressure systems changed." CPA St. 1 at 14; CPA St. 7 at 20-21 (O&M safety initiatives: Low Pressure Program). The Company's request for the management performance premium is linked in part to the Company's "enhanced safety measures" and improved gas safety metrics. CPA St. 1 at 18-22.

What the Company did not present in testimony was a response to Mr. Culbertson's testimony and gas safety concerns. OCA St. 3S at 5-6. In addition to highlighting the portion of the NTSB Report and NiSource's reply 'that action was taken to address the NTSB recommendation,' Mr. Culbertson identified news reports of a house explosion on July 31, 2020 with injuries and property damage in Franklin in Washington County. PIH Exh. 1 at 12-13.

OCA witness O'Donnell considered the concern raised by Mr. Culbertson regarding Columbia's gas pipeline safety and the absence of a reply by the Company. As Mr. O'Donnell testified, Mr. Culbertson's concerns and information about the July 31, 2020 house explosion rebutted the Company's claim of superior management effectiveness.

> **Q. HAS THE COMPANY REBUTTED CONCERNS THAT ITS PERFORMANCE IN THE AREA OF GAS SAFETY IS NOT SUPERIOR?**
>
> A. No. Mr. Tubbs stated that the Company's service performance since 2018 has been exemplary in the area of gas system improvements…. [fn omitted] However, Mr. Tubbs did not address the gas safety concerns raised in public input hearing testimony by Mr. Culbertson. Mr. Culbertson pointed to news reports of a July 31, 2019 house explosion linked to a Columbia Gas pipeline replacement project in North Franklin Township in Washington County. [fn omitted] The Company confirmed in discovery that the house explosion occurred in an area where Columbia Gas was replacing pipeline and installing gas regulators; that Columbia Gas accepted responsibility for the personal injuries, property damage, and clean-up; and that service to some 60 homes was disrupted. [fn omitted] The Company's Incident Report stated that its project review of materials, maps, and records did not identify the house as

> connected to the particular main, so no gas regulator was installed there as part of the project. [fn omitted] Columbia Gas paid over $1.3 million for claims related to this event in the historic test year (HTY). [fn omitted]
>
> Some analysts downgraded NiSource Inc. following news of the house explosion. [fn omitted] For example, Credit Suisse downgraded NiSource Inc. "to Neutral after another explosive incident occurred in Pennsylvania" and that the incident was "minor but bears striking similarities to the events that occurred in Massachusetts in Sept. 2018." (Copy attached as **Exhibit KWO-1S**.)

OCA St. 3S at 5-6. The Company's claim of exemplary management does not stand up to scrutiny based upon Mr. Culbertson's public input hearing testimony and exhibits. Mr. O'Donnell's testimony established that the July 31, 2020 house explosion did occur and that the Company was responsible. Mr. O'Donnell even determined that the July 31, 2020 house explosion was sufficiently significant to merit comment by regulatory analysts and a negative adjustment to NiSource's stock rating, at that time. See, OCA St. 3S at 6, fn. 21 (Columbia rate filing, reply to Standard Data Request, GAS-ROR No. 10, Att. G, pp. 7, 17); Exh. KWO-1S.

As Mr. O'Donnell summarized, Columbia is required to provide safe, adequate, reasonable, and efficient service. Based upon these considerations and Mr. Colton's review, Mr. O'Donnell disagreed that Columbia "is providing service which is superior as to justify an increase in the return on equity for exemplary management *of any increment*." CPA St. 3S at 6 (emphasis added).

The Commission should deny the Company's request for a 20-basis point management performance premium and should not grant the Company any lesser amount, based upon the full record including information from the Company's most recent Management and Operations Audit and information first presented as public input hearing testimony.

IX. MISCELLANEOUS ISSUES

A. Low-Income Customer Issues.

1. Customer Assistance Program.

a. Introduction.

OCA witness Colton recommended improvements to Columbia's Customer Assistance Program (CAP) collections and CAP outreach to address increasing arrearages for Confirmed Low-Income customers. OCA St. 5 at 6- 28. Mr. Colton found that the Company's CAP collections policies are not adequate and do not appear to be consistent with the Commission's Final CAP Policy Statement Order. OCA St. 5 at 11.[35] Mr. Colton recommended that the Company address the issue by submitting to its Universal Service Advisory Committee, within six months of a final order in this proceeding, the question of how customer payments on CAP bills can be pursued through a reasonable collections process. OCA St. 5 at 11. OCA witness Colton also found that the Company's CAP outreach does not appear to be reaching a significant segment of the Confirmed Low-Income population that could benefit from CAP, those customers at or below 50% of the Federal Poverty Level. Mr. Colton recommended additional steps that the Company should take to improve its community-based, grass-roots outreach in order to better reach low-income customers in its communities. OCA St. 5 at 28. Mr. Colton also agreed with the recommendation of Columbia witness Davis that Columbia's energy burdens should not be changed as a part of this base rate proceeding. CPA St. 13-R at 15-18; OCA St. 5-S at 19-21.

b. CAP Collections.

i. Introduction.

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[35] See, 2019 Amendments to Policy Statement on Customer Assistance Program, 52 Pa. Code §§ 69.261-69.267, Docket No. M-2010-3012599, Order at 72-73 (Order entered Nov. 5, 2019) (Final CAP Policy Statement Order).

The Commission's recent amendments to its CAP Policy Statement addressed how utilities should collect arrears for non-payment CAP defaults. The Commission's Final CAP Policy Statement Order provided:

> Relative to non-payment CAP defaults, we find that it is appropriate to recommend that utilities initiate collection activity after no more than two CAP payments in arrears. While Section 1405(c) prohibits the Commission from making a payment agreement for a CAP customer, it does not prohibit the Commission from ensuring that the statutory "policy" at Section 1402(3) of "increasing timely collections" is appropriately applied to CAP accounts. 66 Pa. C.S. § 1402(3). An appropriate default provision is necessary to ensure that a utility is operating its CAP in a cost-effective manner. 66 Pa. C.S. § 2203(8).
>
> The rationale for timely collection for CAP participants is that a low-income CAP participant is more likely to be able to pay a catch-up amount if the utility pursues collections in a prompt manner. For a utility to allow more than two CAP payments in arrears without taking any collection action is counterproductive and inconsistent with the General Assembly's declaration of policy that utilities are to increase timely collections. Section 1402(3). When a utility fails to take timely collection action, it increases the likelihood that a low-income customer will accrue a balance it cannot pay back or satisfy through available energy assistance grants or donations.
>
> The consequence for nonpayment of CAP bills should be loss of service, not loss of CAP. Loss of CAP merely increases debt. It is illogical, unproductive, and unreasonable for a utility to allow a customer to incur an insurmountable obstacle to restoration of service by failing to pursue timely collection on a CAP account. An appropriate default provision is necessary to ensure that a utility is operating its CAP in a cost-effective manner. Therefore, we recommend that a utility should initiate collection procedures after a customer has a maximum of two CAP payments in arrears.

Final CAP Policy Statement and Order at 72-73; 52 Pa. Code § 69.265(11). The OCA submits that it is important that the Company undertake timely collections for CAP customers so that low-income customers will be more likely to be able to get caught up on any missed payments or find available resources to assist with paying those missed payments.

In his Direct Testimony, OCA witness Colton examined the Company's collections policy and the results of the Company's collections activity. He found that there was a significant gap between the number of CAP bills tendered and the number of CAP full payments received. Mr. Colton testified:

> The data for CGPA in this proceeding provides reason for concern when contrasted with CGPA's statement that its collection activity is "consistent with" the PUC's Final Order directive. The data for CGPA is set forth in the Schedule RDC-1. The data shows that while CGPA tendered on average between 22,000 and 23,000 CAP bills each month for the years 2018 through 2019, it received between roughly 12,000 and 13,000 full payments (setting aside whether those payments were both full and on-time) Schedule RDC-1 shows that:
>
> - In 2017, CGPA issued an average of 22,005 CAP bills per month and received an average of 11,694 full CAP payments (46.4%).
>
> - In 2018, CGPA issued an average of 23,420 CAP bills per month and received an average of 11,817 full CAP payments (50.5%).
>
> - In 2019, CGPA issued an average of 22,899 CAP bills per month and received an average of 13,043 full CAP payments (57.0%).
>
> In dollar terms, in 2017, CGPA received CAP payments equal to only 71.8% of the CAP bills it issued (payments of $9,050,991 against bills of $12,598,585); in 2018, CGPA received payments equal to only 73.4% of its CAP bills ($10,262,398 in CAP payments against $13,972,031 of CAP bills); and in 2019, CGPA received CAP payments equal to 77.0% of CAP bills ($11,066,661 in CAP payments against $14,229,197 in CAP bills). Each year, in other words, CGPA fell between 25% and 30% in fully collecting its CAP bills.

OCA St. 5 at 7, Sch. RDC-1. As a result of these findings, Mr. Colton concluded that Columbia's collections policy may not be consistent with the Commission's Final CAP Policy Statement Order.

The OCA submits that Columbia should work to improve its collections policy. As the Final CAP Policy Statement Order provided, "the rationale for timely collection for CAP

participants is that a low-income CAP participant is more likely to be able to pay a catch-up amount if the utility pursues collections in a prompt manner." Final CAP Policy Statement Order at 72. While much attention is often devoted to ensuring that Columbia enrolls eligible customers in CAP, insufficient attention appears to be devoted to ensuring that CAP customers are paying their bills consistently. OCA witness Colton recommended that:

> CGPA submit to its universal service advisory committee within six months of a final order in this proceeding the question of how customer payments on CAP bills can be pursued through a reasonable collections process. The resolution of this question is not only for the benefit of CAP participants (in helping them to retain service), but also for the benefit of CAP non-participants by reducing the cost of unpaid bills. As I discuss elsewhere in this testimony, CGPA should target structural poverty and seek to enroll customers who are facing long-term poverty status.

OCA St. 5 at 11. The stakeholders with the Universal Services Advisory Committee could be a valuable resource to assist with potential changes to the Company's collections policies.

ii. Columbia did Not adequately address the collections concerns raised by OCA Witness Colton's Testimony.

The OCA's recommendation in this case is for the Company to review with its Universal Services Advisory Committee potential ways to improve the Company's collections policies because of the significant gap between the number of bills tendered and the number of payments received. In response to this recommendation, Columbia argued that there are not collections issues. The Company has not adequately responded to the significant gap in the number of bills tendered and the number of bills received as presented in Mr. Colton's testimony.

In response to OCA witness Colton's testimony about Columbia's CAP compliance rate, Company witness Davis responded that in 2018, Columbia's percentage of CAP bills paid was the third highest of the Pennsylvania utilities, but still did not explain or address the problem discussed by Mr. Colton. CPA St. 13-R at 4; OCA St. 5-S at 14. The issue presented by OCA witness Colton

is not about the number of CAP bills paid, but instead the collection efforts that the Company takes on the CAP bills not paid. OCA St. 5-S at 14.

Company witness Davis also disagreed with Mr. Colton's recommendation to seek guidance from the Universal Services Advisory Committee about ways to improve collections from CAP customers. CPA St. 13-R at 2. Ms. Davis instead stated that the problem is not with the Company's collections, but instead with Mr. Colton's analysis. She stated that the flaw in OCA witness Colton's analysis is that the federal Low Income Home Energy Assistance Program (LIHEAP) grants received are not included in the data referenced by OCA witness Colton. Id.

The OCA submits that Ms. Davis' explanation is not consistent with the Company's own data. In Surrebuttal Testimony, Mr. Colton created a Table 2S that compared side by side the number of accounts for which a LIHEAP credit was applied to the bill compared to the number of CAP accounts not receiving a LIHEAP grant with bill credit. OCA St. 5 at 13, Table 2S. OCA witness Colton testified regarding why Company witness Davis' explanation was inconsistent with the data provided. He explained:

> First, it makes little sense for the Company to report data on having issued a bill showing a bill credit on it as the balance due, and then to report the customer having received that bill as not having made a full and on-time payment. The representation that Ms. Davis makes that "the LIHEAP grant credits are not included in the full, on time payment data referenced by Mr. Colton" (CGPA St. 13-R, at 2) serves no useful reporting or policy function.
>
> Second, the Office of Consumer Advocate asked Columbia Gas to provide, by month, for the month October 2018 to May 2020 the number of CAP customers receiving LIHEAP who have a bill credit on their account each month. The Table below is a restatement of Table 1 from my Direct Testimony (OCA St. 5, at 9), except instead of presenting the number of CAP disconnections, I present the number of CAP accounts receiving LIHEAP who have a bill credit on their account. Indeed, OCA also asked CGPA to provide by month the number of CAP accounts not receiving LHEAP which had a bill credit. That data, also, is presented in the Table below.

Table 2S. CAP Bills, CAP Full Payments, CAP Accounts Receiving LIHEAP with Bill Credits (Oct. 2018 – Dec. 2019)					
	CAP Bills	CAP Full Pyts	Pct Full Pyts	CAP Accts Receiving LIHEAP with Bill Credit	CAP Accounts NOT Receiving LIHEAP with Bill Credit
Oct-18	24,495	12,830	52%	788	612
Nov-18	22,203	12,120	55%	697	567
Dec-18	20,567	9,377	46%	635	548
Jan-19	24,787	9,832	40%	755	675
Feb-19	21,328	9,946	47%	630	613
Mar-19	23,305	11,313	49%	706	697
Apr-19	23,562	12,754	54%	691	726
May-19	25,575	14,013	55%	754	816
Jun-19	21,688	13,392	62%	625	708
Jul-19	24,891	15,525	62%	700	839
Aug-19	23,341	16,102	69%	630	787
Sep-19	21,761	15,405	71%	329	429
Oct-19	23,446	16,482	70%	2	1
Nov-19	20,730	12,069	58%	2	1
Dec-19	20,349	9,678	48%	1	1
Average	22,802	12,723	56%	535	530
	OCA-IV-1	OCA-IV-1		OCA-IV-9	OCA-IV-9

OCA St. 5-S at 12-13.

As shown, the LIHEAP grants would not be sufficient to bridge the gap between the number of CAP bills issued, the number of full payments received and the number of CAP accounts with bill credits received. OCA St. 5-S at 13. OCA witness Colton testified:

> As can be seen [in Table 2S], the difference between the number of CAP bills issued, and the number of "full payments" received on CAP accounts, is not explained by the number of CAP accounts with bill credits each month (whether those bill credits are explained by the receipt of LIHEAP or by some other factor). Simply to illustrate, in May 2018, CGPA issued 25,575 CAP bills and received 14,013 full payments. However, only 754 CAP accounts (who had received a LIHAP payment) had a bill credit, and only 816 CAP accounts (who had not received a LIHEAP payment) had a bill credit. Contrary to what Ms. Davis asserts, the presence of bill credits does

> not explain the difference between the number of full payments and the number of CAP bills.

OCA St. 5-S at 13.

Company witness Davis also cited "other reasons" why customers may not be disconnected for nonpayment, such as the presence of disputes, the existence of medical certificates, and the presence of winter shutoff restrictions. CPA St. 13-R at 3. The OCA submits that these "other reasons" do not explain the significant difference between the number of CAP bills rendered each month and the number of timely payments received. See, OCA St. 5-S at 15. As OCA witness Colton testified:

> On average, there is a difference of more than 10,000 CAP accounts receiving a bill and CAP accounts making a timely payment. While there is some seasonal variation, that seasonal variation does not explain the extensive differences that exist.

OCA St. 5-S at 15.

The nonpayment of CAP bills will also create additional costs for other ratepayers. OCA witness Colton testified:

> The nonpayment of CAP bills is of concern because, as with any other unpaid bill, the nonpayment of a CAP bill imposes costs on other ratepayers. Those costs include working capital requirements, credit and collections expenses, and bad debt expense. The level of unpaid CAP bills for CGPA CAP customers is of particular concern because CGPA has previously stated that its practices "are in accordance with" the PUC directive that the Company "should initiate collection activity for CAP accounts when a customer has no more than two (2) in-program payments in arrears."

OCA St. 5 at 11.

The OCA submits that Columbia needs to direct greater attention to ensuring that Columbia Gas CAP customers are paying the affordable bills that are being delivered to them. OCA witness Colton recommended that Columbia submit to its Universal Services Advisory Committee within

six months of a final Order in this proceeding the question of how customer payments on CAP bills can be pursued through a reasonable process. OCA St. 5 at 11. As OCA witness Colton testified:

> The resolution of this question is not only for the benefit of CAP participants (in helping them to retain service), but also for the benefit of CAP non-CAP participants by reducing the costs of unpaid bills.

OCA St. 5 at 11.

c. Energy Burdens.

CAUSE-PA witness Miller proposed to change the energy burdens for Columbia's CAP customers in this proceeding to the energy burdens identified in the Commission's Final CAP Policy Statement Order. See, CAUSE-PA St. 1 at 25-27; Final CAP Policy Statement Order at 9-32. Mr. Miller recommended that the Company's energy burdens be reduced to 4% for customers at or below 0-50% of the Federal Poverty Level and to 6% for customers from 51-150% of the Federal Poverty Level. CAUSE-PA St. 1 at 26; see, Final CAP Policy Statement Order at 9-32. Columbia witness Davis opposed the proposed changes to its energy burdens. CPA St. 13-R at 15-18. The OCA agrees with the Company that the energy burdens for Columbia's CAP program should not be changed as a part of this base rate proceeding.

The Commission's Final CAP Policy Statement Order anticipated that the utilities would address the energy burdens in their USECPs, and not in a base rate proceeding. Final CAP Policy Statement Order at 2. In the Commission's OCA Reconsideration Order, the Commission specifically provided:

> We remind stakeholders that the maximum energy burden percentages in the Annex to the November 5 Order are recommendations, not iron-clad limits on what a utility can charge a CAP household. Issues related to a specific utility's energy

> burdens are still subject to scrutiny in that utility's USECP proceedings."[36]

The OCA submits that the purpose of a review in the Company's USECP is so the entire Plan can be reviewed as a whole with consideration of all interrelated provisions of the Final CAP Policy Statement.

Consistent with the OCA Reconsideration Order, Columbia witness Davis argued that the appropriate level of the Columbia percentage of income burden should be determined in the Company's proceedings regarding its Universal Service and Energy Conservation Plan and not in this proceeding. Columbia St. 13-R at 15-16. She stated that the Company's most recent Plan was approved effective January 2020, and the Company is currently implementing "costly programming changes" related to the new Plan. CPA St. 13-R at 15-16. Ms. Davis testified:

> Implementing changes to the design of a program twice within a two-year period is inefficient and creates confusion for participating customers and company representatives who must explain the constant changes. It also makes program evaluation difficult when there is no consistency year over year.

CPA St. 13-R at 16. The OCA agrees with the Company's position that the energy burdens should be established as a part of the Company's USECP and not the instant base rate proceeding. See, OCA St. 5-S at 19.

Ms. Davis also identified other factors that should be taken into consideration regarding whether to reduce the energy burdens in the Company's CAP, including the need for the proposed changes and the impact of LIHEAP on the proposed energy burdens. CPA St. 13-R at 16-18. Another of those factors is the cost impact to CAP non-participants, including customers who are income-eligible but do not participate in CAP and those who are "sufficiently low-income to have

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[36] 2019 Amendments to Policy Statement on Customer Assistance Program, 52 Pa. Code §§ 69.261-69.267, Docket No. M-2010-301259, Order at 10-11 (Feb. 6, 2020) (OCA Reconsideration Order) (Feb. 6, 2020).

difficulties paying their bills but not sufficiently low-income to income-qualify for programs such as CAP." CPA St. 13-R at 18; OCA St. 5-S at 20. Ms. Davis estimated that the proposed changes to the energy burdens would be a "roughly 5% annual increase to non-CAP customers." CPA St. 13-R at 18. She testified that the costs would increase if CAP enrollments or gas costs increased. Id.

The energy burdens are only one component of the CAP program, and the CAP Policy Statement does not evaluate the energy burdens in a vacuum. The OCA Reconsideration Order provided that proposed changes to the energy burdens should be filed as a part of the Company's amendments to its Universal Service and Conservation Plan. OCA Reconsideration Order at 10-11; Final CAP Policy Statement Order at 2. The reason that these issues should be evaluated in the context of the Universal Service and Energy Conservation Program is that the Plan must also evaluate whether additional cost controls are needed as well. OCA witness Colton testified:

> The discussion of costs, however, somewhat misses the point. It has never been CAP policy that affordability should be pursued at any cost. The appropriate burdens to be implemented through CAP weigh the benefits to CAP participants against the resulting cost burdens imposed on other customers. Controlling total CAP costs, however, does not occur exclusively through a determination of what burden should be defined to be affordable. The Commission's CAP Policy Statement has an entire section that is devoted to "control features." (CAP Policy Statement, Section 29.265(3)("The utility should include the following control features to limit costs"). The CAP Policy Statement includes, for example, "control features" such as minimum payment terms, consumption limits, high usage treatments, and maximum CAP credits. (Section [69].265(i)-(v)). Even each of these "control features," however, has permissible "exemptions." (Section [69].265(vi)).

OCA St. 5-S at 20.

The OCA Reconsideration Order provided that changes to the energy burdens should be considered as a part of the utility-specific Universal Service and Energy Conservation Plan. OCA

Reconsideration Order at 10-11. The OCA submits that the Commission should not approve the proposed changes to the energy burdens in this proceeding. Any proposed changes to the energy burdens should be evaluated along with any necessary cost control measures as a part of Columbia's Universal Service and Energy Conservation Plan.

2. Low-Income Customer Outreach.

a. Introduction.

In response to the Commission's June 2020 "Management and Operations Audit" of Columbia, OCA witness Colton recommended that Columbia address the identified payment difficulties for its confirmed low-income population through improved low-income customer outreach. OCA St. 5 at 12. In its Management Audit, the Commission specifically addressed the relationship between low-income payment difficulties and participation rates in the Company's universal service programs, most specifically in CAP. OCA witness Colton testified:

> The Management Audit specifically included, as one of its major recommendations[,] the recommendation that CGPA "implement various strategies to reduce arrearage levels such as increasing CAP enrollment…" (Management Audit, at 5, 8, 59). In its "Implementation Plan" in response to the Management Audit, CGPA accepted the Audit's recommendation and indicated that the steps to respond to that recommendation were "in progress." (CGPA, "2020 Implementation Plan in Response to the 2019 Focused Management and Operations Audit, Docket No. D-2019-3011582, at 17). CGPA indicates that the steps that were "in progress" included "implementation action steps" to "Develop and document an Outreach Strategy and Communication plan to increase enrollment in Universal Programs, including CAP, with input from the Universal Service Advisory Committee." (Id.)

OCA St. 5 at 12-13. In accordance with the Management Audit findings, OCA witness Colton recommended that the Company develop an appropriate Outreach Strategy and Communication Plan to increase CAP enrollment. OCA St. 5 at 13.

OCA witness Colton recommended that the "Outreach Strategy and Communication Plan" incorporate the following principles:

> - Rather than relying primarily on call center contacts as described above, use the community as a means of identifying and engaging the hard-to-reach population.
>
> - Rather than relying primarily on staff contacts as the means of identifying low-income customers, focus on relationship-building.
>
> - Rather than relying primarily on customers initiating contacts (whether to apply for assistance, or to be in contact with a "self-declaration"), go to the community (reaching them "where they live, work, shop, play and pray") rather than making the community come to you.
>
> - Rather than relying primarily on CGPA communications (as well as government officials) as described above, rely on grassroots "trusted messengers" from within the community.

OCA St. 5 at 26-27.

Mr. Colton recommended that CAP outreach be explicitly incorporated into Columbia's collections performance and identified four ways that CAP outreach could be incorporated. First, whenever a Confirmed Low-Income customer is offered a payment arrangement through which to retire an arrearage, that Confirmed Low-Income customer should be offered the option of enrolling into CAP (with access to arrearage forgiveness). Second, prior to the involuntary disconnection of service due to nonpayment to Confirmed Low-Income customers, such Confirmed Low-Income customers should be provided the option of enrolling into CAP (with access to arrearage forgiveness). Third, once service to a Confirmed Low-Income customer has been disconnected for nonpayment, the customer with disconnected service should be provided the option of reconnecting service by enrollment in CAP, with access to arrearage forgiveness for any arrears

incurred preceding the disconnection. Finally, when a Confirmed Low-Income customer is contacted by Columbia as part of the annual Cold Weather Survey, and found to be either: (a) using a potentially unsafe heating source or (b) without service (as each of those terms is defined by the Commission); that Confirmed Low-Income customer should be provided with the opportunity to enroll in CAP. OCA St. 5 at 27-28. The OCA submits that the outreach recommendations are designed to provide additional opportunities to reach otherwise hard-to-reach customer populations who may not be aware of the benefits of CAP.

b. A substantial number of Columbia's confirmed low-income customers are in arrears.

As noted, OCA witness Colton agreed with the concerns raised by the June 2020 Management Audit. Mr. Colton also performed his own analysis and examined the extent to which Columbia's confirmed low-income population is in debt. Mr. Colton examined the Company's collections policies and their impact on CAP enrollment from several different perspectives: (1) the Bureau of Consumer Services' universal service statistics; (2) the Cold Weather Survey; and (3) Columbia's CAP participation by poverty level.

Mr. Colton found that a substantial number of confirmed low-income customers remain in debt each year. The arrearage levels for Columbia's confirmed low-income population has also progressively worsened since 2016. OCA St. 5 at 13-14, Table 3. Mr. Colton testified that:

> An ongoing substantial number of Confirmed Low-Income customers are in debt to CGPA each year. The percent of accounts in debt ranges from 15.9% (2018) to 18.0% in 2016. These percentages represent from 10,749 Confirmed Low-Income customers in debt (2018) to 12,294 such customers in debt in 2016. While it is clear that the number of Confirmed Low-Income customers in debt is declining, that decline may be as much due to the fact that CGPA is simply confirming the low-income status of fewer and fewer of its customers. While CGPA had 68,178 Confirmed Low-Income customers in 2016, it had only 67,590 in 2018.

> Those customers in debt were further in debt in 2018 than they were in 2016. The average total debt for Confirmed Low-Income customers in 2018 ($602.49) was nearly 14% higher than the average total debt of such customers in 2016 ($529.75)($602.49/$529.75 = 1.137). Both the average debt of customers on arrangement ($688.86) and the average debt of customers not on arrangement ($406.98) were substantially higher in 2018 than it was in 2016.

Table 3. Arrearages for CGPA Confirmed Low-Income (CLI)

(2016 – 2018) (BCS Annual Report on Universal Service Programs and Collections Statistics)

	Pct CLI Accts in Debt	# CLI in Debt on Arrangement	Avg $s CLI in Debt on Arrangement	# CLI in Debt No Arrangement	Avg $s CLI in Debt No Arrangement	Total # CLI in Debt	Avg $s Total CLI in Debt
2016	18.0%	8,772	$608.88	3,522	$332.67	12,294	$529.75
2017	16.3%	7,609	$634.56	3,450	$362.52	11,059	$549.70
2018	15.9%	7,456	$688.86	3,293	$406.98	10,749	$602.49

OCA St. 5 at 13-14.

OCA witness Colton examined the annual Bureau of Consumer Services' universal service statistics from 2016 through 2018 for collections performance for Confirmed Low-Income customers. OCA St. 5 at 14. He found that the data showed the number of payment-troubled customers in Columbia's service territory was very high; that the number of customers who had been involuntary disconnected increased for the 2016-2018 time period; and that the number of customers whose service was reconnected remained below 50%. OCA St. 5 at 14-16, Table 4.

He also examined the Cold Weather Survey reports for the reinstatement of heating service subsequent to a service disconnection and found a similar pattern as identified in the BCS statistics. OCA St. 5 at 16-17. As Table 5 demonstrates, many customers who were disconnected from service failed to be reconnected to service. OCA St. 5 at 17, Table 5.

Table 5. 2018 and 2019 Cold Weather Survey Results (CGPA)			
	Total HHs Using Unsafe Heating Sources	Total HHs without Service After Completion of Survey /a/	Total HHs without a Central Heating Source Due to Termination of Utility Service /b/
2018	233	580	813
2019	283	528	811

/a/ Excludes households using potentially unsafe heating sources, other central heating sources, vacant.

/b/ Includes households using potentially unsafe heating sources and excludes other central heating sources and vacant residences.

OCA witness Colton also reviewed Columbia's CAP participation by poverty level. His examination of the CAP participation by poverty level showed the income levels where the greatest need for participation and enrollment exists in Columbia service territory. Mr. Colton found:

> The Table below shows the data. In 2018, while 22.4% of all CAP participants had income between 0% and 50% of Poverty, 44.5% of CAP participants had income between 51% and 100% of Poverty. In addition, 33.1% of all 2018 CGPA CAP participants had income between 101 and 150% of Poverty.

Table 6. CGPA CAP Participation by Poverty Level

(2016 – 2018) (BCS Annual Report on Universal Service Programs and Collections Statistics)

	CAP Participation (#s)			CAP Participation (%)		
	0 – 50%	51 – 100%	101 – 150%	0 – 50%	51 – 100%	101 – 150%
2016	4,537	9,922	7,050	21.1%	46.1%	31.8%
2017	5,068	10,409	7,444	22.1%	45.4%	32.5%
2018	5,426	10,772	8,012	22.4%	44.5%	33.1%

> This data shows that CGPA has an under-representation of customers in the lowest and highest income brackets, while having

> a substantial over-representation of customers in the middle income bracket.

OCA St. 5 at 17.

OCA witness Colton identified particular concerns regarding the under-representation of the lowest income range (below 50% of the Federal Poverty Level). Mr. Colton testified:

> Because of their low-income, these customers are most likely to have natural gas bills that represent a high percentage of income (i.e., what is known as "bill burden" or bill as a percentage of income). They are, accordingly, more likely to have the payment troubles that I have identified above. These high burdens are the problem addressed by enrollment in CAP. The customers in this lowest income range, however, are not enrolling in the Company's CAP in a percentage which reflects their percentage in the total population.

OCA St. 5 at 17-18.

The OCA submits that the resultant customer payment difficulties due to unaffordable bills have an impact on the expenses that Columbia incurs and passes on to its customers in rates. OCA St. 5 at 18. Mr. Colton testified:

> The payment difficulties I have discussed above each have an impact on the expenses which CGPA incurs and passes on to its customers through rates. Addressing these payment difficulties by enrolling income-eligible customers in CAP, and through other universal service programs (e.g., LIURP, hardship fund) not only addresses the customer-perspective associated with an inability-to-pay, but addresses the utility-perspective financial consequences associated with inability-to-pay as well.
>
> The question is not how to design and implement the universal service programs, which are questions presented in proceedings involving the review of USECP plans. The question for this proceeding is for those customers who are low-income, who will be harmed by the rate decisions advanced by CGPA in this proceeding, who do *not* participate in CGPA's universal service programs, but who would benefit from such participation.

OCA St. 5 at 18-19.

The OCA also examined how the Company identifies its low-income customers. Columbia stated that the Company identifies a customer as low-income when the customer receives Low Income Home Energy Assistance Program (LIHEAP) or Hardship Fund grants, enrolls in CAP and "those who self-declare their income at or below 150% of FPL [Federal Poverty Level]." OCA St. 5 at 19. OCA witness Colton had two observations:

> First, CGPA identifies "low-income" customers when they seek assistance (e.g., LIHEAP, CAP, Hardship Funds). Second, CGPA identifies "low-income" customers when they otherwise contact the Company ("self-declare their income.").

OCA St. 5 at 19. The OCA submits that Columbia's methodology unnecessarily limits the Company's pool of confirmed low-income customers. OCA witness Colton testified:

> It is because of this limited means of identifying low-income customers that: (1) CGPA confirms the low-income status of such a small percentage of its estimated low-income population; (2) CGPA enrolls such a small percentage of its estimated low-income population; (2) CGPA enrolls such a small percentage of its estimated low-income population in CAP; and (3) CGPA experiences the payment difficulties that I have identified in this section of my testimony.

OCA St. 5 at 19-20.

OCA witness Colton's analysis demonstrated that there is an unmet need for payment assistance for confirmed low-income customers, particularly those in the lowest income tier of 0-50% of the Federal Poverty Level. As discussed below, the Company should utilize more effective and targeted outreach to address the confirmed low-income customer arrearages.

c. <u>More effective outreach is needed to address the confirmed low-income customer arrearages</u>.

The OCA submits that effective outreach is a critical component in the design of low-income programs and to addressing the issues raised by OCA witness Colton's analysis of the payment behaviors of Columbia's confirmed low-income customers. He recommended strategies

to improve the outreach efforts of the Company, and in particular, to leverage the community-based resources. Mr. Colton discussed at length in his testimony effective strategies such as the use of the community to engage hard-to-reach populations, collaboratives, and relationship building. OCA St. 5 at 20. Mr. Colton also stated the importance of the use of "trusted messengers" to build a sustainable outreach network. OCA St. 5 at 22.

These "trusted sources" are crucial because these resources are who the people in need turn to for assistance. Mr. Colton explained:

> One important step, the IoM found, is to "identify who the trusted advisors are in the various communities of interest – that is, who do people in these communities turn to for advice about what is correct information and what to do with it." These "trusted advisors" are necessary because "in addition to profound financial challenges, many also do not trust the system to advocate for them or to help them successfully navigate complex content and tasks…"
>
> In short, one of the continuing themes (amongst others) of the IoM study was that "processes must be intentionally designed to build trust with targeted populations and provide actionable steps for consumers…[B]eing trusted by the targeted community is foundational to all implementation efforts. Deliberately considering and practically planning on how best to foster trust must be considered throughout the activities.

OCA St. 5 at 24 (footnotes omitted) (see also further examples at OCA St. 5 at 24-26).

OCA witness Colton identified particular concerns regarding the Company's outreach to customers at or below 50% of the Federal Poverty Level. OCA St. 5 at 17-18. As discussed above, he found that customers in the lowest income range are not enrolling in the Company's CAP in a percentage which reflects their percentage in the total population. OCA St. 5 at 17-18. Mr. Colton recommended that the Company utilize his proposed strategies in the development of its Outreach and Communications Plan in response to the June 2020 Management Audit. OCA witness Colton recommended that outreach be explicitly incorporated to address CAP customer arrears and

collections. See, OCA St. 5 at 26-27.

Company witness Davis responded to these recommendations by asserting that "many of these outreach strategies will be included in the Company's overall draft plan, but others have been deemed unsuccessful and not as efficient as other methods." CPA St. 13-R at 8. In her Rebuttal Testimony, Ms. Davis did not specifically identify which of these recommended strategies will be incorporated or which have been deemed unsuccessful. OCA St. 5-S at 16-17. OCA witness Colton, however, found:

> Columbia does, however, appear to overly rely on Company-driven outreach strategies, with a further reliance on Company-provided outreach materials. It does not involve grassroots outreach to the extent that it could and should. Nor does it rely on a process where it enlists community members going into the community to provide outreach (going to where customers "live, work, shop, pay and play") rather than making customers come to them. This lack of grassroot, community-based, outreach, using "trusted messengers" is a primary gap in Columbia's CAP outreach efforts.

OCA St. 5 at 17.

The OCA submits that the Commission should adopt the outreach recommendations of OCA witness Colton. The recommendations support the Commission's June 2020 Management Audit. Mr. Colton's recommendations seek to leverage trusted resources in the community in order to reach otherwise hard-to-reach low-income customer populations. The OCA submits that the additional outreach efforts will help to increase enrollment in CAP, but the true purpose of such enrollment, as set forth in the Commission's Management Audit, is to help Columbia reduce its residential arrears.

3. Health and Safety Pilot.

The OCA does not address issues related to the Health and Safety Pilot in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

4. LIURP.

The OCA does not address issues related LIURP in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

5. Hardship Fund.

The OCA does not address issues related to the Hardship Fund in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

B. Pipeline Replacement Issues.

1. DIMP.

The OCA does not address issues related to the Company's DIMP in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

2. Pipeline Replacement.

The OCA does not address issues related to Pipeline Replacement in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

3. Pipeline Replacement Costs.

The OCA does not specifically address issues related to Pipeline Replacement Costs in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

4. Risk Reduction.

The OCA does not address issues related to Risk Reduction in this Main Brief, but reserves the right to respond in its Reply Brief, as necessary.

X. RATE STRUCTURE

A. Introduction.

It is the OCA's position that this Commission should leave Columbia's existing tariff in place, unchanged, during this continuing worldwide pandemic. The record indicates that

Columbia's near-term financial outlook is stable without any increase in current revenues. The only thing that would be accomplished by granting Columbia a revenue increase at this time would be to increase shareholder wealth at the expense of its struggling customers. Such an outcome would be unfair and unreasonable, considering that Columbia's customers are suffering real economic harm due to the COVID-19 pandemic. Columbia should not receive a revenue increase, as OCA witness Mierzwa testified:

> As explained in the Direct Testimony of Scott J. Rubin in OCA Statement No. 1, as a consequence of the coronavirus ("COVID-19") pandemic devastating the health and economy of the Commonwealth and the world, the Commission cannot rely on many of the Fully Projected Future Test Year ("FPFTY") projections included in CPA's Application.

OCA St. 4 at 3. In addition, as OCA witness Mierzwa testified:

> as a result of the COVID-19 pandemic, it would not be just or reasonable to impose a rate increase at this time when unemployment numbers are close to record-highs and the economic effects of the pandemic will not be fully known for some time. Therefore, the Commission should deny CPA any rate increase in this proceeding.

OCA St. 4 at 3. Alternatively, should the Commission decide that some increase is warranted at this time, Mr. Mierzwa recommended the following approach:

> If the Commission determines that a base rate increase for CPA is warranted, that increase should be assigned to each customer class through proportionate system average increases to the base rates applicable for each customer class.

Id. As OCA witness Mierzwa testified, if some minimal increase is warranted at this time it should be applied to each classes' existing base rates with no other tariff changes. To be clear, under this approach all other existing rates, rules and regulations currently contained in Columbia's tariff would remain as is. Should the Commission decide, however, that this is a "business-as-usual"

case and traditional ratemaking methods should be applied, the OCA presents the following as to rate structure.

Columbia presented an allocated cost of service study (COSS) that is an average of its Customer-Demand Study and its Peak & Average Study. This "Average Study" does not accurately represent the costs to serve the various customer classes and it should be rejected. The OCA's Peak & Average Study reasonably reflects an allocation of distribution mains investment that is more consistent with established Commission precedent and cost-of-service principles for a natural gas distribution company. The OCA's Peak & Average Study should be relied on as a guide to allocate any rate increase in this proceeding, as the Company's Average Study contains serious flaws.

Columbia's proposed 40% increase to the Residential customer charge should be rejected. Columbia's proposed increase violates the principles of gradualism and avoidance of rate shock. Columbia's current Residential customer charge of $16.75, already the highest in Pennsylvania, should remain unchanged.

Columbia's proposed change to its Weather Normalization Adjustment (WNA) to remove the 3% deadband should be rejected. Columbia is one of only two Pennsylvania NGDCs to have a WNA mechanism (PGW is the other), and the current WNA is working as designed. Eliminating the deadband would trigger the WNA as to even the slightest variations in temperature, and would result in a WNA that is neither reasonable nor necessary.

Columbia's proposal to implement a Revenue Normalization Adjustment (RNA) rider should also be rejected. As a form of alternative ratemaking, Columbia has failed to provide sufficient evidence as to why the RNA is needed or how the RNA would provide any benefits to consumers. Further, during the midst of the COVID-19 pandemic and the uncertainty surrounding

future demands for natural gas service, a mechanism such as the RNA should not be considered at this time.

It must also be recognized that both the WNA and the RNA are revenue stabilizing mechanisms. Should the Commission decide that either of Columbia's proposals here should be authorized, the Commission must then also make the corresponding downward adjustments to Columbia's authorized return on equity to reflect a lower risk profile in order to preserve some balance of equities between the Company's shareholders and its customers.

B. Cost Of Service.

1. Columbia's Proposed Distribution Mains Cost Allocation Methodologies are Seriously Flawed.

Columbia presented two different COSSs in this proceeding based on different methodologies. The Company then used an average of these two COSSs to arrive at its proposed revenue allocation in this matter. As to the Company's COSS, OCA witness Mierzwa reached the following conclusions:

> Typical of a natural gas distribution company ("NGDC"), a significant percentage of CPA's plant, 65 percent, is comprised of transmission and distribution mains.
>
> CPA is sponsoring ACOS Studies in its application using two different methodologies, each at present and proposed rates. Under one method, distribution mains investment is allocated partially based on the number of customers and partially based on design day demands ("Customer-Demand Study"). Under the second method, distribution mains investment is allocated utilizing the Peak and Average method ("Peak & Average Study"). CPA's application also includes a third ACOS study that reflects an average of the Customer-Demand and Peak & Average ACOS Studies ("Average Study"). CPA relies on the Average Study to support its proposed revenue distribution among its various customer classes.
>
> Under each of the Company's ACOS Studies, distribution mains investment has been assigned to one of three categories, and the mains investment assigned to each category has been separately

allocated to customer class consistent with the selected ACOS methodology (i.e., either the Customer-Demand or Peak & Average method). CPA's assignment of distribution mains to separate categories is unreasonable, and the Company's ACOS Studies, which rely on the assignment of distribution mains to separate categories, should be rejected.

In addition, the Company's Customer-Demand methodology misallocates distribution mains plant investment and related costs, and this method produces results that do not reasonably reveal an accurate indication of class-allocated cost responsibilities and should be rejected.

The Peak & Average Study presented by the OCA in this proceeding reflects an allocation of distribution mains investment that is more consistent with established Commission precedent and cost-of-service principles.

Columbia's Peak & Average Study produces results consistent with the ACOS Study filed in the most recent base rate proceeding of Columbia Gas of Massachusetts ("CMA"), a CPA affiliate at the time, which relied on the Proportional Responsibility method to allocate distribution mains investment.

OCA St. 4 at 3-4. As Mr. Mierzwa testified, Columbia used two different COSS to allocate the costs of distribution mains to the various classes. The assignment of distribution mains costs is the most critical component of any COSS. In this proceeding, there are seven different rate classes that Columbia is assigning these costs to, as follows:

- Residential Sales Service and Residential Distribution Service ("RSS/RDS");

- Low-Volume Small General Sales Service, Small Commercial Distribution Service, and Small General Distribution Service ("SGSS1/SCD1/SGDS1");

- High-Volume Small General Sales Service, Small Commercial Distribution Service, and Small General Distribution Service ("SGSS2/SCD2/SGDS2");

- Small Distribution Service and low-volume, Large General Sales Service ("SDS/LGSS");

- Large Distribution Service and high-volume, Large General Sales Service ("LDS/LGSS");
- Main Line Distribution Service ("MLDS"); and
- Flexible Rate Provisions and Negotiated Contract Service ("Flex").

OCA St. 4 at 5-6. The Company also categorized different types of mains, as Mr. Mierzwa explained:

> In CPA's ACOS Studies, the Company first identified and directly assigned the actual inventory of distribution mains for the MLDS rate class. Next, the Company assigned the remaining mains investment to one of four categories, including the transmission category and three different distribution categories:
>
> - Low Pressure Distribution;
> - Regulated Non-Low Pressure Distribution ("Regulated Distribution"); and
> - Remaining Regulated Pressure Distribution.
>
> CPA then prepared ACOS Studies utilizing two different methods to allocate the mains investment assigned to each of the three distribution mains categories to rate class (excluding MLDS). Under both methods, transmission mains investment was allocated based on design day demands. Both methods were used to prepare ACOS Studies at present and proposed rates.

OCA St. 4 at 6. These four different categories of mains are further defined as follows:

> **Transmission Mains** – Mains that do not serve any single customer directly, but rather are designed to serve an entire geographic area. These are the lines that are generally of higher pressure and larger diameter, and transport the gas into CPA's distribution network. The cost of these mains is allocated to all customers, except the directly assigned MLDS customers.
>
> **Low Pressure Mains** – Mains that have been identified as only servicing low-pressure customers. These mains are downstream of regulator stations and are, themselves, low-pressure. Due to their pressure, these mains do not serve any customer types other than low-pressure. The cost of these mains is only allocated to low-pressure customers.

> **Regulated Non-Low Pressure Mains** – Mains that, due to their pressure, can serve all customer types except low-pressure customers. These mains can be either high-pressure, intermediate-pressure, or medium-pressure. The cost of these mains is allocated to all customers except for the customers served by the low-pressure mains and the directly assigned MLDS customers.
>
> **Remaining Regulated Pressure Mains** – Mains that are not specifically assigned to one of the three groups identified above. Rather, they are mains that can either: (1) deliver gas to customers requiring high-pressure, intermediate-pressure, or medium-pressure service; or (2) deliver gas into downstream low-pressure systems and regulated non-low-pressure systems. The cost of these mains is allocated to all customers, except the directly assigned MLDS customers.

OCA St. 4 at 7. As Mr. Mierzwa testified, all of the costs for the four different categories of mains as set out here should be allocated to the different rate classes based on the OCA's Peak & Average Study. As to the costs for Transmission Mains, however, allocating those costs based on the OCA's Peak & Average Study does not produce any material difference from the Company's proposed allocation. As such, Mr. Mierzwa is not challenging the Company's proposed allocation for Transmission Mains. OCA St. 4 at 8.

As discussed above, Columbia used two different COSS methods to determine how the costs of distribution mains should be allocated to the different rate classes. Mr. Mierzwa briefly explained the two different methods that Columbia used, as follows:

> Under the first method, which I will refer to as the Customer-Demand method, the distribution mains investment assigned to each category is allocated to rate class partially based on the number of customers and partially based on the design day demands of the customers in each rate class that are served by each of the categories of distribution mains. Under the second method, which I will refer to as the Peak & Average method, distribution mains investment is allocated 50 percent based on the design day demands and 50 percent based on annual, or average daily, demands of the customers in each rate class that are served by each of the categories of distribution mains.

OCA St. 4 at 6-7. As Mr. Mierzwa testified, the Company not only created two different COSSs to allocate the costs of the mains to the different classes, but also created four separate categories of mains and assigned specific costs to each category. Although Mr. Mierzwa is not challenging the allocation of Transmission Mains, the three remaining categories of distribution mains, Low Pressure Distribution; Regulated Non-Low Pressure Distribution ("Regulated Distribution"); and Remaining Regulated Pressure Distribution contain serious flaws in how Columbia created the costs for each of these distribution mains categories. As Mr. Mierzwa testified, "CPA's proposed separate assignment and allocation of distribution mains fails to consider the net investment of each distribution mains category." OCA St. 4 at 8. The implications of this flaw were explained by Mr. Mierzwa, as follows:

> CPA uses the original cost of its distribution mains investment to develop its allocation factors for the three distribution mains categories. The allocation factors developed by CPA assume that all distribution mains of similar size and type (plastic or steel) cost the same per foot, are of the same vintage, and have the same depreciation expense per foot. This fails to recognize that low-pressure mains are generally older, are more fully depreciated, and that the net investment associated with the low-pressure system is likely less than that of the regulated-pressure system. This is important because rates in this proceeding will be set based on net investment, not original costs.

OCA St. 4 at 8. As OCA witness Mierzwa testified, failing to accurately identify the net investment costs for the different distribution mains is a serious flaw that runs through both of the COSSs created by the Company. The flaws with either of the COSSs themselves, which will be discussed below, are amplified by the fact that the inputs used, especially for the Low Pressure Distribution mains which almost exclusively serve residential customers, are based on original cost and not the net investment. After discovering this serious error in how the Company allocated costs to the three separate distribution mains categories, Mr. Mierzwa attempted to correct the error

but the Company responded that the required information was not available. OCA St. 4 at 9. But, evidence shows that the low-pressure system is older and more fully depreciated as Mr. Mierzwa explained:

> CPA mains are almost exclusively either plastic or steel (>99 percent). The average in-service date of the Company's plastic mains is 1999, and the average in-service date of the Company's steel mains is 1955. Approximately 53 percent of the low-pressure system consists of steel mains and 47 percent is plastic. For the regulated-pressure system, approximately 26 percent is steel, and 74 percent is plastic. This indicates that the low-pressure system is older and more fully depreciated than the regulated-pressure system.

OCA St. 4 at 9. As OCA witness Mierzwa explained, Columbia has significantly overstated the cost of the low-pressure distribution system. These higher costs then flow through to the two COSSs and tend to show, incorrectly, that the residential class is currently underpaying its cost to serve. As a result, Columbia then proposes to allocate a larger portion of the proposed rate increase to residential customers based on inputs to the COSSs that are flawed, and further compounded by the COSSs Columbia used which are also flawed and inconsistent with Commission precedent, as will be discussed next.

2. <u>Columbia's Customer Demand Study fails to Accurately Identify each Classes' Cost Responsibility for Distribution Mains</u>.

Columbia created a COSS that uses the Customer Demand method for use in this proceeding. Columbia also created a Peak & Average COSS for use in this Proceeding. These two COSSs were then averaged together and resulted in the "Average Study" that Columbia proposes to use in order to assign cost responsibility to the various classes and then to allocate the proposed revenue increase. The Customer Demand method, however, is inconsistent with past Commission precedent and generally accepted principles for NGDCs as to COSSs. As such, the

Customer Demand method and ultimately the Average Study proposed by Columbia should not be relied on in this matter.

OCA witness Mierzwa succinctly described the Customer Demand method, as follows:

> the distribution mains investment assigned to each category is allocated to rate class partially based on the number of customers and partially based on the design day demands of the customers in each rate class that are served by each of the categories of distribution mains …

OCA St. 4 at 6-7. As described, there is a Customer component and a Demand component. Mr. Mierzwa went on to explain how Columbia arrived at the Customer component, as follows:

> The Company utilized a minimum-sized unit approach to separately determine the customer component of mains investment for each of the three distribution mains categories. More specifically, CPA determined the installed unit cost per foot of distribution main by pipe size for each of the three distribution mains categories. Pipe sizes generally ranged in diameter from 2-inch pipe to 20-inch pipe. Next, using the average cost of 2-inch-sized pipe in each category, the Company multiplied the unit cost of the installed 2-inch-sized pipe by the total number of feet of pipe installed for each category to determine the cost of the minimum system for that category. This was then compared to the total cost of that category of pipe on the CPA system to determine the percentage of that category of distribution mains investment that should be considered customer-related. Table 1 summarizes the approach used by the Company and the percentages of distribution mains investment, by category, that were determined to be customer-related and allocated to customer class based on the number of customers served by those distribution mains.

OCA St. 4 at 9. As Mr. Mierzwa explained, Columbia used a minimum system approach where the entire distribution mains system is hypothetically comprised of only 2-inch pipe. The goal of such a study is to attempt to assign costs based on merely connecting customers to the system, as opposed to supplying gas to customers – which is how the distribution system actually works on a day-to-day basis. OCA witness Mierzwa testified as to why this hypothetical construct to allocate cost responsibility is neither realistic nor equitable, as follows:

> Allocating distribution mains investment on the basis of the number of customers in each class misallocates these costs of providing service. Distribution mains are not sized for the number of customers served from them, but for the loads placed upon them. This is made clear in the following example: Located along one city block are ten Residential customers with a coincident peak demand of one dekatherm ("Dth") each. The distribution main running down the street would have to be capable of delivering 10 Dth at peak. On another city block is only a small plastics factory that exhibits a maximum demand of 10 Dth. The main for that one customer must be sized to deliver 10 Dth when the plastics factory demand peaks. It is clear that the mains investment is driven by the loads placed upon it—not by the number of customers served from it. Finally, imagine that the plastics factory is torn down to make room for five large residences, each of which exhibits a demand at time of coincident peak of 2 Dth. Again, the main that is sized to deliver 10 Dth is adequate. The existence of one customer, five customers, or ten customers does not determine the amount of mains investment; rather, mains investment is a function of the loads to be served.

OCA St. 4 at 11.

As OCA witness Mierzwa explained, the size of distribution mains and their underlying costs are not driven by numbers of customers, but rather by the loads that those mains must deliver. Using a customer component to assign the cost of distribution mains only serves to increase the costs that are then assigned to the residential class, simply because that is the largest class of customers. Similarly, assigning the exact same length of mains to each customer in different customer classes is not representative of the actual system, as Mr. Mierzwa explains:

> Presented below in Table 2 are the number of feet by which CPA was required to extend its system to connect its ten largest non-MLDS customers as well as the design day and annual usage of those customers. Table 2 clearly demonstrates that CPA's allocation of distribution mains investment based on the number of customers, which assigns the same number of feet of distribution mains to each customer, does not result in a reasonable allocation of costs.

Table 3.
Service and Usage Characteristics of CPA's Ten Largest Non-MLDS Customers

Customer	**Design Day** (Dth)	**Throughput** (Dth)	**Distance** (Ft)
1	10,119	2,831,244	3,106
2	12,080	2,002,712	7,618
3	0	1,099,939	1,479
4	4,085	1,020,792	[1]
5	1,228	801,205	1,178
6	2,502	605,046	4,726
7	1,468	531,350	1,571
8	2,158	525,916	1,294
9	1,633	452,894	1,308
10	2,222	443,556	750

[1] This customer is the only one served off the main. There is no meter upstream.

OCA St. 4 at 12-13.

In rebuttal, Company witness Notestone argues that a customer component is reasonable for cost allocation purposes and that Mr. Mierzwa's preferred approach here would over allocate costs to larger customers. Company St. 11-R at 8-10. In his Surrebuttal Testimony, Mr. Mierzwa responded, as follows:

> The notion that customers should be assigned a certain number of feet of distribution mains stems from Columbia's minimum system analysis which allocates mains costs based on the number of customers. The minimum system concept is a fictitious, hypothetical construct which does not exist, and if it did exist, it would not be capable of providing service to customers. Cost allocations should be based on actual cost causation factors, not hypothetical constructs.

OCA St. 4-S at 3-4. As Mr. Mierzwa testified, the Company's reliance on its minimum system study and the inclusion of a customer component is misplaced. Under the OCA's Peak & Average

COSS, residential customers still bear the largest share of distribution mains investment. OCA St. 4-S at 4.

Mr. Notestone argues, however, that Mr. Mierzwa is not recognizing all of the costs to serve residential customers as the Company's minimum system approach accurately captures. Company St. 11-R at 15-16. Mr. Notestone goes on to contend that Mr. Mierzwa, incorrectly, assumes that all residential customer demands can be met through the minimum system. Id. In his Surrebuttal Testimony, Mr. Mierzwa responded to these allegations:

> In Columbia's 2015 base rate proceeding at Docket No. R-2015-2468056, Company witness Mark P. Balmert performed an analysis that found that the 2-inch minimum system would be capable of serving all Residential customers with an annual demand of 1,165.4 Mcf per year or less. He noted that virtually all Residential customers use less than 1,165.4 Mcf per year. Therefore, Mr. Balmert concluded that all Residential customers could be served by the minimum system. The average Residential customer uses 86 Mcf per year, and certainly the share of Residential customers using less than 1,165.4 Mcf per year is greater than the share in other rate classes. For example, the average usage per customer for the LDS/LGSS rate class is 152,672 Mcf per year and for the SDS/LGSS rate class average usage is 15,466 Mcf per year. Therefore, the proportionate share of demands being met by the minimum system for Residential customers is much greater than that of other rate classes.
>
> …
>
> Although I disagree with the use of a minimum system approach to the allocation of distribution mains, if this approach is used and the 2-inch minimum system can meet 100 percent of the Residential customer design day demands, the allocation of the demand component of distribution mains investment must be adjusted to account for the portion of the minimum system that can meet Residential customer design day demands. Columbia's Customer/Demand Study fails to do this.

OCA St. 4-S at 5-6. As shown, Columbia's prior study using the minimum system approach conclusively establishes that Mr. Mierzwa's findings in the current matter are indeed correct. Mr. Notestone's testimony on this issue is at odds with Columbia's own prior studies and thus should

be afforded little weight in this proceeding. Columbia's current use of a minimum system approach and its inclusion of a customer component leads to the serious flaws contained in its proposed COSSs.

Mr. Mierzwa is not alone in his findings that there should be no customer component included in the assignment of distribution mains costs. As Mr. Mierzwa provided in his testimony:

> Professor James Bonbright, at pages 491 and 492 of his *Principles of Public Utility Rates*, utilizing an example from the electric industry, states:
>
> > But the really controversial aspect of customer-cost imputation arises because of the cost analyst's frequent practice of including, not just those costs that can be definitely earmarked as incurred for the benefit of specific customers but also a substantial fraction of the annual maintenance and capital costs of the secondary (low voltage) distribution system – a fraction equal to the estimated annual costs of a hypothetical system of minimum capacity. This minimum capacity is sometimes determined by the smallest sizes of conductors deemed adequate to maintain voltage and to keep from falling of their own weight. In any case, the annual costs of this phantom, minimum-sized distribution system are treated as customer costs and are deducted from the annual costs of the existing system, only the balance being included among those demand-related costs to be mentioned in the following section. Their inclusion among the customer costs is defended on the ground that, since they vary directly with the area of the distribution system (or else with the lengths of the distribution lines, depending on the type of distribution system), they therefore vary indirectly with the number of customers.
> >
> > What this last-named cost imputation overlooks, of course, is the **very weak correlation between the area (or the mileage) of a distribution system and the number of customers served by this system**. [Emphasis added.] For it makes no allowance for the density factor (customers per linear mile or per square mile). Indeed, if the Company's entire service

> area stays fixed, an increase in number of customers does not necessarily betoken any increase whatever in the costs of a minimum-sized distribution system.
>
> While, for the reason just suggested, the inclusion of the costs of a minimum-sized distribution system among the customer related costs seems to me clearly indefensible, its exclusion from the demand-related costs stands on much firmer ground.

> Professor Bonbright clearly agrees that distribution costs, except for those costs that can be definitively earmarked to benefit specific customers, are not properly classified as customer costs.

OCA St. 4 at 15-16. As provided, the leading academic treatise on public utility rates and this Commission in Philadelphia Gas Works, Docket No. R-00061931, 2007 Pa. PUC Lexis 46 (2007), have both found that there is no legitimate reason to assign costs for a distribution system based on the number of customers. Mr. Mierzwa concluded his thoughts about the Customer portion of the Customer Demand Study, as follows:

> First, I conclude that it is incorrect to consider distribution mains as being customer-related. This is because mains investment is undertaken when annual gas consumption is high enough to warrant the investment, and mains are sized to meet expected demand levels, independent of the number of customers. In addition, CPA's allocation of 50 percent of its distribution mains cost on the basis of number of customers, combined with its failure to consider the demands that can be met with that investment when it allocates the remainder of its mains costs on a demand basis, is improper.
>
> Since distribution mains exist to deliver annual requirements, and are sized to provide for peak requirements, it is proper to allocate distribution mains costs on the basis of Peak & Average demands, consistent with established Commission precedent. Therefore, CPA's Customer-Demand method should be given zero weight by the Commission.

OCA St. 4 at 16-17. Columbia's Customer Demand Study is not suitable for use in this proceeding, based on the numerous flaws as identified by OCA witness Mierzwa.

In their respective Rebuttal Testimonies, Mr. Crist for PSU and Mr. Plank for CII both took exception to Mr. Mierzwa's recommendation that the Company's Customer Demand Study should not be used in this proceeding. Mr. Plank took a general exception to Mr. Mierzwa's Peak & Average COSS, as he testified that he had serious concerns about the rate increase proposed by Mr. Mierzwa for Rate LDS given the difficult economic times. CII St. 1-R at 2. The OCA understands Mr. Plank's concern. As Mr. Mierzwa testified, it is the OCA's position that no increase should be granted in this proceeding, but if the Commission decides that traditional ratemaking measures are to be employed in this matter, then the OCA's Peak & Average COSS should be viewed as a useful guide to set rates. The increase for Rate LDS is fully supported under the OCA's Peak & Average COSS. OCA St. 4-S at 20.

Mr. Crist testified that Mr. Mierzwa is simply wrong as to whether a customer component should be employed in allocating the cost of mains. PSU St. 1-R at 7. Mr. Crist points to the rural nature of much of Columbia's service territory as support for a customer component. Id. Mr. Mierzwa responded to this argument in his Surrebuttal Testimony, as follows:

> Mr. Crist's claims are based on hypothetical assumptions. Table 2 in my Direct Testimony presents actual information concerning the extent to which Columbia was required to extend its mains to serve larger customers. On average, Columbia's Customer/Demand Study assigns 79 feet of mains to every customer. As shown on Table 2, Columbia was required to extend its system by much more than 79 feet to serve its largest customers, and as indicated previously, facilities were extended an average of 2,559 feet.

OCA St. 4-S at 18. Mr. Crist's claims in this regard are unsupported. OCA witness Mierzwa provided definitive evidence in his Direct Testimony to refute what Mr. Crist is now arguing.

Mr. Crist also argues that costs should be appropriately allocated based on peak demands, and not average demands. PSU St. 1-R at 11. Mr. Crist cites to a recent Maryland Public Service

Commission case as support for his argument. Id. Mr. Mierzwa responded to this claim, as follows:

> First, BGE serves customers under a number of interruptible rate schedules, and the peak demands used by BGE in its cost of service study allocates distribution mains costs based on non-coincident peak ("NCP") demands, which is the peak demand of each customer class, regardless of whether that demand occurs at the time of the coincident design day peak ("CP") demand. Columbia has allocated costs based on CP demands in its cost studies. Interruptible customers served by BGE would typically be curtailed during CP demand periods and would receive no allocation of distribution mains costs if distribution mains were allocated based on CP demands which would be unreasonable.
>
> Second, in Washington Gas Light Company ("WGL") Case No. 9322, the MDPSC found "…that the CCOSS and accompanying demand study were sufficient for purposes of rate design and that the Proposed Order fairly assigned costs to each customer class, including non-residential customer classes." (Order No. 86013, Issued November 22, 2013). In that proceeding WGL's cost of service study utilized the Peak & Average approach to the allocation of distribution mains I am proposing in this proceeding. In WGL's base rate proceeding in Case No. 9481, the cost of service study presented by WGL again used the Peak & Average method to allocate distribution mains, and WGL's cost of service study was accepted by the MDPSC (Order No. 88944, Issued December 11, 2018). In WGL's most recent base rate application with the MDPSC (Case No. 9605), the cost of service study filed by WGL in that application also utilized the Peak & Average method. That proceeding was resolved by settlement.

OCA St. 4-S at 19-20. As Mr. Mierzwa testified, the facts in the BGE case are different than what Columbia is proposing here. Further, the Maryland PSC recently approved the use of a Peak & Average COSS that is the same approach as Mr. Mierzwa is advocating for in this matter.

In addition to the customer component flaws as just discussed, the Demand portion of this COSS assigns much too large a portion of mains costs based on design day peak demands. Mr. Mierzwa testified to these deficiencies, as follows:

> The design day demands utilized in CPA's Customer-Demand ACOS Studies are based on a day with a 1-in-15 probability of occurrence. If an allocation of distribution mains costs on the basis of design peak day demands was in accordance with the principle of cost causality, then the demand for natural gas under design peak day weather conditions would have to be the only cause for the existence of and customer utilization of CPA's distribution mains. Design peak day demands represent the maximum demands that are expected under the most severe weather assumptions used for planning purposes. While a portion of CPA's distribution mains costs are associated with, and should be allocated on, design peak demands, it is obviously wrong to profess that most distribution mains costs are caused by consumer demands on the coldest day experienced in CPA's service territory every 15 years or so. Quite simply, if CPA's customers had a demand for gas only on days that occur every 15 years, there would not be a CPA gas distribution system. The costs of delivered gas supplies on that one design peak day would be prohibitively high, and the cost of delivering gas through CPA's distribution system on that one day simply could not compete with alternative energy costs.

OCA St. 4 at 17-18 (footnotes omitted). Of course, Columbia's system must be able to meet design day demands even if that scenario only presents itself every 15 years or so. But, the real usefulness of the natural gas system is to deliver average, annual demands every day of the year, as OCA witness Mierzwa describes:

> The basic reason why NGDCs like CPA invest in their distribution systems is to meet the annual demands for gas by end-use customers. This is the reason for the existence of the NGDC in the first place. Without sufficient annual gas usage by which to amortize the annual costs of providing service, there would be no gas distribution system.

OCA St. 4 at 18.

Columbia's Customer Demand COSS assigns too large a portion of mains costs to design day peak demands. As Mr. Mierzwa testified, peak demands must be recognized but the COSS must also recognize the average demands placed on the system every day and the costs involved with providing for those average demands. Mr. Mierzwa testified that:

> Many of the costs associated with the distribution delivery system do not depend upon pipe sizes. These costs would include planning, surveying, excavation, hauling, pipe bed preparation, unloading and stringing of pipe, municipal inspection, backfill, and pavement and sidewalk replacement. Since a portion of total costs does not vary with pipe size, or are fixed costs, total costs do not increase at a 1-to-1 ratio with increases in maximum demands. The additional costs associated with meeting elevated demands are largely related to the cost of the pipe itself.
>
> Moreover, throughput capability increases not at a 1-to-1 ratio with the size of the pipe, but at a rate equal to the square of pipe diameter. Doubling the diameter of a pipe, for example, increases its capacity by four times the original capacity. Thus, the additional costs of providing additional capacity are lower than the average costs of providing capacity. This means that the costs associated with providing capacity for the movement of average demands are greater on a unit basis than the costs associated with providing capacity for additional demands.

OCA St. 4 at 21. Columbia's Customer Demand COSS fails to sufficiently account for the average demands placed on the system and the costs associated with these average demands. Mr. Mierzwa testified that the Peak & Average method more closely follows not only how the system actually works but also the principles of cost-causality, as follows:

> The allocation of mains investment costs on the basis of both annual and peak demands is in accordance with the principle of allocating costs on the basis of cost causality. Natural gas is of little to no value to the customer if that gas cannot be delivered to the location of the gas-burning equipment. CPA's distribution system imparts locational value to the natural gas delivered across that system by allowing for the movement of that gas from its acquisition source to each customer's location. CPA's distribution system exists, and related costs are incurred, to deliver gas to its customers whenever, over the course of each year, its customers demand gas. In other words, CPA's system was built, and costs were incurred to deliver gas; both at the time of peak system demand and generally throughout the year. Because costs are incurred to deliver gas generally throughout the year, and additional costs are incurred to meet peak demands, CPA's distribution mains costs must be allocated on the basis of both annual and peak demands if those costs are to be allocated in accordance with the principle of cost causality.

OCA St. 4 at 19. For all the reasons discussed here, Columbia's Customer Demand COSS contains serious flaws and should not be used in any form to allocate the cost of distribution mains in this matter. As discussed, Columbia also created a Peak & Average COSS for this proceeding. The OCA submits that Columbia's Peak & Average COSS shares some of the same flaws as its Customer Demand COSS. Accordingly, the OCA's Peak and Average COSS should be used as a guide to cost allocation, as further discussed in the next section.

3. The OCA's Peak & Average COSS should be used as a Guide to Cost Allocation as Columbia's Peak & Average COSS is Flawed.

Mr. Mierzwa testified that the OCA's Peak & Average COSS should be used as a guide to cost allocation in this proceeding. Specifically, OCA witness Mierzwa testified that:

> I recommend that 50 percent of CPA's distribution mains system costs, instead of a lesser amount, be allocated on the basis of peak demands. The remaining 50 percent of CPA's distribution mains costs, being related to, or caused by, CPA's annual gas requirements, should be allocated on annual, or average, demands.

OCA St. 4 at 25. This Commission has previously approved the Peak & Average method, as discussed in the 1994 NFG case:

> "The Peak & Average method that allocates mains equally is a sound and reasonable method of cost allocation and should remain intact." *Pa. P.U.C. v. National Fuel Gas Distribution Co.*, 83 Pa. PUC 262, 360 (1994). See also *Pa. P.U.C. v. National Fuel Gas Distribution Co.*, 73 Pa. PUC 552 (1990); *Pa. P.U.C. v. Equitable Gas Co.*, 73 Pa. PUC 301 (1990); and *Pa. P.U.C. v. CPA Gas Co.*, 69 Pa. PUC 138 (1989).

OCA St. 4 at 25. The Indiana Commission has also supported the Peak & Average method, as discussed in this 2006 case:

> Based upon the record evidence, this Commission concludes that the OUCC's cost-of-service study is most reflective of cost causation and possesses a high

> degree of objectivity upon which the Commission may place reliance in establishing the rates and charges in this proceeding.
>
> While we do not doubt that distribution mains must be constructed with peak demand in mind, distribution mains do not only serve customers on peak demand days. Therefore, a measure of the costs of distribution mains must be allocated to customers based on their usage that takes place on non-peak days. For example, a customer that does not take service at all on the peak demand day-and therefore contributes nothing to peak demand requirements of distribution mains-but receives service through distribution mains at other times should be responsible for some portion of distribution main costs.
>
> The OUCC's approach is much more equitable and realistic. Rather than allocating distribution main costs exclusively based on either peak demand day or average annual consumption, the OUCC used a compromise approach that allocated these costs based on both. Under the OUCC's cost-of-service study, 80% of distribution main costs are allocated based on average demand. (Public's Ex. No. 6 at 13.) In this way, the OUCC's approach allocates part of distribution main costs to customers who receive service through distribution mains throughout the year but who may not receive much or any service on the peak demand day.
>
> For the reasons set forth above, we find the OUCC's cost-of-service study most accurately reflects the manner in which distribution main costs are actually incurred. See, In Re Citizens Gas & Coke Utility, IURC Cause No. 39066, at 31 (Nov. 1, 1999). We therefore adopt the OUCC's cost-of-service study to implement the rates increase approved in this Cause.
>
> [*In re Citizens Gas & Coke Utility*, IURC Cause No. 42767, at 74-75 (Oct. 19, 2006)]

OCA St. 4 at 26-27. The Illinois Commission has also accepted the Peak & Average method, as discussed here:

> Generally, [Central Illinois Public Service Company or CIPS] and [Union Electric Company or UE] gas transmission and distribution facilities exist because there is a daily need for such facilities. Regardless of when CIPS and UE experience their respective peak and the level of the peak, customers depend on the continued operation of the Ameren gas transmission and distribution systems to meet their daily needs. On the day that the peak does occur. Ameren's own Mr. Carls testifies that CIPS' and UE's respective systems are built to accommodate the system peak without regard to each class' peak. In light of the nature in which the transmission and distribution systems are used and because of the relatively declining cost of increasing capacity, peak demand is not the appropriate emphasis in allocating demand costs…As the Commission concluded in Docket 94-0040, a utility can not justify its transmission and distribution investment on demands for a single day. The allocation method that properly weights peak demand is the [Average & Peak or A&P] method, the same method that the Commission adopted in CIPS' and UE's last gas rate cases. The A&P method properly emphasizes the average component to reflect the role of year-round demands in shaping transmission and distribution investments.
>
> [*Central Ill. Pub. Service Co. Proposed General Increase in Natural Gas Rates, et al.*, 2003 Ill. PUC Lexis 824, 231-232 (2003)]

OCA St. 4 at 27. As shown, the Peak & Average method is a preferred methodology for allocating the costs of natural gas distribution mains.

In his Direct Testimony, I&E witness Mr. Cline agreed with Mr. Mierzwa that Columbia's Customer Demand COSS should be rejected due to its inclusion of a customer component. I&E St. 3 at 16-17. Mr. Cline, however, endorsed Columbia's Peak & Average COSS for use in this proceeding. Id. In his Rebuttal Testimony, OCA witness Mierzwa disagreed with Mr. Cline as to accepting Columbia's Study given the flaws that Mr. Mierzwa identified with the Study. OCA St. 4-R at 2.

OSBA witness Robert Knecht in his Rebuttal Testimony took issue with the use of the OCA's Peak & Average COSS. OSBA St. 1-R at 12. Mr. Knecht favors the use of a modified

version of Columbia's Customer Demand and Peak & Average COSSs, and testified that the Commission has used a customer component in other proceedings. Id. In his Surrebuttal Testimony, Mr. Mierzwa explained the flaws in Mr. Knecht's proposals:

> Mr. Knecht has failed to recognize that the mains extension policies of NGDCs like Columbia have historically been different from the line extension policies of EDCs. Until recently, under Columbia's line extension policy, Columbia was under no obligation to extend its distribution mains unless the annual revenues expected to be realized from the extension exceed the amount of the related investment over a specified period of time. Therefore, there was no customer component of distribution mains for Columbia and annual volumes were the primary cost-causation factor to be considered. PPL Electric Utilities Corporation ("PPL"), an EDC cited by Mr. Knecht, is required to extend its distribution lines to a customer located up to 500 feet from PPL's current distribution lines at no cost, and annual volumes are not a primary cost-causation factor. Therefore, cost causation for service extensions for NGDCs and EDCs differ.

OCA St. 4-S at 17-18 (footnote omitted). As Mr. Mierzwa testified, cost factors for NGDCs and EDCs are different and the Commission's past findings of a customer component in EDC cases has no direct relevance here.

Having identified the flaws in the Company's proposed Peak & Average COSS, Mr. Mierzwa presented the OCA's Peak & Average COSS. As OCA witness Mierzwa testified:

> Schedule JDM-1 present the results of the OCA's Peak & Average ACOS Study that eliminates the separate assignment of distribution mains to categories and assigns the costs associated with major account representatives to the appropriate classes. This study provides a reasonable indication of the cost of service for each rate class. Table 5 provides a summary of the OCA's Peak & Average Study at present rates.

Table 4.
Class Rates of Return OCA Peak & Average ACOS Study Results at Present Rates

Class	Rate of Return	Index
RSS/RDS	6.506%	1.34
SGSS1/SCD1/SGDS1	4.760	0.98
SGSS2/SCD2/SGDS2	5.408	1.11
SDS/LGSS	4.107	0.85
LDS/LGSS	0.228	0.05
MLDS	79.321	16.33
FLEX	(4.406)	(0.91)
Overall:	**4.857%**	**1.00**

OCA St. 4 at 29-30. As Table 5 shows, correcting the errors in Columbia's Study now shows the Residential class with an Index value of 1.34 at present rates as compared to 1.29 under the Company's Study. OCA St. 4 at 29. Using the preferred Peak & Average method, under either the Company's or the OCA's COSS, it is clear that prior to any revenue increase in this matter the Residential class is currently overpaying its cost of service.

In addition, Mr. Mierzwa also created a separate COSS to use as a check on the results of the OCA's Peak & Average COSS. As Mr. Mierzwa explained:

> In addition to presenting an ACOS study using the Peak & Average method at present rates, I am presenting an ACOS study allocating mains investment using the Proportional Responsibility ("PR") method. I am presenting this additional study to support the reasonableness of the results of the ACOS study prepared using the Peak & Average method. I would note that the ACOS study presented by Columbia Gas of Massachusetts ("CMA"), CPA's affiliate at the time, in its most recent base rate proceeding before the Massachusetts Department of Public Utilities ("D.P.U."), utilized the PR method. (D.P.U. 18-45).
>
> …
>
> Under the PR method, distribution mains investment is allocated to customer class on the basis of PR allocators. The PR method recognizes that capacity on the distribution system has some value each month throughout the year, although that value is diminished in the summer months when demands are much lower.

OCA St. 4 at 30-31. OCA Witness Mierzwa goes on to explain the Proportional Responsibility (PR) method in detail in his Direct Testimony. See, OCA St. 4 at 31-32. As Mr. Mierzwa explained, the PR Method was presented as the only COSS sponsored by Columbia's affiliate in a recent Massachusetts rate case. As presented by Mr. Mierzwa in this matter, the PR Method provided the following results:

Table 5.
CPA Class Rates of Return Proportional Responsibility ACOS Study at Present Rates

Class	Rate of Return	Index
RSS/RDS	7.000%	1.44
SGSS1/SCD1/SGDS1	5.516	1.14
SGSS2/SCD2/SGDS2	5.804	1.19
SDS/LGSS	3.446	0.71
LDS/LGSS	(0.803)	(0.17)
MLDS	79.321	16.33
FLEX	(4.712)	(0.97)
Overall:	**4.857%**	**1.00**

OCA St. 4 at 33. As Table 6 shows, the PR Method produces results that are very similar to the OCA's Peak & Average COSS.

4. Conclusion.

Columbia's Customer Demand COSS contains serious flaws that make it unsuitable for use in this proceeding. Columbia's Peak & Average COSS, although using the preferred method, contains flaws that compromise the reliability of the results produced. The OCA's Peak & Average COSS corrects the errors in Columbia's Study and will provide a useful guide for the allocation of distribution mains costs, and the distribution of any revenue increase in this matter.

C. Revenue Allocation.

1. Proposed Revenue Allocation and Alternatives.

The allocation of any revenue increase to the various customer classes is driven in large part by the COSS that is used. Other factors also come into play, as OCA witness Mierzwa testified:

> A sound revenue allocation should:
>
> - Utilize class cost-of-service study results as a guide;
> - Provide stability and predictability of the rates themselves, with a minimum of unexpected changes that are seriously adverse to ratepayers or the utility (gradualism);
> - Yield the total revenue requirement;
> - Provide for simplicity, certainty, convenience of payment, understandability, public acceptability, and feasibility of application; and
> - Reflect fairness in the apportionment of the total cost of service among the various customer classes.

OCA St. 4 at 34-35. Columbia's proposed revenue allocation was explained by OCA witness Mierzwa, as follows:

> CPA generally sought to allocate the revenue increase toward the cost of service indicated by the results of its Average ACOS Study. The Company's proposed base rate revenue distribution is presented in Table 7.

Table 6.
CPA Proposed Revenue Distribution

Class	Present Rates	Proposed Rates	Increase	Percent
RSS/RDS	$292,185,976	$361,423,632	$69,237,656	23.7%
SGSS1/SCD1/SGDS1	33,641,932	42,257,415	8,615,483	25.6
SGSS2/SCD2/SGDS2	38,608,596	48,498,016	9,889,420	25.6
SDS/LGSS	21,768,524	27,490,911	5,722,387	26.3
LDS/LGSS	15,319,132	19,486,797	4,167,665	0.0
MLDS	550,482	550,482	0	0.3
FLEX	4,877,848	4,891,965	14,117	24.0
Total:	**$406,952,490**	**$504,599,218**	**$97,646,728**	**1.00%**

OCA St. 4 at 34. As discussed earlier, Columbia created two different COSSs for use in this proceeding, a Customer Demand Study and a Peak & Average Study. The results of these two Studies were then averaged to come up with an Average Study, that Columbia is proposing to use for purposes of revenue allocation. OCA witness Mierzwa found Columbia's proposed revenue allocation to be unreasonable as it was guided by the results of its Average Study. The Average Study does not reasonably reflect the costs of providing service to the various customer classes. OCA St. 4 at 34.

Columbia's Peak & Average COSS produces results that are unreliable due to the flaws identified by OCA witness Mierzwa. Further, Columbia's Customer Demand COSS is inconsistent with Commission precedent and also contains serious flaws that make it unsuitable for use in this matter. Accordingly, averaging these two COSSs together to create an "Average Study" only serves to further exacerbate the unreasonableness of the results.

In his Rebuttal Testimony, Mr. Knecht presents a revenue allocation proposal that is also based on a modified version of the Company's Customer Demand and Peak & Average COSSs. OSBA St. 1-R at 17-18. Mr. Knecht's proposed revenue allocation, however, suffers from the same flaws as the Company's Average Study as it is only a slightly modified version of Columbia's proposed COSS which for all the reasons already discussed should not be adopted.

The OCA's Peak & Average COSS should be used to allocate any revenue increase in this matter. Mr. Mierzwa explained his allocation as follows:

> First, I maintained the Company's proposal for the distribution of the revenue increase to the MLDS and flex classes. As indicated in Table 5, the indicated rates of return at present rates for the SDS/LGSS and LDS/LGSS classes were less than the system average return. I assigned a 1.5 times system average increase to each class. For the SGSS1/SCDS1/SGDS1, and SGSS2/SCD2/SGDS2 classes, I assigned an increase which was 1.25 times the system average increase. This recognizes that at

> present rates the return for each of these classes is close to the system average return, and provides a contribution to offset the revenue deficiency of the SDS/LGSS and LDS/LGSS classes whose increases were capped at 1.5 times the system average increase. I assigned the remainder of CPA's requested increase to the RSS/RDS class.

OCA St. 4 at 35-36. Mr. Mierzwa then presented the following Table with his revenue distribution.

Table 7.
OCA Proposed Revenue Distribution

Class	Present Rates	Proposed Rates	Increase	Percent	Index
RSS/RDS	$292,185,976	$354,799,715	$62,613,739	21.4%	1.24
SGSS1/SCD1/SGDS1	33,641,932	43,732,252	10,090,320	30.0	1.05
SGSS2/SCD2/SGDS2	38,608,596	50,188,581	11,579,985	30.0	1.10
SDS/LGSS	21,768,524	29,603,438	7,834,914	36.0	0.98
LDS/LGSS	15,319,132	20,832,785	5,513,653	36.0	0.33
MLDS	550,482	550,482	0	0.3	9.94
FLEX	4,877,848	4,891,965	14,117	0.3	(0.55)
Total:	**$406,952,490**	**$504,599,218**	**$97,646,728**	**24.0%**	**1.00**

OCA St. 4 at 35-36.

As shown, the revenue allocation is being presented here with Columbia's full requested revenue increase. Mr. Mierzwa testified as to how the OCA's proposed revenue allocation should change if the Commission authorizes an increase that is less than the full amount requested by Columbia, as follows:

> In the event that CPA's authorized increase is less than its requested increase, I recommend a proportionate scale-back of the increase for each rate class.

OCA St. 4 at 36.

As OCA witness Mierzwa testified, however, if some minimal increase is warranted at this time the OCA submits that it should be applied to each classes' existing base rates with no other tariff changes. To be clear, under this approach all other existing rates, rules and regulations currently contained in Columbia's tariff would remain as is. See, OCA St. 4 at 3. Should the

Commission decide, however, that this is a "business-as-usual" case and traditional ratemaking methods should be applied, then Mr. Mierzwa's recommended scale-back should be adopted.

2. Flex Customers.

The OCA is not briefing this issue, but reserves the right to respond in Reply Brief if necessary.

3. Allocation of Universal Service Costs.

a. Introduction.

The Commission recently amended its CAP Policy Statement and directed that the issue of the allocation of cost recovery of universal service costs be addressed in a base rate proceeding.[37] Pursuant to the changes to the CAP Policy Statement and the language in the Final CAP Policy Statement Order, OCA witness Colton and CAUSE-PA witness Miller recommended that Columbia change its allocation of its universal service so that those costs are paid by all customer classes rather than just the residential class as Columbia proposes here. See, OCA St. 5 at 28-58; OCA St. 1-S at 2-5, 21-35; CAUSE-PA St. 1 at 38-43; CAUSE-PA St. 1-SR at 15-21. Columbia Gas witness Tubbs, OSBA witness Knecht, PSU witness James Crist, and Columbia Industrial Intervenor Frank Plank opposed the OCA's and CAUSE-PA's proposal to allocate costs to all ratepayers. See, CPA St. 1-R at 22-26; OSBA St. 1-R at 2-11; PSU St. 1-R at 16-21; CII St. 1-R at 2. For the reasons set forth below, the OCA submits that universal service charges should be allocated to all ratepayers and between customer classes on a competitively neutral basis. The OCA further recommends that the allocation of universal service costs among customer classes be

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37 52 Pa. Code § 69.256(b); see also, Final CAP Policy Statement Order at 80-97.

based on the percentage of revenue provided by each customer class at base rates. OCA St. 5 at 6.

b. The allocation of universal service costs has been appropriately raised in this proceeding.

Historically, electric and natural gas universal service costs have been allocated to residential customers, but this historic practice is not mandated by the law.[38] The Natural Gas Choice and Competition Act also did not specifically require that universal service costs be allocated to only residential customers. Sections 2203(6)-(8) of the Public Utility Code establish the statutory requirements for natural gas universal service and energy conservation programs.[39] Section 2203(6) provides in part:

> After notice and hearings, the commission shall establish for each natural gas distribution company an appropriate nonbypassable, competitively neutral cost-recovery mechanism which is designed to recover fully the natural gas distribution company's universal service and energy conservation costs over the life of these programs.

66 Pa. C.S. § 2203(6).[40] Section 2203(7) provides that the Commission must continue the programs at the "level and nature of the consumers protections, policies and services within its jurisdiction that are in existence as of the effective date of this chapter to assist low-income retail gas customers to afford natural gas services."[41] The statute also requires that universal service

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[38] The exception to this policy has been Philadelphia Gas Works. PGW recovers approximately 75% of its costs from residential ratepayers. Final CAP Policy Statement Order at 26.

[39] 66 Pa. C.S. §§ 2203(6)-(8).

[40] The OCA notes that 66 Pa. C.S. Section 2203(10) relates to the establishment of a Universal Service Task Force and does not address cost allocation for natural gas distribution universal service and energy conservation programs.

[41] 66 Pa. C.S. § 2203(7).

programs be appropriately funded to assist low-income customers with affording essential natural gas service.

The Commission issued its Final CAP Policy Statement Order in November 2019. In its Final CAP Policy Statement Order, the Commission provided:

> We note there is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class, while not mandatory, is permissible:
>
>> Thus, under *Lloyd*, there is no statutory requirement that the funding for special programs come only from those who benefit from the programs. However, the lack of such a requirement does not mean that funding for special programs must come from those who do not benefit.
>>
>> *MEIUG v. Pa. PUC*, 960 A. 2d. 189, 202 (2008), citing *Lloyd v. Pa. PUC*, 904 A.2d 1010 (Pa. Cmwlth. 2006).[42]

The Commission then provided:

> This Order amends the CAP Policy Statement as indicated in Annex A to address recovery of CAP costs. Consistent with the discussion above, the Commission finds it appropriate to consider recovery of the costs of CAP costs [sic] from all ratepayer classes. Utilities and stakeholders are advised to be prepared to address CAP cost recovery in utility-specific rate cases consistent with the understanding that the Commission will no longer routinely exempt non-residential classes from universal service obligations.

Final CAP Policy Statement Order at 97. The OCA and CAUSE-PA recommended the allocation of universal service costs to all customers in this proceeding pursuant to the CAP Policy Statement.

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42 Final CAP Policy Statement Order at 92-93 (footnotes omitted).

As the Commission stated, "in PGW's 2017 rate case, the Commission noted that recovering universal service costs from all ratepayers does not appear to be a violation of Title 66 or Commission regulations."[43] The Commission did not otherwise limit the Commission's holding to PGW. The Final CAP Policy Statement Order also provided "consistent with the comments of the Low Income Advocates and OCA, the Commission concludes that the General Assembly clearly identified the public purpose of these programs in the Competition Acts by requiring that their costs be 'nonbypassable' when a customer switches energy providers." [44] The Commission further held that "there is no statutory or appellate prohibition that limits the recovery of CAP costs, whether specifically calculated or as part of total universal service costs, to funding from the residential class."[45]

The Commission's CAP Policy Statement specifically provides that parties may raise the issue of cost allocation in base rate proceedings such as this proceeding. The CAP Policy Statement provides:

> (b) In rate cases, parties may raise the issue of recovery of CAP costs, whether specifically or as part of universal service program costs in general, from all ratepayer classes. No rate class should be considered routinely exempt from CAP and other universal service obligations.[46]

Contrary to the express language of the CAP Policy Statement, Company witness Tubbs proposed that the issue of cost allocation should be addressed in a general proceeding and not a single utility's rate case. CPA St. 1-R at 24. The OCA submits that consistent with the final CAP

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[43] Final CAP Policy Statement Order at 98, fn. 148, citing Pa. PUC v. PGW, Docket No. R-2017-2586783, Order at 75 (Order entered Nov. 8, 2017); see also, Final CAP Policy Statement Order at 94.

[44] Final CAP Policy Statement Order at 98-88 (footnotes omitted).

[45] Id.

[46] 52 Pa. Code § 69.265(b).

Policy Statement and the Commission's Order, the issue of cost allocation of universal service costs has been appropriately raised in this base rate proceeding. For the reasons set forth below, the OCA recommends that the Commission approve OCA witness Colton's and CAUSE-PA witness Miller's recommendation to allocate the costs of universal services to all ratepayers.

c. The Final CAP Policy Statement Order identifies factors to be considered.

The Commission found that the "current cost-recovery method for universal services, including CAP costs, is putting a significant burden on residential customer bills." Final CAP Policy Statement Order at 90. The Final CAP Policy Statement Order identified several factors to be considered as a part of the analysis of the allocation of universal service costs. In its Final CAP Policy Statement Order, the Commission identified factors such as "poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service." Final CAP Policy Statement Order at 94.

OCA witness Colton examined these factors in his testimony. He examined two aspects of poverty: (1) those customers at or below 150% of the Federal Poverty Level and (2) "near poor" customers whose incomes are above 150% of the Federal Poverty Level but still struggle to make ends meet. The first aspect of poverty that Mr. Colton examined relates to those customers who are at or below Columbia's CAP income-eligibility maximum. OCA witness Colton testified:

> The process I identify above yields an estimate of 76,847 low-income customers. The Company's report of 22,929 CAP participants (OCA-IV-3(b)) thus indicates that CGPA reaches fewer than 30% of its estimated low-income customer base (29.8%). I identify "low-income" as persons with income at or below 150% of Poverty. According to Census data by zip code, CGPA has 19.1% of its customer base living at or below150% of Poverty. Of those, 5.1% live with income at or below 50% of Poverty, while 11.3% live at or below 100% of Poverty.

OCA St. 5 at 31 (footnote omitted).[47]

The second aspect of poverty that Mr. Colton examined involves customers who have income above the maximum income-eligibility for CAP established by the Commission (150% of the Federal Poverty Level (FPL)), but whose income is sufficiently low that they can reasonably be expected to have difficulties paying their utilities bills. OCA St. 5 at 32. OCA witness Colton defined this population of "near-poor" to include households who have income higher than 150% of the FPL, but lower than 200% of the FPL. OCA St. 5 at 32. Mr. Colton estimated that an additional 8.2% of Columbia's customers lie between 150-200% of the FPL. OCA St. 5 at 32.

OCA witness Colton also examined the vulnerability of these two groups of households. In the first example, he looked at a three-person household with income equal to 150% of the Federal Poverty. The household would have an income of $31,170, and then compared the household to one that was able to achieve "self-sufficiency" by county. OCA St. 5 at 32-33. He testified:

> Schedule RDC-3 shows both the number and percentage of persons with "near poor" incomes by county served by CGPA. Schedule RDC-3 demonstrates that concerns regarding the "near poor" are likely to be substantial. Of the 16 CGPA counties for which data is reported, two have 10% or more of their population living with incomes between 150% and 200% of Poverty. Seven (7) of CGPA's counties with data reported have 8% or more of their total population with incomes falling into this "near poor" range. The numbers are not small. More than 15,000 persons live with income between 150% to 200% of Poverty simply in the two counties with 10% or more of their population falling into that Poverty range. Nearly 65,000 (n= 64,795) live in the seven counties with 8% or more of their population living with income between 150% and 200% of Poverty.

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[47] OCA witness Colton estimated the number of customers who are at or below 150% of the Federal Poverty Level "by multiplying the number of customers for each CGPA zip code (OCA-IV-3) times the percentage of population at the varying population ranges." OCA St. 5 at 31. He then summed "the results for each zip code to obtain the number of customers at each Poverty range for the CGPA service territory as a whole." Id.

OCA St. 5 at 33, Sch. RDC-3 (footnotes omitted). The OCA submits that these households are not able to achieve self-sufficiency, but at the same time, they are unable to qualify for any assistance and must pay the costs of the universal service programs.

His examination of the impacts of poverty showed that there are a substantial number of residential customers in Columbia's service territory that are near-poor or who even qualify for CAP but do not participate. These low-income customers must also pay for the costs of the universal service programs. OCA witness Colton concluded:

> The CGPA distributions of population by income below 150% of Poverty nearly exactly match statewide distribution (5.2% below 50%; 11.8% below 100%; 19.5% below 150%; 8.2% between 150 and 20[0]%). For purposes of the PUC's consideration of whether to allocate universal service costs over all customer classes, the most important observation here is that nearly 54,000 customers with income at or below 150% of Poverty (n= 53,918) do not participate in CAP notwithstanding their low-income status. In addition, 33,124 *more* customers live with incomes that are above the income-eligibility maximum of 150% of Poverty, but less than 200% of Poverty. Allocating universal service costs over all customer classes would help improve the affordability of CGPA bills to these nearly 90,000 residential customers (53,918 + 33,124= 87,042) who are reasonably viewed as income-challenged but not participating in, or not eligible for, CGPA's universal service programs.

OCA St. 5 at 33-34.

Company witness Tubbs argued that universal service costs represent "a cost that is caused by one class [which] should [not] be shifted to other classes." CPA St. 1-R at 36. The OCA strongly disagrees. As OCA witness Colton testified:

> This conclusory argument (i.e., that only residential ratepayers "cause" universal service costs), presented without supporting data or analysis, is at odds with the extensive research findings presented in my Direct Testimony. Moreover, this unsupported assertion is at direct odds with the findings of the PUC's [Final CAP Policy Statement Order] that stated "[t]he Commission agrees that poverty, poor housing stock, and other factors that contribute to households

> struggling to afford utility service are not just "residential class" problems. Further, helping low-income families maintain utility service and remain in their homes is also a benefit to the economic climate of a community." (Id., at 96).

OCA St. 5-S at 4.

The OCA submits that this is a substantial burden that is placed upon low-income residential customers. Allocating universal service costs to all customer classes would help to improve affordability for these customers.

d. Poverty is not just a residential class problem.

The Final CAP Policy Statement Order stated that poverty is "not just [a] residential class problem." Final CAP Policy Statement Order at 94. The OCA submits that the Commission's statement was correct. OCA witness Colton examined the economic factors throughout Columbia's service territory that contribute to the inability-to-pay of Columbia's low-income customers. OCA St. 5 at 34. These factors are not limited to the residential class.

The OCA submits that low wages offered by employers affect the participation of customers in the Columbia universal service programs. OCA St. 5 at 34. OCA witness Colton found that "according to CGPA's data, its CAP participation includes a substantial proportion of participants who are eligible [for CAP] notwithstanding the fact that they receive wage or salary income." OCA St. 5 at 34, Table 7. He also found that "a very small proportion of CGPA's 20,000+ CAP participants have income from public assistance only." Id. Mr. Colton testified:

> CGPA was further able to provide the average income of CAP participants who received only wages or salaries as their income source. As the Table immediately below shows, CAP participants with annual income at or below 50% of Poverty are earning roughly $8,000 despite having wage and salary income. CAP participants with annual income between 50% and 100% of Poverty are earning substantially less than $20,000 despite having wage income.

Table 8. CAP Participants by Wage/Salary Income by Poverty Level (OCA-IV-12)			
Poverty Level	0-50%	51-100%	101-150%
2018	$8,027.28	$17,792.24	$28,517.87
2019	$8,135.83	$18,239.52	$29,369.11
2020 (YTD)	$8,350.32	$18,452.94	$28,569.23

OCA St. 5 at 34-35. OCA witness Colton found that similar observations could also be made about LIURP participants. He found that between 30% (in 2019) to 43% (in 2017) of LIURP recipients had employment income. OCA St. 5 at 36. Fewer than 2% had received public assistance income. OCA St. 5 at 36. CAUSE-PA witness Miller agreed that "many universal service program participants are employed – yet their employers do not pay a living wage that is adequate to afford basic household needs." CAUSE-PA St. 1 at 40. The OCA submits that the lack of a living wage contributes to the need for the universal service programs.

Although Columbia Gas has not studied the economic health of its service territory, OCA witness Colton did examine the underlying economics within the Columbia service territory. OCA St. 5 at 36-39.[48] Mr. Colton examined wages in the following areas of Columbia's service territory: Chambersburg/Waynesboro; Gettysburg; Pittsburgh; State College; and York-Hanover. He also examined the wage data for Western Pennsylvania non-metropolitan areas and South Pennsylvania non-metropolitan area. OCA St. 5 at 37. He found:

> Low wages are prevalent throughout the CGPA service territory. Based on this local wage data, I find that the inability-to-pay issues addressed by the universal service programs of CGPA are not "caused" by the residential class. They are instead broader societal issues that can be attributed to every customer class.

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[48] Mr. Colton notes that the employment and wage data he relied upon predates the COVID-19 health problem. OCA St. 5 at 37.

OCA St. 5 at 37.

As OCA witness Colton testified, "the purpose of this discussion above is not to identify the particular communities as having particular problems, but rather to identify these communities as illustrative of the social issues underlying a universal service program." OCA St. 5 at 38; see also, OCA St. 5 at 38, Table 10. Table 10 shows the median hourly wages in each of the Columbia metropolitan areas (using $12.00 as the top of the range of worker wages that he examined):

Table 8. Employment by Selected Median Hourly Wages and CGPA Metropolitan Areas

	$9.00 or less	>$9.00 - $10.00	>$10.00 - $11.00	>$11.00 - $12.00
Chambersburg-Waynesboro	470	5,720	1,550	2,420
Gettysburg	160	1,510	3,510	1,100
Pittsburgh	3,290	89,670	9,090	90,010
State College	110	3,600	2,700	5,780
York-Hanover	380	14,300	10,900	2,930
Western Pennsylvania nonmetropolitan	1,730	16,100	6,110	5,490
Southern Pennsylvania nonmetropolitan	1,800	19,930	8,760	5,550

OCA St. 5 at 38 (footnotes omitted).

The OCA submits low wages contribute to the need for customers to participate in low-income programs. OCA witness Colton concluded:

> I conclude that the Pennsylvania PUC was correct when it observed in September 2019 that Poverty is a broad-based social problem not associated with any particular customer class, including specifically not being associated with the residential class exclusively. I find that a substantial number of wage-earning customers participate in CGPA's universal service programs. I find further that one reason that these customers income-qualify for CGPA's universal service programs is because a substantial number of people through the CGPA service territory are working at Poverty wages.

OCA St. 5 at 39.

OCA witness Colton's analysis showed that the Final CAP Policy Statement Order was correct that poverty is "not just [a] residential class problem." Final CAP Policy Statement Order at 94. The economic factors of the service territory contribute as a factor to the poverty problem. Low wages paid by employers also contribute to the problem of the inability-to-pay for utility service.

e. Universal service programs provide an economic benefit to businesses.

The OCA submits that universal service programs benefit businesses. Universal service programs help to mitigate the costs of natural gas for customers; however, the programs have a much more broad-reaching impact. The programs help to alleviate financial stressors for customers, so that employees can be more productive. As OCA witness Colton testified:

> Any increase in natural gas costs from payment of universal service costs would be offset by increases in employee productivity. Poverty produces ill-prepared workers whose lives are easily disrupted by small catastrophes. If the car breaks down, if a child gets sick, it suddenly becomes impossible to be a reliable worker. Poverty also generates poor health among workers, making them less reliable still and raising the cost of employing them. Paying a small increase in costs to help generate these offsetting benefits is a reasonable investment for a business to make.

OCA St. 5 at 40.

The OCA submits that the universal service programs support the overall competitiveness of Pennsylvania's economy. Studies by the U.S. Chamber of Commerce and the National Association of Manufacturers and the Brooking Institution Center on Urban and Metropolitan Policy have shown that universal service programs support economic development. OCA witness Colton explained the results of the U.S. Chamber of Commerce and the National Association of Manufacturers' 2004 study:

> Why the under-use of public benefits is a problem. When most people hear about the idea of marketing public benefits through employers, their initial reaction is "why would a company want to get involved with a social service program?"
>
> In fact, employers have good reason to be concerned that large numbers of working people with low family incomes do not take advantage of the public benefits intended to help them and their families achieve economic sufficiency – benefits that also help employers by contributing to the economic stability of their workforces. These public benefits bolster the ability of low-income workers to meet their basic needs, in effect providing a wage supplement to employees.

OCA St. 5 at 40-41 (footnote omitted).

OCA witness Colton also cited to Pennsylvania-specific research that has been completed about the value of universal service programs to the competitiveness of Pennsylvania business. OCA witness Colton testified:

> Addressing the problems of poverty is a critical element to restoring the competitiveness of Pennsylvania businesses. In its report *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania*, the Brookings Institution Center on Urban and Metropolitan Policy consistently noted the need to address the factors contributing to the decline of communities, large and small, in the state. According to the report, funded by the Heinz Endowment and William Penn Foundation, neighborhood decline "has become a contagious self-sustaining process in parts of older urban Pennsylvania." Such decline, the report found, triggers a slide in property values, brings negative perceptions, and erodes public health and safety, all of which impede the competitiveness of the state's business and industry. According to this analysis of the competitiveness of Pennsylvania business, and how to "restore prosperity," "the widening social and economic gap between Pennsylvania's older communities and their suburbs has negative implications for the overall health of the regions."

OCA St. 41-42 (footnote omitted).

OCA witness Colton found that home energy affordability programs help to address utility payment problems, but they also help "address trends toward housing abandonment, reductions in

educational attainment, and adverse health outcomes for payment-troubled utility customers." OCA St. 5 at 42 (footnotes omitted). OCA witness Colton testified:

> Universal service programs help to control the need to provide local government services, the cost of which is largely borne by non-residential taxpayers. There is a direct connection between unaffordable home energy bills and the costs of providing public health services. There is a documented connection between unaffordable home energy bills and public safety costs. The benefits of mitigating the need to provide these government services redound to the benefit of all taxpayers, including commercial and industrial entities.

OCA St. 5 at 42-43 (footnotes omitted).

The OCA submits that financial stress impacts the overall productivity of workers, and universal services operate to make a customer's bill more affordable helping to address that stress. In Direct Testimony, OCA witness Colton discussed the research on the relationship between inability-to-pay and the mitigation of harms to business. OCA St. 5 at 43-48. Mr. Colton testified about a 2014 study by the Consumer Financial Protection Bureau (CFPB) that found "even when the economy was booming, financial stress was sapping the productivity and hurting the health of American workers." OCA St. 5 at 43.

The costs to employers can be substantial, and financial stress can lead to increased health care costs for the employer. OCA St. 5 at 44-45. OCA witness Colton noted that the CFPB report found that an increase in health care costs is one of the most cited costs imposed on employers due to financial stress. On this point, Mr. Colton quoted from the CFPB report by Dr. Martha Brown Menard as follows:

> A recent report in Health Affairs analyzed the health risks and medical expenses of more than 92,000 employees over a three-year period. Those reporting high stress were $413 more costly per year on average than workers who were not at risk from stress. By comparison, smoking – a common health risk targeted by corporate wellness programs – was found to raise health care costs by $587 on

> average. Since financial problems are an important stress factor, it appears employers may be paying a high cost for employee financial stress, but they do not recognize it because a large portion of that expense shows up indirectly as a health care expense.

OCA St. 5 at 45 (footnotes omitted).

OCA witness Colton also noted that financial stress can adversely impact employers through absenteeism and presenteeism. Mr. Colton again quoted the analysis of Dr. Menard as follows:

> Academic researchers have studied the costs of absenteeism, presenteeism, and employee turnover specifically associated with employee financial stress, and have estimated these costs based on real world data. Absenteeism from work resulting from worrying about personal finances and employee turnover in particular represents a problem that has been well documented in the literature, and higher levels of financial stress are associated with higher levels of absenteeism, particularly among blue-collar workers. A recent survey of over 5,000 US workers by the company Willis Towers Watson found that employees who are worried about their finances are absent on average for 3.5 days annually.

OCA St. 5 at 46 (footnotes omitted).

Mr. Colton's analysis was not limited to Dr. Menard's study, and the OCA submits that as his testimony demonstrated, it is widely understood in industry circles that employee financial problems impact the employer. He testified:

> For example, according to one report by the Society for Human Resource Management ("SHRM"), "when employees are stressed financially, their health and productivity can both suffer." According to SHRM, 48 percent of human resource managers report workers are struggling and stressed over "covering basic living expenses." SHRM reports that 60% of employers indicate that personal financial issues affect their "workers inability to focus at work" and 34% report such issues result in "absenteeism and tardiness."

OCA St. 5 at 47-48 (footnotes omitted).

Low-income programs, like Columbia's CAP, contribute to economic development and provide substantive benefits to all customer classes. The OCA submits that programs also contribute to the available income within the low-income population that can then be spent in the retail economy on items such as food and clothing. OCA St. 5 at 48. As OCA witness Colton testified, "it helps drive additional job creation, income generation, and economic activity." OCA St. 5 at 48. In support of his analysis, OCA witness Colton cited to a study prepared by Entergy Service Corporation, a major electric utility serving the Middle South. The study found that a low-income rate affordability program would be a significant generator of jobs, economic activity, and income throughout the region. OCA St. 5 at 48.

The Entergy study found that the "distribution of energy assistance creates economic activity through the direct delivery of benefit dollars." Id. Mr. Colton testified that the report also found:

> In addition to the dollars of cash benefits, however, the delivery of energy assistance will also free up household dollars that would have been devoted to the costs arising from the payment and behavior consequences of energy bill unaffordability. These dollars, too, can then instead be spent (and circulated) in the local economy.

OCA St. 5 at 48-49. The Entergy study also found that "the economic impacts provide particular advantage to low-income communities" because both low-income households and local businesses are more likely to shop locally and spend their dollars locally. OCA St. 5 at 49. The report concluded that:

> It is clear, therefore, that not only will the provision of energy assistance provide income and employment to low-income households, but the earnings and employment that are delivered to such households will likely be spent, retained and recirculated within the low-income community as well.
>
> The delivery of energy assistance in the four Entergy states accomplishes far more for those states than simply helping low-

> income residents avoid arrears on home energy bills and preventing the potential loss of home energy service due to nonpayment. The delivery of home energy assistance also serves as a substantial economic stimulant for the economics of the Entergy states.

OCA St. 5 at 48-49.

OCA witness Colton found that there is a direct relationship between the offer of a universal service program and the economic benefits to local commercial and industrial customers. OCA St. 5 at 48-50. Mr. Colton cited the following examples of those economic benefits:

> - Turnover costs business money. We know that unaffordable home energy bills lead to the frequent mobility of households.
>
> - Time missed due to family care provision costs business money. We know that unaffordable home energy leads to more frequent childhood illnesses.
>
> - Time missed due to lack of employee productivity and employee illness costs business money. We know that the inability to stay warm due to unaffordable home energy bills leads to increased illnesses, including pneumonia, influenza, and other infectious diseases.

OCA St. 5 at 49-50 (footnotes omitted).

OCA witness Colton concluded that "increasing employee productivity directly contributes to the increased profitability of firms." Mr. Colton testified:

> With low-wage employees, in particular, unaffordable home energy directly contributes to lowered productivity. Increased personal illness, increased employee turnover, and increased family care responsibilities are but three of the factors contributing to lower employee productivity. The provision of affordable energy through universal service programs such as CAP positively affects each of these productivity factors.

OCA St. 5 at 50.

The relationship between inability-to-pay and economic growth has been also been recognized by the Government Accountability Office (GAO). OCA witness Colton quoted the GAO report, Poverty in America:

> The relationship between poverty and adverse outcomes for individuals is complex, in part because most variables, like health status, can be both a cause and a result of poverty. Regardless of whether poverty is a cause or an effect, however, the conditions associated with poverty can work against the development of human capital – that is the ability of individuals to remain healthy and develop the skills, abilities, knowledge, and habits necessary to fully participate in the labor force. Human capital development is considered one of the fundamental drivers of economic growth. An educated labor force, for example, is better at learning, creating, and implementing new technologies. Economic theory suggests that when poverty affects a significant portion of the population, these effects can extend to the society at large and produce slower rates of growth.

OCA St. 5 at 50-51 (footnote omitted). Mr. Colton concluded "the causes and consequences which I have identified are widely recognized as being attributable to broad social forces unrelated to any particular population that happens to fall into a group which someone has seen fit to label as a particular class of utility customers." OCA St. 5 at 51.

OCA witness Colton examined the impacts of the COVID-19 pandemic on businesses and whether it changed his opinions on the impacts of universal services on businesses. OCA St. 5 at 51. Mr. Colton testified:

> There is no question but that businesses in Pennsylvania are being adversely affected by the COVID-19 pandemic. Many businesses have been ordered to close, or to substantially curtail, their operations during this time of public health emergency. However, residential customers are also impacted by the economic difficulties but still are responsible for universal service costs. Many of the residential customers paying the costs of the program are also low-income or near poverty and experiencing a similar economic impact that businesses are experiencing. The economic difficulties faced by business during his health emergency is not reason, unto itself, to

> decline to allocate universal service costs amongst all customer classes for all the reasons I have outlined above.

OCA St. 5 at 51.

The OCA submits that universal service programs benefit businesses. The programs are often provided to low wage earners. OCA witness Colton found that the programs help to address the financial stressors that impact overall employee productivity for these low wage earners and help to support the local economies of the Columbia service territory.

f. The allocation of universal service costs is consistent with sound ratemaking principles.

The OCA submits that the allocation of universal service costs is consistent with sound ratemaking principles. One well-accepted tenet of utility ratemaking is that certain expenses incurred by the public utility are for "public goods." The costs of Columbia's universal service program should be considered a "public good" that should be allocated across all customer classes. OCA witness Colton explained the concept of public goods:

> Due to the nature of public goods, all customers receive benefits from public goods and, accordingly, the costs of such goods are spread over all customer classes. Each end user makes a financial contribution to the utility's delivery of public goods. The "public goods" doctrine is applied in a variety of settings as a justification to spread designated utility costs over all customer classes.
>
> In economic theory, public goods are those products and services that are valuable to society but which are undersupplied when society relies on private markets to provide them. Because they are needed and will not be made sufficiently available through private markets, the government must supply public goods. Classic examples of public goods include streetlights, city roads, and police protection.

OCA St. 5 at 52. The "public goods" doctrine is applied in a variety of settings to spread designated utility costs over customer classes. Id. Fire hydrants and the basic telecommunications network

have been found to be a "public good" as a justification to spread network costs over all customer classes. OCA St. 5 at 52.

OCA witness Colton recommended that the Commission adopt the definition of "public good" articulated by the National Regulatory Research Institute (NRRI). OCA St. 5 at 53-54. NRRI provided:

> A public good can be defined as "any publicly induced or provided collective good" that "arise[s] whenever some segment of the public collectively wants and is prepared to pay for a different bundle of goods and services than the unhampered market will produce." (note omitted). In sharp contrast to the private-good model. . ., the emphasis of the public-good model is on the *total* societal benefits—both direct and indirect—associated with network modernization. As applied to the telecommunications network, the public-good model is based upon the premise that the costs of achieving and supporting a modern, state-of-the-art network infrastructure are ultimately borne by the general body of ratepayers as opposed to limited subsets of customers who exhibit a high demand for specific new services. The public-good model is conducive to establishing social policies which provide for a "supply driven definition" of infrastructure.

OCA St. 5 at 53. The NRRI definition provides:

> Under the public-good model, infrastructure investment[s] that are in the "public interest" are mandated by regulatory commissions, which act as surrogates for marketplace forces for the very reason that those forces break down either because of the enormous risks involved [,] because of uncertainty with respect to costs and demand or both, or because of the intangible or unmeasurable society benefits which are not valued by the marketplace. (emphasis in original).

OCA St. 5 at 53.

Mr. Colton testified that the NRRI discussion helps to guide the Commission's consideration of the allocation of universal service costs in the following ways:

> - First, universal service is a "publicly induced or provided collective good" as described by the NRRI.
>
> - Second, it is clear from prior Pennsylvania proceedings, that NRRI was correct in referring to such a "collective good" as one that not all

> ratepayers would choose to pay for. Indeed, the fact that the Pennsylvania General Assembly mandated that a universal service charge be "nonbypassable" indicates that the General Assembly understood this aspect of a "public good" and that it affirmatively decided that ratepayers could not avoid this cost by switching suppliers.
>
> - Third, the Pennsylvania universal service programs are consistent with NRRI's statement that the emphasis is on "the *total* societal benefits." Indeed, these benefits include not simply the benefits to participating customers, but also, in the words of NRRI, the benefits "both direct and indirect." Pennsylvania's CAP programs, as a public good, clearly fit this notion of generating not only direct social benefits, but also a wide range of indirect social benefits to all customer classes.
>
> - Fourth, the finding that universal service is a "public good" has cost allocation implications to it. As NRRI points out, "the costs of achieving and supporting a modern, state-of-the-art network infrastructure are ultimately borne by the general body of ratepayers." While some ratepayer groups would limit the allocation of costs only to those customers who "use" the service of a universal service program, accepting this decision is at fundamental odds with universal service being determined to be a "public good."

OCA St. 5 at 53-54.

A product or service such as universal service can represent a "public good" even though direct service is provided to an individual. OCA St. 5 at 55. Mr. Colton testified:

> For example, businesses do not go to school, individuals do. Businesses do not go to doctors, individuals do. Despite this, in each of these instances, the direct benefits to business from the affordable provision of these "public goods" have been documented. Affordable health care and child care are all akin to affordable home energy in their nature as public goods which provide direct and substantial benefits to business as well as individuals. Accordingly, businesses, as well as individuals, should be responsible for helping to pay for these public goods.

OCA St. 5 at 55.

The OCA submits that the fact that these public benefits of universal service programs such as CAP are hard to quantify is one of the reasons that universal service should be found to be a "public good" with costs allocated to all ratepayers. See, OCA St. 5 at 54. Mr. Colton explained:

> As NRRI points out, the public good approach applies "for the very reason that those [market] forces break down…because of…the intangible or unmeasurable society benefits which are not valued by the marketplace."

OCA St. 5 at 54. The National Association of Attorneys General reached this same conclusion and adopted a resolution at its spring 1998 meeting that endorsed the following principles "system benefit charges which are imposed to support public goods such as…universal service, and low-income assistance should be applied in a competitively-neutral and non-avoidable manner." OCA St. 5 at 55.

CAUSE-PA witness Miller also agreed that universal service costs should be considered a "public good." Mr. Miller testified:

> Energy insecurity impacts all customer classes (industry, business, commerce, educational institutions, hospitals, local and state governments, and other residential consumers) in specific and identifiable ways. The responsibility to provide universal access to life-sustaining utility service should be shared by all utility consumers. Poverty is a broad societal problem, impacting all customers and customer classes and requiring a collective, societal solution. While the most *direct* benefits of universal service programs are derived by program participants, who by definition are *part of* the residential customer class, there are a multitude of societal benefits which inure to non-residential ratepayers which inure to non-residential ratepayers that should not be ignored. As a public good, the cost of ensuring affordable access to very basic human needs should be borne by all those enjoy the benefits of the public utility.

CAUSE-PA St. 1 at 39.

Company witness Tubbs argued that allocation of the costs of a "public good" to all customer classes "looks outside the ratemaking process." CPA St. 1-R at 25-26. The OCA submits

that his analysis is flawed and overlooks the fact that the "the treatment of the costs of a 'public good' in the ratemaking process is generally to allocate those costs over all customer classes, for all the reasons identified" by the NRRI. OCA St. 5-S at 3. OCA witness Colton concluded "it is the failure to allocate the costs of a 'public good' over all customer classes that is the departure from the ratemaking norm." OCA St. 5-S at 4.

Other states have reached the conclusion that universal service program costs should be allocated to all customers. OCA witness Colton cited to the allocation of universal service costs to all customers in Maine, Maryland, New Hampshire, New Jersey, Ohio, Illinois, Colorado and Nevada. OCA St. 5 at 56. These eight states have Percentage Income Payment Programs (PIPPs) and allocate the costs to all customer classes. OCA St. 5 at 56. CAUSE-PA witness Miller also cited to Washington and Oregon as states that allocate the costs to all customer classes. CAUSE-PA St. 1 at 43.

The OCA submits that universal service programs should be allocated to all customer classes. The programs are not caused by the residential class, and the residential class is not the only beneficiary of these programs. As OCA witness Colton concluded:

> Based on the data and discussion above, I find that programs such as the Pennsylvania universal service programs, directed toward preserving basic home energy service and relieving financial stress about a household's capacity to meet its fundamental household needs on a month-to-month basis, address a societal-wide problem that is not limited to the residential customer class. The problems that are related to unaffordable home energy as not "caused" by the residential class. Nor does the CGPA universal service programs deliver benefits that are limited to the residential class.
>
> Accordingly, the costs of those programs should be allocated and spread over all of CGPA's customer classes. No reason exists for the residential class to be charged with paying the entire cost of programs that have the effect of improving business profitability by reducing business costs, including reducing absenteeism and turnover, and increasing employee productivity.

OCA St. 5 at 57.

OCA witness Colton recommended that universal service charges should be allocated between customer classes on a competitively neutral basis. He recommended that the allocation be based on the percentage of revenue provided by each customer class at base rates for three reasons. First, the allocation should reflect the fact that these universal service costs are being treated as distribution-related expenses. OCA St. 5 at 58. Second, many of the benefits and savings of the programs are captured in the distribution component of the base rates. Finally, a cost allocation based on class contribution to total revenues at base rates would be administratively easy to apply. OCA St. 5 at 58. These revenues are identified in the Company's filing as Exhibit 103, Schedule 8, page 11.

OCA witness Colton explained the cost impact on each customer class of the proposed allocation of universal service costs. He testified:

> Given that the future expenditures on CGPA universal service programs are not now known and measurable, I estimate the cost impacts of my recommendation using the past two complete years. CGPA reports that it collected $32,333,857.91 in Universal Service Revenues in 2018. CGPA reports that it collected $29,215,919.18 in Universal Service Revenues in 2019. (OCA-IV-17). The distribution of 2018 and 2019 Universal Service Revenues, had this allocation been in effect for those two years, is presented in Schedule RDC-4. I note that it is the percentage of allocation that I recommend, not the dollar allocation. Should the dollar of revenue at base rates differ based on the decisions in the proceeding, the percentages would change accordingly.

OCA St. 5 at 58.

The OCA submits that the costs of universal service programs should be allocated to all customer classes on a competitively neutral basis. The allocation of universal service costs among customer classes should be based on the percentage of revenue provided by each customer class

at base rates as proposed in Schedule RDC-4. See, OCA St. 5 at RDC-4. OCA witness Colton's proposal would allocate 55.7% of the costs to residential customers and the remaining 44.3% of costs across fourteen of the commercial and industrial customer rate classes.[49]

g. Proposals to allocate the universal services costs to only residential customers should be denied.

Columbia Gas witness Tubbs,[50] OSBA witness Knecht, PSU witness James Crist, and Columbia Industrial Intervenor Frank Plank presented testimony that opposed the OCA's and CAUSE-PA's proposal to allocate costs to all ratepayers. See, CPA St. 1-R at 22-26; OSBA St. 1-R at 2-11; PSU St. 1-R at 16-21; CII St. 1-R at 2. The OCA submits that many of the arguments raised in opposition to the allocation of universal service costs to all customer classes were extensively addressed in the Final CAP Policy Statement Order. For the reasons set forth above and in the Final CAP Policy Statement Order, the costs of universal service programs should be allocated to all customer classes.

OSBA witness Knecht's Rebuttal Testimony raised the issue of the merits of collecting universal service costs at all through rates and provides two philosophies of providing universal service, a tax model or an insurance model. OSBA St. 1-R at 4-7. Similarly, PSU witness Crist referred to the allocation of universal service costs as a "tax." PSU St. 1-R at 6. The OCA submits that OSBA's and PSU's arguments are not consistent with the statutory requirements for universal service programs under Sections 2203(6)-(8) of the Public Utility Code.[51] Universal service

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[49] OCA witness Colton does not propose to allocate any percentage of costs to the Main Line Distribution Service Class 1 as identified on Schedule RDC-4. OCA St. 5 at Sch. RDC-4.

[50] The OCA addressed the testimony of Columbia witness Tubbs above.

[51] 66 Pa. C.S. §§ 2203(6)-(8).

programs are required by the Natural Gas Choice and Competition Act and must be funded through utility rates. OCA witness Colton testified:

> Irrespective of Mr. Knecht's perspectives on whether universal service costs should be recovered through utility rates, Pennsylvania has determined that providing such assistance is a proper utility function, the costs of which should be included in rates. His discussion of whether universal service costs should be taxpayer-funded or ratepayer-funded is simply a discussion of an issue that is not presented in this proceeding.

OCA St. 5-S at 26; OCA St. 5-S at 29-30.

OSBA Knecht also incorrectly limited the Commission's decision on this point. OSBA witness Knecht argued that the "rationale for considering a change to the policy appears to be that the low-income assistance programs have become unaffordable to those residential customers who are ineligible or otherwise do not participate in the programs." OSBA St. 1-R at 3. The OCA submits that the Commission's decision was much broader. The factors identified include "poverty, housing stock, and other factors" that contribute to low-income and near-poor customers' inability to sustain their own utility service. OCA witness Colton identified the various aspects of poverty and how each of these aspects are not "caused" by the residential class. In particular, OCA witness Colton discussed the impact of other factors, including the wage levels throughout the Company's service territory, that demonstrate that the residential class is not the "cause" of the need for CAP. OCA St. 5 at 24. OCA witness Colton testified:

> I conclude that the observation in my Direct Testimony remains accurate, that "the Pennsylvania PUC was correct when it observed in September 2019 that Poverty is a broad-based social problem not associated with any particular customer class, including specifically not being associated with the residential class exclusively. I find that a substantial number of wage-earning customers participate in CGPA's universal service programs. I find further that one reason that these customers income qualify for CGPA's universal service program is because a substantial number of peoples throughout the

> CGPA service territory are working at Poverty wages." (OCA St. 5, at 39).

OCA St. 5-S at 24. Mr. Knecht failed to address the impact of the factors as discussed above in Mr. Colton's testimony. See, OCA St. 5-S at 23-24.

PSU witness Crist also argued that universal service costs are "caused" only by the residential class. PSU St. 1-R at 17-19. The OCA submits that this is the same argument that PSU raised in the CAP Policy Statement proceeding. As OCA witness Colton testified:

> In its CAP Policy Statement Order, the Commission agreed that universal service costs cannot be attributed exclusively to the residential class on "cost causation" grounds. The PUC observed that "OCA and the Low Income Advocates contend that the true "cost-causers of universal service programs are the socio-economic conditions that create poverty, note residential ratepayers. In its *1992 Final Report on The Investigation on Uncollectible Balances* at Docket No. I-00900002, BCS also opined that the origins and impacts of energy unaffordability are not limited to residential ratepayers." (2019 CAP Policy Statement Order, at 95). The *Commission* then said: "The Commission agrees that poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service are not just "residential class" problems. (Id., at 96)(emphasis added).

OCA St. 5-S at 31-32.

CII witness Frank Plank argued that changing the allocation of low-income program costs would "exacerbate" issues faced by Rate LDS customers at this time. CII St. 1-R at 2. The OCA submits that Mr. Plank's arguments are contrary to the extensive academic research discussed above, including the analysis of the Chamber of Commerce and the National Association of Manufacturers. See, OCA St. 5 at 40-41; OCA St. 5-S at 21. As OCA witness Colton responded:

> CAP programs benefit large industrial employers by reducing health care costs (Id., at 44-45, 40-50), improving employee productivity (Id., at 43-44), reducing absenteeism (Id., at 46-47, 49-50), and reducing turn-over. (Id., at 46, 49-50). The fact that large employers benefit has not been found simply by academic researchers, the Chamber of Commerce and National Association of Manufacturers,

> but also by industry groups such as the International Foundation of Employee Benefit Plans (Id., at 46-47), and Pricewaterhouse Cooper. (Id. at 44).

OCA St. 5-S at 21-22.

The Final CAP Policy Statement Order appropriately opened the door for the issue of universal service program cost allocation to be addressed in this base rate proceeding. For the reasons set forth above, the OCA submits that the arguments in opposition to allocation of universal service costs should be denied.

h. Conclusion.

As the Commission's Final CAP Policy Statement Order correctly stated, "poverty, poor housing stock, and other factors that contribute to households struggling to afford utility service are not just "residential class" problems." Final CAP Policy Statement Order at 94. Universal service programs benefit all customer classes. For the reasons set forth above, the OCA submits that universal service charges should be allocated between customer classes on a competitively neutral basis, and the allocation of universal service costs among customer classes should be based on the percentage of revenue provided by each customer class at base rates. OCA St. 5 at 6. The OCA submits that the Commission should adopt the OCA and CAUSE-PA's proposal to allocate the costs of universal service programs to all customers.

D. Rate Design.

1. Residential Rate Design.

Columbia's proposal to increase the residential customer charge from $16.75 to $23.00, a 40% increase, violates the principle of gradualism, would significantly expand on a customer charge that is already the highest in Pennsylvania and should be rejected. This is not the time to be increasing charges that customers cannot avoid through conservation. Similarly, the WNA and

RNA mechanisms as proposed do not provide any consumer benefits and are intended for the benefit of Columbia's shareholders. The WNA and RNA mechanisms as proposed in this proceeding are unsupported, unnecessary, and should be rejected.

a. Residential Customer Charge.

i. Columbia's Proposed 40% Increase to the Residential Customer Charge should be Rejected.

Columbia proposes to increase its existing residential customer charge from $16.75 to $23.00, a 40% increase. Columbia's existing customer charge of $16.75 is already the highest in the state for NGDCs. As the OCA discusses throughout this Main Brief, this is not the time to be raising rates for Columbia's customers as they continue to struggle during these unprecedented times. Columbia's proposal as to a drastic increase in the residential customer charge should be rejected. OCA witness Mierzwa described Columbia's current and proposed customer charge, as follows:

> CPA's current Residential sales and transportation customer distribution rates consist of a $16.75-per-month customer charge and a single delivery charge of $6.0763 for each Dth of gas delivered. CPA's proposed Residential rate would consist of a $23.00-per-month customer charge and a $7.3323-per-Dth delivery charge. CPA justifies its proposed Residential customer charge as being within a calculated customer cost range of $23.05 to $54.16 and in proportion to the overall percentage increase proposed for the Residential rate class. The $23.05 charge is based on CPA's Customer-Demand Study exclusive of a customer component of distribution mains, while the $54.16 charge is based on CPA's Customer-Demand Study inclusive of a customer component of distribution mains.

OCA St. 4 at 36. As Mr. Mierzwa testified, Columbia's proposed customer charge is based on its Customer Demand COSS. Columbia's Customer Demand COSS, however, contains serious flaws as discussed earlier in this Main Brief and should not be relied on as a guide to set rates in this

matter. OCA witness Mierzwa testified as to whether Columbia's proposed 40% increase should be granted in this proceeding, as follows:

> No, for several reasons. First, CPA's Residential customer charge proposal is out of line with the Residential customer charges of other NGDCs in the Commonwealth. Second, CPA's proposed Residential customer charge violates the principle of gradualism. Third, as discussed in the testimony of OCA Witness Colton, CPA's proposal will have a disproportionate impact on low-income customers. Finally, a high fixed monthly customer charge is inconsistent with the Commission's general goal of fostering energy conservation.

OCA St. 4 at 37. As Mr. Mierzwa testified, Columbia's proposed $23.00 customer charge is not remotely comparable to any other NGDC in Pennsylvania. In support of his position, Mr. Mierzwa provided the following:

> Table 9 provides a comparison of CPA's Residential customer charge proposal with the customer charges of other Pennsylvania NGDCs. As shown there, CPA's current charge is already the highest in the Commonwealth, and if adopted, CPA's proposed monthly Residential customer charge would be significantly higher than that of any other NGDC in the Commonwealth.

Table 9.
Comparison of Residential Customer Charges for Pennsylvania NGDCs

Columbia Gas of Pennsylvania – Proposed	**$23.00**
Columbia Gas of Pennsylvania – Current	**16.75**
Peoples Gas	15.75
UGI Gas	14.60
Peoples Natural Gas	14.50
Philadelphia Gas Works	13.75
National Fuel Gas Company	12.00
PECO Energy Company	11.75

OCA St. 4 at 37-38. Columbia's proposed $23.00 charge would be well beyond any reasonable level. In rebuttal, Company witness Melissa Bell argued that Mr. Mierzwa was taking too narrow

of a focus on the Customer charge issue. Company St. 3-R at 18-19. In his Surrebuttal Testimony, Mr. Mierzwa responded, as follows:

> Ms. Bell claims that difference in rate structures can distort comparisons when looking just at one component in isolation. She then presents a hypothetical example where a declining block rate structure effectively results in an increase in a utility's monthly customer charge. However, even if one were to consider the impact of a declining block rate structure, Ms. Bell presents no evidence to dispute my claim that Columbia's current monthly Residential customer charge is not already the highest in Pennsylvania.

OCA St. 4-S at 12. As Mr. Mierzwa testified, Columbia can attempt to justify its proposed 40% increase to the customer charge, but the Company cannot hide from the fact that its *current* charge is already the highest in the state.

Columbia's proposed $23.00 customer charge also violates the principle of gradualism, as OCA witness Mierzwa explained:

> Gradualism is an important factor in developing a sound rate design and refers to stability and predictability in rates with a minimum of unexpected changes seriously adverse to ratepayers, and with a sense of historical continuity. In short, gradualism refers to the avoidance of rate shock. CPA's Residential customer charge proposal represents an increase of nearly 40 percent in that rate. Such a significant increase should be avoided.

OCA St. 4 at 38. Columbia proposed 40% increase to the customer charge is clearly excessive and violates principles of traditional ratemaking.

Mr. Mierzwa went on to note that this proposed substantial increase to a fixed charge is at odds with the Commission's stated goals of energy conservation, as follows:

> The more revenue collected through the fixed monthly charge, the lower the volumetric charge. The higher the volumetric charge, the greater the incentive to lower usage.

OCA St. 4 at 38. In rebuttal, Company witness Bell testified that a higher fixed charge would not necessarily lead to increased natural gas consumption. Company St. 3-R at 20-21. Ms. Bell noted

Nisource's experience in Ohio, where all base rate charges are collected through a fixed charge and usage per customer there has actually gone down. Id. In his surrebuttal testimony, Mr. Mierzwa responded to Ms. Bell's arguments, as follows:

> COH's experience does not support the claim that increases in customer charges will not reduce the incentive for customers to engage in conservation activities. It would be expected that over time, the gas heating equipment and appliances used by Residential customers would be replaced due to retirement, failure, and new construction. This replacement heating equipment and appliances would be more energy efficient than the equipment retired from service. Therefore, normalized usage would be expected to decline regardless of customer charges. To demonstrate that higher customer charges do not reduce customer conservation efforts, a comparison of the decline in usage for two NGDCs with similar size and operating characteristics and different customer charges would need to be provided. Ms. Bell has not provided such a comparison and, therefore, her claim that customer charges do not impact customer conservation efforts is unsupported.

OCA St. 4-S at 13-14. As Mr. Mierzwa testified, the Company's arguments to substantially increase the customer charge are unpersuasive and without merit.

The OCA submits that Columbia has failed to carry its burden to show that increasing the residential customer charge by 40% at this time would result in rates that are just and reasonable. Further, as detailed in the next section, substantially increasing the residential customer charge at this time will disproportionally impact lower income customers who are already suffering disproportionate harm from the COVID-19 pandemic.

ii. The Proposed $6.25 Increase to the Customer Charge Will Disproportionately Harm Low-Income Customers.

a1. Introduction.

OCA witness Colton supported OCA witness Mierzwa's recommendation to reject the proposed $6.25 increase to the residential customer charge. OCA St. 5 at 58. The proposed $6.25 increase to the residential customer charge from $16.75 to $23.00 per month will have a

disproportionate impact on low-income customers. OCA St. 5 at 58-59. As OCA witness Colton testified, "the size of the residential customer charge is important to all residential customers because it is an 'unavoidable' fixed monthly charge." OCA St. 5 at 58-59. Low-income customers, in particular, cannot insulate themselves from the impacts of the increase to the customer charge. Percentage of Bill customers enrolled in CAP, and non-CAP low-income customers will experience the effects of the increase to the customer charge and will not be able to reduce the impacts of the customer charge increase through conservation. The total costs of the proposed customer charge increase to low-income customers is nearly equal to the Company's total annual Low Income Home Energy Assistance Program (LIHEAP) grants. Low-income customers are disproportionately low-use customers who cannot otherwise off-set the costs of the proposed increased customer charge. The OCA submits, therefore, that the recommendations of OCA witness Mierzwa should be adopted.

b1. Low-income customers will not be protected from the proposed increase to the customer charge.

According to Columbia, the majority of CAP customers will experience no impact from the increase to the customer charge. OCA St. 5 at 60. Low-income customers, including some CAP customers, will not be shielded from the proposed increase to the customer charge because the vast majority of low-income customers are not enrolled in CAP. OCA witness Colton found that Columbia's CAP actually "reaches a very small proportion of its confirmed low-income customer base." OCA St. 5 at 59.

According to Columbia, the Company has confirmed the low-income status of 61,152 customers, while estimating a total low-income population of 101,375, or approximately 60% of its estimated low-income population. OCA St. 5 at 59. As Mr. Colton testified, CAP serves less

than 23% of Columbia's estimated low-income population. OCA St. 5 at 59-60. As such, CAP does not protect the vast majority of low-income customers.

The Company also argued that there will be "no impact" on CAP customers because "their monthly CAP payment is based on factors unrelated to rates or monthly bills. This includes customers on the Percent of Income, Average Bills and Minimum payment plans. [CAUSE-PA-1-1]." OCA St. 5 at 60. OCA witness Colton explained why CAP customers would not necessarily be protected, and that the Company's statements overlook the impact on Percentage of Bill customers. Mr. Colton testified:

> CGPA has different aspects to its CAP program: the percentage of income component; the average of past payments component; the percentage of bill component; and the minimum payment component. (CAUSE-PA-1-2). According to the Company, its enrollment by program component in December 2019, and in May 2020, was as follows:

Table 10. Percentage of CGPA CAP Enrollment by CAP Program Component (CAUSE-PA-I-2)

	December 2019	May 2020
Total	20,350	22,411
PIPP	18.7%	18.2%
Average of Payments	11.4%	10.5%
% of Bill	61.2%	61.8%
Minimum Payment	8.8%	9.5%

> As can be seen in this Table, more than three out-of-five CGPA CAP participants participate in the "Percentage of Bill" program component. Through this CAP design, CAP participants pay a percentage of the bill at standard residential rates. If residential rates increase, in other words, the CAP participant's payment will increase correspondingly.

OCA St. 5 at 60-61. The 61% of CAP customers that pay a Percentage of Bill will also not be shielded from the impact of the proposed customer charge increase.

In Rebuttal Testimony, Company witness Davis acknowledged that customers enrolled in the percentage of bill will experience higher bills; however, she stated that "even those on the Percent of Budget…will realize only half of the impact of any rate increase." Columbia St. 13-R at 9. The OCA submits that Ms. Davis does not acknowledge the overall impact on the total energy burden that the increased customer charge will have on Percentage of Bill customers. OCA witness Colton testified:

> Many of those customers on the percentage of bill plan will experience an increase…in their natural gas burdens of more than 50% (5.23%-3.44%/3.44%= 0.52). Ms. Davis reports that customers on the CGPA percentage of bill plan will, on average, have a bill burden of 5.23% given the Company's rate proposal, an increase from the range of "between 3.24% and 5.24%." (CGPA St. 13-R, at 10.

OCA St. 5-S at 19.

Contrary to Columbia's arguments, low-income customers will not be protected from the customer charge increase. A significant portion of Columbia's confirmed low-income customers are not enrolled in CAP and will not be shielded from the proposed $6.25 increase. Moreover, 61% of CAP customers are enrolled in the Percentage of Bill program and will also receive an impact from the proposed increase to the customer.

c1. <u>The proposed increase to the customer charge will harm Columbia's low-income customers</u>.

An increase of $6.25 per month in the fixed customer charge would represent an increase of $75.00 per year ($6.25/month x 12 months = $75.00). OCA St. 5 at 63. OCA witness Colton testified "[g]iven the Company's estimated number of low-income customers (101,375: USECP, at 33), this would be an increase in unavoidable annual customer charges of $7.6 million (101,375 x $75.00 = $7,603,125) to the CGPA's low-income population." OCA St. 5 at 63-64. OCA witness Colton explained:

> To put this number into context, in program 2018-2019, CGPA customers received $4.655 million in LIHEAP cash grants, while in 2019-2020 program year, they received $4.527 [million] in LIHEAP cash grants. (OCA-IV-5). Just the increase in the fixed customer charge, standing alone, (not the total fixed charge, simply the increase in the fixed charge), in other words, will exceed the total amount of LIHEAP cash grants received by all low-income customers by nearly 70% ($7,603,125/$4,527,711 =1.68).

OCA St. 5 at 64. The Company did not address in testimony OCA witness Colton's characterization of the LIHEAP cash grants or that the proposed increase would exceed the amount of LIHEAP cash grants that low-income customers receive.

Columbia did not refute that the increase to the proposed fixed customer charge is so substantial that it will exceed the total annual dollars received from LIHEAP cash grants. Moreover, the Company has not refuted the additional harms to low-income customers by (1) increasing the depth and breadth of customer arrears; (2) increasing incidence of service disconnections and threat of service disconnections; (3) increasing the Home Energy Insecurity; and (4) reducing the ability of low-income customers to respond to their inability-to-pay through usage reductions. OCA St. 5 at 64-65. The OCA submits that Columbia is unable to refute the impact that the proposed customer charge increase will have on low-income customers.

d1. Low-income customers are disproportionately low-use customers who cannot otherwise off-set the proposed increased customer charge.

Low-income customers are disproportionately, and on average, low-use customers. OCA St. 5 at 65. [52] Mr. Colton explained how the proposed $6.25 increase to the customer charge would disproportionately impact low-income customers:

[52] Mr. Colton notes that his testimony is not that all low-income customers are also low-use customers. It is what he states: "disproportionately and on average." OCA St. 5 at 65.

> While low-income households tend to have less efficient energy consumption than do residential customers generally on a per square foot of housing basis, because they live in much smaller housing units, they tend also to have lower overall natural gas consumption.

OCA St. 5 at 66. With lower consumption and a fixed monthly customer charge, the OCA submits that low-income customers do not have the ability to mitigate the proposed rate increase.

OCA witness Colton found that there is a direct correlation between low-income customers and low natural gas usage. In his analysis, Mr. Colton relied upon a 2009 Department of Energy (DOE) Residential Energy Consumption Study (RECs Study). The DOE RECs Study found that as incomes increase, natural gas usage also correspondingly increases. OCA St. 5 at 66, Table 15. OCA witness Colton testified:

> The RECs data clearly shows that natural gas consumption increases as the size of the housing unit increases. The related housing characteristics support this conclusion. Residents of single-family housing have greater consumption than residents of multi-family housing. Renters have lower consumption than do homeowners. And, occupants of homes with more rooms have higher gas consumption than occupants of dwellings with fewer rooms.

OCA St. 5 at 68.

Columbia has not completed a similar analysis of the relationship between income and usage. Nor did the Company directly address Mr. Colton's analysis in testimony. OCA St. 5 at 68.[53] OCA witness Colton also found that the usage of CAP participants cannot be used as a proxy for all low-income customers. Mr. Colton testified:

> By definition, participants in the Percentage of Income CAP program component are not likely to have low usage. Given an average household size in the CGPA service territory (2018) of 2.41 persons (American Community Survey, Table 25010), annual incomes at 50%, 100%, 120% and 150% of Poverty, and the CGPA

[53] The OCA notes that as discussed in greater detail below, Company witness Bell briefly rebutted Mr. Colton's conclusions, but she did not present any analysis in support of her statements or response to the analysis presented by OCA witness Colton.

> bills that would be required at those income levels (7%, 9%) to enroll in CAP, are as set forth in Table 18 immediately below.

OCA St. 5 at 69. Table 18 demonstrated that in order to receive a percentage of income discount under CAP, CAP customers would need to use substantially more than average usage. OCA witness Colton testified:

> for incomes levels other than 50% of Poverty in the above Table, bills (and thus usage) would need to be substantially above the residential average simply to participate in CAP. At 100% of Poverty, bills would need to be nearly 10% higher than average to participate in the percentage of income component. At 120% of Poverty, bills would need to be nearly 70% higher; at 150% of Poverty, bills would need to be more than 110% higher than average.

OCA St. 5 at 70.

Columbia also has not completed any demographics studies of it CAP participants. OCA St. 5 at 70. OCA witness Colton, however, completed two demographic analyses that support his assertions that low-income customers use less natural gas than other residential customers. First, Mr. Colton examined the number of rooms in a housing structure as compared to the average household income. Second, OCA witness Colton performed a zip code analysis to confirm that the DOE RECs study applied to Columbia's service territory.

As shown in Schedule RDC-5, OCA witness Colton presented the average income in Pennsylvania by number of rooms in a housing structure and the average income in Pennsylvania by the number of bedrooms in a housing structure. OCA St. 5 at 70, Sch. RDC-5. Mr. Colton's Schedule RDC-5 showed that as housing units get larger in Pennsylvania, average income increased. Id.

In Schedule RDC-6, OCA witness Colton presented a distribution of Pennsylvania households by income and by the size of the housing unit in which they live, measuring housing

unit size by the number of bedrooms in the unit. OCA St. 5 at 71, Sch. RDC-6. Mr. Colton explained his findings:

> The data shows that a higher proportion of lower-income households live in smaller housing units and a higher proportion of higher income households live in larger housing units.

OCA St. 5 at 71; see also, OCA St. 5 at Sch. RDC-6.

OCA witness Colton next performed an analysis of the zip codes to confirm that the DOE data applied to his analysis and determined that the DOE data was indeed applicable to the demographics of Columbia's service territory. OCA St. 5 at 72-76. Mr. Colton confirmed the applicability of the DOE data using four checks: (1) a comparison of renters by level of income (setting low-income as being at or below $10,000) to housing unit size; (2) a comparison of the zip codes showed that the areas with low penetrations of income below $10,000 also had a low penetration of three-room homes;[54] (3) a comparison of the zip codes showed that the areas with the high penetrations of households with low-income incomes had the highest penetrations of three-room homes; and (4) a comparison of zip codes showed that there was a relationship between the physical size of a housing unit (such as single-family detached homes) and higher income status. OCA St. 5 at 73-76.

Mr. Colton concluded:

> As income increases, natural gas usage increases. Low-income households, both disproportionately and on average, have lower natural gas usage than higher income households. While low-income households may have less efficient housing on a per square foot basis, that lack of efficiency is more than offset by other characteristics. Low-income households tend to be renters rather than homeowners, with renters using less natural gas. Low-income households tend to live in smaller housing units, with smaller units using less natural gas. Low-income households tend to live in multi-family housing rather than single-family housing, with multi-family

[54] Low-income households disproportionately live in smaller homes (with 3 rooms or fewer). OCA St. 5 at 73.

> housing units using less natural gas. I conclude that the data for CGPA zip codes confirms these DOE observations. CGPA's low-income households tend to live in smaller housing units. CGPA's low-income households tend to live in multi-family (rather than single-family) housing units. And, I conclude, CGPA's low-income households will, both disproportionately and on average, have lower natural gas usage than higher income households.

OCA St. 5 at 76-77. As low-income households are disproportionately, and on average, lower use households, low-income households will also be disproportionately harmed by the proposed $6.25 increase in the customer charge.

In Rebuttal Testimony, the Company did not address Mr. Colton's analysis or the DOE study. Regarding Mr. Colton's conclusion that low-income customers are disproportionately low-use customers, Company witness Bell only testified that:

> Although there are low income customers who reside in small multifamily units, there are also low income customers who live in large poorly insulated homes with old less efficient furnaces that use above/the average residential customer consumption."[55]

Ms. Bell's testimony does not directly address the analysis performed by Mr. Colton. As OCA witness Colton testified:

> While I accept Ms. Bell's statement as accurate, it also mis-represents my Direct Testimony. My Direct Testimony concluded that "Low-income customers, both disproportionately, and on average, are also low-use customers." (OCA St. 5, at 65) (emphasis added). Ms. Bell does not dispute that conclusion (or the analysis that was presented in support of that conclusion).

OCA St. 5-S at 11. While Company witness Bell does not agree with Mr. Colton's conclusions, the Company has not presented any evidence to rebut his detailed analyses.

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[55] Columbia St. 3-R at 29.

The OCA submits that Mr. Colton has conclusively demonstrated that low-income customers are disproportionately low-use customers and would be disproportionately impacted by the proposed customer charge increase. As low-use customers, low-income customers would not have the ability to otherwise avoid the impact of the $6.25 proposed increase to the customer charge. Columbia has been unable to refute the impact the proposed increase will have on low-income, low-use customers.

iii. Conclusion.

Columbia's existing customer charge of $16.75 is already the highest in the state for NGDCs. As the OCA discusses throughout this Main Brief, this is not the time to be raising rates for Columbia's customers as they continue to struggle during these unprecedented times. As Mr. Mierzwa testified, Columbia's proposal as to a drastic increase in the residential customer charge should be rejected. Further, as OCA witness Colton testified, lower income customers will be disproportionally impacted by Columbia's proposed substantial customer charge increase.

Low-income customers cannot insulate themselves from the impacts of the increase to the customer charge. Percentage of Bill customers enrolled in the Customer Assistance Program (CAP) and non-CAP low-income customers will experience the effects of the increased customer charge and will not be able to reduce the impacts of the customer charge increase through conservation. The total costs of the proposed customer charge increase to low-income customers exceeded the Company's total annual LIHEAP grants. Low-income customers are also disproportionately, on average, low-use customers who are otherwise unable to mitigate impact of a $6.25 increase to their bills. The OCA submits, therefore, that the recommendations of OCA witness Mierzwa should be adopted because of the impact of the increased customer charge on low-income customers.

b. Weather Normalization Adjustment.

Columbia is one of only two Pennsylvania NGDCs that have a Weather Normalization Adjustment (WNA), PGW being the other. The WNA is a revenue stabilizing mechanism, as it is designed to charge residential customers more when the weather is warmer than normal, and to provide a credit to customers when the weather is colder than normal. Currently there is a 3% deadband in place for activation of the WNA, meaning that slight weather variations from normal conditions do not trigger the WNA. Mr. Mierzwa explained the WNA, as follows:

> The WNA adjusts a Residential customer's monthly charges to account for differences in usage attributable to variations between actual recorded heating degree days ("HDDs") and normal HDDs during the months of October through May. The WNA provides for the collection of additional revenues from Residential customers when actual HDDs experienced are less than normal HDDs, and provides a revenue credit when actual HDDs experienced are greater than normal HDDs. The formula used to develop the WNA applied to each bill is presented on pages 16-17 of Columbia Statement No. 3.

OCA St. 4 at 39. In this case, the Company is proposing to eliminate the 3% deadband. Mr. Mierzwa explained why the deadband should be maintained, as follows:

> It is unreasonable to assume that weather and natural gas usage is abnormal if a particular day is only a few HDDs warmer or colder than normal. If the deadband is eliminated, the WNA would be applied if actual weather was only one HDD colder or warmer than normal. An HDD is determined by taking the average of daily high and low temperatures, and daily usage can vary due to factors other than temperature. Therefore, the 3 percent deadband should be maintained to help ensure that the assessment of the WNA is limited to changes in usage attributable to variations in temperature.

OCA St. 4 at 39-40. The deadband provides a reasonable balance between the interests of Columbia's shareholders, to stabilize revenue, and the Company's customers.

In rebuttal, Company witness Bell argues that removing the deadband is a benefit for customers. Company St. 3-R at 4-8. Ms. Bell's arguments, however, are centered on what happens

when the weather is colder than normal and not the opposite. Columbia's proposal would completely eliminate the effects of weather on the Company's revenues.

In his surrebuttal testimony OCA witness Mierzwa explained that the WNA was neither designed to nor is capable of accurately or fairly completely eliminating the effects of weather. Mr. Mierzwa explained:

> The WNA was not designed to eliminate the impact of weather on the Company's revenues. The WNA was designed to mitigate the revenue impact of temperatures that are warmer or colder than normal. Other weather variables can influence customer usage levels such as windspeed and the percentage of sunshine on a particular day. In addition, factors such as day of the week influence customer usage levels. The current WNA does not account for variations in usage due to these other factors. Maintaining the 3 percent deadband assists in limiting revenue adjustments solely attributable to differences between actual and normal temperatures.

OCA St. 4-S at 14. The current 3% deadband fairly balances the interests of Columbia's shareholders and its customers. It should be noted that PGW continues to have a 3% deadband on its WNA mechanism, even though PGW is a cash-flow utility with no shareholders. Columbia's attempts here to further stabilize and potentially increase its revenues under a warmer than normal weather scenario would be unfair to its customers and should be rejected.

c. Revenue Normalization Adjustment.

In this proceeding Columbia has proposed a Revenue Normalization Mechanism (RNA) rider for application to the residential class. In his Direct Testimony, OCA witness Mierzwa described the RNA, as follows:

> Under Rider RNA, a benchmark revenue per non-customer assistance program ("CAP") Residential customer ("Benchmark Distribution Revenue per Bill" or "BDRB") would be established through a base rate case proceeding. Through Rider RNA, the Company would collect or refund any variation in non-CAP Residential revenues that differed from the BDRB not due to differences between actual and normal weather. Rider RNA would

be calculated and assessed on a total Residential class revenue basis rather than an individual customer revenue basis.

OCA St. 4 at 40 (footnote omitted). The RNA is an alternative ratemaking mechanism, designed to stabilize the Company's revenues and insulate its revenue stream from any changes in the residential class' natural gas usage. The RNA is, in effect, a decoupling mechanism that should not be authorized by the Commission for several reasons.

First, Columbia's proposal is unsupported. Columbia made no reasonable attempt to comply with the Commission's Policy Statement on alternative ratemaking mechanisms. In an Order entered July 18, 2019, in Docket No. M-2015-2518883, the Commission set forth its Statement of Policy with respect to alternative ratemaking methodologies. In its Statement of Policy, the Commission identified 14 factors it would consider in evaluating an alternative ratemaking mechanism. The Statement of Policy required a utility proposing an alternative ratemaking mechanism to explain how each of these 14 factors impact the rates of each customer class. The 14 factors are set out in the Policy Statement, as follows:

§ 69.3302. Distribution rate considerations.

(a) In determining just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose and scope of this statement of policy and the objectives of 66 Pa.C.S. § 1330 (relating to alternative ratemaking for utilities), the Commission may consider, among other relevant factors, the following:

(1) How the ratemaking mechanism and rate design align revenues with cost causation principles as to both fixed and variable costs.
(2) How the ratemaking mechanism and rate design impact the fixed utility's capacity utilization.
(3) Whether the ratemaking mechanism and rate design reflect the level of demand associated with the customer's anticipated consumption levels.
(4) How the ratemaking mechanism and rate design limit or eliminate interclass and intraclass cost shifting.

> (5) How the ratemaking mechanism and rate design limit or eliminate disincentives for the promotion of efficiency programs.
>
> (6) How the ratemaking mechanism and rate design impact customer incentives to employ efficiency measures and distributed energy resources.
>
> (7) How the ratemaking mechanism and rate design impact low-income customers and support consumer assistance programs.
>
> (8) How the ratemaking mechanism and rate design impact customer rate stability principles.
>
> (9) How weather impacts utility revenue under the ratemaking mechanism and rate design.
>
> (10) How the ratemaking mechanism and rate design impact the frequency of rate case filings and affect regulatory lag.
>
> (11) If or how the ratemaking mechanism and rate design interact with other revenue sources, such as Section 1307 automatic adjustment surcharges, 66 Pa.C.S. § 1307 (relating to sliding scale of rates; adjustments), riders such as 66 Pa.C.S. § 2804(9) (relating to standards for restructuring of electric industry) or system improvement charges, 66 Pa.C.S. § 1353 (relating to distribution system improvement charge).
>
> (12) Whether the alternative ratemaking mechanism and rate design include appropriate consumer protections.
>
> (13) Whether the alternative ratemaking mechanism and rate design are understandable to consumers.
>
> (14) How the ratemaking mechanism and rate design will support improvements in utility reliability.

52 Pa. Code § 69.3302. The Policy Statement is also clear that a utility must submit evidence addressing these 14 factors when it propose an alternative ratemaking mechanism. Subsection (b) specifically provides:

> (b) In any distribution rate filing by a fixed utility under 66 Pa.C.S. § 1308 (relating to voluntary changes in rates) that proposes an alternative ratemaking mechanism and rate design, the fixed utility shall explain how these factors impact the distribution rates for each customer class.

52 Pa. Code § 69.3302. As Mr. Mierzwa testified, Columbia has failed to follow the Commission's guidance as set out in the Policy Statement as to how an alternative ratemaking mechanism should be presented, explained and supported in a base rate proceeding.

In rebuttal, Ms. Bell argued that the Company did "indirectly" address some of the 14 factors as set out in the Policy Statement. Company St. 3-R at 23. In his Surrebuttal testimony Mr. Mierzwa responded to that assertion as follows:

> Ms. Bell claims that her Direct Testimony indirectly addresses some of the factors relevant to the proposed RNA, and then proceeds to address 5 of the 14 factors. The 14 factors set forth in the Commission's Statement of Policy should have been directly addressed in Columbia's initial filing in this proceeding, not indirectly in the rebuttal phase. Indirectly addressing the 14 factors in the rebuttal phase severely reduces the ability of the parties, and subsequently, the Commission to evaluate Columbia's alternative ratemaking proposal.

OCA St. 4-S at 15. As Mr. Mierzwa explained, Columbia's mechanism should have been fully set forth in its case-in-chief, and not merely supplemented at the rebuttal phase of this proceeding.

Aside from the failure to address the 14 factors, the OCA submits that Columbia's pursuit of an RNA in this case is unreasonable. The current pandemic and the uncertainty it has caused makes this a particularly difficult time to consider such a proposal. Mr. Mierzwa testified that:

> The COVID-19 pandemic is another reason Rider RNA should not be approved. There is a great deal of uncertainty concerning the impact of the pandemic on customers and unintended consequences could result. For example, the normal usage of Residential customers could change significantly as a result of the pandemic and customers could be assessed charges for these changes in usage. Alternative ratemaking mechanisms such as Rider RNA need to be accompanied by sufficient consumer protections.

OCA St. 4 at 41. Third, even if considered, the RNA proposal is flawed and lacks critical consumer protections. Mr. Mierzwa identified the following issues with the RNA:

- The proposed Rider RNA could increase earnings beyond those that the Company would ordinarily be entitled to.
- The proposed Rider RNA unreasonably applies to customers whose usage is relatively constant over time.
- The proposed Rider RNA embodies a take-or-pay pricing policy.
- The proposed Rider RNA inappropriately adjusts rates without considering other changes in total revenues and costs.

- CPA has not demonstrated that its current system of rates and charges result in inadequate revenue stability.

OCA St. 4 at 41-42. As shown. Mr. Mierzwa testified to significant concerns over the RNA proposal beyond the obvious issues surrounding what "normal usage" may look like considering the vastly changed environment due to the COVID-19 pandemic.

Columbia has failed to show that the RNA rider is needed, reasonable or appropriate, as OCA witness Mierzwa testified:

> CPA's current system of rates and charges, which include fixed monthly customer charges, a Purchased Gas Adjustment mechanism, Rider WNA, and a distribution system improvement charge ("DSIC"), provide for revenue stability and CPS has not demonstrated that this stability is inadequate.

OCA St. 4 at 44. Columbia's proposed RNA should also be reviewed for consistency with the Commission's recent Orders on alternative ratemaking.

Act 58 of 2013 specifically addresses alternative ratemaking mechanisms. 66 Pa. C.S. § 1330. In accordance with Act 58, the Commission issued an Implementation Order that set out certain procedures that utilities must follow if seeking Commission approval of an alternative ratemaking mechanism.[56] Specifically, the Implementation Order requires additional language on the customer bill inserts to notice customers that an alternative ratemaking mechanism is being included as a part of the utility's base rate case. Implementation Order at 24-25. The actual bill insert that Columbia used to notice customers of its rate increase does not appear to be a part of the record in this matter. As such, Columbia has the burden to show that as to its proposed RNA rider the Company complied with the Commission's directives in the Implementation Order.

---

[56] Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities, Dock. No. M-2018-3003269 (Order entered Apr. 25, 2019) (Implementation Order).

Columbia has the burden of proof to show that its proposed RNA is necessary, reasonable, and will result in rates that are just and reasonable. Columbia filing, however, appears to show a lack of notice regarding its RNA proposal. Further, as Mr. Mierzwa testified, Columbia has not followed the Commission's guidance as set out in the Policy Statement for the approval of this alternative ratemaking mechanism. As such, the OCA submits the RNA must be rejected.

2. Small C&I Customer Rate Design.

The OCA's position on small C&I customer rate design is wholly contained in the Cost of Service and Revenue Distribution sections of this Main Brief.

3. Large C&I Customer Rate Design.

The OCA's position on large C&I customer rate design is wholly contained in the Cost of Service and Revenue Distribution sections of this Main Brief.

4. Gas Procurement Charge Rider.

The OCA is not briefing this issue, but reserves the right to respond in Reply Brief if necessary.

E. Bill Impacts.

The OCA's position in this matter is that during the ongoing COVID-19 pandemic the Commission should leave Columbia's existing tariff in place with no revenue increase. Accordingly, the OCA has not calculated bill impacts from a revenue increase in this matter but reserves the right to respond on this issue in Reply Brief if necessary.

The OCA has, however, advocated for the allocation of universal service costs to all other customer classes. As OCA witness Colton testified, the cost impacts to the other classes can only be estimated at this time. OCA St. 5 at 58. As such, Mr. Colton used the last two years of data for universal service costs and created a chart to show the impacts to the other classes under his

proposed allocation methodology using this historical data. See, OCA St. 5 at 58, Schedule RDC-4.

XI. CONCLUSION

For the reasons set forth in this Main Brief, the OCA respectfully requests the Commission to deny any rate increase to Columbia at this time. Columbia's customers are experiencing substantial economic and personal hardships as a result of the continuing COVID-19 pandemic, and any rate increase at this time would not result in just and reasonable rates. Should the Commission determine, however, that some increase is needed, then the OCA's alternative positions and adjustments should be adopted and Columbia should only receive a minimal revenue increase at the present time.

Respectfully submitted,

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Dated: October 16, 2020
297800

TABLE I
COLUMBIA GAS OF PENNSYLVANIA, INC.
INCOME SUMMARY
R-2020-3018835

	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates (Revised) (1)	OCA Adjustments	OCA Pro Forma Present Rates	OCA Revenue Increase	Total Allowable Revenues
	$	$	$	$	$	$	$
Operating Revenue	572,770	0	572,770	0	572,770	31,262	604,032
Expenses:							
O & M Expense	336,663	0	336,663	(10,714)	325,949	355	326,304
Depreciation	98,833	0	98,833	(1,958)	96,875	0	96,875
Taxes, Other	3,826	0	3,826	(112)	3,714	0	3,714
Income Taxes:							
State	42	0	42	(989)	(947)	1,853	906
Federal	16,227	0	16,227	2,279	18,506	6,101	24,607
Total Expenses	455,591	0	455,591	(11,494)	444,097	8,309	452,406
Net Inc. Available for Return	117,179	0	117,179	11,494	128,673	22,953	151,626
Rate Base	2,401,427	0	2,401,427	(72,303)	2,329,124		2,329,124
Rate of Return	4.88%		4.88%				6.51000000%

(1) Company Main Brief

TABLE I(A)
COLUMBIA GAS OF PENNSYLVANIA, INC.
RATE OF RETURN
R-2020-3018835

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.26000000%		
Long-term Debt	50.00%	4.52%	2.26000000%		2.26%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.742647	0.00%
Common Equity	50.00%	8.50%	4.25000000%	0.742647	5.72%
	100.00%		6.51000000%		7.98%
Pre-Tax Interest Coverage	3.53				
After-Tax Interest Coverage	2.88				

TABLE I(B)
COLUMBIA GAS OF PENNSYLVANIA, INC.
REVENUE FACTOR
R-2020-3018835

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01135370
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98864630
State Income Tax Rate (*)	0.05994000
Effective State Income Tax Rate	0.05925946
Factor After Local and State Taxes	0.92938684
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.19517124
Revenue Factor (100% - Effective Tax Rates)	0.73421560

(*) Company Main Brief
** Reflects usage of NOL for CNIT 0.05994

TABLE II
COLUMBIA GAS OF PENNSYLVANIA, INC.
SUMMARY OF ADJUSTMENTS
R-2020-3018835

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)						
FPFTY Plant Additions	(72,303)						
REVENUES:							
		0				0	0
EXPENSES:							
Labor and Benefits Expense			(1,144)		(56)	72	237
Incentive Compensation			(775)		(56)	50	164
Stock Rewards			(2,300)			138	454
Outside Services Expense			(1,757)			105	347
Rate Case Expense			(530)			32	105
Safety Initiatives			(3,776)			226	746
Compensation Adjustments			(432)			26	85
Budget Billing Adjustment			0			0	0
FPFTY Plant Additions			0	(1,958)		117	387
			0			0	0
			0			0	0
			0			0	0
TAXES:							
CNIT Taxable Income Effect						(1,579)	332
Interest Synchronization (Table III)						(176)	(578)
TOTALS	(72,303)	0	(10,714)	(1,958)	(112)	(989)	2,279

TABLE III
COLUMBIA GAS OF PENNSYLVANIA, INC.
INTEREST SYNCHRONIZATION
R-2020-3018835

	Amount $
Company Rate Base Claim	2,401,427
OCA Rate Base Adjustments	(72,303)
OCA Rate Base	2,329,124
Weighted Cost of Debt	2.26000000%
OCA Interest Expense	52,638
Company Claim (1)	49,710
Total OCA Adjustment	(2,929)
Company Adjustment	0
Net OCA Interest Adjustment	(2,929)
State Income Tax Rate	5.994%
State Income Tax Adjustment	(176)
Net OCA Interest Adjustment	(2,929)
State Income Tax Adjustment	(176)
Net OCA Adjustment for F.I.T.	(2,753)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	(578)

(1) Company Main Brief

TABLE IV
COLUMBIA GAS OF PENNSYLVANIA, INC.
CASH WORKING CAPITAL - Interest and Dividends
R-2020-3018835

Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends	
Company Rate Base Claim	$2,401,427	$2,401,427	Company Rate Base Claim	$2,401,427
ALJ Rate Base Adjustments	($72,303)	($72,303)	ALJ Rate Base Adjustments	($72,303)
ALJ Rate Base	$2,329,124	$2,329,124	ALJ Rate Base	$2,329,124
Weighted Cost of Debt	2.26000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
ALJ Annual Interest Exp.	$52,638	$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.	$144	$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
COLUMBIA GAS OF PENNSYLVANIA, INC.
CASH WORKING CAPITAL -TAXES
R-2020-3018835

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	($989)	($989)	$1,853	$864	$2.37	0.00	$0
Federal Income Tax	$0	$2,279	$2,279	$6,101	$8,380	$22.96	0.00	$0
	$0	$1,290	$1,290	$7,954	$9,244			

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

(1) Company Main Brief

TABLE VI
COLUMBIA GAS OF PENNSYLVANIA, INC.
CASH WORKING CAPITAL -- O & M EXPENSE
R-2020-3018835

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

OCA Rate Case Table: Zero Increase

TABLE I
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	$	$	$	$	$	$	$
Operating Revenue	572,770	0	572,770	0	572,770	0	572,770
Expenses:							
O & M Expense	336,663	0	336,663	(10,714)	325,949	0	325,949
Depreciation	98,833	0	98,833	(1,958)	96,875	0	96,875
Taxes, Other	3,826	0	3,826	(112)	3,714	0	3,714
Income Taxes:							
State	42	0	42	(989)	(947)	0	(947)
Federal	16,227	0	16,227	2,279	18,506	0	18,506
Total Expenses	455,591	0	455,591	(11,494)	444,097	0	444,097
Net Inc. Available for Return	117,179	0	117,179	11,494	128,673	0	128,673
Rate Base	2,401,427	0	2,401,427	(72,303)	2,329,124		2,329,124
Rate of Return	4.88%		4.88%		5.52%		5.52451502%

(1) Company Main Brief

TABLE I(A)
COLUMBIA GAS OF PENNSYLVANIA, INC.
RATE OF RETURN
R-2020-3018835

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.26000000%		
Long-term Debt	50.00%	4.52%	2.26000000%		2.26%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.742647	0.00%
Common Equity	50.00%	6.53%	3.26451502%	0.742647	4.40%
	100.00%		5.52451502%		6.66%

Pre-Tax Interest Coverage	2.95
After-Tax Interest Coverage	2.44

TABLE I(B)
COLUMBIA GAS OF PENNSYLVANIA, INC.
REVENUE FACTOR
R-2020-3018835

100%		1.00000000
Less:		
Uncollectible Accounts Factor (*)		0.01135370
PUC, OCA, OSBA Assessment Factors (*)		0.00000000
Gross Receipts Tax		0.00000000
Other Tax Factors		0.00000000
		0.98864630
State Income Tax Rate (*)	**	0.05994000
Effective State Income Tax Rate		0.05925946
Factor After Local and State Taxes		0.92938684
Federal Income Tax Rate (*)		0.21000000
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	$	$	$	$	$	$	$
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CWC:	*						
Int. & Div. (Table IV)	(IV!B38)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
FPFTY Plant Additions	(72,303)						
REVENUES:							
		0				0	0
EXPENSES:							
Labor and Benefits Expense			(1,144)		(56)	72	237
Incentive Compensation			(775)		(56)	50	164
Stock Rewards			(2,300)			138	454
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Compensation Adjustments			(432)			26	85
Budget Billing Adjustment			0			0	0
FPFTY Plant Additions			0	(1,958)		117	387
			0			0	0
			0			0	0
			0			0	0
TAXES:							
CNIT Taxable Income Effect						(1,579)	332
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R-2020-3018835

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Net OCA Interest Adjustment	(2,929)
State Income Tax Adjustment	(176)
Net OCA Adjustment for F.I.T.	(2,753)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	(578)

(1) Company Main Brief

TABLE IV
COLUMBIA GAS OF PENNSYLVANIA, INC.
CASH WORKING CAPITAL - Interest and Dividends
R-2020-3018835

Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	$2,401,427	$2,401,427	Company Rate Base Claim	$2,401,427
ALJ Rate Base Adjustments	($72,303)	($72,303)	ALJ Rate Base Adjustments	($72,303)
ALJ Rate Base	$2,329,124	$2,329,124	ALJ Rate Base	$2,329,124
Weighted Cost of Debt	2.26000000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
ALJ Annual Interest Exp.	$52,638	$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.	$144	$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
COLUMBIA GAS OF PENNSYLVANIA, INC.
CASH WORKING CAPITAL -TAXES
R-2020-3018835

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	($989)	($989)	$0	($989)	($2.71)	0.00	$0
Federal Income Tax	$0	$2,279	$2,279	$0	$2,279	$6.24	0.00	$0
	$0	$1,290	$1,290	$0	$1,290			

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

(1) Company Main Brief

TABLE VI
COLUMBIA GAS OF PENNSYLVANIA, INC.
CASH WORKING CAPITAL -- O & M EXPENSE
R-2020-3018835

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

PROPOSED FINDINGS OF FACT

IV. Rate Base

1. Columbia is projecting net plant additions (gross plant additions less retirements) of $280,735,000 in 2020 and $338,559,000 in 2021. OCA St. 2 at 5.

2. OCA Witness Effron proposes to use the average of plant additions for the years 2018-2020 as an estimate of plant additions in 2021, resulting in a reduction of $76,783,000 in recommended plant additions, a net reduction to the test year rate base of $72,303,000, and a reduction to test year depreciation expense of $1,958,000. OCA St. 2 at 7.D.

3. Given the fact that the Company's 2021 forecasted plant additions expenditures are significantly higher than the previous three years, Mr. Effron's proposed reduction is reasonable. OCA St. 2 at 7.

4. The OCA recommends that the Company's ADIT be reduced by $2,522,000 as shown in OCA St. 2-S, Schedule B-1, line 5.

VI. Expenses

5. Salaries and wages of $39,528,000 are included in the Company's FPFTY expenses. OCA St. 2 at 7.

6. OCA Witness Effron recommended a total reduction of $1,144,000 to the Company's FPFTY labor and benefits expense to reflect the company's historic and actual employee complement in 2020. OCA St. 2-S, Schedule C-1.1.

7. The Company forecasted FPFTY Payroll Expense of $39,536,000 associated with the Company's proposal to add 59 employees in the FTY. OCA St. 2 at 5.

8. From the end of the HTY, when the employee headcount was 763, the Company's actual employee complement peaked in April at 782, decreased in June and July, and was flat in August. OCA St. 2-S at 5-6.

9. As of August 2020, the employee complement stood at 773, constituting an increase of only 19 employees since the end of the HTY compared to the Company's projection at 59.

10. Mr. Effron's adjustment reflects an employee complement of 782—the high point of the Company's employee complement in 2020 recorded in April. OCA St. 2-S at 5-6.

11. Columbia's claimed costs for incentive compensation in the FPFTY lacks any documentation pertaining to its calculation. OCA St. 2 at 10-11.

12. To adjust the unsupported 53% increase in the Company's incentive compensation amount, Mr. Effron proposed to apply the ratio of 3.77% to the Company's FPFTY payroll expenses of $39,536,000 to reach a calculated incentive compensation of $1,492,000, or $775,000 less than the $2,267,000 requested by the Company in its filing. OCA St. 2 at 10-11.

13. Columbia includes $2,300,000 in stock rewards in the FPFTY operation and maintenance expenses. See OCA St. 2 at 11.

14. Columbia's stock rewards amount includes $570,765 of stock rewards in the Labor Expense and $1,728,531 of stock rewards in the NCSC Shared Services Expense. See OCA St. 2 at 11.

15. Because stock rewards are a shareholder-oriented goal rather than a customer service-oriented goals, Mr. Effron proposed an elimination of the $2,300,000 of stock rewards expense from the O&M expenses. OCA St. 2 at 11-12.

16. The Company claims $1,060,000 of rate case expense normalized over 12 months. OCA St. 2 at 15.

17. The three most recent Columbia rate cases prior to the current one were filed in March of 2015, March of 2016, and March of 2018. OCA St. 2, p 15.

18. The Company's claim should be adjusted to a 24-month normalization period to reflect the timing of Company's last three rate case filings, resulting in lowering Columbia's rate case expense to $530,000/ OCA St. 2 at 15.

19. The Company projects $24,051,727 of outside services expenses in FPFTY operation and maintenance. OCA St. 2 at 14.

20. The outside services expense during the HTY ending November 30, 2019 was $22,749,799. OCA St. 2 at 13.

21. The support provided by Columbia to justify the budget adjustments in Columbia Exhibit 104, Schedule 10-13 did not include any workpapers or calculations to support these projections. OCA St. 2 at 13-14; see also, OCA St. 2-S at 9.

22. Columbia has also not provided support for "all other variances" and their elimination from the FPFTY O&M expenses would result in a net reduction of $1,757,013. OCA St. 2-S, Schedule C-1 and Table 2.

23. The company has adjusted FPFTY expenses by $3,896,000 for certain safety initiatives it expects to implement in the FPFTY. OCA St. 2 at 15.

24. Mr. Effron’s adjustments to employee headcount accounts for the actuality that the Company has not hired any of the incremental employees related to these expenses. OCA St. 2-S at 11.

25. Columbia has proposed spending $2,700,000, equivalent to an additional $1,400,000, on the cross bore program in 2021. OCA St. 2 at 17.

26. The proposed cross bore program spending represents a significant increase as spending on the cross bore program in 2019 and 2020 was $1,300,000. OCA St. 2 at 17.The spending levels in 2019 and 2020 were below the spending of any year in the four year period 2015-2018. OCA St. 2 at 17.

27. Columbia has not provided any justification for the $1,400,000 increase in the cross bore program after a two year period of reduced spending levels. OCA St. 2 at 17.

28. OCA Witness Effron testified that the $1,400,000 increase in spending for the cross bore program should be eliminated from the Company’s total requested expense amount for safety initiatives. OCA St. 2-S.

29. Columbia has also proposed increasing spending by $185,000 on the workforce transition safety initiative. OCA St. 2 at 16.

30. Mr. Effron testified that the costs associated with the workforce transition safety initiative is entirely attributable to incremental employee headcount. OCA St. 2 at 16.

31. The Company proposes increasing the spending on the customer owned field assembled riser replacement program by $1,700,000. Columbia St. 7 at 24-25.

32. Columbia projects to replace 2,712 customer owned field assembled risers in the FPFTY at a cost of $625 per unit. OCA St. 2 at 17.

33. The Company requests this $1,700,000 incremental cost from the HTY cost in which the Company replaced 1,279 customer-owner field assembled risers. OCA St. 2 at 17.

34. The COVID-19 pandemic temporarily impacted the Company’s ability to replacement and, as a result, the Company’s monthly rate of replacement for the remainder of 2020 will be no greater than the number of replacements in the HTY. OCA St. 2 at 17.

35. Columbia has included $432,000 in the FPFTY budget for compensation adjustment amounts. OCA St. 2 at 18.

36. OCA Witness Effron testified that this compensation adjustment is speculative given that “the Company had not presented any evidence that the compensation adjustments are in the process of being implemented or that such implementation is imminent.” OCA St. 2-S at 16.

37. OCA witness Effron proposes an adjustment of $1,958,000 to depreciation expense consistent with the FPFTY plant in service adjustment Mr. Effron proposed. OCA St. 2 at 20 and Schedule C-2.

VII. Taxes

38. Consistent with the FPFTY labor expense adjustment above, OCA witness Effron proposes an adjustment of $111,000 to non-income payroll taxes. OCA St. 2 at 20 and Schedule C-3.

39. OCA Witness Mr. Effron proposes to modify the Company's method of calculating the Pennsylvania Corporate Net Income Tax (CNIT or state income tax) to be included in the calculation of pro forma operating income under present rates and the revenue deficiency. OCA St.2 at 21-23.

40. Mr. Effron utilizes a CNIT of 5.994% in the calculation of the Revenue Conversion Factor to reflect the statutory CNIT rate of 9.999% and the Net Operating Loss Deduction which decreases the effective CNIT tax rate. OCA St. 2-S at 16-17.

41. Mr. Effron calculated an adjusted state income tax expense of $988,000 and a Revenue Conversion Factor of 1.3620. OCA St. 2-S at 16-17 at Schedules A and C-4.

VIII. Rate of Return

42. Columbia seeks an 8.00% overall rate of return, including a 10.95% return on common equity. CPA St. 8 at 1-2; CPA Exh. No. 400 (Updated), Sch. 1.

43. The Company's proposed capital structure is 54.19% common equity, 42.22% long-term debt, 3.59% short debt. CPA St. 8-R at 5; CPA Exh. No. 400 (Updated), Sch. 1.

44. The Company's 10.95% return on common equity includes a 20 basis point premium for management performance. See, CPA St. 8 at 5, 43; CPA St. 1 at 8-9, 11-17, 18-39.

45. Mr. O'Donnell testified that under a traditional ratemaking approach a fair cost of common equity is 8.50% and a fair overall rate of return is 6.51%, based upon a capital structure of 50% debt and 50% common equity. OCA St. 3 at 4; OCA St. 3S at 1.

46. The 8.50 % cost of equity recommended by Mr. O'Donnell is the result of his Discounted Cash Flow (DCF) analysis, and consideration of his Capital Asset Pricing Model (CAPM) and Comparative Earnings analyses. OCA St. 3 at 69-71.

47. The OCA accepted the Company's overall cost of debt rate of 4.52% as revised by Company witness Moul in rebuttal. OCA St. 3S at 1, 9; OCA St. 1-S at 1, fn. 2.

48. Company witness Moul recommended a 10.95% return on equity, which includes 20 basis points for management efficiency. CPA St. 8 at 5.

49. The OCA submits that the Company's proposal for a common equity cost rate of 10.95% is excessive under normal conditions and is especially overstated in consideration of the current pandemic and financial hardships confronting consumers who have lost employment and income. OCA St. 3 at 11, 13-14, 18-19.

50. The Commission's most recent Management Audit of Columbia did not support a determination of exemplary arrearage performance, but instead found "less than average arrearage level performance." See, OCA St. 5 at 82-83.

51. The record does not support the Company's claim of exemplary management performance, sufficient to justify the imposition on consumers of an approximate $2.6 million increase in base rates. See, OCA St. 3 at 90-92; OCA St. 5 at 78-53; I&E St. 2 at 48. IX.

IX. Miscellaneous Issues

52. OCA witness Colton recommended improvements to Columbia's Customer Assistance Program (CAP) collections and CAP outreach to address increasing arrearages for Confirmed Low-Income customers. OCA St. 5 at 6- 28.

53. Mr. Colton found that the Company's CAP collections policies are not adequate and do not appear to be consistent with the Commission's Final CAP Policy Statement Order. OCA St. 5 at 11.

54. Mr. Colton recommended that the Company address the issue by submitting to its Universal Service Advisory Committee, within six months of a final order in this proceeding, the question of how customer payments on CAP bills can be pursued through a reasonable collections process. OCA St. 5 at 11.

55. In accordance with the Management Audit findings, OCA witness Colton recommended that the Company develop an appropriate Outreach Strategy and Communication Plan to increase CAP enrollment. OCA St. 5 at 13.

56. In response to the Commission's June 2020 "Management and Operations Audit" of Columbia, OCA witness Colton recommended that Columbia address the identified payment difficulties for its confirmed low-income population through improved low-income customer outreach. OCA St. 5 at 12.

X. Rate Structure

57. As explained in the Direct Testimony of Scott J. Rubin in OCA Statement No. 1, as a consequence of the coronavirus ("COVID-19") pandemic devastating the health and economy of the Commonwealth and the world, the Commission cannot rely on many of

the Fully Projected Future Test Year ("FPFTY") projections included in CPA's Application. OCA St. 4 at 3.

58. Alternatively, should the Commission decide that some increase is warranted at this time, Mr. Mierzwa recommended the following approach: "If the Commission determines that a base rate increase for CPA is warranted, that increase should be assigned to each customer class through proportionate system average increases to the base rates applicable for each customer class." OCA St. 4 at 3.

59. The Company used an average of these two COSSs, the Customer Demand method and a Peak & Average Method, to arrive at its proposed revenue allocation in this matter. OCA St. 4 at 3-4.

60. According to OCA Mierzwa, there were flaws that run through both of the COSSs including a failure to accurately identify the net investment costs for different distribution mains. OCA St. 4 at 8.

61. Columbia sought to allocate the revenue increase towards cost of service indicated by the results of its Average ACOS Study. OCA St. 4 at 34.

62. OCA Witness Mierzwa proposed that the OCA's Peak & Average COSS should be used to allocate any revenue increase. OCA St. 4 at 35-36.

63. The Demand portion of this COSS assigns much too large a portion of mains costs based on design day peak demands. OCA St. 4 at 17-18.

64. Mr. Mierzwa testified that the Peak & Average method more closely follows not only how the system actually works but also the principles of cost-causality. ICA St. 4 at 19.

65. Columbia's proposed revenue allocation was explained by OCA witness Mierzwa, as follows: "CPA generally sought to allocate the revenue increase toward the cost of service indicated by the results of its Average ACOS Study." OCA St. 4 at 34.

66. OCA witness Mierzwa found Columbia's proposed revenue allocation to be unreasonable as it was guided by the results of its Average Study. OCA St. 4 at 34.

67. OCA witness Mierzwa testified that if the Commission authorizes a revenue increase, that a proportional use of the OCA's Peak and Average COSS should be used. OCA St. 4 at 36.

68. Pursuant to the changes to the CAP Policy Statement and the language in the Final CAP Policy Statement Order, OCA witness Colton recommended that Columbia change its allocation of its universal service so that those costs are paid by all customer classes rather than just the residential class as Columbia proposes here. OCA St. 5 at 28-58; OCA St. 1-S at 2-5, 21-35.

69. OCA witness Colton testified that there are a substantial number of residential customers in Columbia's service testimony that are near poor or that qualify for CAP but are not enrolled. OCA St. 5 at 33-34.

70. OCA witness Colton found that there is a direct relationship between the offer of a universal service program and the economic benefits to local commercial and industrial customers. OCA St. 5 at 48-50.

71. The costs of Columbia's universal service program should be considered a "public good" that should be allocated across all customer classes. OCA St. 5 at 52.

72. OCA witness Colton recommended that universal service charges should be allocated between customer classes on a competitively neutral basis and the allocation of universal service costs among customer classes be based on the percentage of revenue provided by each customer class at base rates. OCA St. 5 at 58.

73. Columbia proposed to increase the residential customer charge from $16.75 to $23.00, a 40% increase. OCA St. 4 at 36.

74. OCA Witness Mierzwa testified that Columbia's proposed charge is based on its Customer Demand COSS, and should not be relied upon due to serious flaws. OCA St. 4 at 36-37.

75. OCA Witness Merizwa testified that Columbia's current charge is already the highest in the Commonwealth, and not remotely comparable to any other NGDC within the Commonwealth: the nearest competitors have current charges below $15.75. OCA St. 4 at 37-38.

76. Columbia's proposed $23.00 customer charge violates the principle of gradualism. OCA St. 4 at 38.

77. Columbia's proposed $23.00 customer charge will affect low income customers. OCA St. 5 at 59-60.

78. The increase in the fixed customer charge, standing alone, will exceed the total amount of LIHEAP cash grants received by all low-income customers in 2018-2019 and 2029-2020 programs years combined by nearly 70% ($7,603,125/$4,527,711 =1.68). OCA St. 5 at 64.

79. In this proceeding Columbia has proposed a Revenue Normalization Mechanism (RNA) rider for application to the residential class. OCA St. 4 at 40.

80. As Mr. Mierzwa testified, Columbia has failed to follow the Commission's guidance as set out in the Policy Statement as to how an alternative ratemaking mechanism should be presented, explained and supported in a base rate proceeding, only indirectly addressing 4

of the 14 factors set forth in the Commission's Statement of Policy with respect to alternative-ratemaking. OCA St. 4-S at 15.

PROPOSED CONCLUSIONS OF LAW

1. The Public Utility Commission has jurisdiction over the parties and the subject matter of this proceeding by virtue of the Public Utility Code, 66 Pa. C.S. § 101, *et seq.*

2. Columbia has the burden of establishing the justness and reasonableness of every element of its requested rate increase. 66 Pa. C.S. § 315(a); Lower Frederick Twp. v. Pa. PUC, 48 Commw. 222, 226-27 (1980).

3. Columbia has the burden of proving that the rate involved is just and reasonable. 66 Pa. C.S. §§ 315(a), 1301, and 1308(e).

4. Columbia may satisfy its burden of proof by a preponderance of the evidence. Samuel J. Lansberry, Inc. v. Pa. PUC, 134 Pa. Commw. 218, 221-22 (1989).

5. Columbia has not met its burden of proof to establish that its cost of equity is reasonable and is otherwise supported by record evidence.

6. Columbia has not met its burden of proof to establish that its rate of return is reasonable and is otherwise supported by record evidence.

7. Columbia has not met its burden of proof that its proposed rates contained in Supplement No. 307 are just, reasonable and otherwise lawful.

8. As a consequence of the coronavirus ("COVID-19") pandemic's impact on the health and economy of the Commonwealth and the world, many of the Fully Projected Future Test Year ("FPFTY") projections included in Columbia's filing cannot be found to be just and reasonable.

9. As a result of the COVID-19 pandemic, it cannot be found to be just or reasonable to impose any rate increase at this time when unemployment numbers are close to record-highs and the economic effects of the pandemic will not be fully known for some time.

10. If in the alternative a minimal revenue increase is found to be just or reasonable for Columbia Gas of Pennsylvania, Inc., any increase shall only be assigned to each customer class through the proportionate system average increases to the base rates applicable for each customer class, and Columbia Gas of Pennsylvania, Inc. shall not place into effect any other proposed tariff changes.

11. If in the alternative the Commission deems it necessary to review Columbia's rate increase under traditional ratemaking provisions, the revenue increase shall be limited to $31 million.

PROPOSED ORDERING PARAGRAPHS

It is hereby ORDERED THAT:

1. Columbia Gas of Pennsylvania, Inc. shall not place into effect the rates contained in Supplement No. 307, which have been found to be unjust, unreasonable and, therefore, unlawful.

2. In light of the impact of the COVID-19 pandemic, Columbia Gas of Pennsylvania, Inc. shall not be authorized to file tariffs, tariff supplements, or tariff revisions containing rates, provisions, rules and regulations, consistent with the findings herein, to produce any revenue increase.

3. If in the alternative a minimal revenue increase is authorized for Columbia Gas of Pennsylvania, Inc., any increase shall only be assigned to each customer class through the proportionate system average increases to the base rates applicable for each customer class, and Columbia Gas of Pennsylvania, Inc. shall not place into effect any other proposed tariff changes.

4. In the alternative, Columbia Gas of Pennsylvania, Inc. is permitted to increase its base rate revenues under traditional ratemaking provisions, Columbia Gas of Pennsylvania, Inc. shall be authorized to file tariffs, tariff supplement, or tariff revisions limited to a revenue increase of $31 million.

5. Columbia Gas of Pennsylvania, Inc. shall allocate its universal service costs to all customers and between customer classes on a competitively neutral basis based on the percentage of revenue produced by each customer class.

6. The tariffs, tariff supplements, or tariff revisions may be filed upon less than statutory notice, and pursuant to the provisions of 52 Pa. Code §§ 53.31 and 53.101, may be filed to be effective for service rendered on and after the date of entry of this Commission's Opinion and Order.

7. Company Gas of Pennsylvania shall file detailed calculations with its tariff filing, which shall demonstrate to this Commission's satisfaction that the filed rates comply with the proof of revenue, in the form and manner customarily filed in support of compliance tariffs.

9. Columbia Gas of Pennsylvania, Inc. shall comply with all directives, conclusions and recommendations contained in this Commission's Opinion and Order that are not the subject of individual ordering paragraphs as fully as if they were the subject of specific ordering paragraphs.

9. Columbia Gas of Pennsylvania, Inc. shall allocate the authorized increase in operating revenues to each customer class and rate schedule within each class in the manner set forth in this Order.

10. The Complaints filed by the various parties to this proceeding at Docket Number R-2020-3018835 are granted in part and denied in part, to the extent consistent with this Commission's Opinion and Order.

DATE:________________ ______________________________________

Administrative Law Judge Katrina L. Dunderdale

List of the Office of Consumer Advocate's Testimony and Exhibits

1. OCA Statement No. 1, the Direct Testimony of Mr. Scott J. Rubin, 27 pages, Appendix A, and Exhibits SJR-1 through SJR-5.
2. OCA Statement No. 1-S, the Surrebuttal Testimony of Scott J. Rubin, 11 pages and Exhibit SJR-6S.
3. OCA Statement No. 2, the Direct Testimony of Mr. David J. Effron, 23 pages and Appendix 1.
4. OCA Statement No. 2-S, the Surrebuttal Testimony of David J. Effron, 17 pages, Tables I and II, Schedules A, B, B-1, C, C-1, C-1.1, C-2, C-3, C-4, and D.
5. OCA Statement No. 3, the Direct Testimony of Mr. Kevin W. O'Donnell, 93 pages, Appendix A, and Exhibits KWO-1 through KWO-5.
6. .OCA Statement No. 3-R, the Rebuttal Testimony of Kevin W. O'Donnell, 12 pages.
7. OCA Statement No. 3-S, the Surrebuttal Testimony of Kevin W. O'Donnell, 37 pages, Exhibits KWO-1S through KWO-4S.
8. OCA Statement No. 4, the Direct Testimony of Mr. Jerome D. Mierzwa, 44 pages and Exhibit JDM-1 through JDM-3.
9. OCA Statement No. 4-R, the Rebuttal Testimony of Jerome D. Mierzwa, 7 pages.
10. OCA Statement No. 4-S, the Surrebuttal Testimony of Jerome D. Mierzwa, 20 pages.
11. OCA Statement No. 5, the Direct Testimony of Mr. Roger D. Colton, 83 pages, Appendix A, and Exhibits RDC-1 through RDC-6.
12. OCA Statement No. 5-S, the Surrebuttal Testimony of Roger D. Colton, 35 pages.