BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

PSU Statement No. 1-R

REBUTTAL TESTIMONY OF JAMES L. CRIST, P.E.
ON BEHALF OF
THE PENNSYLVANIA STATE UNIVERSITY

Dated: August 26, 2020

Q. PLEASE STATE YOUR NAME AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am James L. Crist, President of Lumen Group, Inc. I previously presented direct testimony and now I am presenting rebuttal testimony on behalf of The Pennsylvania State University ("Penn State" or "PSU" or the "University").

I. ISSUES

Q. WHAT ARE THE ISSUES YOU WILL ADDRESS IN THIS REBUTTAL TESTIMONY?

A. Specifically, in my rebuttal testimony I will:

1. Respond to Office of Consumer Advocate ("OCA") witness Mr. Rubin's question regarding university plans this fall, and in general address the topic of the devastating economic effect of COVID-19 on the economy as raised by him, and the other OCA witnesses, Mr. Effron, Mr. O'Donnell, and Mr. Colton, and the Bureau of Investigation and Enforcement ("I&E") witness Zalesky, and the Office of Small Business Advocate ("OSBA") witness Mr. Knecht, and the CAUSE witness, Mr. Miller, and the Columbia Industrial Intervenors ("CII") witness Mr. Plank.

2. Review several allocated cost of service studies ("ACOS") recommendations made by OCA witness Mr. Mierzwa, I&E witness Mr. Cline, and OSBA witness Mr. Knecht. Because their views all favor smaller customers instead of the balanced approach taken by the Company, I will provide evidence that the Customer-Demand

Cost of Service Study performed by the Company is valid and should be utilized to allocate any increase granted by the Commission.

3. Recommend that the proposal of OCA witness Mr. Colton and CAUSE witness Mr. Miller to shift costs incurred by residential customers to other customer classes be rejected entirely as it violates cost causation principles and longstanding treatment of such costs.

II. IMPACT OF COVID-19

Q. WHAT QUESTION DID MR. RUBIN ASK REGARDING THE IMPACT OF COVID-19 ON UNIVERSITIES?

A. In his direct testimony, Mr. Rubin makes a compelling case for the rejection of Columbia's rate request in its entirety due to the catastrophic impact of the COVID-19 pandemic on the economy, and asks rhetorically, "How many colleges and universities will be able to open their classrooms and dormitories next semester?" (OCA REVISED Statement 1, 23:6-7). While I cannot speak on behalf of all colleges and universities in the Commonwealth, I can explain that while Penn State campuses, classrooms, and dormitories have opened this semester for a shortened timeframe, the conditions will be notably different than I or likely any witness in this case endured during our higher education experiences, and there is no guarantee they will be able to remain open.

Q. WHAT OTHER OCA WITNESSES EXPRESSED CONCERN REGARDING THE FINANCIAL IMPACT OF COVID-19 ON COLUMBIA'S REQUESTED RATE INCREASE?

A. All of the OCA witnesses had serious concerns. Mr. Effron explained the financial impacts on many of the components used in the ACOS and calculated that Columbia's revenue deficiency is not the $100.4 million it claimed, but instead data from his analysis "translates into a revenue deficiency of $31,587,000 under present rates." (OCA FINAL Statement 2, 4:22-23). Mr. O'Donnell stated, "The proper return on equity on which to set rates for Columbia Gas in this proceeding should be in the range of 8.00% to 9.00%" (OCA FINAL Statement 3, 4:1-2) and that "The return on equity recommended by Witness Moul for Columbia Gas of 10.95% is excessive, unreasonable, and not indicative of current market conditions" (*id*., 4:14-16). Mr. Mierzwa, who reviewed Columbia's ACOS stated, "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 FINAL Statement 4, 3:10-14). He continues after his statement regarding the economic effects of COVID-19 to then recommend an ACOS approach that favors only residential customers, and would shift revenue requirement impacts to commercial and industrial customers. That approach is wrong because the commercial and industrial customers have not been spared the harsh economic effects of the pandemic and are also hurting significantly. I will address his recommendation later in this testimony. Mr. Colton recognizes the harsh effects of the pandemic on business, yet ignores that and makes a recommendation that

would burden those businesses with additional costs that previously had not been assigned to them. Such an approach is wrong, and I will address this further.

Q. WHAT OTHER WITNESSES EXPRESSED CONCERN REGARDING THE FINANCIAL IMPACT OF COVID-19 ON COLUMBIA'S REQUESTED RATE INCREASE?

A. CAUSE witness Mr. Miller focuses on low-income residential customers and the effect of the pandemic on that customer group. Low-income customers are included in the rate class of residential customers and tracked and designated as such by Columbia, and it uses that data in the administration of its universal service programs. Mr. Miller is concerned that the low-income customer group will grow due to the pandemic and the increase in the unemployment rate in Pennsylvania.

Q. WHAT OTHER WITNESSES EXPRESSED CONCERN REGARDING THE FINANCIAL IMPACT OF COVID-19 ON COLUMBIA'S REQUESTED RATE INCREASE ON NON-RESIDENTIAL CUSTOMERS?

A. Columbia Industrial Intervenors witness Mr. Plank explained the challenges his employer faces including additional costs of procuring personal protective equipment and the additional labor required for the implementation of additional safety protocols and the effects of illness and quarantining requirements on the labor force. Because Knouse Foods is in the processed foods industry it is dependent on farm labor to pick crops and Mr. Plank has concerns that such labor availability is uncertain. [redacted]

[redacted]

Q. WHAT IS THE FINANCIAL IMPACT OF COVID-19 TO THE UNIVERSITY AND ITS EMPLOYEES?

A. The impact to the University is significant. Penn State had approximately 72,000 undergraduate students system-wide and 40,000 undergraduate students enrolled at the University Park campus during the 2019-20 academic year. At this point it is hard to forecast the impact of COVID-19 on the enrollment figures as policies and procedures for dealing with the pandemic are ever-changing. Nittany Lion football has been cancelled this fall. The safety requirements that Penn State will be operating under place a huge financial stress onto the University. On July 23, PSU's President Dr. Eric J. Barron, stated:

> "The financial stress on our University is clear. As a tuition-driven University, enrollment overwhelmingly governs our budget. Our best estimate of revenue for our educational budget is a loss of between $130 and $150 million for the current year. Some scenarios suggested the loss could be much greater, nearly a half a billion dollars with continued significant losses for multiple years. Further, our auxiliaries have been heavily impacted as we returned housing and food contract dollars to students. Our hotels and other facilities are generating no income."

Dr. Barron was clear in his summary stating: "The worst-case scenario, with multiple years of large deficits, would put the University in an untenable position."

Q. WHAT IS THE CAMPUS OUTLOOK FOR THIS FALL?

A. Campus operations this fall will be extremely challenging and difficult to predict. Already with incoming students there have been gatherings on campus where students were not

observing safety protocols. Universities around the country face similar problematic situations and have addressed the problem by continuing on-line instruction, directing students to return home, and for students remaining on campus, operating the residence halls at reduced capacity. All of these actions have a financial impact on the University and there is no relevant historical data to rely upon. Higher costs due to purchases of personal protective equipment, institutional sanitizing and surveillance testing on campuses are unpredictable now, but certainly will be substantial. The University, like many other parties in this proceeding, has serious financial challenges [redacted]

III. ALLOCATED COST OF SERVICE STUDY

Q. WHAT ACOS DID OCA WITNESS MR. MIERZWA RECOMMEND?

A. Mr. Mierzwa recommended the use of his own Peak & Average ACOS, rejecting the Company's method of averaging the results of its Peak & Average ACOS with its Customer-Demand ACOS. He rejects the appropriateness of using a customer-demand ACOS for in his view, "CPA's Customer-Demand method should be given zero weight" (OCA Statement No. 4, 17:2). Mr. Mierzwa believes that "Distribution mains are not sized for the number of customers served from them, but for the loads place upon them." (*id.*, 11:5-6). I will point out that the Company's Customer-Demand ACOS allocated the cost of mains partly based on the number of customers served (the "customer" part of "customer-demand") and also partly based on the loads placed on the mains (the "demand"

part of "customer-demand"), so at least Mr. Mierzwa recognizes that the demand is an important determinant of allocation of mains cost.

Q. WHY SHOULD MAINS BE ALLOCATED BASED ON THE NUMBER OF CUSTOMERS?

A. Natural gas pipelines are installed to provide service to customers. And unless all the customers are living in one massive apartment building the distribution pipelines need to be extended across a company's distribution service territory. When more customers are added, more pipelines must be extended. It is a clear causal relationship that establishes why the customer component of the Customer-Demand ACOS is necessary. Mr. Mierzwa provided an example (*id*., 11: 6-17) in support of the principle that residential customers in urban areas do not need pipes extended to them as much as industrial customers need piping extended to them, but his example actually illustrates the point that I am making as it specifically pertains to the service territory of Columbia Gas. Pennsylvania's two largest cities, Philadelphia and Pittsburgh, are served by other local distribution utilities. The Columbia System serves the suburbs of Pittsburgh along with numerous rural regions in Pennsylvania. Thus, the density of customers served by Columbia is less dense than if it served the major urban cities in the Commonwealth. This illustrates the reason that allocation of the cost of distribution mains is done on a customer basis. Customers in the less dense areas require more feet of natural gas distribution mains piping to reach them than customers situated in highly dense urban areas. This refutes the example provided by Mr. Mierzwa.

Q. WHY DOES MR. MIERZWA CLAIM THAT BONBRIGHT'S BOOK RECOMMENDS THAT GAS MAINS NOT BE CLASSIFIED AS CUSTOMER COSTS?

A. On page 14 of his direct testimony Mr. Mierzwa adds emphasis to a citation from Bonbright's, *Principles of Public Utility Rates* to support his claim. However, on page 13 of Mr. Mierzwa's testimony it is clear that Professor Bonbright was "utilizing an example from the electric industry." (*id*., 13:6). Mr. Mierzwa failed to explain how the Bonbright example pertains to the gas mains of the Columbia system. The emphasis added says there is a very weak correlation between the area (or the mileage) of a distribution system and the number of customers served by this system. However, in the case of Columbia, the capital costs of its distribution system are for extensions to add additional customers or the accelerated pipe replacement program underway to replace older pipe with new plastic gas piping. Both of these functions clearly are customer-driven and that supports allocating a portion of the distribution system costs on a customer basis.

Q. WHAT INDUSTRY REFERENCE STANDARD DO YOU RELY UPON?

A. For this issue the Gas Distribution Rate Design Manual, prepared by the National Association of Regulatory Utility Commissioners ("NARUC"), provides some clarity. Consulting pages 22-23 states:

> One argument for inclusion of distribution related items in the customer cost classification is the "zero or minimum size main theory." This theory assumes that there is a zero or minimum size main necessary to connect the customer to the system and thus affords the customer an opportunity to take service if he so desires. Under the minimum size main theory, all distribution mains are priced out at the historic unit cost of the smallest main installed in the system and assigned as customer costs. The remaining book cost

> of distribution mains is assigned to demand. The zero-inch main method would allocate the cost of a theoretical main of zero-inch diameter to the customer function, and allocate the remaining costs associated with mains to demand.

Of the two choices, zero or minimum size, Mr. Notestone (Columbia Statement No. 11) used the minimum size of two-inch mains in the Company's Customer-Demand ACOS. I would agree with his analysis. It is a valid study and should be used, and not ignored as Mr. Mierzwa wishes.

Q. DOES MR. MIERZWA RECOMMEND THAT MAINS ALLOCATION BE BASED ON AVERAGE DEMAND AND NOT PEAK DEMAND?

A. Yes. In Mr. Mierzwa's testimony, page 17 through page 18, he attempts to build a case that gas mains allocation should be based on average demand and not peak demand. He points out that the cost of delivering gas on just one day every 15 years, which is what Mr. Notestone used to determine peak demand, would be prohibitively high. This is a nonsensical example because no customer used gas on only one day during a 15-year period. The fact is that the distribution system must be designed to deliver gas during a peak day. I am not disputing or endorsing the use of Columbia's 15-year period to determine a system peak. Once the pipes are sized to carry the peak day load then clearly enough gas will flow through those pipes the rest of the year to meet the remaining needs of the customers, however this provides no justification for leaping to the conclusion that the piping system was designed to meet an average demand. Mr. Mierzwa is just plain wrong.

On pages 18 and 19, Mr. Mierzwa gives his thoughts on the company's financial evaluation process in place for main line extension. His observation that the Company's base rate

revenues are primarily collected on a volumetric basis is not a reason to believe that the peak demands are not used as the engineering design basis for gas mains. Mr. Mierzwa should be careful of his analysis for a logical conclusion of his observation is that the rate structure of the Company should be designed to collect costs such as the distribution gas mains from customers on a non-volumetric basis.

On page 21, Mr. Mierzwa opines that many costs associated with the distribution delivery system do not depend on pipe sizes. (*id*., 22:23-25). While that may be true the majority of the cost of the gas mains clearly depends on the peak design. Mr. Mierzwa uses an example that discusses the economies of scale of expanding the diameter of pipe but his logic is flawed. Simply because there is an efficiency involved in the economy of scale of larger sized pipes that produces a cost efficiency in the delivery capability does not undermine the basic principle that the peak demand is the dominant factor in the design of the distribution system.

Q. WHY SHOULD MAINS BE ALLOCATED BASED ON PEAK DEMAND AND NOT AVERAGE DEMAND?

A. Again, consulting the NARUC Manual on pages 23 and 24 states:

> Demand or capacity costs vary with the quantity or size of plant and equipment. They are related to maximum system requirements which the system is designed to serve during short intervals and do not directly vary with the number of customers or their annual usage. Included in these costs are: the capital costs associated with production, transmission and storage plant and their related expenses; the demand cost of gas; and most of the capital costs and expenses associated with that part of distribution plant not allocated to customer costs, such as the costs associated with distribution mains in excess of the minimum size.

Average demand is based on annual usage and is clearly identified as not appropriate to use as a basis for gas mains allocation.

Q. WHAT RECENT BASE RATE CASE DECISION APPROVED PEAK DEMAND FOR A GAS COMPANY'S MAINS ALLOCATION DETERMINANT?

A. Recently the Maryland Public Service Commission recognized that distribution mains are demand related and should be allocated to all customers based on each class' contribution to peak demand. On June 13, 2016, the Order was issued in the Baltimore Gas & Electric base rate case No. 9406. The Maryland Public Service Commission approved BGE's ACOS method which bases the allocation on demand, using the non-coincident peak, which is the customer's highest demand during the year. "Distribution mains and associated O&M are classified as demand-related and allocated to all customer classes based on each class' contribution to the winter period total non-coincident peak ("NCP") demand (therms per hour)." (Direct Testimony of David E. Greenberg, 31:1-3). This supports my point that in the Customer-Demand ACOS costs should be classified by peak demand, not average demand.

Q. IS THERE VALUE AT EXAMINING COMMISSION RULINGS OUTSIDE OF PENNSYLVANIA?

A. Mr. Mierzwa discusses the ruling of the Indiana Utility Regulatory Commission in the Citizens Gas Light & Coke rate case fourteen years ago in 2006. If we are to look outside of Pennsylvania at other Commission rulings, then examining a more recent New York case would show that in the National Fuel Gas Distribution ("NFGD") system case 16-G-

0257, NFGD allocated mains between Customer and Demand using a regression analysis and the zero-intercept radius methodology stating, "The first step in determining the allocation of Distribution Mains (Plant Account 376) is the split between Customer and Demand." (Direct Testimony of Cost of Service and Rate Design Panel, 29:9-11). The Company performed a regression analysis, which determined that 58.56% was customer related and 41.44% was demand related.

The regression analysis produced the zero-intercept point "based on the relationship between the radius of the pipe size squared and the average cost per foot." (*id*., 29:9-17). The zero-intercept method calculates what the capital cost of a distribution system having a zero-diameter pipe would be through the use of statistical analysis. NFGD's customer-demand study was recommended by the Administration Law Judge (RD at 5) and adopted by the New York State Public Service Commission (Order at 88) in 2017.

Q. DO OTHER GAS DISTRIBUTION COMPANIES USE A CUSTOMER-DEMAND COST OF SERVICE MODEL?

A. Yes. In New York, Orange & Rockland ("O&R") produced an Embedded Cost of Service Study for its Gas Department in 2016 for its base rate filing Case 14-G-0494. In that study O&R submitted Exhibit GRP-1, Schedule 1:

> <u>Line 7, Distribution Demand ("Demand Component")</u>
> The Distribution Demand ("Demand Component") consists of the balance of the distribution mains system not allocated to the customer component, and represents fixed costs related primarily to mains. It also includes distribution pressure governors and regulating equipment, used in distributing gas from the sellers to the firm classes of services. These costs are allocated to the firm
> classes in proportion to their maximum one-hour non-coincident use on a zero degree day.

> Line 8, Distribution Customer ("Customer Component")
> The Distribution Customer ("Customer Component") consists of the distribution mains system that would be required to connect gas customers with a minimum predominant size pipe, regardless of their demand for gas. It is apportioned to the classes based on the number of services for each class.

The Customer-Demand method is a valid ACOS method and should not be dismissed as Mr. Mierzwa has done.

Q. DID THE BUREAU OF INVESTIGATION AND ENFORCEMENT REVIEW THE COMPANY'S ACOS?

A. Somewhat. I&E witness, Mr. Cline in his Statement No. 3, p. 12 through 54, reviewed some of the past decisions of the Commission regarding various methods used in the ACOS. He first provides a nice review explaining what an allocated cost of service study entails and how it is used. Then he explains what the Company submitted in this proceeding along with reviewing the differences between the Customer-Demand ACOS, and the Peak & Average ACOS, and the average methodology undertaken by the Company, and their impact on the relative rates of return. He provides a historical review of a few Commission decisions that did not use the Customer-Demand ACOS methodology. He does agree with the method Mr. Notestone described when conducting the Company's Peak and Average ACOS and recommends that study as the one that should be used to allocate revenue increases.

Q. DID MR. CLINE ACTUALLY CONDUCT HIS OWN ACOS?

A. No. He did not conduct any study himself or review any of the analytical formulae contained in the Company's ACOS. He does endorse the manner which the Company conducted its Peak and Average ACOS and recommends that as the study the Commission accepts.

Q. DO YOU AGREE WITH MR. CLINE'S REASONING?

A. No. Mr. Cline cites a decision on a National Fuel Gas Distribution Company in its 1994 proceeding, twenty-four years ago. I do not agree with Mr. Cline because there are valid reasons that there are other ACOS methodologies that have sound technical and economic bases to them. Examining such alternatives and looking at other best practices and methods that have been found to be sound is a way to improve cost allocation methods. For that reason, I reject Mr. Cline's recommendation.

Q. IS THERE A STATUTE THAT PROHIBITS THE COMMISSION FROM CONSIDERING NEW METHODS DIFFERENT FROM THE PEAK & AVERAGE ACOS?

A. No. The Commission is free to improve on its past decisions based on new information and considerations.

Q. DID YOU REVIEW THE TESTIMONY OF OSBA WITNESS MR. KNECHT?

A. Yes. Mr. Knecht states his agreement with the concept that mains costs are causally related to the number of customers. He states that, "the common sense approach (to which I

generally subscribe) is that more footage of mains must be installed to interconnect many small customers than to connect one large customer." OSBA Statement No. 1, 16:5-7. I agree with Mr. Knecht on that point, especially in the rural areas of Columbia's service territory. Regarding the demand component of mains costs Mr. Knecht argues that, "because mains diameters must be sized to meet peak demand, the demand component of mains costs should be allocated only on peak demand." (*id.*, 18:20-21). I also agree with Mr. Knecht on that point. On these main points, we are in agreement. Mr. Knecht then produces his own version of the Peak & Average ACOS and then produces his own revenue allocation.

Q. DO YOU AGREE WITH MR. KNECHT'S REVENUE ALLOCATION?

A. No. Mr. Knecht makes several adjustments to determine his allocation and one of those adjustments is a change of the weighting of the two studies (Customer-Demand and Peak & Average). Whereas the Company weighted the two studies equally to determine its average ACOS, Mr. Knecht weights them 25/75, Customer-Demand/Peak & Average. The point of the Company's using two studies is to determine boundaries or extremes, and then average. Mr. Knecht determines boundaries but then skews the average by the use of unequal weighting.

Q. IF THE COMPANY'S AVERAGE ACOS METHOD IS NOT USED TO DETERMINE REVENUE ALLOCATION WHICH ACOS METHOD WOULD YOU RECOMMEND?

A. I would prefer that the Company's approach to averaging the two ACOS studies be used. If there is just one ACOS method to be used for revenue allocation then the Customer-Demand method would be my recommendation.

IV. UNIVERSAL SERVICE PROGRAM COSTS

Q. HAVE YOU REVIEWED WITNESS TESTIMONY CONCERNING UNIVERSAL SERVICE PROGRAM COSTS?

A. Yes. Both Mr. Colton of OCA, and Mr. Miller of CAUSE make the same recommendation, that the Company change its longstanding recovery mechanism and assign costs for the programs that provide benefit to residential customers only to other customer classes. They violate the fundamental ratemaking principle to match cost to the cost causer. While both witnesses provided testimony of the brutal economic hardships caused by the pandemic, they ignore the fact that commercial, educational, and industrial customers are facing brutal economic hardships that in some cases will lead to bankruptcy and loss of jobs associated with businesses. In plain speak, they seek to have other customers who cannot qualify for these subsidies pay for these subsidies. In a real sense, they attempt to impose a tax on other customers to fit their social wants and that is a question for the Legislature and the public, not for these parties to impose by an additional charge or tax upon other customers.

Q. WHAT REASON WAS GIVEN BY MR. COLTON AND MR. MILLER FOR THEIR RECOMMENDATION?

A. Both witnesses cited the same reasons for wishing that customers from other classes that are ineligible to participate in universal service programs pay for such programs. They feel that the costs of universal service programs burden residential customers. But, a burden is no excuse to charge those who receive no benefit nor are eligible for that program. That is more like a tax or a subsidy and assessing taxes to create subsidies is a job for the Legislature not the Commission. The premise for such subsidy is that there are deep pockets by other rate classes that do not qualify for the subsidy who should pay for it. While well intentioned, it is patently an improper tax or subsidy that is improper. Obviously if costs were allocated to additional customers from the commercial and industrial classes then the allocation to residential customers would be reduced. Their desire to unburden existing residential customers and shift the burden to non-residential customers would force the Commission to completely change a longstanding policy and be totally inconsistent with its prior opinions and orders, and to ignore the fundamental principle of cost causation. Once cost causation is ignored on one issue the slope becomes slippery for any and all issues. Every party that represents a distinct class of customers would then be free to argue for cost-shifting that would result in cross-class subsidization with no rules to provide guidance for fairness. Policies could change randomly from case to case, thwarting the ability to develop long-term strategic plans that are necessary in the regulated utility industry.

Q. IS IGNORING COST CAUSATION PRINCIPLES AND DELIBRATELY CREATING CROSS-CLASS SUBSIDIZATION CONSISTENT WITH THE COMMONWEALTH'S *LLOYD V. PA PUC* DECISION RENDERED IN 2006?

A. No. *Lloyd*[1] shined the light on the requirement that differential rates between rate classes must be based on valid cost of service, the polestar of ratemaking, and that cost causation may not be subordinated and ignored in determining class rates. Universal Service Program costs apply solely to residential customers, so assigning such costs to other customer classes would violate the principle of ratemaking based on cost of service analysis.

Q. WHAT DIRECT BENEFITS ACCRUE TO NON-RESIDENTIAL CLASSES FROM THE EXISTENCE OF UNIVERSAL SERVICE PROGRAMS?

A. None. Mr. Colton and Mr. Miller attempt to justify such cost shifting to non-residential classes by opining that such programs provide some indirect societal benefits. Notably they have no quantifiable calculation of this alleged benefit—the truth is they cannot and have not. Even if there were some alleged benefits they would be insignificant compared to the impact of assigning significant costs to commercial and industrial customers particularly when facing the challenges to business or operations due to COVID-19. Such topics and considerations are appropriately debated by the Legislature

[1] *Lloyd v. Pennsylvania Public Utility Comm'n*, 904 A.2d 1010, 1019-21 (Pa. Cmwlth. 2006), *allocatur denied*, 916 A.2d 1104 (Pa. 2007).

Q. HISTORICALLY HOW HAVE UNIVERSAL SERVICES COSTS BEEN RECOVERED?

A. Universal service costs have historically been recovered solely from residential customers. The costs go to the cost causer, which is not only the general ratemaking principle, but common sense and fairness.

Q. WHAT IS COST CAUSATION?

A. This fundamental principal of ratemaking assigns costs to those classes of customers that are responsible for the incurrences of costs. This principle may not be violated just because some customers do not like bearing the costs or want to lessen the impact of the cost of the benefits they receive at the expense others. The Commission has been consistent in its policy that considers cost causation as a fundamental principle and the bedrock of cost assignment in the ratemaking process.

Q. WHAT CUSTOMER CLASS MAY RECEIVE UNIVERSAL SERVICE BENEFITS?

A. Only Residential customers are eligible to receive universal service benefits. Neither Mr. Colton or Mr. Miller propose to expand programs so that commercial or industrial customers might be eligible for some type of benefit. Yet, they want other non-residential classes to openly subsidize these benefits. That is unfair and as unreasonable. I am aware that Section 1304 of the Public Utility Code prohibits any unreasonable preference or advantage or subject any customer to any unreasonable prejudice or disadvantage. During the transition to a more competitive natural gas marketplace protections were put into place

to address concerns of discrimination and subsidization. Section 2203(5) of Title 66, Chapter 22, Natural Gas Competition, states: "The commission shall require that restructuring of the natural gas utility industry be implemented in a manner that does not unreasonably discriminate against one customer class for the benefit of another." Assigning residential universal service program costs to commercial and industrial classes would do just that.

Q. IF UNIVERSAL SERVICE COSTS ARE RECOVERD FROM ALL CUSTOMER CLASSES SHOULD PROGRAMS BE EXPANDED TO INCLUDE OTHER CUSTOMER CLASSES?

A. If the Commission wishes to explore in detail the expansion of cost allocation for universal service programs to additional non-residential classes, then those programs should be examined to determine how to construct broader universal service programs that provide direct benefits to additional non-residential classes. There is no evidence of that here. Rather, they offer speculation. No one has proposed such expansion in this proceeding but if the Commission does wish to order recovery of universal service program costs from other non-residential classes then it should make such recovery conditional to a requirement that programs are expanded to serve other non-residential classes. There are commercial and industrial customers that experience economic situations that make it extremely difficult to pay natural gas bills-particularly in the COVID-19 times all are experiencing. There are commercial and industrial customers who become so severely financially distressed that they declare bankruptcy or go out of business entirely. Obviously, such commercial and industrial customers would be likely recipients of

programs that would benefit them by reducing energy consumption, costs and payments to the utility. But are there programs for them? The answer is no.

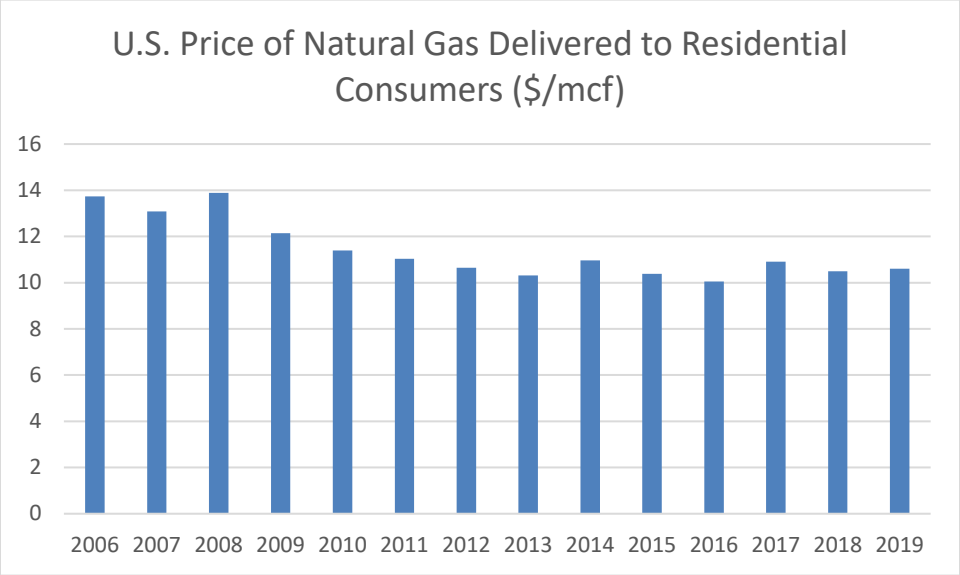
Q. ARE CUSTOMERS IN NON-RESIDENTIAL CLASSES EXPERIENCING ECONOMIC STRESS?

A. Absolutely. During normal economic times many businesses struggle with finances as evidenced by the fact that some businesses do go out of business. In these unique times that struggle has expanded to additional businesses.

Q. HAVE RESIDENTIAL GAS PRICES INCREASED SIGNIFICANTLY?

A. No. There has been no significantly large increase to the residential customer class over the past 13 years, in fact, just the opposite is true. Wellhead pricing of natural gas has been down over the past decade, and that impacts the delivered price to residential consumers. The graph (Figure PSU-1) of U.S. Price of Natural Gas Delivered to Residential Consumers, from the Energy Information Administration shows that point quite clearly, examining the period of 2006 to 2019.

Figure PSU-1



Year to date wellhead prices in 2020 have been exceptionally low. If Columbia is granted the increase as requested it will have the effect of increasing prices to all customer classes including commercial and industrial, but such increases will hit the large commercial and industrial class customers much greater than the residential customers. Data in Columbia's filed Exhibit 103, Schedule 8 show the requested increase for residential customers is 23.7% yet for large customers on rate LDS is 27.21%. Mr. Colton and Mr. Miller opine that the non-residential classes are somehow better off economically than the residential class but that is simply not true. Those non-residential class customers are not deep pockets that can absorb new costs for residential programs that do not benefit them.

Q. ARE UNIVERSAL SERVICES PROGRAMS A PUBLIC BENEFIT?

A. No. They are a direct benefit to residential customers. Mr. Colton and Mr. Miller worked hard in their testimony to construct a logic trail to somehow claim that these programs that

enable residential customers to pay their Columbia gas bill are a benefit to commercial and industrial customers. They have done no qualitative analysis to prove their points; rather they offer generalities and assume someone else can pay for what they want. Mr. Colton and Mr. Miller portray the recipients of the direct benefits of universal service programs, without any qualitative analysis, as low-income, or retired, without sufficient means to pay their Columbia gas bill in absence of such programs, then attempt to explain that such programs presumably benefit businesses and the community indirectly by providing such support.

They ignore and did no research or vetting into the truth that businesses and industrial customers and universities are all challenged financially, as there are not unlimited financial resources. If the broader universe of commercial and industrial customers is considered then one must evaluate what is the best way to spend an incremental dollar? Should it be spent on a universal service program to pay a residential customer's bill from Columbia, or should it be spent on energy conservation and efficiency programs for commercial and industrial customers or toward economic development programs undertaken by government and utilities that have proven their worth by obtaining multiple financial benefits for the dollars invested in them? These are difficult questions for sure, but any movement to apply costs of the residential universal service programs to non-residential classes must require a thorough evaluation of all opportunities across all customer classes to determine the best bang for the buck of where incremental program dollars should be deployed for optimal benefits to the public.

Q. WHAT DID THE COMMISSION'S CUSTOMER ASSISTANCE POLICY ("CAP") POLICY STATEMENT ORDER REQUIRE REGARDING COST ALLOCATION?

A. The Commission had heard from various participants in its generic investigation into energy affordability in Pennsylvania (Docket M-2019-3012599), that there are many issues with the allocation of universal service costs, which have been allocated solely to residential customers for at least two decades. In recognition of the complexity of changing a long-standing Commission policy, the Commission did not mandate that such costs be allocated to additional non-residential customers but instead simply allowed that the issue be raised in future utility base rate proceedings which would provide a safeguard from an ill-advised decision. Based on Pennsylvania Code Title 52 § 69.266 Cost recovery, it ordered that:

> "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."

Mr. Colton noted that the Commission was "merely providing that the recovery of CAP costs in particular can be fully explored in utility rate cases henceforth." (*id*., at note 150).

Q. HOW DID COLUMBIA MEET THE CAP POLICY STANDARD IN ITS FILING?

A. Consistent with the Order, Columbia was not required to shift cost recovery of universal service programs to non-residential customers. Its base rate case filing assigned those costs to residential class customers as it has done in all previous rate cases. That is the appropriate decision under prevailing law and ratemaking principles.

Q. WHAT CONCERN WAS EXPRESSED BY THE COMMISSION WHEN IT CONSIDERED COST RECOVERY MECHANISMS IN 2006?

A. In Docket M-00051923, Customer Assistance Programs: Funding Levels and Cost Recovery mechanisms Final Investigatory Order, the Commission determined its best course of action was to continue the policy of allocating CAP costs to solely residential customers because the residential class is the only class that are eligible for universal service programs. It stated: "After careful consideration of the comments and the arguments presented, ***the Commission will continue it current polity of allocating CAP costs to the only customer class whose members are eligible for the program- residential customers. The Commission believes that we should not initiate a policy change that could have a detrimental impact on economic development and the climate for business and jobs within the Commonwealth***." (emphasis added).

There is nothing that has changed that would minimize the detrimental impact of allocating additional costs to commercial and industrial classes, and in fact, the current economic climate is very bad and any additional costs assigned to commercial and industrial customers will clearly have a negative impact.

Q. ARE OTHER STATES UNIVERSAL SERVICE PROGRAMS IDENTICAL TO PENNSYLVANIA'S?

A. No. Programs vary state by state. Pennsylvania has followed the intuitive and longstanding principle against subsidies and to match costs to the cost causer. Some states, as Mr. Colton and Mr. Miller noted, assign costs to other non-residential classes as well but that is not what Pennsylvania has followed for decades.

Even if other state law was controlling, which it is not, some may have different qualification requirements or program cost limits. New York places a limit on the total budget for each utility's universal service programs at 2% of total natural gas revenues (Order Adopting Low Income Program Modifications and Directing Utility Filings, Case no. 14-M-0565). In comparison, reviewing Columbia's Exhibit No 102, Schedule 3, Page 3 of 6, show the HTY Pro Forma total revenue is $572,536,543 and existing Rider USP is $21,752,620, or 3.8%. Mr. Colton and Mr. Miller's desire to change cost allocations should be preceded by a through examination of the magnitude of universal service program costs and the effectiveness of the existing programs. A possible solution to Mr. Colton and Mr. Miller's concern of increasing costs of universal service programs would be a thorough review of those programs to determine appropriate cuts and limits that should be in place. The fact that some other states having different laws may assign costs to non-residential classes is not sufficient rationale to change Pennsylvania's well-established procedures and violate cost causation principles and provide no direct benefits to those non-residential classes.

Q. WHAT ADDITIONAL STUDY AND ANALYSIS SHOULD BE DONE PRIOR TO CONSIDERING ASSIGNING UNIVERSAL SERVICE COSTS TO CLASSES OTHER THAN RESIDENTIAL?

A. Representatives from the non-residential classes, which are businesses, industrials, universities, hospitals, and retail establishments must be engaged in examination of the existing and proposed collection of universal service programs. Because those programs have never been examined by non-residential parties such parties must be allowed the

opportunity to conduct their own reviews. If those parties conclude that certain programs or the funding amounts lack sufficient benefits to them, they must be permitted to propose changes in the programs and funding amounts. A critical piece of information in such a comparison would be the costs of universal service programs and an analysis of the impact on the non-residential groups that Mr. Colton and Mr. Miller wish to burden. Neither witness has produced such a study. In fact, there is no record evidence and instead there are just generalities.

Q. SHOULD THE PROGRAM COSTS COLUMBIA INCLUDED IN THIS BASE RATE FILING BE EXAMINED?

A. Absolutely. Columbia has included $26,722,759, an increase of $4,752,145 (Exhibit 103, Schedule No. 8, Page 3 of 9) in its filing which is a significant amount. A review of Ms. Davis' testimony (Columbia Statement No. 13) indicates the Company did not propose to allocate universal service program costs to non-residential classes, therefore did not forecast the impact of such a reallocation of costs to non-residential classes, or examine a rate design that such an allocation should have. Because these programs have only been available for residential customers, the needs of similarly sized commercial customers have not been considered. This severe cost could very well do a severe business blow upon struggling small businesses or commercial and industrial accounts. There may be small commercial customers whose consumption is in the same range as the residential customers that should qualify for universal service program funding and therefore the various program applicability requirements should be examined and modified to include those

customers from classes that Mr. Colton and Mr. Miller are proposing pay for a share of the programs.

Q. SHOULD UNIVERSAL SERVICE PROGRAM COSTS BE ALLOCATED TO FLEX CUSTOMERS?

A. No. In the event the Commission orders such costs to be allocated to non-residential customers those customers receiving service under a flex rate should not be allocated any costs. It has long been understood that flex customers enter into negotiated contractual agreements with Columbia less than the full tariff rate but still at the maximum amount that Columbia has determined is necessary to retain the patronage of the customer, and that adding any additional cost to the flex rate would be a violation of the contract between Columbia and the flex customer. Such unscrupulous actions of forcing additional costs onto a contractual agreement between Columbia and a flex customer without that customer's consent would violate the contract. Flex customers, faced with such an unexpected cost addition would reconsider its other competitive options and then exit the Columbia distribution system as a customer. That would be a very poor policy for the Commission to adopt and would encourage competitively-situated customers to flee the public utility system.

V. CONCLUSION

Q. WHAT IS THE SUMMARY OF YOUR REBUTTAL TESTIMONY?

A. I have these recommendations:

[redacted]

2. Accept the Company's Customer-Demand ACOS to determine revenue allocation. If the Commission wishes not to rely on just one ACOS, then I recommend the Company's method that produced an average ACOS be used.

3. Universal Service Program costs should not be allocated to other customer classes and should be treated as they have been in all previous cases. Mr. Colton's schedule RDC-4 should be rejected. Mr. Miller's recommendation to increase the LIURP budget by $600,000 per year should be rejected.

Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.