COMMONWEALTH OF PENNSYLVANIA

October 30, 2020

E-FILED

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

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

Dear Secretary Chiavetta:

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

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

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

Sincerely,

/s/ Steven C. Gray

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

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

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE

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Date: October 30, 2020

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I. Introduction

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

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

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

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

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

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

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

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

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

On October 16, 2020, the OSBA filed its Main Brief.

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

II. Summary of Argument

Columbia has used the approach of submitting two different allocated cost of service studies ("ACOSSs") based on alternative methodologies for allocating mains costs, and then deriving a third ACOSS using a simple 50/50 average of the two mains cost allocation methods. The OSBA suggests that a 75/25 weighting of the two mains cost methodologies would be more appropriate than the Company's 50/50 average based on consideration of Commission precedent, cost causation, and longer-term rate implications. Nevertheless, the OSBA concludes that the Company's approach is superior to the methodology put forward by the Pennsylvania Office of Consumer Advocate ("OCA") and to the methodology advocated by the Commission's Bureau of Investigation and Enforcement ("I&E"). The Company's methodology reasonably recognizes that mains must be sized to meet peak demand and must be extended to interconnect all customers. The Company's method also recognizes that economies of scale should result in lower costs per unit of demand being allocated to larger customers rather than higher unit costs as implied by the OCA and I&E methods.

The OSBA recommends that the Commission adopt the OSBA revenue allocation based on 75/25 weighting of the two cost allocation methodologies. However, if the Commission accepts the Company's "average of the two" ACOSS approach, the OSBA offers an alternative revenue allocation proposal, because Columbia's revenue allocation proposal is not consistent with its own ACOSS methodology.

The OSBA recommends that further consideration of the allocation of universal service costs be deferred until such time when Columbia's small business and industrial customers have financially recovered from the pandemic. However, to the extent the Commission determines that the time is ripe for adjudication of this issue, the OSBA submits that the changes to allocation and recovery of universal service proposed by the OCA and other parties would represent a fundamental change in regulatory philosophy from an insurance model, where customers get what they pay for, to a tax-and-spend model, in which the Commission becomes both the taxing and spending authority. The OSBA concludes that the proposed changes are inequitable, they do not represent reasonable tax policy, and they are not justified by the modest reductions they would provide to Columbia's residential bills.

Finally, if the Commission does determine that taxing non-residential customers to recover universal service costs is appropriate, the OSBA strongly opposes the OCA's proposal for allocating those costs, because that method would put a much lower burden on larger non-residential customers than on smaller non-residential customers. Under the OCA's view of the benefits of universal service, large business customers are the largest beneficiary. Thus, the OCA's proposal to assign a proportionately lower share of the costs to those customers is grossly inequitable.

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The OSBA addressed this issue in its Main Brief.

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In its Main Brief, the Office of Consumer Advocate ("OCA") presents a detailed argument about the effects that the COVID-19 Pandemic has had on the Company's ratepayers, as well as the impact the pandemic has had on the Commonwealth as a whole.[1] The OSBA fully supports the OCA on this issue.

Of particular interest to the OSBA is this quoted passage from OCA witness Mr. Scott Rubin:

> 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. <u>In the week ending September 5, 44.7% of Pennsylvania's small businesses said they would take at least 6 18 months to recover, with another 10.1% saying they would never fully recover from the pandemic</u>.

OCA Main Brief, at 17-18 (emphasis in original).

The most recent updates to the Census Bureau's Small Business Pulse Survey for Pennsylvania will be set forth, *infra*.

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The OSBA addressed this issue in its Main Brief.

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[1] OCA Main Brief, at 13-29.

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

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

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

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

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The OSBA addressed this issue in its Main Brief.

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

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

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The OSBA addressed this issue in its Main Brief.

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

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

B. <u>Pipeline Replacement Issues</u>

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

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

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

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

X. Rate Structure

A. Introduction

The issue as to which allocated cost of service study ("ACOSS") methodology to adopt in this proceeding is, as usual, hotly contested with respect to how gas distribution mains costs are allocated. OSBA witness Robert D. Knecht explained why the various party expert witnesses are fighting over the issue, as follows:

> This debate has a significant impact on rate design for several reasons.
>
> First, ***mains costs*** are 'joint use' costs, meaning that they cannot be directly assigned to a particular customer or customer class, and ***must be allocated using some reasonable [ACOSS] methodology***.
>
> Second, mains represent a large percentage of a gas utility's overall rate base, thereby determining each class' share of income tax and return on capital costs. Moreover, given the nature of ACOSSs, the allocation of mains costs also drives the allocation of a large percentage of the O&M costs, as well as indirectly affecting the allocation of A&G costs.
>
> Third, the analytical models used by cost allocation experts can vary considerably in their impact on the percentage of mains costs assigned to each class.
>
> And fourth, the cost allocation methodology for mains can have a significant impact on the ultimate rate design for the recovery of costs within each rate class, notably with respect to the magnitude of the customer charge.

OSBA Statement No. 1, at 13-14 (emphasis added) (formatting added).

Columbia attempted to address the long-standing and tedious debates regarding mains cost allocation by providing three ACOSS methodologies in this proceeding. These ACOSS's differ only in the classification and allocation of mains costs. Columbia produced a non-traditional Peak & Average[2] ("P&A") ACOSS, a Customer Demand ("CD") ACOSS, and a "third" ACOSS which relies on an average of the two allocation methods for mains costs.

As Mr. Knecht explained, these are traditional methods that predate the invention of the computer, much less detailed Geographic Information System ("GIS") software that can provide detailed information regarding the mains serving each customer on the system. The OSBA supports Mr. Knecht's recommendation that natural gas distribution companies adopt 21st century modeling methods to more precisely assign the costs of a distribution system to the various customer classes.[3] That the parties in 2020 should still be relying upon and arguing about simplistic, top-down cost allocation methods that produce widely divergent results is a sad commentary on the state of utility cost analysis.

Unfortunately, in this case, that is all that we have.

B. Cost of Service

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[2] Mr. Knecht explained the Columbia P&A Methodology, as follows:

> The Company's P&A method segregates mains between larger diameter, higher pressure mains and mains that are either small diameter or operated at low pressure. Some experts disagree that it is appropriate to segregate mains in this fashion, and they argue that all joint use mains should be allocated as an integrated system. I refer to this approach as the 'Traditional P&A' method in this testimony.

OSBA Statement No. 1, at 19. The OSBA therefore uses the shorthand term "non-traditional" to reflect the segregation of mains by size and operating pressure.

[3] OSBA Statement No. 1, at 14-15; OSBA Statement 1-R, at 14.

The Company provided the ALJ and the Commission with three ACOSS methodologies in this proceeding. Columbia indicates that is relied on its "third" ACOSS, which is based on a simple average of the differing mains-costing approaches in the other two ACOSSs.

The OCA, in its Main Brief, argued in favor of a more traditional P&A ACOSS, in which mains are not differentiated by size and operation pressure for allocation purposes.[4] The OCA cited to Professor James Bonbright, in his Principles of Public Utility Rates, in support of their preferred ACOSS methodology.[5] The OCA also provided an additional ACOSS methodology based on the Proportional Responsibility ("PR") method for mains costs.[6]

The Bureau of Investigation and Enforcement ("I&E") argued in favor of using the Company's P&A analysis.[7] However, I&E does not offer any specific revenue allocation, but simply supports a scale-back "based on the allocated cost of service study that is ultimately approved by the Commission.[8]

The Pennsylvania State University ("PSU") supports the Company's 50/50 average methodology.[9] PSU also supports the Company's proposed revenue allocation, based upon that 50/50 ACOSS methodology.[10]

The Columbia Industrial Intervenors ("CII") did not offer any expert testimony relating to cost allocation methods. However, CII argues in favor of relying entirely on the Company's CD

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[4] OCA Main Brief, at 134-155. *See also*, footnote 2, *supra*.

[5] OCA Main Brief, at 144-145.

[6] OCA Main Brief, at 154-155.

[7] I&E Main Brief, at 85-93.

[8] I&E Main Brief, at 95.

[9] PSU Main Brief, at 5-14.

[10] PSU Main Brief, at 14.

ACOSS, but as an alternative it supports the Company's 50/50 average ACOSS.[11] Like I&E, CII does not offer an alternative revenue allocation based on its preferred cost allocation methodology, but simply focuses on relief for the Rate LDS class.[12]

After validating the basic results of the Company's ACOSS analysis, Mr. Knecht presented two alternative approaches for developing allocated costs in this proceeding:

> For this proceeding, I relied on my near-replication of the Company's results for the CD and P&A ACOSS models, as shown in RDK WP1 and RDK WP2. The only modification that I made was to reflect regular tariff rate revenue for the flex rate customer class, as explained above. This has the effect of increasing the overall system rate of return at both present and proposed rates.

OSBA Statement No. 1, at 20 (footnote omitted). Mr. Knecht summarized his two ACOSS methodologies, as follows:

> I used an average of the two allocation methods presented by the Company, although I used a weighted average based on 75 percent P&A and 25 percent CD.
>
> * * *
>
> I also offered an alternative revenue allocation in the event the Commission adopts the Company's 50/50 approach.

OSBA Statement No. 1-R, at 11-12.

Thus, the ALJ and the Commission are faced with the following ACOSS methodologies:

- Columbia-methodology P&A ACOSS, supported by I&E;
- Columbia CD ACOSS, supported by CII;
- Columbia "50/50 average of the two" ACOSS methodology, supported by PSU, and supported in the alternative by CII;

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[11] CII Main Brief, at 10-15.

[12] CII Main Brief, at 15-17.

- OCA-methodology P&A ACOSS;
- OCA PR ACOSS;
- OSBA 75/25 weighted P&A/CD ACOSS (with Flex Rates modifications);
- OSBA 50/50 weighted P&A/CD ACOSS (with Flex Rates modifications)

Despite this wide array of options, it is worth noting that the ALJ and the Commission are not offered an ACOSS with the mains costing methodology most recently approved by the Commission for natural gas distribution companies. Specifically, an approach with no customer component to mains costs and with all mains costs allocated using an average-and-excess ("A&E"). Mr. Knecht testified, as follows:

> In a case involving PPL Gas at Docket No. R-00061398, the Commission approved an allocation of all mains costs using a variant on the A&E allocation method advanced by the utility expert witness. In that proceeding, the approved weighting was 40 percent to average demand and 60 percent to excess demand. This weighting was not based on system load factor. PA PUC et al. v. PPL Gas Utilities Corporation, R-00061398, Order Entered February 8, 2007, page 112 – 114.
>
> Also, in a case involving the Philadelphia Gas Works ("PGW") at Docket No. R-00061931, PGW proposed to classify some mains costs as customer-related and the balance as demand-related, and proposed to allocate demand-related costs using a peak demand allocator. However, the Commission concluded that no mains costs should be classified as customer-related, and that mains costs should be allocated using a variant of the A&E allocation method advanced by the Office of Trial Staff expert. In the PGW proceeding, the approved weighting was 50 percent to average demand and 50 percent to excess demand. This weighting was also not based on system load factor. See PA PUC v. Philadelphia Gas Works, R-00061931, Recommended Decision, July 24, 2007, page 63, and PA PUC v. Philadelphia Gas Works, R-00061931, Order Entered September 28, 2007, page 80.

OSBA Statement No. 1 at 17, footnote 19 (formatting added).

As difficult as this might seem, the primary question that must be answered is straight-forward: Should the Company's CD ACOSS methodology be used, in whole or in part, to derive a reasonable cost of service basis for this proceeding? After that, the issues are of less importance, involving the relative weight that should be given to the CD method if it is used, and the competing OCA and Columbia P&A methods if that method is used (in whole or in part).

The CD ACOSS method is an approach based on two concepts. The first is that a portion of mains costs are causally related to the number of customers on the system, thereby reflecting the economies of scale of serving larger customers. The second is that the portion of costs not related to number of customers is based strictly on class peak demands and not annual throughput. In contrast, the P&A ACOSS method is based on the idea that all mains costs are causally related to the size of the customer, that there are no economies of scale associated with serving larger customers, and that customer size is based on a 50/50 average of peak demand and average demand.

In addressing the question of the relevance of the CD method, the OSBA submits that there are issues of (a) Commission precedent, (b) cost causation, and (c) longer-term rate implications.

Regarding Commission precedent, and as far as the allocation of gas mains goes, the OSBA respectfully submits that Commission precedent is less than clear. Mr. Knecht's testimony. quoted above, indicates that the most recent (or perhaps least dated) Commission precedent supports the use of a methodology that has no customer component of costs, and which uses an A&E allocator.[13] The OSBA acknowledges that these Commission decisions explicitly rejected the use of a customer component of costs. However, as the Company points out, those decisions are not dispositive because the costing methodologies offered in those proceedings did not use the minimum system approach used by the Company in the current proceeding, nor did they involve an averaging of the two divergent methods as proposed in the current proceeding.[14] Both the OCA and I&E ignore the more recent precedent in favor of older precedent supporting the P&A methodology, citing back to 1994 and earlier.[15] But even for that distant case, the Company argued that the Commission was either considering only two different P&A cost allocation methods, or had technical concerns relating to the methodology for deriving a customer component, and it did not evaluate the specific options available.[16]

In addition, the OSBA respectfully submits that the Commission has (relatively recently) approved a cost allocation method in the electric industry that applies a customer component of costs to both secondary and primary distribution systems. In so doing, the Commission approved using a minimum system methodology that is conceptually similar to the minimum system method used by Columbia in its CD ACOSS methodology in this proceeding, but without any

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[13] The OSBA cautions the ALJ and the Commission not to conflate the A&E and P&A methods. Despite the similarity in terms, the A&E methodology and the P&A methodology are conceptually different. The A&E method uses a weighted average of average demand and "excess" demand, where excess demand is peak minus average. The P&A method uses a simple average of average demand and peak demand. No expert in this proceeding offered any evaluation of the quantitative difference between those two methods. Thus, the OSBA respectfully cautions that the ALJ and the Commission cannot automatically conclude that using a P&A method in this proceeding is consistent with the recent precedent for an A&E approach.

[14] Columbia Statement No. 11-R, at 23-24.

[15] OCA Main Brief, at 150; I&E Main Brief, at 89.

[16] Columbia Statement No. 11-R, at 20-21.

consideration of a P&A approach.[17] Thus, the OSBA respectfully submits that the decision about cost allocation in this proceeding may need to be based on the merits, rather than precedent.

Regarding cost causation, the OSBA respectfully submits that the CD ACOSS methodology is conceptually superior to the other methods, both for its inclusion of a customer component of costs and for its reliance on peak demand rather than average demand.

In considering this issue, the OSBA encourages the ALJ and the Commission to recognize that two factors drive mains costs, namely the size (*i.e.*, diameter) of the main and the length of the main. As explained below, the size of any particular main is determined by the peak demands of the customers downstream from that main. The length of the system mains is determined by the need to interconnect customers. The specific cost causation for the length of mains cannot be determined with any accuracy without a detailed system modeling effort, but the available evidence indicates that it is less expensive per unit of load to extend mains to larger customers than to smaller customers.

Regarding the customer component of costs, Mr. Knecht explained:

> [T]he common-sense argument (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. This common-sense argument is supported by some aggregate industry statistical analysis. As such, mains footage is causally related to the number of customers, and therefore mains costs are partially customer-related.

OSBA Statement No. 1, at 16 (footnotes omitted).

[17] OSBA Statement No. 1, at 17, footnote 20. *See Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2010-2161694 (Order entered December 21, 2010) at 46, and *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2200597 (Order entered December 28, 2011) at 113.

Regarding peak demand, Mr. Knecht explained that because mains diameter must be sized to meet peak demands, it is the peak demand which drives cost causation.[18] The OSBA observes that this issue is not that complicated. If the main is not large enough to provide gas supply on a peak day, some customers will lose their gas supply just when they need it most, frequently on the coldest days of the year. No responsible gas utility would size their mains to meet average demand, or even to meet demand that is halfway between average and peak demand.

The OSBA respectfully submits that while the opposing arguments may justify not relying entirely on the CD methodology, they do not justify completing rejecting that approach. For example, both the OCA and I&E argue that the purpose of gas distribution systems is to deliver gas all year-round and not simply on peak days.[19] They argue that this justifies allocating mains cost, in part, on usage (which is equivalent to average demand). As both Mr. Knecht and the Company observe, a gas distribution is built to meet two objectives: providing sufficient capacity to meet design day demand and interconnecting all of the customers.[20]

Consider a simple example. When you buy an air conditioner, it needs to be big enough to cool the room under extreme heat. Of course, no customer would buy an air conditioner that only runs for one hour or one day. Nevertheless, that air conditioner costs the same to buy whether you use it 10 days per year in extreme heat, or whether you use it 120 days per year when it's merely hot. The size and cost of the air conditioner simply does not vary with the amount it is used. Moreover, the Company's approach includes a 50 percent weighting for the

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[18] OSBA Statement No. 1, at 18.

[19] I&E Main Brief, at 89; OSBA Statement No. 4, at 18.

[20] Columbia Statement No. 11-R, at 6-7; OSBA Statement No. 1, at 14.

P&A method, which itself is a 50/50 weighting of peak and average demands. As such, the Company's method assigns some 25 percent of the costs based on average demand. Therefore, conceptually, the Company does accept the OCA/I&E argument that volume is a cost driver. Thus, even if the illogical argument of OCA and I&E is accepted, the averaging method used by the Company does indeed reflect year-round usage, just not as much as the advocates for residential customers desire.

I&E argues that if the Commission accepts Columbia's approach, it would put an unreasonable burden on other utilities to conduct two cost of service studies.[21] This concern may have had merit before personal computers were invented. It may even have been a credible issue in 1994 when the cost allocation precedent upon which I&E chooses to rely was established, although I&E admits that even in that case two ACOSSs were filed.[22] Running alternative cost allocation simulations can now be performed in a matter of hours if not minutes. As I&E offers no evidence that the Company's method would impose an undue burden, this argument can be safely rejected.

OCA describes the "minimum system" approach used by the Company to define a customer component of costs as an ". . . 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."[23] The OSBA respectfully submits that the Company must actually incur costs to connect customers to the system, and therefore it is far from unreasonable to consider the cost of interconnection as part of the cost allocation

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[21] I&E Main Brief, at 90.

[22] I&E Main Brief, at 90.

[23] OCA Main Brief, at 140.

procedure. Moreover, the OCA incorrectly implies that all mains costs are being allocated based on the minimum system method. In fact, only a portion of the mains costs in the CD ACOSS method are allocated based on the number of customers, and the CD method constitutes only 50 percent of the Company's overall mains allocation method (and 25 percent of the OSBA alternative). As such, both the Company and the OSBA averaging methods recognize that the portion of mains costs related to customer count is relatively modest.[24]

The OCA refers to an example offered by Mr. Mierzwa which purportedly demonstrates that attaching larger customers does not cost less per unit of load than attaching smaller customers.[25] As Mr. Knecht explained, Mr. Mierzwa's example cannot reasonably be used as proof, because (a) it is carefully crafted to ensure that the length of mains needed to serve larger customers is exactly proportional to the size of the customer and (b) Mr. Mierzwa can offer no evidence that the example is in any way representative of Columbia's actual distribution system. Mr. Knecht observes that, in fact, it may very well be that small and medium business customers that are geographically concentrated in business districts require less mains footage for interconnection than residential customers.[26] Moreover, even if larger customers do, on average, require more footage to be interconnected than smaller customers, there is no reason to believe that footage is fully proportional to the size of the customer.[27] As Mr. Knecht indicates, it is

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[24] *See* Columbia Statement No. 11-R, at 9 for the Company's calculation of the actual customer component of costs in its methodology.

[25] OCA Main Brief, at 140-142.

[26] OSBA Statement No. 1-R, at 14.

[27] OSBA Statement No. 1-R, at 14.

likely that there are significant economies in mains costs associated with attaching larger customers, and this position is supported by statistical evidence.[28]

The OCA argues that Professor Bonbright's Principles of Public Utility Rates provides evidence against the use of a customer component for distribution system costs.[29] The OSBA respectfully observes (a) the Bonbright text refers to the electric industry, (b) the same Bonbright text was offered in the PPL Electric proceedings as a rationale for rejecting a minimum system CD approach, and (c) the Commission rejected that argument.[30] OCA's reliance on the Bonbright treatise serves only to reinforce the conceptual similarity between the minimum system method as it applies to the electric distribution industry and the natural gas distribution industry.

The OCA argues that the economies of scale associated with installing a single pipe segment support the allocation of mains costs on a volumetric basis.[31] That economies of scale are present and significant for mains diameter and the carrying capacity of any particular mains segment is uncontested. However, at best, the OCA's argument is counterintuitive. How can economies of scale justify assigning a disproportionate share of costs to larger customers? The commonsense interpretation of scale economies would be to conclude that larger customers cost less per unit of peak demand than do smaller customers.

As Mr. Knecht explained, parties to utility rate proceedings generally want the benefits of scale economies to flow to the customer class they represent. The equitable approach for

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[28] OSBA Statement No. 1, at 16.

[29] OCA Main Brief, at 144-145.

[30] *See Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2200597 (Order entered December 28, 2011) at 113 and *Main Brief of the Office of Consumer Advocate* (Filed August 29, 2012) at 79-80 at that same Docket.

[31] OCA Main Brief, at 149.

allocating the cost of any particular mains segment is to allocate the costs based on the peak demands of the customers downstream from that segment.[32] Moreover, the OCA ignores economies of scale associated with the length of mains. As Mr. Knecht explains, it is unfortunate that those economies cannot be measured with any precision without detailed system modeling. However, statistical evidence is available that demonstrates that mains footage is better correlated with customer count than with overall system load.[33]

Thus, as common sense would suggest, the economies of scale argument better justifies assigning lower costs per unit of peak demand to larger customers than higher unit costs as the OCA and I&E advocate.

Turning to the last issue, the longer-term rate impacts of a Commission decision are evident from Mr. Knecht's direct testimony. As the parties agree, the CD methodology is more favorable to large industrial customers (and medium-sized business customers) while the P&A method is more favorable to residential customers (and the smallest business customers). However, the parties' briefs pay little heed to the longer-term implications of adopting a single extreme method in this proceeding.

In particular, the OSBA observes that adopting either the Company's P&A method or the OCA P&A method as the *sole* approach for cost allocation will condemn larger customers to many years of rate increases well above system average. As Mr. Knecht demonstrated, the increase needed to bring the Large General (also called the "LDS/LGSS") rate class into line with allocated costs under the Company's P&A method (supported by I&E) would be 108.8

[32] OSBA Statement No. 1-R, at 15.

[33] OSBA Statement No. 1, at 16.

percent, or about 75 percent more than the system average increase.[34] That is, current revenues are less than half the allocated costs under the Company's P&A method. As the OCA P&A method assigns even higher costs to that class, that method would require even larger percentage increases to achieve cost-based rates. To move rates for that class into line with allocated costs will therefore rate increases that exceed the system average by a significant amount. In this proceeding, the Company proposes an increase for the LDS/LGSS class that is only 4 percent above system average, OCA witness Mr. Mierzwa proposes an increase that is 12 percent above the system average, and OSBA witness Mr. Knecht proposed increases that are 16 (50/50) to 22 (75/25) percent above the system average.[35] Moreover, any scaleback of the Company's revenue requirement in this proceeding would serve to reduce those differences. Thus, the ALJ and the Commission must recognize that adoption of either the I&E P&A approach or the OCA P&A approach will almost certainly consign large general service customers in Columbia's service territory to the maximum reasonable rate increases for at least the next several rate proceedings.

Consequently, in consideration of the Commission's decisions, the cost causation principles, and the longer-term rate implications of adopting an extreme ACOSS methodology, Mr. Knecht recommended adoption of his 75/25 P&A/CD ACOSS.[36] By including consideration of the CD methodology, Mr. Knecht's approach recognizes the cost causation issues detailed above. Moreover, it produces results that are more in line with the rates that have been

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[34] OSBA Statement No. 1, at 21, Table IEc-2.

[35] OSBA Statement No. 1, at 24 and 30; OCA Statement No. 4, at 35. It is somewhat surprising that the OCA advocates an ACOSS methodology that assigns a very high level of costs to the LDS/LGSS class, but then proposes a more modest rate increase for that class than does the OSBA. This difference arises out of different proposed standards for rate gradualism in this proceeding. As Mr. Knecht explained, if the Commission approves the OCA ACOSS, the OCA proposed revenue allocation for that class is inadequate. OSBA Statement No. 1-R, at 17.

[36] OSBA Statement No. 1, at 27-28.

established in the past eight Columbia base rates proceedings.[37] Nevertheless, Mr. Knecht acknowledged that the Company's 50/50 averaging proposal is not entirely unreasonable, and he therefore developed a revenue allocation proposal that is consistent with that ACOSS approach.

C. Revenue Allocation

1. Proposed Revenue Allocation and Alternatives

As the OSBA observed in its Main Brief, the Company's proposed revenue allocation is not consistent with its own proposed cost of service methodology, particularly where small and medium businesses are concerned. OSBA Main Brief, at 15-16. The Company's approach is particularly problematic for the small and medium general service rate classes, as the Company's Main Brief demonstrates. The Company admits that, using its proposed ACOSS, the SGS/SDS-2 class (small and medium non-residential customers) exhibits a class rate of return at present rates of 8.703 percent – which is the second highest class rate of return and in fact already exceeds the system average return at proposed rates.[38] The Company also admits that its ACOSS produces a class rate of return at present rates for the SDS/LGSS class (medium non-residential customers) that is nearly as high as that for SGS/SDS2. The Company then admits that it makes only very small adjustments to the Residential and LDS/LGSS classes to reflect these significant cost differences.[39] As Mr. Knecht demonstrated, the Company's proposal results in rate increases for the SGS/SDS-2 and SDS/LGSS classes of 24.7 and 25.9 percent, respectively,

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[37] OSBA Statement No. 1, at 26, Table IEc-4.

[38] The system average proposed rate of return in the ACOSS analysis is 7.98 percent. *See, e.g.*, Columbia Exhibit 111, Schedule 1, page 1.

[39] Columbia Main Brief, at 138-140. For a description of the non-residential rate classes, *see* OSBA Statement No. 1, at 7-9.

compared to a system average of 23.2 percent.[40] It is not clear to the OSBA why Columbia even bothered to develop a detailed ACOSS if the Company was going to simply ignore the results of that analysis and follow the time-honored tradition of simply assigning large rate increases to small and medium business customers regardless of cost.

To address this problem, Mr. Knecht proposed a rigorous revenue allocation methodology that he applied to both his 75/25 ACOSS approach *and* the Company's 50/50 ACOSS method. OSBA Main Brief, at 16-17. For ease of reference, that methodology is set forth below:

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

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

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

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

- Fifth – Mr. Knecht took the net revenue shortfall that results from the adjustments in Steps 2, 3 and 4 above and reallocated that shortfall to the remaining classes on the basis of overall allocated cost.[41]

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

[40] OSBA Statement No. 1, at 34, Table IEc-3.

[41] *See also,* OSBA Statement No. 1, at 27-28.

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

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

Source: RDK WP2

OSBA Statement No. 1, at 30.[42]

As set forth, *supra*, the OCA is advocating for the use of the Traditional P&A ACOSS in this proceeding. For reference, Mr. Knecht created Table IEc-R1 which sets forth the revenue allocation from recent Columbia Gas settlements; the Company's originally proposed revenue allocation; the OSBA preferred revenue allocation (based on the 75/25 ACOSS); and the OCA's proposed revenue allocation based upon its P&A ACOSS. Table IEc-R1 is set forth below:

[42] To be clear, the Company's rate increases do not match Table 6 in the OCA Main Brief simply because Mr. Knecht makes the adjustment for flex rates. The OCA simply accepts Columbia's original revenue allocation proposal (without that adjustment). OCA Main Brief, at 156.

Table IEc-R1 Revenue Allocation Shares in Recent Columbia Base Rate Cases Measured as a Percentage of the Approved Revenue Increase							
Docket No.	Residential	SGS1	SGS2	Medium General (SDS)	Large General (LDS)	MDS	Flex
Settlements							
R-2008-2011621	79%	13%		4%	4%	0%	--
R-2009-2149262	73%	18%		5%	4%	0%	--
R-2010-2215623	75%	19%		5%	1%	0%	--
R-2012-2321748	74%	19%		6%	1%	0%	--
R-2014-2406274	75%	16%		4%	5%	0%	--
R-2015-2468056	73%	16%		7%	4%	0%	--
R-2016-2529660	74%	8%	9%	5%	3%	0%	--
R-2018-2647577	72%	10%	6%	8%	4%	0%	--
Columbia Proposed at R-2020-3018835							
$000	$74,474	$8,380	$9,644	$5,665	$4,172	$0	$0
Share	72%	8%	10%	6%	4%	0%	0%
OSBA Proposed 75/25 Weighting							
$000	$64,966	$9,240	$4,157	$4.047	$6,655	$0	$4,943
Share	69%	10%	4%	4%	7%	0%	5%
OCA Proposed							
$000	$62,614	$10,090	$11,580	$7,835	$5,514	$0	$0
Share	64%	10%	12%	8%	6%	0%	0%
Corrected values from Table IEc-4 in red. Sources: RDK Workpapers, Settlement documents, RDK Testimony from R-2018-2647577							

OSBA Statement No. 1-R, at 16.[43]

For purposes of this proceeding, the OSBA respectfully submits that Mr. Knecht's 75/25 P&A/CD ACOSS methodology is just and reasonable and should be adopted by the ALJ and the Commission. Based upon that 75/25 ACOSS, Mr. Knecht's proposed revenue allocation produces a just and reasonable result for all customer classes. The OSBA respectfully submits that the ALJ and the Commission should adopt the OSBA revenue allocation.

In the alternative, if the ALJ and Commission adopt Columbia's 50/50 ACOSS methodology, Mr. Knecht's 50/50 revenue allocation should be adopted. As set forth, *supra*, the Company's original revenue allocation is inconsistent with its ACOSS methodology.

2. Flex Customers

The OSBA addressed this issue in its Main Brief.

3. Allocation and Recovery of Universal Service Costs

a. Now is Not the Time

As the OSBA recommended in its Main Brief, the OSBA respectfully submits that the ALJ and the Commission should defer consideration of the allocation of universal service costs until such time when Columbia's small business and industrial customers have financially recovered from the COVID-19 Pandemic. OSBA Main Brief, at 21.

In its Main Brief, as set forth, *supra*, the OCA quotes their witness Scott Rubin for the proposition of the impact that the COVID-19 Pandemic has had on the Commonwealth's small businesses.[44] Mr. Rubin relied upon data from Census Bureau's Small Business Pulse Survey for

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[43] *See also*, OCA Main Brief, at 158, Table 7 for the OCA's proposed revenue allocation.

[44] OCA Main Brief, at 17-18.

Pennsylvania. Mr. Rubin cited to data through September 5, 2020. Additional data, through October 12, 2020, is now available. The updated data[45] shows the following:

- Small Businesses returning to normal operation in 2-3 months – 3.9%
- Small Business returning to normal operation in 4-6 months – 12.6%
- Small Businesses returning to normal operation in more than 6 months – 44.4%
- Small Business that will never return to normal operation – 7.1%
- Small Businesses that have permanently closed – 1.4%

As Mr. Rubin's cited data demonstrates, small businesses in the Commonwealth have been hit hard by the COVID-19 Pandemic. In addition, the Johns Hopkins Coronavirus Resource Center[46] documents that, at the time of this writing, the highest number of new COVID-19 in Pennsylvania was on October 26th.

The OSBA respectfully submits that this proceeding is not the case to decide the allocation of universal service costs. Columbia's small business ratepayers have been devastated by the pandemic and adding this cost to their bills would be unjust and unreasonable at this time.

b. Cost Standard

52 Pa. Code Sections 69.261 – 69.267 address the recently updated Policy Statement on Customer Assistance Programs ("CAPs"). Commission policy statements do not have the binding force of a statute or a regulation but do provide guidance on issues under the Commission's jurisdiction.

Both the OCA and CAUSE-PA cite to the following policy language in support of their arguments that CAP costs should be allocated to all Columbia customers:

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[45] https://portal.census.gov/pulse/data/

[46] https://coronavirus.jhu.edu/region/us/pennsylvania

> 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.

52 Pa. Code Section 69.266(b).

However, in its Policy Statement, the Commission instructs the following regarding cost recovery:

> In evaluating utility CAPs for ratemaking purposes, ***the Commission will consider both revenue and expense impacts***.

52 Pa. Code § 69.266(a) (emphasis added).

Mr. Knecht addressed the original Company proposal for funding its CAP program, as follows:

> In this proceeding, Columbia proposes to continue the existing practice of assigning and recovering its universal service program costs from residential ratepayers using a volumetric "Rider USP" charge. For the FPFTY, the Company' forecasts that it will incur $26.73 million in universal service costs, or about $5.56 per month for a typical residential customer.

OSBA Statement No. 1-R, at 3.

Mr. Knecht then performed the follow calculation:

> The current rates USP charge for residential customers is approximately 68 cents per Dth, or about $4.84 per non-CAP customer per month.
>
> * * *
>
> Under Mr. Colton's proposal, I estimate that the test year universal service charge for residential customers would average $4.22 per month ($4.14 with Mr. Mierzwa's revenue allocation), a savings of about 60 to 70 cents per month relative to the current rates.

OSBA Statement No. 1-R, at 7.

Thus, compared the Company's original filed USP rates, Mr. Colton's proposal would save the typical residential customers about $1.30 a month. An additional $1.30 per month does not rise to the level of an expense impact that is so egregious that CAP costs must be allocated to the Company's non-residential customer classes. Ultimately, Mr. Colton's proposal fails the mandates of the Commission's Policy Statement.

Moreover, in contrast to the Commission's requirements, none of the parties supporting the proposed change in cost allocation have provided an evaluation of the combined impacts of the rate increase and the change in universal service cost recovery on business customers. Mr. Knecht did offer some indication of the implications. Even using the approach proposed by Mr. Colton which is extremely generous to the largest customers, Mr. Knecht demonstrated that the combined rate impact on small to medium businesses of the OCA revenue allocation and the OCA CAP cost proposal would be 37 percent, and 43 percent for larger businesses. The OSBA respectfully submits that the OCA has not reasonably considered rate gradualism in developing its proposals for this proceeding.

c. Philosophy for CAP Cost Recovery

Mr. Knecht identified two alternative fundamental philosophies that can underpin cost recovery policies for CAP costs:

> There are two general philosophies: the insurance model, and the public policy tax model.
>
> ***The philosophy of recovering all costs from the residential class is based on the argument that only residential customers are eligible for the benefits.*** A universal service program is therefore a form of insurance, in which residential gas customers are paying premiums to the utility, so that they will be eligible for cash benefits in the event they have an unfortunate turn in their economic circumstances. In this model, it is fair and reasonable that only gas customers should get the insurance benefits from the program, because it is only gas customers who pay for the

> program. It is also reasonable that these programs can be deemed to be an integral part of utility service, because the insurance relates only to utility service.

OSBA Statement No. 1-R, 5-6 (emphasis added). Mr. Knecht continued:

> The alternative model is the government policy tax model.
>
> This model, as described in some detail by both Mr. Colton and Mr. Miller, is based on the argument that there are societal benefits associated with assisting low-income residents. Under this paradigm, all customers should pay because all customers obtain the social benefits. In effect, this form of low-income programs looks like many other government programs which provide both individual and societal benefits, and the costs of which are borne by the taxpayers.

OSBA Statement No. 1-R, at 6 (footnote omitted) (formatting added).

Mr. Knecht recommended that the ALJ and Commission continue to adopt the insurance model:

> My recommendation is that the Commission retain the insurance model, for reasons of cost causation and equity. ***In this model, customers pay for the benefits for which they are eligible.*** Residential customers benefit from the insurance, and residential customers pay for that insurance. Non-residential customers are not eligible for that insurance, and they therefore should not pay for the insurance.

OSBA Statement No. 1-R, at 6 (emphasis added).

The OCA attempts to deny that their proposed change to the recovery of universal service costs represents a fundamental change in regulatory philosophy. The OCA's position as advanced by Mr. Colton is that this philosophical difference is one of whether utility universal service programs should be funded by the ratepayer or the taxpayer.[47] This argument is simply wrong-headed. Under the current philosophy, residential customers are eligible for an insurance

[47] OCA Main Brief, at 182-183.

policy which allows them to get discounted rates if their economic circumstances turn for the worse. The Commission's decision to change the terms of that insurance policy to provide greater coverage at greater cost does not change the underlying philosophy that residential customers should get what they pay for. However, when the issue is one of requiring small businesses, government offices, municipalities, hospitals, educational institutions and larger businesses to all contribute to the insurance policy, the Commission is contemplating a fundamental departure from being the regulator to being a taxation authority. OCA's denial that this is a fundamental change in regulatory philosophy is without merit.

The OSBA respectfully submits that having Columbia's residential customers pay for a benefit which only they are eligible for is just, reasonable, and non-discriminatory. In this specific proceeding, even under the Company's original CAP proposal, Columbia's typical non-CAP residential customer would be paying only $1.30 more a month in CAP costs. That is a *de minimis* amount, and does not support the changes to CAP cost revenue allocation as proposed by the OCA and CAUSE-PA.

d. CAP Cost Allocation

Mr. Knecht explained the OCA proposal regarding how to implement its CAP cost allocation proposal, if approved by the Commission:

> Mr. Colton proposes to allocate the costs among rate classes in proportion to distribution rate revenues. While he does not offer a specific cost recovery scheme, the obvious choice would be to follow the allocation and use a percentage markup, in the manner of a sales tax or the DSIC charge.

OSBA Statement No. 1-R, at 3. The OCA attempts to defend its proposal by describing it as "competitively neutral."[48] This argument is patently at odds with the facts. Mr. Knecht identified two major problems with the OCA proposal:

> First, it assigns minimal costs to the Company's largest customers, whereas the largest businesses likely benefit the most from the societal benefits to which Mr. Colton refers. I estimate that Mr. Colton's proposal would imply that small business customers in Rate SGS1 would pay about 39 cents per Dth, while the very largest customers in Rate MDS would pay less than 3 cents per Dth.
>
> Second, Mr. Colton's proposal would disadvantage small businesses that compete with larger ones. Does Walmart really need another cost advantage over local retail shops?

OSBA Statement No. 1-R, at 10-11. Both observations disprove any claim that the OCA proposal is competitively neutral. Simply put, the OSBA suspects that the OCA does not want the cost recovery to be *competitively neutral*. What the OCA apparently wants is for CAP cost recovery to be *politically palatable*, in order that the largest customers with more political influence have less incentive to contest the OCA's new tax on energy-consuming businesses. There is no other rationale why the OCA would propose to impose much lower charges on large businesses than on smaller businesses. The OSBA finds the OCA universal service cost recovery proposal to be cynical and inequitable.

If the Commission approves the OCA proposal to allocate CAP costs to all the Company's customer classes, the OSBA recommends that the costs be recovered via a volumetric charge, as is the case for PGW.[49] In OSBA's view, this approach would much better align the taxes paid with the societal benefits cited by OCA in support of this proposal.

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[48] OCA Main Brief, at 180-182.

[49] OSBA Statement No. 1-R, at 9-10.

However, unlike PGW, the OSBA stresses that basic fairness requires that no customer classes should be permitted to be exempt from this volumetric charge. The only exception *may* be where the Company has clearly demonstrated that raising rates would cause the customer to bypass the system. As Mr. Knecht explained at some length in his surrebuttal testimony, the Company has generally failed to meet this burden for most of its flex rate customers.[50] Moreover, even Mr. Colton proposes that all flex rate customers be assigned a proportionate share of the costs.[51] Thus, there is no legitimate reason to exempt any particular customer class from the impacts of this change in policy, or even to favor large industrial customers with minimal charges. In short, all means all.

D. Rate Design

1. Residential Rate Design

a) Residential Customer Charge

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

b) Weather Normalization Adjustment

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

c) Revenue Normalization Adjustment

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

2. Small C&I Customer Rate Design

The OSBA addressed this issue in its Main Brief.

3. Large C&I Customer Rate Design

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

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[50] OSBA Statement 1-S, at 2-5.

[51] OSBA Statement No. 1-R, at 8, footnote 11.

4. Gas Procurement Charge Rider

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

E. Bill Impacts

Under the insurance model for universal service cost recovery, it may be credibly argued that universal service is one aspect of providing utility service to residential customers, and therefore the cost can be legitimately hidden in regular gas utility charges. However, under the tax-and-spend model, such obfuscation is not reasonable. The OCA attempts to defend a bill roll-in of the new tax on the grounds that a tax for universal service is just like any other component of utility distribution costs.[52] The OSBA respectfully disagrees. A social policy tax on businesses is a tax – it's not a cost for a distribution main, it's not a metering charge, and it's not an insurance policy for business customers.

If the Commission does decide that non-residential customers should be taxed in order to meet the Commission's assessment of a utility's universal service cost obligations, the OSBA respectfully submits that in order to be transparent and honest about its policy change, the Commission should have the courage of its convictions and require the Company to separately report the new obligation on non-residential customer bills.

[52] OCA Statement No. 5-S, at 26.

XI. Conclusion

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

Adopt the OSBA's 75/25 ACOSS;

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

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

Respectfully Submitted,

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Dated: October 30, 2020

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

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

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