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October 30, 2020

VIA ELECTRONIC FILING

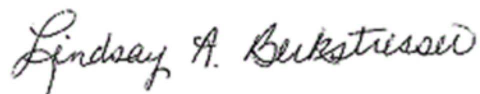
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Attached for filing please find the Reply Brief of Columbia Gas of Pennsylvania, Inc., in connection with the above-referenced proceeding. Copies will be provided per the attached Certificate of Service.

Respectfully submitted,



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Attachment

cc: Honorable Katrina L. Dunderdale (*via email; via FedEx; w/attachment*)
Matt Stewart *(via email; w/attachment)*
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Certificate of Service

CERTIFICATE OF SERVICE
(R-2020-3018835)

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant.)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2020-3018835
Officer of Consumer Advocate	:	C-2020-3019702
Office of Small Business Advocate	:	C-2020-3019714
Columbia Industrial Intervenors	:	C-2020-3020105
Dr. Richard Collins	:	C-2020-3020207
Ionut R. Ilie	:	C-2020-3020498
Pennsylvania State University	:	C-2020-3020666
	:	
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc.		

REPLY BRIEF OF COLUMBIA GAS OF PENNSYLVANIA, INC.

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I. INTRODUCTION

A. Introduction

On October 16, 2020, in accordance with the litigation schedule adopted for this proceeding by Administrative Law Judge Katrina L. Dunderdale (the "ALJ"), Columbia Gas of Pennsylvania, Inc., ("Columbia" or the "Company"), the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"), the Community Action Association of Pennsylvania ("CAAP"), Columbia Industrial Intervenors ("CII") and The Pennsylvania State University ("PSU") submitted Main Briefs.

Columbia's Main Brief, which explained that its proposed $100.4 Million base rate increase should be approved, anticipated and responded to many of the arguments that have been raised by other parties. In several instances, Columbia's position is fully set forth in its Main Brief and further response in this Reply Brief is not necessary. Other arguments presented by parties in their briefs require further response. For ease of reference, Columbia's Reply Brief follows the same sequence contained in its Main Brief.

B. Burden of Proof

As noted by other parties in their briefs, Columbia bears the burden of proof to establish the justness and reasonableness of every element of its rate increase request.

However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other party has questioned. As the Commonwealth Court has explained:

> While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be

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> called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. P.U.C., 570 A.2d 149, 153 (Pa. Cmwlth. 1990).

Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *See, e.g., Pa. P.U.C. v. PECO*, Docket No. R-891364, *et al*., 1990 Pa. PUC LEXIS 155 (Order dated May 16, 1990); *Pa. P.U.C. v. Breezewood Telephone Company*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Order dated Jan. 31, 1991). Purely speculative assumptions are insufficient. *Pa. P.U.C. v. Pa. Power & Light Co.*, 1995 Pa. PUC LEXIS 189, *20. In addition, tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified. *See, e.g., Pa. P.U.C. v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al*., 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).

Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof. *Pa. P.U.C. v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al*., 2007 Pa. PUC LEXIS 5 (Order entered Jan. 11, 2017).

II. <u>SUMMARY OF ARGUMENT</u>

Various parties express in their briefs that the Commission must "balance the interest" between customers and investors and propose that the Commission approve no increase in this case. OCA M.B., p. 25; CAUSE-PA M.B., p. 4, CII M.B., p. 4, CAAP M.B., p. 2. However, rejecting any increase, in the face of overwhelming evidence that a rate increase is justified under

traditional ratemaking principles, is not a balancing of customers' and investors' interests. It is establishing a new ratemaking standard that rate increases can be granted or denied based upon subjective assessments of whether a sufficient number of customers will have trouble paying increased rates. Such a standard not only imperils the execution of needed safety investments in the short term, but will do long term harm as investors assess whether to continue to invest in Pennsylvania utilities or shift investment to other states or other enterprises.

The proper, and constitutional, approach is not to deny a rate increase. It is to implement programs that support those with payment difficulties at this time. Columbia's Main Brief details the many enhanced programs that Columbia has adopted to assist customers facing COVID-19 problems. Columbia M.B., pp. 25-30. Columbia's efforts are ongoing, as it looks to develop other ways to help customers with payment problems. For example, on October 26, 2020, Columbia filed a request, at Docket No. M-2018-2645401, to amend temporarily its Universal Service and Energy Conservation Plan to increase the number of customers who can qualify for assistance through Columbia's Hardship Fund. The change will allow customers with income up to 300% of the Federal Poverty Income Guidelines to qualify for Hardship Fund grants. Columbia has secured $400,000 from the NiSource Foundation to fund the grants to additional customers for the current program year that began October 1, 2020.

Columbia's Main Brief and this Reply Brief explain why Columbia's evidence fully supports its rate increase request, and the rate design and other proposals set forth in the filing. Other parties' adjustments should be denied.

III. OVERALL POSITION ON RATE INCREASE

A. Introduction.

OCA urges the Commission to deny Columbia's entire rate increase to protect the ratepayers that are experiencing unemployment and income loss due to COVID-19. OCA M.B., p. 13. Columbia has explained that OCA's contention fails to meet minimum federal constitutional standards and fails to meet standards under the Public Utility Code and the Commission's regulations for adjudicating a proposed rate increase. Columbia M.B., pp. 18-21. In contrast, the Public Utility Code empowers the Commission to provide programs to assist low income customers—the customers OCA repeatedly references as those most harmed by COVID-19. OCA M.B., pp. 2, 17.

As explained herein, OCA contends that continuing Columbia's current rates without a rate increase will produce an overall 5.52% rate of return, which would result in an opportunity to earn an equity return of only 6.53%, and that such a return would be adequate to meet constitutional standards. The contention that this is an adequate return is unsupported by expert testimony and contrary to OCA's own rate of return witness' testimony that an overall equity return of 8.5% is required by market evidence.[1]

Even if the Commission were empowered to deny an entire rate increase solely on the basis of its effect on customers, doing so would be exceedingly poor public policy and ultimately harm customers and the public in the service area where the Company serves.

The last time that Columbia received a base rate increase was in late December 2018. If the Commission were to deny any rate increase effective January 23, 2020, that would amount to no base rate increase for 25 months. It would also create great uncertainty as to when the

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[1] As explained in Section VIII of this brief, an 8.5% equity return is wholly inadequate and is based substantially upon an inappropriate retained earnings approach to deriving a DCF growth rate.

Commission would allow a further increase in base rates and would result in a further delay of any increase in base rates for at least an additional nine months. This continued uncertainty could limit the Company's ability to raise capital on reasonable terms to continue its aggressive main and service replacement program. Most of this investment goes directly into the communities in which Columbia serves, which benefits local economies. Columbia St. No. 17-R, p. 16-18. Even if the Company could somehow continue most of its replacement program, the amount of the ultimate rate increase allowed to customers would be much higher, to reflect additional replacement of aged infrastructure. In addition, any interim cutbacks in the replacement program would slow safety improvements and the reduced spending would harm the public by injecting less spending into the service areas served.

A far better solution is available and is the solution that is clearly supported by the Public Utility Code. The Commission should grant an increase based upon application of the established rate-making formula and the record evidence. For those customers that are struggling to pay their bills, the Commission can, and Columbia already has, implemented program changes to assist customers. This approach is in the long-term interest of both customers and the Company.

B. OCA's Contention That The Commission Can Reject an Entire Rate Case Because Some Customers Might Not Be Able to Afford It is Erroneous.

OCA notes in Mr. Rubin's testimony and in its Main Brief that many of the Company's customers have experienced lost income as a result of the pandemic. OCA M.B., pp. 14-18. OCA does not emphasize that most of these customers also have access to various forms of government assistance**.** Columbia St. No. 16-R, p. 16. Nor does OCA quantify the effects of any increase in Columbia's rates in this proceeding on customers' budgets. Nor does OCA explain why the many customers who have not lost income should be exempted from paying a

reasonable increase in rates to continue to improve the safety and reliability of the Company's distribution system. OCA's proposed solution is simply overbroad.

OCA's solution also is constitutionally deficient and contrary to the requirements of the Public Utility Code.

As explained by former Chairman of the Commission James Cawley, OCA's contention that there are separate zones of reasonableness for investors and customers and that the Commission can deny a rate increase without balancing the interests of investors is both novel and unsupported.

> **Q. IS THERE SUCH A THING AS A "NULL" ZONE LOWER THAN THE LOWEST REASONABLE RATES WITHIN THE TRADITIONAL ZONE OF REASONABLENESS?**
>
> A. No. A rate, or a return on investment, is either reasonable—i.e., neither confiscatory of the utility's property nor exploitive of customers, or it is unreasonable—i.e., it is confiscatory or exploitive. A "null" rate or return on investment falling below the lowest reasonable rate within the traditional zone of reasonableness is confiscatory.
>
> **Q. MR. RUBIN RECOMMENDS THAT THE COMMISSION "ACT WITHIN THE BROAD PUBLIC INTEREST." DOES THAT MEAN THAT CUSTOMERS' INTERESTS CAN BE FAVORED OVER INVESTORS' INTERESTS TO DETERMINE JUST AND REASONABLE RATES IN TIMES OF ECONOMIC DISTRESS?**
>
> A. No, that is not what "acting in the broad public interest" means. Favoring customers' interests (or investors' interests) would be a distortion of the most accepted principle of utility ratemaking announced in the famous *Hope* decision by the U.S. Supreme Court:[2] Rates are defined to be just and reasonable if they *balance* consumer and investor interests. The public interest is determined by a balancing of the interests without favoring either of them. It is an amalgam of both as determined by the discretion of the Commission.

---

[2] *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591, 603 (1944).

> Mr. Rubin acknowledges that principle[3] but wrongly applies it by changing what he perceives as bias favoring investors' interests to bias favoring customers' interests. Thus, he advocates that, because the pandemic adversely affects some customers, no just and reasonable rate beyond existing rates is possible or justified. This, of course, is not the required balancing of interests but improper unbalancing of interests.
>
> Here, it is especially important for the Commission to take not only a broad view of the public interest but a long one as well because utilities provide essential services that require ongoing investment supported by regular and rational rate relief, especially to put in place costly long-lived infrastructure made possible by indispensable private investors. More than most Pennsylvania utilities, Columbia is in need of such a long view because of its initiative to commence aggressive replacement of bare steel, wrought iron, and cast iron pipe in 2007[4] and its continuing commitments to do so as evidenced by its First and Second Commission-approved Long Term Infrastructure Improvement Plans.[5]

Columbia St. No. 16-R, pp. 18-20.

Mr. Rubin's failure to even attempt to balance the interest of investors with those of customers makes his proposal constitutionally deficient.

OCA's proposal to deny a rate increase because it may not be affordable to some customers is also contrary to the Public Utility Code. Section 1301 of the Public Utility Code requires that every rate increase "shall be just and reasonable and in conformity with regulations or orders of the Commission." 66 Pa. C.S. § 1301. Section 315 of the Public Utility Code authorizes a public utility to use "a fully projected future test year" to meet its burden of proof. 66 Pa. C.S. § 315(e). In addition, the Commission has extensive regulations as to the data to be submitted to justify an increase in rates. 52 Pa. Code § 53.35. Mr. Rubin's attempt to ignore

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[3] OCA St. No. 1, p. 5 ("In setting rates, regulators should attempt to balance the interests of all relevant sectors of the public.").
[4] Columbia St. No. 14, p. 3.
[5] P-2012-2338282 (filed December 7, 2012 and approved March 14, 2013) and P-2017-2602917.

these requirements and simply deny any rate increase based upon the effects on customers invites the Commission to ignore the Public Utility Code.

OCA also argues that Columbia does not need a rate increase, claiming that the Company will earn a 5.52% overall return in its FPFTY with no increase and that 5.52% is an adequate return. OCA M.B., p. 24. There are several problems with this contention. First, no OCA witness has presented any market evidence that such an overall return, which equates to an opportunity to earn only a 6.53% return on equity, meets the requirements of the market or is sufficient to raise equity capital. OCA M.B. Table 1(A) no increase scenario. OCA's rate of return Witness Mr. O'Donnell proposes an 8.5% return on equity, which contributes to an increase of $31 Million in OCA Witness Effron's testimony. OCA St. No. 3, pp. 19-20; OCA St. No. 2, p. 4.[6] OCA's market evidence suggests a return on equity of at least 8.5%, nearly 2% above the 6.53%. Furthermore, the Commission's current published return on equity for use in natural gas Distribution System Improvement Charges ("DSIC") is 10.1%. Therefore, there is no record evidence in this case that holding Columbia's rates constant will provide the Company with an opportunity to earn a fair rate of return and allow it to maintain a financial profile sufficient to allow it to raise the capital it needs to provide service on reasonable terms.[7]

OCA cites one Massachusetts case during the Great Pandemic and some depression era actions of the Public Service Commission to try to justify denying an increase in rates in this case. Former Chairman Cawley responded to these citations in his rejoinder testimony as follows:

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[6] For reasons explained later within in this brief, an 8.5% return on equity is not sufficient to meet market requirements and allow the Company to raise capital on reasonable terms.

[7] OCA's 6.53% equity return with no increase assumes that all of its expense adjustments and its proposed hypothetical capital structure are accepted. If some or all of these expense adjustments and/or the hypothetical capital structure are rejected, Columbia's return on equity would be well below the 6.53% projected by OCA with no rate increase and barely above its embedded cost of long-term debt. Columbia M.B., p. 61.

Q. DOES MR. RUBIN CITE A 1934 PENNSYLVANIA PUBLIC SERVICE COMMISSION RESOLUTION LOWERING RATES DURING THE GREAT DEPRESSION AS PRECEDENT FOR COMPLETELY DENYING COLUMBIA'S REQUEST FOR AN INCREASE IN REVENUES?

Yes, he cites a Public Service Commission ("PSC") resolution adopted in 1934 as precedent for denying Columbia rate relief here and for reducing rates generally during distressed economic conditions. He also quotes from a history of the Philadelphia Electric Company ("PECO"), in support of his position that the "PSC lowered rates substantially during the Great Depression based (at least in part) on prevailing economic conditions as stated in the 1934 resolution.

Q. DO THE CITED REFERENCES SUPPORT MR. RUBIN'S TESTIMONY?

No, the resolution was arbitrarily adopted and implemented, as the PECO history makes clear, and notably was not adopted until over four years after the onset of the Great Depression, after the PSC better understood the resulting economic effects.

By resolution, the PSC first initiated an investigation on April 5, 1932, by a two-commissioner committee which was directed to hold conferences principally with the Commonwealth's electric utilities (although it met with other utilities as well) "concerning the reasonableness of [their] rate schedules and structures" with the committee's findings to be reported to the full Commission. The committee's report resulted in a further resolution adopted on April 2, 1934:

> That so long as the present economic conditions of the country exist, this Commission believes that an annual rate of return of 6 per centum to public service companies in its jurisdiction is a fair and reasonable return on the value of the property used and useful in the rendition of the service to the public; and further, that the Commission confer with representatives of the public service companies earning more than a fair return upon this basis for the purpose of having them revise their rate structures to conform to this annual rate of return.[8]

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[8] *Re Utility Rates During Economic Emergency*, 3 PU.R. NS 123, 125 (Pa. P.S.C. 1934), attached hereto as Exhibit JHC-4.

> Unlike the present circumstances, where Mr. Rubin proposes a punitive rate increase denial on Columbia when the pandemic has occurred for less than a year, the PSC did not take action until well after the onset of the Depression which began with the stock market crash in September-October 1929. The PSC assessed the effect of the economic dislocation for over four years before adopting the resolution in the spring of 1934. Until then, the PSC continued to award rates of return of 7 percent.[9]

Columbia St. No. 16-RJ, pp. 5-7.

In this regard, it is noted that the PSC did not have the statutory authority, as the Commission has, to implement customer assistance programs for low income customers. *See* Section 2203(7) and (13) of the Public Utility Code, 66 Pa. C.S. § 2203(7) and (13).

The one Massachusetts case that OCA cites denying a rate increase in the Great Pandemic also does not support OCA's contention. As explained by former Chairman Cawley:

> …I am equally unimpressed by Mr. Rubin's citation of *Donham v. Public Service Commission*, 232 Mass. 309, 122 N.E. 397 (1919)[10], or his reliance on that case's quotation from *Missouri, Kansas & Topeka Railway Co. v. Interstate Commerce Commission*, 164 Fed. 645, 648 (1908) (confirming the settled principles that investors' and customers' interests must be balanced, and that a utility bears the burden of failing to achieve its allowed return if it operates imprudently or inefficiently.)
>
> *Donham* itself is a lonesome and factually inapt precedent for making a valid public policy recommendation for the present pandemic circumstances. The court cited six reasons for the streetcar company's dire financial straits, listing "the wide prevalence of the epidemic known as influenza, a factor seriously affecting receipts (only) during October and November, 1918."[11] The first five reasons were "(1) Heavy increase in wages likely to absorb sixty-five to seventy percent of yearly receipts on present basis; (2) great increase in cost of steel, coal, copper and other

[9] *See City of Scranton v. Scranton-Spring Brook Water Service Co.*, 10 Pa. P.S.C. 609 (1930); *Ruttle v. Cheltenham & Abington Sewerage Co.,* 10 Pa. P.S.C. 502 (1931); *Borough of Honesdale v. Honesdale Consolidated Water Co.*, 10 Pa. P.S.C. 653 (1931); *Reeves v. Highspire Water Supply Co.*, 11 Pa. P.S.C. 143 (1931); *Weinhold v. Pennsylvania Chautauqua*, 12 Pa. P.S.C. 230 (1933); *Taxpayers Protective Association of Easton v. Lehigh Water Co.*, 14 Pa. P.S.C. 1 (1936) (7% return for the period October 1, 1931 to March 15, 1933, and 6% return "designated by the Commission on April 2, 1934, as the allowable rate of return" for the period March 14, 1933, forward).
[10] *Id.* pp. 19-20.
[11] 122 N.E. at 400.

> materials necessary for operation; (3) offset of increase in fares by loss of traffic; (4) the adverse conditions of poor equipment; (5) lack of profit on many country lines."[12] The Massachusetts Public Service Commission's underlying decision stated, "It is clear that the chief factor in the present unfortunate plight of this company is the recent extraordinary rise in wages and prices, rather than any of these things. … The problem is … meeting the necessary and unavoidable cost of furnishing the service."[13] In short, the economic effects of the influenza epidemic had little to do with the Commission's decision, while the court's decision primarily concerned the propriety of the rates proposed by the receiver of the streetcar company's parent company versus the trial period rates set by the Commission.

Columbia St. No. 16-R, pp. 21-22.

Accordingly, *Donham* does not provide any basis to support OCA's claim that a rate increase can be denied based on a pandemic, and also has no effect on Pennsylvania law.

Importantly, denying a rate increase in difficult economic times is contrary to modern economic theory, which is based on stimulating the economy during difficult times. This approach also was explained by former Chairman Cawley:

> Rather than repeating in this case the arbitrary ratemaking mistakes of the PSC during the Great Depression, the Commission should heed this observation in the updated edition of the most classic of public utility law treatises (first published by James C. Bonbright in 1961[14]), "In more recent years, business-cycle experts have become skeptical of proposals to combat a depression by enforced reductions of administered prices, and attention has been turned to other alternatives including the possibility of using the versatile machinery of government to encourage private utilities *to maintain their construction and equipment budgets*, even when their existing plants are partly idle because of a temporary drop in demand."[15]

Columbia St. No. 16-RJ, p. 8.

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[12] *Id.*
[13] *Id.,* 122 N.E. at 401.
[14] *Available at* File:///C:/Users/J%20and%20K/Downloads/1961%20EDITION%20JAMES%20C%20BONBRIGHT'S%20PRINCIPLES%20OF%20PUBLIC%20UTILITY%20RATES%20(L0898246xA35AE)%20(1).pdf.
[15] James C. Bonbright, Albert L. Danielsen, and David R. Kamerschen, PRINCIPALS OF PUBLIC UTILITY RATES (2d Ed. 1988), PPUR CH 14, 2005 WL 998348 at 22 (emphasis added).

The massive stimulus programs of the federal and state governments to offset the economic effects of COVID-19 are examples of this approach. In addition, the undisputed testimony of Columbia Witness Bishop concerning the significant and important economic benefits of Columbia's spending on capital projects as well as on expanded low income programs also contributes to the stimulus required. Columbia St. No. 17-R, pp. 5-6. Granting Columbia a rate increase based upon the regulatory formula and the record evidence is necessary to support this modern approach.

In support of its contention that Columbia does not need to raise its rates right now, OCA cites decisions by three utilities and two municipal utility systems to withdraw or defer filing rate increases. OCA M.B., p. 19. As explained in Columbia's Main Brief, the Company already voluntarily postponed the effective date of its proposed rates by five weeks, in the middle of Winter. Columbia M.B., p. 7. Further, OCA has offered no evidence regarding the earnings of these utilities, or their need for rate relief.

C. Columbia's FPFTY Data is Reliable and Cannot Be Disregarded.

OCA contends that Columbia's FPFTY data may not be relied upon because the data was submitted just after the pandemic struck Columbia's service territory. OCA M.B., pp. 3-4, 27-28. OCA offers no evidence that Columbia's FPFTY projections are unreliable because there is none.

Columbia's expenses have not declined due to the pandemic. In fact, even exclusive of increased uncollectible expenses, Columbia's expenses are above projections in 2020. As Columbia's Witness Ms. Krajovic explained:

> Through July 31, 2020 the Company has experienced net identified increased costs of $373,753, exclusive of uncollectibles. The Company is working to manage the impact of the changes that COVID-19 has on its operations and in its service territory, but has not furloughed, nor plans to furlough, any front line workers nor

> does it anticipate not being able to complete compliance work or deploy its budget to accomplish necessary and important risk-reduction work on its system.

Columbia St. No. 9-R, p. 8.

This is unsurprising. Columbia has a duty to continue to provide safe and adequate service to its customers, which means it must execute its Work Plan. As an essential business, Columbia was exempt from many of the restrictions imposed by the Governor's Emergency Order. Certain operations, in particular those involving direct customer contacts, were temporarily deferred, but have since restarted as all of Pennsylvania has entered the "green" stage under the Governor's Emergency Order since July, 2020. Columbia Ex. MJD-3R, p. 6; OCA St. No. 2-S, p. 12. While certain projected expenses for 2020 have been reduced, such as travel and meetings, other expenses, such as the need to acquire personal protective equipment, cleaning and sanitizing supplies and costs associated with remote work and the need to implement social distancing, have increased. Columbia St. No. 9-R, p. 7. Columbia's 2021 O&M budget may well be conservative in light of the potential need to maintain certain COVID-19 protections in 2021, but this is no basis to reject the budget projections as unreliable.

Columbia also has continued to execute its capital budget. OCA's Witness, Mr. Effron, acknowledged that the facts of record support a conclusion that, despite the temporary construction limitations experienced earlier this year, Columbia was still anticipated to meet its capital budget for 2020. OCA St. No. 2, p. 6. Those restrictions have been lifted, and there is no basis to speculate that Columbia will be unable to execute its capital budget for 2021. As Ms. Krajovic explained:

> Q. Has the Company modified its Field Operations or Capital Construction Work Plans for 2021 in response to the pandemic?
>
> A. No. Certainly the Company will continue to implement the safety processes it has instituted since March 2020 to protect both customers and employees in response to the pandemic. It will continue to evolve those processes in response to government mandate and best practice evidence as required. However, based on the results achieved to date in 2020, the Company fully anticipates that it will accomplish the Work Plan and execute the Capital Program reflected in this case for 2021.

Columbia St. No. 9-R, pp. 8-9.

Similarly, while OCA speculates that revenues in 2021 will be different than projections, OCA has offered no evidence to support this speculation. As is the case every year, there will likely be variances between actual and projected revenues, but OCA has offered no evidence to substantiate a contention that pro forma revenues, normalized and annualized as of the end of the FPFTY, are unreliable.[16] As the Commonwealth Court has observed:

> A sufficiently detailed projection is not speculative—it is in the nature of prospective ratemaking for utilities to make projections as to all aspects of their operations when they employ a future test year.

Columbia Gas of Pennsylvania, Inc. v. Pa. P.U.C., 149 Pa. Cmwlth. Ct. 247, 613 A.2d 74, 77-78 (1992). Columbia provided detailed calculation using established techniques of weather normalization, conservation trends and historic experience in changes to number of customers to derive its FPFTY revenues. Columbia Ex. 103; Columbia St. No. 3, pp. 5-15.

OCA's contention that Columbia's rate increase should be denied in its entirety because its projections cannot be relied upon is unsupported by record evidence and must be rejected.

[16] Columbia's pro forma FPFTY base rates revenues at present rates reflect a small increase over HTY pro forma revenues, primarily due to new customer additions. Columbia Ex. 102, Sch. 3, p. 3; Columbia Ex. 103, Sch. 3, p. 2.

D. Other Parties' Contentions Do Not Justify Denial of Columbia's Rate Increase.

Other parties have presented arguments in favor of a complete or virtually complete denial of Columbia's rate filing, due to COVID-19. None of these contentions justify a broad-based, and unconstitutional, denial of a rate increase, as opposed to targeted relief programs.

CAUSE-PA cites to payment troubles of low-income customers. CAUSE-PA M.B., pp. 7-10. However, Columbia offers a number of Commission-approved programs to assist customers with payment difficulties. These programs provide focused relief to low-income customers. Payment difficulties of low-income customers do not justify relieving higher income customers from a rate increase.

CAUSE-PA also cites to a recent report on Columbia's customers who are in arrears in support of its position. CAUSE-PA M.B., p. 9. That report indicates the number of residential customers in arrears has increased by less than 6,000 from September 2019 to September 2020. Targeted relief to assist these customers is appropriate, but this does not justify no increase to Columbia's 433,000 customers.

CII asserts that there was "nothing that compelled" Columbia to file this case. CII M.B., p. 3. Columbia's projected 4.88% return on common equity certainty is a compelling reason. Moreover, unlike non-regulated entities like Knouse Foods, Columbia has a statutory duty to serve its customers, and cannot choose to scale back unprofitable areas of business. A rate increase is needed in order for Columbia to have the resources to fulfill its statutory duty. CII further points to increased costs borne by Knouse Foods for personal protective equipment and potential workforce issues. CII M.B., p. 4. However, Columbia faces all the same costs and challenges, as it has incurred over $370,000 on a net basis (exclusive of uncollectibles) due to the pandemic, which are not included in its claim in this case. Columbia St. No. 9-R, p. 8.

OSBA states that Columbia has "turned a blind eye to the pandemic" and that the Commission "will be forced to remind them" that the pandemic exists. Clearly, as Columbia's testimony demonstrates, Columbia is well aware of the pandemic, and has been proactive in helping those who need assistance. It has similarly been proactive in finding solutions to continue to meet and exceed its public utility obligations while keeping its employees and contractors safe.

Moreover, denial of the rate increase will create unnecessary long term risks for customers. By denying timely rate relief, safety will not be supported. Investors will no longer have any assurance that they will have a reasonable opportunity to earn a fair return on investments in Pennsylvania utilities. Good paying construction jobs may need to be curtailed. The next rate increase, whenever it is authorized, would necessarily be greater to reflect this rate increase and any further increases in costs.

Reasoned utility ratemaking can, and should, continue to support safety, investments and jobs through traditional ratemaking procedures, while assisting those in need. Other parties' contentions that Columbia should be denied rate relief must be rejected.

IV. RATE BASE

A. PLANT IN SERVICE FPFTY PLANT ADDITIONS

1. OCA's Proposed Use of a Three-Year Average to Set FPFTY Plant Additions

OCA proposes to disallow $76,983,000 of FPFTY plant additions. OCA M.B., pp. 29-30. Columbia responded to this proposed adjustment at pages 31-34 of its Main Brief. OCA's proposal is without merit, will disrupt the Company's replacement of aging infrastructure and should be rejected.

OCA offers no reason for its adjustment other than that FPFTY plant additions are greater than the average of the prior three years. OCA M.B., p. 29. However, as explained in Columbia's Main Brief, plant additions continue to increase as Columbia executes its LTIIP commitments to replace aging infrastructure. Columbia M.B., Section IV.A.

OCA asserts that Columbia "overlooks the availability of the Distribution System Improvement Charge (DSIC) for the Company to recover infrastructure investments that go beyond Mr. Effron's projection." OCA M.B. p. 30. Columbia has not overlooked the DSIC. Rather, it is OCA that seeks to use the DSIC as a partial substitute for the FPFTY, contrary to the Commission's holding in *UGI Electric*. Columbia M.B. p. 34. The result would be a need for multiple rate increases in 2021. The first would be effective in January 2021, and the second would be effective later in the year, as the DSIC is placed into effect for plant that was unjustifiably excluded from the FPFTY determination of plant in service.

OCA offers no evidence that Columbia's FPFTY plant additions are unsupported or overstated. Columbia has presented detailed information on its FPFTY Capital Budget. Columbia Ex. 108, Sch. 1; Columbia GAS-RR-014. OCA has not identified any projects that it contends will not be completed in the FPFTY. *See UGI* Electric, p. 31. In addition, Columbia has an extensive track record of completing its Capital Budgets, and OCA has not proposed that the FPFTY projected plant additions be disallowed because the Company historically underspends its Capital Budget. OCA's adjustment should be rejected.

2. Reporting Requirement

I&E recommends that Columbia provide a report by April 1 of 2021 and 2022 updating Columbia's Exhibit No. 108 for actual plant additions and retirements for the FTY and FPFTY.[17]

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[17] I&E states that Columbia uses a 13-month FPFTY. I&E M.B., p. 14. This is not an accurate statement. Columbia's FPFTY is the Twelve Months ending December 31, 2021. However, there is a one-month gap between

Columbia does not oppose this recommendation, which has been included in prior Columbia rate case settlements. Columbia St. No. 6, p. 14.

B. CLOUD-BASED COMPUTING

No party has opposed Columbia's proposal to include Cloud-Based Computing assets in rate base.

C. ACCRUED DEPRECIATION

The only proposed adjustment to Columbia's Accrued Depreciation Reserve is with respect to OCA's proposal to reduce FPFTY net plant additions. As the adjustment to net plant additions is improper, as explained in Section IV.A above, so also is Mr. Effron's proposed adjustment to Columbia's Accrued Depreciation Reserve.[18]

D. ADIT

The only proposed adjustment to ADIT is with respect to OCA's proposal to reduce FPFTY net plant additions. As the adjustment to net plant additions is improper, as explained in Section IV.A above, so also is OCA's proposed adjustment to ADIT.

V. <u>REVENUES</u>

No party has proposed adjustments to Columbia's pro forma FPFTY revenues at current rates.

At several places in its Main Brief, OSBA references the availability of the DSIC. OSBA M.B., pp. 3, 4. In rebuttal testimony, Columbia explained that the DSIC is available to recover depreciation, return and taxes on DSIC-eligible investments added after the Company's eligible plant balances exceed the levels projected as of December 31, 2019 in Columbia's 2018 base rate

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the end of the FTY and the beginning of the FPFTY. This is due to the statutory definition of a FPFTY (66 Pa. C.S. § 315(e), and the definition of a FTY under the Commission's regulations. 52 Pa. Code § 53.53(b).

[18] Columbia's depreciation expert, Mr. John Spanos, also explained that Mr. Effron oversimplified the process of computing depreciation accrual and the accrued depreciation reserve, in part because proper depreciation accounting requires a determination of plant in service and reserve at an account level, because different assets have different depreciation rates. Columbia St. No. 5-R, pp. 2-4.

proceeding. Columbia St. No. 9-R, p. 2-3. Columbia is now using the DSIC. However, by statute, the DSIC is limited to 5% of base rate revenues. 66 Pa.C.S. §1358(a)(1). For Columbia, this means the DSIC can recover no more than $20.1 Million, at the currently-authorized DSIC return. Columbia St. No. 9-R, p. 6. Columbia has explained that this cap on the DSIC rate would not even allow Columbia to recover the depreciation, return and income taxes on all of its 2020 investments. Columbia M.B., p. 23.[19]

OSBA asserts that, "[a]bsent this rate proceeding, the $20 million would, by operation of law, be included in the Company's tariff rates in January 2021," OSBA M.B. p. 4. This statement is inaccurate. Absent this rate proceeding, Columbia's DSIC would be capped at 5% of base rate revenues. By law, the DSIC may only be reset to zero "as of the effective date of new base rates that provide for prospective recovery of the annual costs previously recovered under the distribution system improvement charge." 66 Pa.C.S. §1358(b)(1). Therefore, absent a base rate proceeding, or under OCA's no rate increase proposal, Columbia's DSIC would not be zeroed out, and the DSIC would remain unavailable to recover portions of Columbia's 2020 plant investments and all of its 2021 plant investments.

OSBA also observes that Columbia's increase on a net basis is approximately $80.4 Million, after recognizing the revenue available from the DSIC. OSBA M.B., p. 3. It is correct that under normal ratemaking procedures, the DSIC is reset to zero once new base rates are established. However, in accordance with normal practice that has been used since the DSIC was established, the rate case presentation establishes *base rates*, and whatever the DSIC rate actually is at the time new rates are established, that rate is reset to 0%. The base rate proceeding does not attempt to project revenues from the DSIC at the time new base rates become effective,

[19] In addition, the DSIC cannot be used to recover the depreciation, return and investment on non DSIC-eligible property.

because that rate is dependent upon factors such as actual plant in service and the authorized DSIC return rate.

VI. EXPENSES

Columbia has provided detailed responses to various parties' expense adjustments in its Main Brief. Columbia will endeavor to avoid repeating those responses in this Reply Brief.

A. LABOR EXPENSE

I&E has proposed a $546,602 adjustment to labor expense to disallow annualization of wage increases in the FPFTY. I&E and OCA have also made adjustments to labor expense due to employee vacancies, using somewhat different methodologies. As explained at pages 39-42 of Columbia's Main Brief and as further explained next, these adjustments should be denied.

1. Annualization Adjustment

I&E opposes the Company's $546,602 wage annualization adjustment. I&E's position is contrary to years of ratemaking practice and precedent, and should be rejected.

The annualization of expenses to test-year end conditions is a standard ratemaking convention. Columbia St. No. 4-R, p. 7; *Pa. P.U.C. v. Bell Telephone Company,* 1985 Pa. PUC LEXIS 27, *27. Annualization of expenses is proper to conform to the accepted ratemaking "matching" principle that revenues, expenses and rate base should all reflect the same test year end conditions. *Pa. P.U.C. v. Philadelphia Suburban Water Co.,* 1988 Pa. PUC LEXIS 433, *96. The appropriateness of matching expense adjustments to a year end level, where other ratemaking components were annualized to a year end level, was the primary driver in the Commission's decision in *UGI Electric* to approve the annualization of salaries and wages. Columbia M.B., p. 40. In this case, for example, Columbia has annualized revenues to reflect a full year's worth of revenues for the test year, has reflected FPFTY end plant balances in rate base and has calculated depreciation expense on test year ending plant balances. Columbia Ex.

103, Sch. 4, Columbia Ex. 108, p. 3, Columbia Ex. 109, Attachment B, pp. 7-9. It would be inconsistent, and a violation of the matching principle, to disallow annualization of labor expense.

I&E attempts to distinguish the *UGI Electric* decision, asserting that the decision "does not ensure that Columbia has proven its claim for an annualization adjustment in the instant proceeding." I&E M.B., p. 17. Columbia has provided evidence regarding its calculation of annualization of labor cost, which is based upon wage and salary rates at the end of the FPFTY. Columbia St. No. 4-R, p. 7; Columbia St. No. 16-R, p. 2-3; Columbia Ex. 104, Sch. 1, Sch. 2, p. 1.[20] I&E did not challenge these calculations. I&E offers no basis to distinguish Columbia's claim for annualized payroll from the annualization claim accepted in *UGI Electric*.

Finally, I&E criticizes a statement made by Columbia Witness Miller regarding a reconciling tracker mechanism. I&E M.B., p. 17. I&E takes Ms. Miller's statement out of context. Ms. Miller was responding to I&E Witness Zalesky's statement that Columbia's annualization claim "would recover, dollar-for-dollar" labor expense. Ms. Miller simply pointed out that Columbia is not seeking a tracker mechanism that would recover costs on a dollar-for-dollar reconciled basis. Columbia St. No. 4-R, p. 7.

I&E has offered no basis for treating labor expense differently from other items of revenue, expenses and rate base with respect to annualization at an end of test year level. I&E's adjustment should be rejected.

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[20] In rebuttal, Columbia made a downward revision to its FTY merit increases for non-union exempt employees. Columbia St. No. 16-R, p. 2.

2. Employee Complement

I&E and OCA have computed alternative adjustments with respect to the projected complement of Company employees for the FPFTY. I&E M.B., pp. 18-21; OCA M.B., pp. 33-34. Each adjustment would reduce Columbia's payroll expense to a level below the annualized HTY expense. Columbia Ex. NJDK-SR, p. 3. Columbia anticipated and responded to I&E's and OCA's arguments at pages 40-42 of its Main Brief.

I&E's and OCA's sole focus is on the assertion that there are ongoing vacancies in the full complement of employee positions. However, what both parties ignore is how Columbia responds to such vacancies. Columbia responds to vacancies by using overtime and outside contractors to ensure that work will be performed. However, rather than budget for vacancies, and higher overtime and contractor use, Columbia budgets for a full complement of employees, plans for reduced overtime and does not budget for contractor use to fill in for vacancies.

This offset of reduced overtime in exchange for increased full-time employees in the O&M budget is shown in Columbia's exhibits and explained in Columbia's testimony. Columbia Exhibit 104, 2nd Revised, Schedule 10, p. 1, describes how the FTY O&M labor budget[21] reconciles to the normalized HTY expense. That exhibit shows that an increased expense of $1,139,386 for additional FTY headcount is offset by a planned overtime reduction of $1,300,000, which reflects the impact of incremental positions. If positions are unfilled, overtime will increase, to complete the Work Plan for the year. Columbia St. No. 9-R, pp. 10, 19.

The offsetting effects of budgeting for a full employee complement, with reduced budgeted overtime, is further reaffirmed by a comparison of Columbia's budgeted and actual labor expense. I&E derived its vacancy rate by averaging employee vacancies for the years

[21] The change to the Company's employee complement is reflected in the FTY. Columbia St. No. 9-R, pp. 10-11.

2017-2019. Under I&E's theory, these vacancies should have caused Columbia to underspend its labor budget. However, the data shows the opposite:

Labor	**Budget**	**Actual**
2017	31,182	30,019
2018	31,534	32,461
2019	32,271	36,471
	94,986	98,951

Columbia Ex. NJDK-1, p. 1. Clearly, vacancies in employee positions are being offset by increases in overtime.

OCA's proposed labor adjustment of $1,144,000[22] is similarly flawed. OCA reduces labor expense for 40 unfilled positions, but fails to increase overtime expense. It is unfair to reduce labor expense, by adjusting the employee complement close to the HTY level, without including the higher level of HTY overtime. Columbia cannot be expected to execute its various safety initiatives with an insufficient payroll allowance. Columbia is in the process of filling the vacant positions, providing jobs for Pennsylvanians, and uses overtime and contractors to make up the difference. Columbia St. No. 9-R, pp. 9-10. Labor expense should not be adjusted downward for assumed position vacancies without increasing labor expense for increased overtime, which is supported by historic experience.

I&E's and OCA's labor expense adjustments should be denied.

B. OTHER EMPLOYEE BENEFITS

As explained in Columbia's Main Brief at page 42, I&E's and OCA's proposed adjustments are derivative of their erroneous labor expense adjustments, and should be rejected.

[22] OCA proposed adjustment of $1,144,000 includes an adjustment to benefits expense.

C. INCENTIVE COMPENSATION AND STOCK AWARDS

1. Incentive Compensation

I&E and OCA propose substantially similar adjustments to incentive compensation.[23] Both adjustments are improper because they are derived from a single year's historic ratio of incentive compensation to payroll expense. Columbia M.B., pp. 43-44.

I&E asserts that historical data should be used to develop a payout ratio because the amount can fluctuate from year to year. I&E M.B., p. 23. In its direct testimony, I&E responded to this fluctuation by developing a three-year average of incentive compensation expense for 2017-2019, and proposing a $373,749 adjustment. I&E St. No. 1, p. 14.

In rebuttal, Columbia explained that an average of actual incentive compensation *payments* is an incorrect calculation because incentive compensation is paid as a percentage of pay. Using an average of *payments* does account for fluctuations in the award percentage, but fails to account for increased payroll in the FPFTY, compared to payroll in the 2017-2019 periods. As a result, the historic average of incentive compensation payments is out of sync with payroll growth. Columbia St. No. 9-R, p. 20. Columbia calculated a payout ratio of incentive compensation to payroll, using I&E's same 2017-2019 period, to demonstrate the reasonableness of its FPFTY claim:

> Using an adjusted three year average of per book Incentive Compensation as noted above of $1,891,800 compared to the average labor expense of $32,823,777 produces a payout ratio of 5.8%. Applying that average payout ratio to the budgeted labor expense for FPFTY of TME 12/31/21 of $38,998,504 (shown on Exhibit NJDK-5R, page 5) yields an outcome of $2,261,913, which is comparable to the Company's claim of $2,267,000 for Incentive Compensation expense projected in the FPFTY budget.

Columbia St. No. 9-R, p. 21.

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[23] I&E proposes an adjustment of $784,686. I&E M.B., p. 25. OCA proposes an adjustment of $775,000. OCA, M.B., p. 36.

When faced with this demonstration, I&E changed its calculation, and adopted a single year—2019—as its basis for developing a payout ratio. That year was the lowest payout ratio of the three years 2017-2019. I&E M.B., p. 24. I&E's changed methodology is essentially the same methodology proposed by OCA, using a single year—2019—to develop an incentive compensation payout ratio.

I&E and OCA are wrong to use a single year's payout ratio to derive an adjustment to Columbia's incentive compensation expense. Where the goal is to determine a "normal" level of expense for ratemaking purposes, an approach is to use a multiple year average, particularly where the expense varies from year to year. *UGI Electric*, pp. 53-55 (normalizing storm damage expense using a five-year average.) Using data from a single year is inappropriate, particularly where that year was abnormally low. This is the case for incentive compensation, as Columbia Witness Ms. Krajovic explained:

> While the Company's annual budget projects Incentive Program expense calculated on the anticipated base salary of employees during the period and the assumption of achieving the target performance levels described in the Incentive Plan, actual Incentive Compensation can be awarded at, above or below target corresponding to actual results. The payout in the HTY reflected that the target levels of performance were not achieved. Looking at one point in time does not provide a basis to qualify a projection as unreasonable. It is important to note that the Incentive Compensation payout level has been at or above target for all but two years since 2008.

Columbia St. No. 9-R, p. 12.

Parties would likely question a calculation that relied upon a single year with a high ratio to derive an adjustment. So, also, it is unfair to use a single year's ratio that is below normal to develop an adjustment.[24]

OCA observes at several points in its brief that the incentive compensation claim represents a 53% increase over the HTY amount.[25] There are two explanations. First, employee wages have increased from the HTY to the FPFTY. Incentive compensation is expected to increase as well. Second, as explained above, the Company and employees did not achieve the target levels of performance in the HTY. Thus, the payout ratio, and resulting payout, was abnormally low. In contrast, in 2017, where higher levels of performance were achieved, the payout ratio was higher, and the incentive compensation paid was over $400,000 more than the amount claimed in this case. I&E M.B., p. 24. The achievement of target levels of performance are encouraged through a higher payout.

The reasonableness of Columbia's FPFTY claim for Incentive Compensation is demonstrated by the average of historic payout ratios, covering periods of above average and below average payouts. I&E's and OCA's proposed adjustments should be rejected.

2. Stock Awards

OCA proposes to disallow $2.3 Million in stock awards.[26] The sole basis for the disallowance is OCA's contention that stock awards are a shareholder-oriented goal, and not a customer service-oriented goal. OCA M.B., pp. 36-38. Columbia has responded to OCA's proposal at pages 45-47 of its Main Brief.

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[24] For example, Columbia uses a five year average to normalize HTY Injuries and Damages Expense, where the expense has ranged from $225,000 to $398,000, with $398,000 being the most recent experience. Columbia Ex. 4, Sch. 2, p. 12.

[25] OCA asserts there are no detailed calculations to support Columbia's claim. OCA M.B., p. 36. However, OCA ignores the calculation presented above, which demonstrates the reasonableness of Columbia's FPFTY incentive compensation claim.

[26] This reflects approximately $571,000 in stock awards to Columbia employees and approximately $1.37 Million in NiSource Corporate Services Company Shared Services Expense.

Stock provided to employees is an alternative to a payment in cash. How the employee earns the stock award is, like other incentive compensation awards, based upon a mixture of achieving certain financial targets, safety and customer-oriented metrics. Columbia M.B., p. 45. Stock awards should be treated no differently from cash awards.

OCA points to the potential for stock appreciation, and labels this a shareholder-oriented goal. OCA M.B., p. 37. However, OCA has provided no explanation why the potential for stock appreciation is relevant to whether the payment of a stock award should be an allowed incentive compensation payment for ratemaking purposes. An employee could receive a cash award, and invest it in NiSource stock. The employee would then bear the risk, or receive the rewards, on stock price changes and dividends. However, the potential for subsequent stock price appreciation would have nothing to do with whether the initial cash award should be allowed for ratemaking purposes. Similarly, the potential for subsequent stock price changes on a stock award has nothing to do with whether the stock award is recoverable in rates.

The Commission has set a clear standard for allowing recovery of incentive compensation, including stock awards, in rates. As stated in *UGI Electric*:

> Where, as here, the incentive program as a whole establishes that the employees' eligibility to receive the benefit is based on performance duties and metrics directly related to the provision of service, the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base. We find that because UGI's incentive program is reasonable, prudently incurred, and is not excessive in amount, UGI is permitted to fully recover this expense. Furthermore, our decision to recover this expense is consistent with our prior decisions approving incentive compensation programs that are focused on improving operational effectiveness. *See e.g., PPL 2012 Order* at 26. Therefore, we shall grant UGI's request for allowance of a claim in the amount of $77,000 in Allocated Stock Options expense, and $112,000 in Restricted Stock Awards expense.

UGI Electric, p. 74. Columbia's stock awards meet the standards set forth in *UGI Electric* and other cases concerning the allowance of incentive compensation in rates. OCA's proposed adjustment should be denied.

D. PUC, OCA, OSBA FEES

I&E has recommended an adjustment of $348,549 to the Company's claim for PUC, OCA, OSBA fees. I&E M.B., p. 26. The revised adjustment, which was presented in surrebuttal, is derived by multiplying PUC assessment factors by Columbia's FTY revenues, resulting in an amount of $1,913,451. However, this revised calculation continues to understate the expense allowance. Subsequent to the submission of surrebuttal testimony, Columbia received its actual 2020 invoice, which shows an amount owed of $2,008,792. Thus, I&E's calculation is understated by $95,341 ($2,008,792 - $1,913,451). Moreover, Columbia continues to support its claim of $2,262,000, which is supported by a four-year average of annual assessments.

I&E's adjustment should be rejected.

E. RATE CASE EXPENSE

The only issue regarding rate case expense concerns the appropriate normalization period. Columbia has proposed a one-year normalization period, I&E a 20-month normalization period and OCA a two-year normalization period. Columbia has addressed this issue at pages 48-49 of its Main Brief.

OCA's two-year normalization period is inappropriate. Columbia has frequently filed annual rate cases. Beginning in 2010, Columbia has filed seven (7) base rate cases. OSBA St. No. 2, p. 3. Columbia anticipates filing annual increases, as it continues its main replacement program. A two-year normalization period clearly is not reflective of the frequency of Columbia's rate filings.

F. OUTSIDE SERVICES

OCA proposes a $2,757,000 adjustment to Columbia's Outside Service expense, which would reduce the FPFTY expense to an amount approximately $450,000 less than the Company's normalized HTY expense. Columbia Ex. 4, Sch. 2, p. 2. Columbia responded to OCA's adjustment at pages 49-50 of its Main Brief.

OCA's adjustment disregards the accuracy of Columbia's budget process as a basis for projecting FPFTY expense. As Columbia's witness explained:

> As noted earlier in my testimony, Mr. Effron is rejecting the basis of a FPFTY. For all cost categories, the Company uses its best estimate of the work to be performed, services to be secured and the costs anticipated to accomplish that work. Exhibit NJDK-1 and pages 6-7 of my direct testimony show that the Company's budgets have historically been a very good indicator of actual costs. Because the Company continually reviews budget variances throughout the year, it is able to identify differences in order to adjust spending, including where appropriate increase spending on certain projects where spending is expected to fall below budget for the year. As my direct testimony explains, Columbia's budget process is a conservative approach, as actual spending has exceeded budget in eight of the past eleven years. Additionally, this is the sixth base rate proceeding in which the Company has based its claim on the forward looking budget.
>
> Specifically, the Outside Services budget is estimated with expectations around discrete work streams and operational programs. It also can be utilized to address unforeseen operational circumstances, to supplement internal resources as needed and to balance the work plan accordingly. The budget for Outside Services is developed reflective of specific needs, plans and the realities of the day to day variability in work and resources.

Columbia St. No. 9-R, pp. 14-15.

OCA's adjustment should be rejected.

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G. OTHER ADJUSTMENTS

1. Safety Initiatives

OCA proposes to disallow $3,776,000 in incremental FPFTY expenses[27] on important safety initiatives. OCA's principal reason for its proposed disallowance is that the expenses have not yet been incurred. OCA M.B., p. 42. However, this is not a basis for disallowing expenses associated with new FPFTY expenses. A FPFTY would have no meaning if the only allowed expenses are those that have been incurred in the HTY or before the record is closed.

The Commission has approved the inclusion of new safety programs in the FPFTY. In *UGI Electric*, the utility proposed a new program to inspect and repair or replace certain company-owned facilities within the homes of customers, and to transition ownership of the facilities to the customers. I&E opposed the costs, in part, as speculative. The Commission rejected the proposed disallowance and allowed recovery of the full expense in rates. *UGI Electric*, p. 49.[28]

The Commission should reject OCA's proposals to deny recovery of new FPFTY programs on the basis that costs have not been incurred in the year prior to the initiation of the programs, for the reasons explained herein and at pages 51-58 of Columbia's Main Brief.

a. Cross Bore Identification Program

OCA proposes to disallow an increase in spending on cross bore identification of $1.4 Million, from a current budget amount of $1.3 Million to $2.7 Million. OCA claims Columbia has not justified the increase in spending. OCA M.B., pp. 42-44.

OCA ignores the evidence. Columbia seeks to slightly more than double its cross bore identification budget in order to more than halve the time to complete the program, from 68

[27] These are expenses not included in the FPFTY budget. Columbia St. No. 7, pp. 21-26.
[28] The Commission imposed a requirement that the Company provide annual reports on actual expenses incurred.

years to 31 years. The reason why the Company seeks to accelerate the program is because the program, to date, has identified nearly 300 cross bores involving Columbia's facilities. Based upon these results, Columbia has now classified cross bores as a high risk in its DIMP. Columbia M.B., p. 52.

OCA questions why the Company's spending has not been increased already, if cross bores are a high risk concern. OCA M.B., p. 43. However, when the Company first began its cross bore program in late 2013, it had only identified cross bores as a potential risk. Columbia St. No. 7, p. 21.

The purpose of the DIMP is to identify risks, develop plans and implement actions to reduce identified risks. OCA's position denies Columbia the additional resources needed to accelerate action to reduce the cross bore risk. Proactive proposals to address emerging risks should be encouraged, not rejected.

OCA continues to assert that Columbia has reduced its spending commitments on cross bore identification in the past two years. OCA M.B., p. 43. Columbia responded to this incomplete assertion in its Main Brief. Columbia M.B., pp. 53-54. Columbia has maintained a steady budget for cross bore investigations since 2014, as it has assessed the risk. Columbia has consistently met, or exceeded, its budget for the cross bore investigation program from 2015 through 2019, and expects to meet or exceed its 2020 spending target.

Columbia's proposal to double its cross bore program expenditures, in order to reduce by over 50% the time to address this high risk issue, is reasonable and in the public interest. OCA's proposed disallowance should be denied.

b. Gas Qualification Specialists

OCA opposes recovery of the cost to hire two new training specialists. OCA's sole basis for opposition is that the two specialists have not yet been hired. OCA M.B., p. 44. It is

important to emphasize that no party has challenged the need for these two training specialists to instruct new, and existing, employees in operating a safe natural gas system. Columbia M.B., pp. 54-55.

OCA's proposal to deny recovery of the cost for two training specialists to be hired in 2021 on the basis that they were not already hired in 2020 is contrary to the entire concept of a FPFTY. OCA's proposal should be rejected, for the reasons explained in the introduction to this Section VI.G.1 and Columbia's Main Brief.

c. Legacy Service Line Record Enhancement

As with Gas Qualification Specialists, OCA opposes recovery of the cost of new employees to be hired in 2021 to accelerate the pace of the Company's ongoing program to review and correct legacy service line records. OCA's sole basis for the proposed disallowance is that these new employees have not been hired as of the close of the record. OCA M.B., p. 45. I&E has recommended that the Company accelerate the pace of updating records, as part of its risk reduction recommendations, subject to approval of the $491,000 to hire additional employees. I&E M.B., p. 84.

For reasons explained above and in Columbia's Main Brief at pages 55-56, OCA's proposal to reject the hiring of additional employees to accelerate its review and correction of legacy service line records should be denied.

d. Field Assembled Riser Replacement

OCA opposes Columbia's proposal to add $1.7 Million to its FPFTY budget to replace customer-owned field assembled risers. OCA M.B., pp. 45-46. OCA's adjustment is without merit and should be rejected.

Columbia has identified a risk of failure in field assembled risers, and field assembled risers have been identified as a high risk in Columbia's DIMP. Columbia has included in its

O&M budgets, since 2015, an allowance for replacement of Company-owned field assembled risers. Columbia St. No. 7, p. 24. However, most risers, like most service lines, are customer-owned on Columbia's system. Columbia St. No. 7-R, p. 17; *see* 66 Pa. C.S. §1510. In late 2018, the Commission authorized Columbia to replace customer-owned field assembled risers. However, no amount was included in Columbia's budget to replace customer-owned risers, and Columbia has spent non-budgeted money or available funds from other work streams to replace customer-owned field assembled risers. Columbia St. No. 7, p. 24. Columbia now seeks to budget for replacement of customer-owned field assembled risers, to replace an estimated 2,712 customer-owned field assembled risers at a cost of $625 per unit. OCA St. No. 2, p. 17.

OCA argues that the increase is not necessary because the COVID-19 pandemic temporarily affected the Company's ability to replace field assembled risers. OCA M.B., p. 45. However, the Company's ability, in 2020, to replace field assembled risers due to the pandemic is no basis to disallow this incremental expense in 2021. The restrictions on construction and the early uncertainty with respect to appropriate safety measures have been resolved. There is no basis to assert that Columbia cannot accelerate its work to mitigate this high DIMP risk in 2021.

OCA challenges the incremental nature of the FPFTY claim for replacement of customer-owned field assembled risers on the basis that the Company replaced a lower number of risers in the HTY ended November 30, 2019. However, as explained in Columbia's Main Brief, its budget process is not a "build up" from its HTY. Columbia M.B., pp. 37-38, 56-57. The budget does not include funding for replacement of customer-owned field assembled risers, and the Company cannot continue to shift funding from replacement of its own field assembled risers or other safety-related programs to accelerate this work, as Columbia's Witness, Ms. Krajovic, explained:

> Mr. Effron makes a similar argument with regard to historic levels of spending on the replacement of customer-owned field assembled risers and supposes that incremental funding doesn't mean that more will be replaced in the FPFTY than in the HTY. He ignores that the Safety Initiative is to establish an on-going base funding to programmatically support that work stream. Without incremental funding, the pace of these risk remediation programs cannot be hastened, without decreasing or eliminating other risk reducing or compliance activities, which include the replacement of Company owned field assembled risers.
>
> The desire to accelerate the remediation is supported by I&E witness Apetoh, when he recommends at page 12 of his direct testimony that the Company "complete the inspection of all field assembled risers in the Company's system as soon as possible… and develop a plan to replace all of the filed-assembled risers in its system, including those on customer-owned service lines."

Columbia St. No. 9-R, p. 16.

For reasons explained above and at pages 56-58 of Columbia's Main Brief, OCA's proposed rejection of expenses to replace customer-owned field assembled risers should be rejected.

2. Compensation Adjustments

OCA opposes Columbia's adjustment of $431,000 in the FPFTY to adjust the compensation of certain employees whose pay is below market levels, and to improve compensation for leaders who must be on standby for Emergency Response. OCA M.B., pp. 46-47.

OCA asserts that this claim is "speculative" because the adjustments are not yet being implemented. OCA cites to *Pa. PUC v. Pa. Power & Light Co.*, 85 Pa. PUC 306 (1995) to support its position.

However, the *Pa. Power & Light Co.* case does not support OCA's argument. The claim challenged in *Pa. Power & Light Co.* concerned a contingency factor added to decommissioning cost estimates. The Commission rejected the contingency factor, added to the decommissioning

cost estimate, as speculative, noting that actual changes in decommissioning cost estimates could be captured in future period cost updates. *Id.* at *115-*117.

Columbia's compensation adjustments are not speculative contingencies of future costs. Columbia has calculated the amounts of compensation required to adjust pay to market levels. Columbia must maintain compensation that is competitive to its peers in order to attract and maintain employees. Retaining skilled employees is important to minimize costly turnover. Columbia St. No. 16-R, pp. 3-4. The adjustments have not yet been implemented, but this is because they are a FPFTY cost.

OCA's disallowance should be rejected.

H. DEPRECIATION EXPENSE

OCA proposes a $1,958,000 adjustment to depreciation expense, associated with its improper adjustment to FPFTY rate base. For the reasons explained in Section IV.A of this brief and Columbia's Main Brief, OCA's depreciation expense adjustment should be rejected.

VII. <u>TAXES</u>

A. TAXES OTHER THAN INCOME TAXES

The only adjustments proposed by I&E and OCA with respect to Taxes Other Than Income Taxes are to payroll taxes. These adjustments are derivative to I&E's and OCA's labor expense adjustments. As the adjustments to payroll should be rejected, as explained in Sections VI.A and C of this brief and Columbia's Main Brief, the proposed adjustments to payroll taxes should be denied.

B. INCOME TAXES

OCA has offered an alternative method to calculate Pennsylvania Corporate Net Income Tax expense. OCA acknowledges that the alternative method does not produce a different result

from the Company's method. As there is no difference in result, there is no reason why the alternative method should be adopted.

VIII. RATE OF RETURN

A. INTRODUCTION

Four parties have presented positions on rate of return: Columbia, I&E, OCA and OSBA. These positions are as follows:

Party	Return on Equity	Overall Rate of Return[29]
Columbia	10.95%	8.00%
I&E	9.86%	7.41%
OSBA	7.63%	Not provided[30]
OCA	8.50%	6.51%
OCA (zero increase)	6.53%	5.52%

Columbia notes that both of OCA's proposed alternative rates of return are presented in the context of its proposal to adopt a hypothetical capital structure with a higher percentage of debt (but no higher debt cost rate) than the Company's projected actual capital structure. This change effectively reduces the return on equity that Columbia would have an opportunity to achieve to levels below what OCA displays in its tables. For example, at Columbia's actual capital structure ratio, it would be provided an opportunity to earn a return on common equity of only 6.36%, not 6.53%:

[29] Positions are as presented in tables attached to parties' Main Brief.
[30] Although OSBA's brief proposed a return on equity "in the 7.63% range," OSBA did not provide tables specifying an overall rate of return or overall revenue requirement. OSBA M.B., p. 7.

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	42.22%	4.75%	2.00%
Short-Term Debt	3.59%	2.06%	0.07%
Common Equity	54.19%	6.36%	3.45%
			5.52%

OCA's addition of hypothetical debt in the capital structure also creates greater hypothetical income tax deductions for ratemaking purposes. As a result, the return on equity that Columbia will be provided an opportunity to receive, under OCA's hypothetical capital structure, will be even less than the 6.36% computed above.

As Columbia's expert witness Mr. Moul explained, fixed charge coverage is an important indicator of the earnings protection for creditors. Fixed charge coverage is the multiple of available earnings over fixed charges (interest expense). Columbia St. No. 8, p. 13. Low fixed coverage ratios reduce a company's creditworthiness, increasing financial risk. Columbia St. No. 8, pp. 13-14. Under OCA's no rate increase alternative, Columbia's pre-tax interest coverage would be 2.95 times, which is substantially below the achieved five-year average of 4.41 times for Mr. Moul's Gas Group. Columbia St. No. 8, p. 14. Coverage ratios further demonstrate that OCA's no rate increase alternative fails to satisfy constitutional standards that prohibit confiscatory returns. As explained in Section VIII of Columbia's Main Brief, and as further explained below, the Commission should demonstrate its continued support for investment in plant to replace aging infrastructure through a proper rate of return. The Commission should reject the grossly inadequate returns proposed by OCA and OSBA, as well as the insufficient return proposed by I&E. These returns on equity are below the return on

equity recently authorized for gas utilities for DSIC purposes, and would signal to the investment community that the Commission has pulled back its support for gas safety investment.

I&E opposes references to DSIC returns in assessing the reasonableness of rate of return on common equity proposals. I&E M.B., p. 36. However, Columbia's Witness Mr. Moul explained why the DSIC authorized return is a relevant factor in assessing the reasonableness of the cost rate for common equity:

> **Q. Why would the 10.10%[31] rate of return on common equity for DSIC purposes serve as a floor to the cost of equity in this case?**
>
> A. It just makes no sense that the cost of equity in a rate case could be any lower than the DSIC return. First, investments that carry the DSIC return should not be penalized with a lower return when they are included in the rate base when setting base rates. Second, the DSIC return receives a true-up such that the achieved returns on DSIC investments equal the intended return in those proceedings. Rates established in a base rate case merely provide an opportunity to achieve a particular return. That is to say, there is no true-up of the achieved return with the opportunity provided in a rate case decision. As such, the cost of equity established in a base rate case must be no lower than the rate of return on common equity used in the DSIC because there is additional risk associated when achieving a particular return in base rates.

Columbia St. No. 8-R, pp. 11-12.

I&E asserts that the DSIC analysis does not represent the full scope of a given utility's risks. I&E M.B., p. 36. However, the DSIC uses the same barometer group companies, and uses the DCF methodology. Mr. Moul's risk analysis demonstrates Columbia does not have a lower risk than the barometer group companies. Columbia St. No. 8, p. 15.

It defies rational thinking that Columbia would be authorized to receive a 5%-9% return on common equity for FPFTY plant investments, while other gas companies earn 10.15%.[32]

[31] On October 29, 2020, the Commission authorized an increase to the gas DSIC rate to 10.15%. *Quarterly Earnings Summary Report*, Docket No. M-2020-3021797.

B. CAPITAL STRUCTURE RATIOS

Columbia has reflected in the case its projected actual FPFTY capital structure of 54.19% common equity, 42.22% long-term debt and 3.59% short term debt.[33] OCA proposes a hypothetical capital structure based upon average capital structure ratios of its proxy group and nationwide averages.

OCA's proposal to adopt a hypothetical capital structure comprised of 50% common equity and 50% debt is contrary to long-standing Commission precedent that the choice of capital structure is within the discretion of utility management, and is not to be changed absent proof that the capital structure is atypical or outside a range of reasonableness.

OCA's proposal to drive Columbia's equity ratio down to an historic average of other utilities is wrong and should be rejected.

1. OCA Has Ignored the Correct Legal Standard

The legal standard in Pennsylvania for deciding whether to use a hypothetical capital structure in setting rates is simple and straightforward. If a utility's actual capital structure is within the range of a similarly situated barometer group of companies, rates are set based on the utility's actual capital structure. *See e.g., Pa. P.U.C. v. PPL Electric Utilities Corp.*, 2012 Pa. PUC LEXIS 1757 ("*PPL Electric 2012*"), *Pa. P.U.C. v. ALLTEL Pa, Inc.*, Docket No. R-942710 *et al.*, 59 Pa. P.U.C. 447, 491, 1985 Pa. P.U.C. LEXIS 53 at *106-07 (May 24, 1985). If a utility's actual capital structure is outside of the range of the barometer group, it is considered atypical and the Commission can rely on a hypothetical capital structure to set rates for the utility. Importantly, the legal standard is not whether the utility's capital structure deviates from

[32] The return authorized in this proceeding will be applied to new plant investments as well as existing investment.
[33] Consistent with the matching principle and the use of a FPFTY, Columbia has used the projected actual capital structure at the end of the FPFTY.

the "average" capital structure of the barometer group, but whether it is outside the range. OCA has cited no cases that dispute this standard; in fact, OCA fails to even reference a legal standard.

Instead of addressing the correct legal standard, OCA offers two questions:

- How did Columbia develop the requested common equity ratio of 54.19%?
- Whether OCA Witness Mr. O'Donnell believes that the capital structure proposed by Columbia is appropriate for ratemaking purposes?

These are the wrong questions under Pennsylvania law and precedent. The proper question is whether Columbia's projected actual capital structure is atypical.[34] As the Commission has recognized: [T]he actual capital structure represents the Company's decision, in which it has full discretion, on how to capitalize its rate base." *PPL Electric 2012*, Order at p. 68. Certainly there is no reason to question Columbia's decision to *maintain*[35] a higher percentage of equity than debt in its capital structure, given the nearly $2 Billion in net capital expenditures projected from 2020-2024, which will be incurred primarily in support of its pipeline replacement program. Columbia St. No. 8, p. 9.

OCA's "opinion" that Columbia's proposed capital structure is inappropriate ignores the correct legal standard for reviewing capital structure.

2. Columbia's Projected Actual Capital Structure is Not Atypical

As explained at pages 65-66 of Columbia's Main Brief, Columbia's actual common equity ratio clearly lies within the range of common equity ratios of comparable gas utilities. Table 4 in the Direct Testimony of OCA Witness O'Donnell shows four proxy group companies (Atmos, Chesapeake, OneGas and Spire) with common equity ratios ranging from 55% to 62%.

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[34] Columbia has explained at page 53 of its Main Brief how the capital structure is derived and will provide further explanation in Section VIII,B.3 of this Reply Brief.

[35] Columbia's year-end common equity ratios, including short term debt, have ranged from 52.6% to 54.2% from 2015 through 2019. Columbia Ex. 400 (updated), p. 3.

With 9 utilities in the proxy group, Columbia's projected actual capital structure falls right in the middle. It is not possible to define Columbia's common equity ratio as "atypical."

OCA asserts, at page 56 of its Main Brief, that common equity financing is more expensive than debt financing. However, OCA's statement implies that the cost of debt financing remains unchanged regardless of capital structure. This is a false assumption. As Columbia's Witness, Mr. Moul, explained:

> Furthermore, Mr. O'Donnell advocates a hypothetical debt ratio without altering the debt cost rate for CPA. This results in a serious mismatch of debt ratio and cost. We know that there is a direct relationship between the cost of debt and the amount of financial risk shown by the debt ratio. That is to say, as the debt ratio increases, the cost of debt also increases. Mr. O'Donnell's proposal in this regard ignores this basic financial principle.

Columbia St. No. 8-R, p. 6, lines 9-13.

The Commission should reject OCA's proposed capital structure because the Company's projected actual capital structure is not atypical.

3. Columbia's Projected Actual Capital Structure is Fully Supported by the Record

OCA also attempts to support its proposed 50% common equity capital structure ratio by claiming Columbia did not meet its burden to provide support for its FPFTY actual capital structure. OCA ignores the record.

Capital structure ratios are not merely a set of percentages applied to common equity, long-term debt and short-term debt. They are percentages derived from real world investments in capital.

At November 30, 2019, Columbia employed $1.795 Billion in invested capital. Between that date and the end of the FPFTY, Columbia will add about $550 Million in rate base. Columbia must add capital, whether through debt, retained earnings, stock issuances or paid in

capital, to finance these rate base additions.[36] Columbia explained that it was issuing $110 Million in long-term debt in 2020 and $100 Million in long-term debt in 2021, $55 Million in additional paid in capital in 2020, and retaining earnings of about $250 Million in total in 2020 and 2021. Columbia Ex. 400 (updated), pp. 10, 12, 13.[37] Thus, Columbia has fully described how it derived its projected actual FPFTY capital structure and capital structure ratios.[38] The Company chose that capital structure, within its discretion, in consideration of its actual capital structure ratios in recent years and its need to maintain a strong equity ratio to support its capital investment program. Columbia St. No. 8, p. 9; Columbia Ex. 400 (Updated). P. 3.[39]

OCA also challenges Columbia's projected actual capital structure because it was developed prior to the pandemic. OCA M.B., p. 58. However, OCA offers no reason why the pandemic would affect the amount of capital needed to finance Columbia's future plant additions. Indeed, with the high volatility in the capital markets that developed due to the pandemic and the onset of the recession (see Columbia St. No. 8-R pp. 7, 13), a higher proportion of equity is now needed in the capital structure to offset the increased market uncertainty.

Columbia's projected actual capital structure is fully supported by the record. That actual capital structure is within the range of typical capital structures, and should not be replaced by a hypothetical "average" capital structure.

C. DEBT COST RATE

No parties have challenged Columbia's updated long-term debt cost rate of 4.75% or its short-term debt cost rate of 2.06%.

[36] Rate base and capital often have some variances, due to certain balance sheet assets and liabilities not reflected in ratemaking. *See* Columbia Ex. GAS-RR-001.
[37] Short-term debt also increases by about $25 Million.
[38] Columbia notes that its actual common equity ratio at November 30, 2019, was 52.99%. Columbia Ex. 400 (updated), p. 10.
[39] Columbia notes that its actual common equity ratio at Year-end 2019 was 54.2%.

Columbia notes that OCA has not presented long-term and short-term debt cost components in its capital structure, but instead creates a "blended" debt cost rate of 4.52%.

D. RETURN ON COMMON EQUITY

OCA and OSBA, and to a lesser extent I&E, have presented calculations of return on common equity that employ unjustified methods and adjustments to produce low results that are 24 basis points to 247 basis points below the currently authorized 10.10% DSIC return.[40]

It is particularly noteworthy, with respect to OCA's and I&E's recommendations, that if their Discounted Cash Flow ("DCF") calculations are corrected to remove these improper methods and adjustments, their results are substantially the same as Columbia base DCF calculation, and its overall return on equity recommendation of 10.95%, as explained in Columbia's Main Brief[41] and as summarized below:

DCF	Dividend Yield	Growth Rate	Overall
Columbia[42]	3.39%	7.50%	10.89%
I&E	3.34%	7.68%	11.02%
OCA	3.3%-3.5%	7.57%	10.87%-11.07%

In the following sections of this reply brief, Columbia will explain the reasons that I&E's, OCA's and OSBA's analyses of the cost of equity are flawed, and reply to criticisms of Columbia's presentation.

[40] I&E's proposed return on equity is 9.86%. OSBA's proposed return on equity is 7.63%. OCA's so-called "traditional" calculation is 8.5%. OCA's primary position that the Commission grant no increase is not based upon any analysis of market-required returns. That alternative produces a return on equity, under OCA's improper capital structure, of 6.53%, which is 357 basis points below the DSIC rate.
[41] Columbia M.B., pp. 86-90.
[42] The Columbia result is exclusive of Mr. Moul's leverage adjustment or any allowance for management effectiveness.

1. Columbia's Cost Rate for Common Equity Capital

a. Criticisms of Columbia's Barometer Group

Columbia used as its barometer group the nine gas utilities used by the Commission in determining the cost of common equity for DSIC purposes. All of the Companies are included in *The Value Line Investment Survey*. Mr. Moul explained that all nine of these companies have utility assets that compromise more than 50% of their total assets. Columbia St. No. 8-R, p. 16. UGI Corporation was not included in Columbia's barometer group, or in the barometer group used by the Commission for DSIC purposes.

I&E opposes Columbia's inclusion of New Jersey Resources and Southwest Gas Holdings in the barometer group. I&E argues that these companies should be excluded because their regulated revenues are less than 50% of their total revenues. However, as explained in Columbia's Main Brief, percentage of revenues is an incorrect criteria because various businesses, such as energy trading, can produce large revenues and small margins. Columbia M.B., p. 73.

OCA opposes the inclusion of NiSource in the barometer group and prepares a stand-alone analysis for NiSource. OCA M.B., p. 63. NiSource is part of the Value Line group of gas companies, and meets all screens applied by Columbia and I&E. There is no reason to analysis NiSource separately or to exclude it from the barometer group. Columbia M.B., p. 74.

Finally, OCA proposes to add UGI Corporation to the barometer group. Both Columbia and I&E have excluded UGI Corporation, and UGI Corporation is not included in the Commission's group of gas companies used for DSIC analysis purposes. OCA contends that UGI Corporation was improperly excluded because it has diverse business operations, and attempts to compare UGI Corporation to Chesapeake Utilities, asserting that Chesapeake Utilities also has diverse business operations. OCA M.B., p. 83. However, OCA misstates the

basis for excluding UGI Corporation from the barometer group. UGI Corporation's diverse operations dominate its utility operations. Non-utility operations comprise 87% of UGI Corporation's revenues, 48% of its income and 73% of its assets. Columbia St. No. 8-R, p. 15. UGI Corporation is not comparable, as its other operations make it a greater risk. In contrast, OCA has offered no evidence that Chesapeake Utilities other operations are dominant. Chesapeake Utilities is included in I&E's barometer group, which means it satisfied I&E Witness Mr. Keller's revenue screen of 50% or more utility revenues. Chesapeake Utilities has 79% of its assets in utility operations, and 84% of its income in utility operations. Columbia St. No. 8-R, p. 16. OCA's contention that UGI Corporation should be included in the barometer group should be rejected.

b. Mr. Moul Appropriately Uses Multiple Models to Derive the Cost of Equity Recommendation

I&E and OCA criticize Mr. Moul's use of four different models to develop his cost of common equity recommendation. I&E M.B., p. 39; OCA M.B., p. 72.

Initially, I&E asserts that Columbia's Witness Mr. Moul gave equal weight to the results of his four models to develop his recommendation. I&E M.B., p. 39. This assertion is incorrect. The average of Mr. Moul's four results is 11.33%.[43] Mr. Moul did not use a simple mathematical average, but instead used informed judgment to develop his recommendation.

Columbia recognizes that the Commission primarily has relied upon the results of DCF analyses in recent years to evaluate the cost of common equity. However, the Commission also recognizes the importance of informed judgment. For example, in *Pa. Pub. Util. Comm'n. v. City of DuBois-Bureau of Water*, Docket No. R-2016-2554150, at pp. 96-97 (Order entered March 28, 2017) the Commission stated:

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[43] The four original results are 11.91% (DCF), 10.50% (Risk Premium), 10.19% (CAPM) and 12.75% (CE). The average is 11.34%. Columbia M.B. p. 70.

We note that we have primarily relied upon the DCF methodology in arriving at previous determinations of the proper cost of equity and utilized the results of methods other than DCF, such as the CAPM and RP methods, as a check upon the reasonableness of the DCF derived equity return calculation, tempered by informed judgment."

The use of informed judgment to temper the reliance on DCF results is necessary to ensure the utility has the opportunity to earn a reasonable return on its investment, consistent with long-standing ratemaking standards. *See, e.g., Federal Power Commission v. Hope Natural Gas Co.,*, 320 U.S. 591, 603 (1944); *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 690 (1923) ("*Bluefield Waterworks"*). Pennsylvania case law applying these standards makes it clear that certain factors must be considered by the Commission, including (1) the earnings that are necessary to assure confidence in the financial integrity of the company and to provide a reasonable credit profile to permit access to capital markets on reasonable terms, and (2) the amount of the investment, the size and nature of the utility, and its business and financial risks in comparison to other enterprises. Columbia M.B., pp. 63-64.

Furthermore, I&E and OCA ignore the many flaws associated with the DCF method. Columbia Witness Mr. Moul explained:

> While the results of a DCF analysis should certainly be given weight, the use of more 23 than one method provides a superior foundation for the cost of equity determination. 24 Since all cost of equity methods contain certain unrealistic and overly restrictive 25 assumptions, the use of more than one method will capture the multiplicity of factors that 26 motivate investors to commit capital to an enterprise (i.e., current income, capital appreciation, preservation of capital, level of risk bearing). The simplified DCF model makes the assumption that there is a single constant growth rate, there is a constant dividend payout ratio, that price – earnings multiples do not change, and that the price of stock, earnings per share, dividends per share and book value per share all have the same growth rate. We know from experience that those assumptions are not realistic, because the stock market reveals performance that is very different from the assumptions of the DCF.1[44] The use of multiple

[44] The growth rate variables shown on Schedules 8 and 9 of CPA Gas Exhibit No. 400 shows that the assumption associated with the simplified DCF model are not reasonable.

> methods provides a more comprehensive and reliable basis to establish a reasonable equity return for CPA. The Commission has acknowledged the usefulness of other methods, such as CAPM and Risk Premium, as a check on the reasonableness of the DCF return.

Columbia St No. 8-R, pp. 16-17. Given these flaws in the DCF, it is appropriate to consider results of multiple analyses.

I&E asserts that Mr. Moul undertook an inappropriate risk analysis of Columbia. However, Mr. Moul, like Mr. Keller, did not increase the results from any of his four analyses for factors such as bypass risk and the substantial plant replacement needs of Columbia.

The Commission should consider the results of different models in exercising informed judgment.

c. Criticisms of Columbia's DCF Results are Without Merit.

i. Dividend Yield

OCA criticizes Mr. Moul's updated dividend yield calculation, asserting that the update was done differently from Mr. Moul's original dividend yield calculation. OCA M.B., pp. 65-66. OCA's criticism is unwarranted. OCA quoted the Commission's statement in *UGI Electric*, highlighting the importance of a dividend yield "based on the most recent available observations in the record." OCA M.B., p. 66. Yet, OCA criticized Mr. Moul for providing more recent data. Moreover, Mr. Moul's updated DCF yield data produce virtually the same yield results as presented by I&E and OCA, using somewhat more current data than were used by I&E and OCA.

OCA also criticizes Mr. Moul's 10 basis point adjustment to his dividend yield calculation. OCA M.B., p. 67. Mr. Moul explained the reason for this adjustment:

> For the purpose of a DCF calculation, the average dividend yield must be adjusted to reflect the prospective nature of the dividend payments, i.e., the higher expected dividends for the future. Recall that the DCF is an expectational model that must reflect investors'

> anticipated cash flows. I have adjusted the six-month average dividend yield in three different, but generally accepted, manners and used the average of the three adjusted values as calculated in the lower panel of data presented on Schedule 7. This adjustment adds ten basis points to the six-month average historical yield, thus producing the 2.69% adjusted dividend yield for the Gas Group.

Columbia St. No. 8, p. 20.

OCA further claims the adjustment "lacked any backup." OCA M.B., p. 67. However, OCA ignores Columbia Ex. 400, p. 14, which demonstrates how the adjustment was calculated. The DCF dividend yield adopted in this case should be in the range of 3.4%, consistent with the results produced by Columbia, I&E and OCA.

ii. Growth Rate

I&E asserts that Columbia Witness Mr. Moul's growth rate is overstated by the inclusion of Value Line's growth estimate for Northwest Natural Gas. I&E M.B., p. 47. However, as explained in Columbia's Main Brief, it is I&E's growth rate calculation that is flawed. Columbia M.B., pp. 86-87. I&E Witness Keller excluded a high data point for Northwest Natural Gas, but kept in two abnormally low data points for the same company. I&E Witness Mr. Keller should have considered the overall results for Northwest Natural Gas. If he had, he would have concluded that the high and low data points offset each other, producing a reasonable growth rate result within the range of the other barometer group companies. Columbia notes that I&E offered no response to this criticism in its Main Brief.

OCA offers several criticisms of Mr. Moul's growth rate projection. First, OCA criticizes Mr. Moul for not providing an update to its growth rate as part of his updated exhibit. OCA M.B., p. 68. OCA claims that updated data showed projected growth rates from 4.5% to 10.06%. However, OCA looks to the wrong data. The 4.5% number is a projection of retained earnings. Mr. Moul primarily uses forecasted earnings growth rates to derive his growth rate as

does I&E. Those forecasted earnings growth rates showed no material change in the Update, as Mr. Moul explained:

> Indeed, the update of the range of earnings per share growth rates is 6.20% to 10.06%, which is not materially different from the original range of 5.94% to 10.06%. Even setting aside the leverage adjustment, the simple dividend yield plus growth return moved from 10.19% originally to 10.89% in the update, or an increase of 0.70%.

Columbia St. No. 8-R, pp. 8-9.

OCA also criticizes Mr. Moul for principally relying upon forecasted earnings growth rates, and not using historic growth rates. However, as explained in Columbia's Main Brief, historic earnings growth rates are already considered in investors' assessment of future earnings growth. Columbia M.B., pp. 89-90. As Mr. Moul explained:

> As noted above, to properly reflect investor expectations within the limitations of the DCF model, earnings per share growth, which is the basis for the capital gains yield and the source of dividend payments, must be given greatest weight. The reason that earnings per share growth is the primary determinant of investor expectations rests with the fact that the capital gains yield (i.e., price appreciation) will track earnings growth with a constant price earnings multiple (a key assumption of the DCF model). It is also important to recognize that analysts' forecasts significantly influence investor growth expectations. Moreover, it is instructive to note that Professor Myron Gordon, the foremost proponent of the DCF model in public utility rate cases, has established that the best measure of growth for use in the DCF model are forecasts of earnings per share growth.[45] Therefore, his reliance on historic rates of growth in earnings, dividends and book value should be rejected.

Columbia St. No. 8-R, pp. 20-21.

iii. Criticisms of Mr. Moul's Leverage Adjustment

I&E and OCA criticize Columbia's presentation of a leverage adjustment to the DCF results. Columbia anticipated and responded to many of these criticisms in its Main Brief, and those arguments will not be repeated here. Columbia M.B., pp. 75-80.

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[45] "Choice Among Methods of Estimating Share Yield," The Journal of Portfolio Management, Spring 1989 by Gordon, Gordon & Gould.

I&E states that the leverage adjustment is a "novel adjustment." I&E M.B., p. 51. However, there is nothing novel about the adjustment. It has been presented by Mr. Moul for decades, and has been used by the Commission to adjust inadequate DCF results in several cases. Columbia M.B., p. 77. The leverage adjustment operates on a simple and undeniable principle: the greater the percentage of debt in a capital structure, the greater the financial risk and, thus, the return to be provided on common equity. Applying this principle, Mr. Moul explains that the percentage of equity in a book capital structure is less than in a market capital structure. Therefore, a return on equity derived from market data understates the return required when applied to book capital structure. Columbia St. No. 8, p. 27.

d. Criticisms of Columbia's Risk Premium Approach Should Be Rejected.

OCA challenges Columbia Witness Mr. Moul's use of the Risk Premium method, asserting it is not generally accepted by the Commission. OCA M.B., p. 74. OCA further objected to Mr. Moul's projections of bond yields for the Risk Premium Method. OCA M.B., p. 74.

Contrary to OCA's contention, the Commission at different points in time has used the Risk Premium Method both as a primary method and a check on the DCF analysis.[46] Indeed, in the *PPL Electric 2012* matter, the Commission specifically credited Risk Premium Method in its disposition of the cost of common equity. The Commission explained:

> In particular, we note that the evidence presented in this case based on the CAPM and RP methods produced a range of results that was consistently higher than the results produced by a DCF-only approach. <u>This suggests that, while properly computed in the</u>

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[46] *See Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-00049255, pp. 67 and 72 (Order entered Dec. 22, 2007); *Pa. P.U.C. v. Philadelphia Suburban Water Co*, Docket Nos. R-870840 *et al.*, 96 P.U.R. 4th 158, 207, 1988 Pa. PUC LEXIS 433, at *135-137, (Order entered July 26, 1988); *see also*, *Pa. P.U.C. v. National Fuel Gas Distribution Corp.,* Docket No. R-891218 *et al*, 109 P.U.R. 4th 250, 272, 1989 Pa. PUC LEXIS 225 at *52 (Order entered Dec. 29, 1989).

> <u>abstract, the DCF-only results understate the current cost of equity for PPL and that consideration should be given to the CAPM and RP evidence in determining the appropriate range of reasonableness.</u>

PPL Electric 2012, p. 81 (emphasis added).

OCA criticism of the use of future bond yield projections is without merit, and like the use of historic growth rates, demonstrates OCA Witness O'Donnell's failure to recognize that future expectations are important in setting the cost rate of equity:

> **Q. At page 89 of OCA Statement No. 3, Mr. O'Donnell disagrees with your Risk Premium results because he believes that the best predictor of future yields are the current yield. Is this correct?**
>
> A. There is no merit to Mr. O'Donnell's argument in this regard. For if his premise were true, then the best predictor of future earnings would be today's earnings. Since all rate of return witnesses rely upon earnings forecasts to some degree, then forecasts of interest rates would follow that logic. Use of forecasts accommodates the reality that the future will diverge from current circumstances to some degree. I am sure that everyone would agree that the coronavirus pandemic will eventually be resolved and the future will be quite different than today.

Columbia St. No. 8-R, p. 33.

e. Criticisms of Columbia's CAPM Are Incorrect.

I&E and OCA oppose the addition of a size adjustment to Mr. Moul's CAPM presentation. Columbia anticipated and responded to I&E's and OCA's arguments in its Main Brief. Columbia M.B., pp. 33-34. A size adjustment is proper where the barometer group companies used to determine CAPM are substantially larger than Columbia, because size is not a risk captured by the CAPM, as Mr. Moul explained:

> There is no merit to Mr. O'Donnell assertion that recognition of the size premium provides any double-counting for this risk factor (see page 87 of OCA St. 3). A size adjustment is necessary because the financial impact of changes in specific dollar amounts of revenues and costs have a magnified influence on a small company

> because there are fewer dollars over which those revenues or costs can be spread. The SBBI/Morningstar Yearbook clearly demonstrates that the simple CAPM does not reflect the return that is associated with small size. As Ibbotson has stated:
>
> > The security market line is based on the pure CAPM without adjusting for the size premium. Based on the risk (or beta) of a security, the expected return should fluctuate along the security market line. However, the expected returns for the smaller deciles of the NYSE/AMEX/NASDAQ lie above the line, indicating that these deciles have had returns in excess of those appropriate for their systematic risk.

Columbia St. No. 8-R, pp. 31-32.

OCA criticizes Mr. Moul's use of a forecasted risk free (R_f) rate in his CAPM. OCA M.B., p. 74. However, similar to OCA's criticisms made with respect to Columbia's DCF and Risk Premium results, OCA's objection to the reliance upon forecasted data is deeply flawed, as Mr. Moul explained:

> **Q. Concerning Mr. O'Donnell's CAPM, why is it appropriate to include forward-looking data in the CAPM results?**
>
> A. Just like all market models of the cost of equity, CAPM is an expectational model. Mr. O'Donnell's CAPM approach suffers from the infirmity of not positioning the risk-free rate of return in a forward-looking manner – rather he used historical results obtained from the past year. To remedy this shortcoming, at least in part, current data should be supplemented with forward-looking data. After all, Mr. O'Donnell uses forecasted information extensively in his DCF analysis when considering the appropriate growth rate. To be consistent, forecasts of total market returns should likewise be considered.

Columbia St. No. 8-R, p. 29, lines 13-21.

OCA also opposes Mr. Moul's use of Value Line data in deriving the market premium, contending it is variable. OCA M.B., p. 75. However, OCA fails to acknowledge the Value Line projection of total market return is averaged with other, lower data derived from the S&P

500 Index. Columbia Ex. 400 (Updated), p. 24. Moreover, I&E witness Keller likewise used the same Value Line data as a source. I&E St. No. 2 pp. 27-28. The use of multiple data sources is a valid approach to developing the market premium, which OCA's witness acknowledged is "the most controversial aspect of the CAPM calculation." OCA St. No. 3, p. 65.

f. Columbia's CE Method

OCA opposes Columbia's Comparable Earnings ("CE") Method, and contends that Mr. Moul's use of non-regulated companies is improper.

However, OCA fails to recognize that regulation is intended to be a substitute for competition. The use of non-regulated companies in the CE is entirely consistent with the United States Supreme Court's holding in *Bluefield Water Works v. Public Service Commission*, 262 U.S. 668 (1923). Columbia St. No. 8, p. 41

2. Other Parties' Rate of Return Proposals.

a. I&E's Cost of Common Equity Recommendation is Flawed and Should Be Rejected.

Columbia explained in its Main Brief the flaws in I&E's DCF and CAPM analyses. *See* Columbia M.B., Section VIII.D.2.a.

The primary flaw in I&E's DCF calculation is the improper exclusion of one earning growth rate source of Northwest Natural Gas, on the basis that it was unreasonably high, while retaining two other data points that are objectively too low. I&E Witness Mr. Keller either should have included all three data points in his DCF calculation or should have excluded Northwest Natural Gas from his growth rate calculation. Either approach would have increased

Mr. Keller's DCF conclusion. Columbia St. No. 8-R, p. 19.[47] I&E's DCF calculation also fails to include a leverage adjustment.

I&E performed a CAPM analysis, but only as a check to its DCF result. I&E's CAPM result is 8.72%. However, as explained in Columbia's Main Brief, there are several errors in I&E's CAPM calculation. These include the use of 10-year Treasury Notes rather than 30-year Treasury Bonds, improper weighting of forecasted 10-year Treasury Notes, failure to use leverage adjusted betas, and lack of a size adjustment. Columbia M.B., pp. 87-88. At a minimum, I&E's CAPM result should have been 9.89% without consideration of leveraged betas. Columbia St. No. 8-R, pp. 27-28.

b. OCA's Alternative Recommended Cost of Equity Calculations

As explained in Columbia's Main Brief, OCA's cost of common equity analysis contain numerous flaws and errors that render its recommendation unreliable. Columbia M.B., Section VIII.D.2.b.

Importantly, the Commission need only examine the data presented by OCA Witness Mr. O'Donnell to conclude that OCA's recommended alternative costs of common equity (6.53% and 8.5%) are erroneous. OCA's witness acknowledges that the average expected return for his proxy group is 10.1%.[48] OCA Ex. KWO-3. OCA offers no reason why investors should be granted a rate of return on equity of 8.5% or less when their expectation is 10.1%.

The primary flaw in OCA's DCF analysis is its reliance on the "b x r", or retained earnings growth, method to establish the DCF growth rate. The b x r method has not been

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[47] If all data points are included, Mr. Keller's DCF result would be 10.98%. If all three data points are excluded, his DCF result would be 10.44%.

[48] This excludes the projected return for NiSource, Inc., which is improperly excluded from OCA's barometer group. The inclusion of NiSource would produce a higher barometer group expected return.

endorsed by the Commission, as it implicitly uses differences in market and book dividend yields to drive down returns. As Columbia Witness Mr. Moul explained:

> Plowback, otherwise known as retention growth, along with external financing growth, is another means of describing book value per share growth. Other factors also contribute to earnings growth that is not accounted for by the retention growth formula, such as sales of new common stock that Mr. O'Donnell has excluded in his DCF growth rate analysis, reacquisition of common stock previously issued, changes in financial leverage, acquisition of new business opportunities, profitable liquidation of assets, and repositioning of existing assets. In my view, book value per share growth (plowback), or its surrogate retention growth, does not represent the proper financial variable to be considered when selecting the DCF growth component. The plowback approach to the DCF merely adjusts an assumed return on book common equity by the difference between the dividend yield on book value and the dividend yield on market value. The table provided below shows how his DCF result can be expressed from these values. This shows how the return expected by investors for the Comparison Group of 10.1% for 2023-2025 (see Exhibit KWO-3) is adjusted to a much lower DCF return. I have demonstrated this using the average of Mr. O'Donnell's three dividend yields (i.e., 3.30%+ 3.5% + 3,5% = 10.3% ÷ 3 = 3.43%)
>
> | | |
> |---|---|
> | Return on Equity | 10.10% |
> | Dividend Yield on Book Value | -5.80% |
> | Dividend Yield on Market Value | 3.43% |
> | Result | 7.73% |
>
> It should be noted that the Commission has not previously adopted a retention growth (i.e., plowback) approach in the DCF analysis. A key component of retention growth is the analyst's assumed return on book common equity. Mr. O'Donnell does not and cannot explain why an investor expected return of 10.10% should be reduced to 7.73%. As shown above, the plowback approach advocated by Mr. O'Donnell is clearly inconsistent with the traditional form of the DCF model used by the Commission.

Columbia St. No. 8-R, pp. 21-22.

OCA's methodology is clearly designed to achieve what OCA asserts is its goal: to "tamp down" investor expectations. OCA M.B., p. 90. However, the ratemaking process is not

intended to tell investors what to expect. This is akin to telling investors that their stock market prices are too high and should be reduced to book levels. The regulatory process is intended to be a substitute for market forces, not to override the market to tell investors to change their expectations.

OCA also presented a CAPM analysis. While correctly using data for 30-year Treasury Bonds, OCA Witness O'Donnell improperly uses only historic bond yields in his CAPM. OCA M.B., p. 91. The use of only historic data only fails to reflect the expectational nature of rate of return calculations. Use of historic data only fails to reflect that rates are being set for a FPFTY.

OCA also includes an improperly low equity risk premium of 4% to 6% (beta adjusted to 3.4% - 5.1%) in its CAPM. OCA M.B., p. 92. When combined with OCA's use of low historic bond yields, the result is a CAPM recommendation ranging from 5.5% - 7.5%. These results are clearly unreasonable, with the lower end of the range barely above Columbia's embedded cost of long-term debt. OCA's CAPM is improper and should be disregarded. *See also* Columbia M.B., p. 91.

OCA also prepared a "comparable earnings" analysis. However, the analysis simply looked at historic authorized returns by state commission across the country. OCA M.B, p. 94. This analysis is flawed. The use of regulated utilities in a CE analysis fails to recognize that the regulatory process must consider returns achieved by non-regulated entities, against whom utilities must compete for capital. Columbia St. No. 8-R, p. 34. Moreover, Mr. Moul has clearly demonstrated that regulatory determined equity returns reflect a regulatory risk premium that increases as interest rates decline and vis-a-visa. (see CPA Statement No. 8R page 14). Mr. O'Donnell has failed to incorporate this factor into his analysis.

OCA's cost of common equity recommendations should be given no weight.

c. OSBA's Cost of Common Equity Recommendation Should Be Rejected.

OSBA recommends a 7.63% rate of return on common equity. The recommendation is not based upon any data for a barometer group, or any real analysis of current and projected market data. Instead, OSBA uses the results from a two-year old electric utility decision to derive an implied risk premium. It then applies that premium as an adder to current, not projected, Treasury yields.

This approach is unprecedented and simplistic. It would remove market analyses from the rate of return presentation. It assumes, contrary to years of research, that risk premiums are fixed across all interest rates and times. Columbia St. No. 8-R, p. 35. There is clearly no fixed risk premium as noted above. It ignores the risk differentials between gas and electric utilities. For these and the reasons set forth in Columbia's Main Brief, OSBA's recommended rate of return on common equity should be given no weight. Columbia M.B., pp. 91-92.

3. Increment for Management Effectiveness.

As explained in Columbia's Main Brief, the Commission is required to consider management effectiveness in setting rates, and the Commission has included, where appropriate, an incremental upward adjustment to the cost of common equity to reflect management effectiveness. Columbia M.B., pp. 91-92. Columbia has provided extensive evidence to demonstrate that it provides high quality service and has implemented numerous programs designed to enhance the service it provides to customers. Columbia M.B., pp. 93-96. This evidence supports Columbia's proposed 20-basic point addition to the allowed rate of return on common equity.

I&E, OCA and OSBA seek to ignore the statutory directive of Section 523 of the Public Utility Code, which requires the Commission to consider management effectiveness in setting

rates. 66 Pa.C.S. § 523. For example, I&E argues that Columbia should not receive any recognition for management performance through a basis point addition, as it is just doing what is required under Section 1501 of the Public Utility Code. I&E M.B. pp. 69-70.

I&E, OCA and OSBA also offer examples of instances where Columbia has not provided exemplary performance in order to deny any recognition for management effectiveness. However, neither Section 523 nor any prior Commission precedent has required exemplary performance in every aspect of operations to receive recognition of management performance through a basis point addition. For example, in *PPL Electric 2012*, the Commission granted a 12 basis point adjustment for management effectiveness, despite I&E's contentions that PPL had "considerable room for improvement" in various areas of operations. *PPL Electric 2012*, Order at p. 94.

I&E points to certain recommendations in the recent Commission Management and Operations Audit to show that Columbia has areas of operation that need improvement. However, none of the areas of improvement are listed as needing significant or major improvement. Columbia St. No. 1-R, p. 32. Further, none of the findings related to Gas Operations, as Columbia Witness Mr. Tubbs explained:

> Specifically, Witness Keller fails to recognize that the Commission made no findings relative to the Company's Gas Operations, which evaluates the day-to-day operations of Columbia, and how the Company manages to provide safe and reliable service to its customers. While Witness Keller may not view the lack of any findings worth noting, Columbia views the lack of any recommendations on the key aspect of our operations as significant. First and foremost, Columbia is a natural gas distribution company, and the fact no findings were made after an extensive Commission audit of operations is a source of great pride for Columbia and our employees.

Columbia St. No. 1-R, p. 33, lines 1-9.

Columbia is already working to make further improvements in the areas identified in the Audit. As Mr. Tubbs explained:

> Turnover at the Smithfield Customer Contact Center (CCC) is an issue that the Company is consistently striving to improve. The Company has taken the following actions to address the turnover issue at the CCC:
>
> - Partnered with a third party consultant with expertise in employee retention and engagement to reinforce positive employee engagement and reduce attrition;
> - Employee Roundtable Meetings and Safety Committee meetings are held monthly;
> - Formation of an Inclusion & Diversity Committee;
> - Regular Employee Engagement Surveys are conducted, followed up with action planning sessions and focus group meetings, and;
> - Continuous improvement of processes and technology that our agents use to help service our customers.
>
> Although COVID has brought some unique and unexpected challenges in 2020, employee retention continues to be a primary focus at the CCC.

Columbia St. No. 1-R, pp. 31-32.

OCA undertakes a lengthy discussion of what it perceives as less than top level performance in areas of customer collections and disconnections/reconnections. OCA M.B., pp. 98-108. OCA acknowledges that Columbia "is not among the worst performing natural gas utilities" but that its performance is not exemplary. OCA M.B., p. 102.

However, some of OCA's assertions reflect a distorted analysis, and others do not fully examine the benefits of Columbia's actions. When data is adjusted for Company size, Columbia ranked in the Top 3 of gas and electric utilities in areas of gross write-offs, residential recoveries, overdue payments, customers in debt and residential termination rates. This data demonstrates exemplary performance.

OCA and OSBA point to the system over-pressurization incident in Massachusetts as evidence of poor management performance. However, this incident did not involve Pennsylvania management. Columbia M.B., p. 97.

OCA also references an incident that destroyed a house in Washington County in 2019.[49] Columbia has accepted responsibility for the incident. The incident appears to have occurred because the house was not shown in Columbia's records as being connected to the main being rehabilitated, and thus the house was not outfitted with a new pressure regulator. OCA St. No. 35, p. 6. Columbia notes that it has included in this case an amount of $491,000 to hire additional employees to expedite updating of legacy service line records. However, OCA opposes this safety initiative.

I&E's, OCA's and OSBA's objections to an adjustment for management performance should be rejected.

IX. <u>MISCELLANEOUS ISSUES</u>

A. LOW-INCOME CUSTOMER ISSUES

In its Main Brief, Columbia explained the many programs that are available to assist low-income customers, as well as the Company's extensive outreach to promote these programs. *See* Columbia M.B, pp. 98-99. OCA, CAUSE-PA and CAAP have made various recommendations regarding Columbia's low-income programs. Columbia responded to these recommendations in its Main Brief and will briefly respond herein to certain points raised by OCA, CAUSE-PA and CAAP in their Main Briefs. For the reasons explained below and in Columbia's Main Brief, the recommendations of OCA, CAUSE-PA and CAAP should be rejected.

[49] OCA erroneously refers to this as occurring in 2020. OCA M.B., p. 110.

1. Customer Assistance Program

a. CAP Collections

In its Main Brief, OCA contends that Columbia does not devote enough attention to ensuring that Customer Assistance Program ("CAP") customers consistently pay their utility bills. OCA M.B., p. 114. Columbia disagrees with this statement. Columbia follows its CAP Collections Policy as set forth in its Commission-approved Universal Service and Energy Conservation Plan ("USECP"). The CAP Collections Policy provides that Columbia will pursue collections after two missed payments. Columbia's CAP Collections Policy is consistent with the Commission's directives in its *CAP Policy Statement Order. See 2019 Amendments to Policy Statement on Customer Assistance Program, Final Policy Statement Order*, Docket No. M-2019-3012599 (Order entered November 5, 2019) ("*CAP Policy Statement Order*").

Columbia's exemplary collection efforts are evidenced by the fact that Columbia's percentage of CAP bills paid (calculated by dividing the total annual CAP payments by the total annual CAP amount billed) was the third highest of all Pennsylvania gas utilities.[50] OCA attempts to discount this statistic from the Commission's 2018 Universal Service Programs & Collections Performance Report by stating that the problem is not with the percentage of CAP bills paid but with the Company's collections efforts on unpaid CAP bills. OCA's analysis is illogical. OCA fails to recognize that there is a direct correlation between CAP bills paid and the Company's collection efforts, i.e. successful collection efforts result in more CAP bills paid. Clearly, the higher the percentage of CAP bills paid, the lower the percentage of unpaid CAP bills.

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[50] Pennsylvania Public Utility Commission Report on 2018 Universal Service Programs & Collections Performance (published December 2019), available at http://www.puc.state.pa.us/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2018.pdf.

Rather than accept that Columbia is outperforming most other Pennsylvania gas utilities with respect to its CAP collection efforts, OCA relies on data that does not accurately measure Columbia's collection efforts. As Columbia witness Davis explained:

> **Q. Do you agree with Mr. Colton's assertion?**
>
> A. No. Mr. Colton provides data in RDC-1 labeled as full, on time payments and compares this to the number of bills rendered. This full, on time payment data corresponds to data provided in response to the annual Universal Service Reporting Requirements (USRR). The definition for this data point, as the Company understands, reflects the receipt of all payments for a customer excluding LIHEAP and Hardship Funds. However, it is important to recognize, LIHEAP funds supplement past, current and future customer payments. As a result, a customer may be current on their CAP bill but have not paid twelve, on time and in full payments in a year due to LIHEAP grant credits. The LIHEAP grant credits are not included in the full, on time payment data referenced by Mr. Colton and therefore, any assumption regarding collections based on this data is inaccurate.
>
> **Q. Do the Company's CAP collection policies comply with the PUC's CAP Policy Statement?**
>
> A. Yes. The Company complies with its Universal Service and Energy Conservation Plan ("USECP"), which states:
>
>> *Columbia will issue a termination notice no sooner than 10 days after a customer fails to pay two missed CAP budget payments by the due date.*
>>
>> *If a CAP customer does not make up all missed CAP payments within 10 days of the date of the termination notice, Columbia will attempt to terminate service for non-payment of the CAP budget bill. Columbia, in its sole discretion, may delay termination in the event of extenuating circumstances.*
>
> The Company's USECP is consistent with the CAP collection activity portion of the revised CAP Policy Statement, as amended at Docket No. M-2019-3012599, in that it provides that "a utility should initiate collection activity for CAP accounts after no more than two payments in arrears." 52 Pa. Code § 69.265.

> **Q. If the Company policies are following recommended and approved guidelines, why are CAP customers not paying a higher percentage of their expected payments or being terminated?**
>
> A. As previously explained, the referenced data is missing crucial LIHEAP funds which negates the ability to link full, on time payments with CAP customers that are current on their pay plan. Therefore, more customers are current than are represented by the full on time payments data.
>
> In addition, there are other reasons why a CAP customer's service may not be terminated for nonpayment. CAP terminations fall under the same regulations as all other residential customers. The Company does not pursue termination of services when a dispute is filed with the Commission prior to termination or a customer identifies the service is critical to their health via a medical certificate. In addition, the Company does not issue termination notices to CAP customers during the winter moratorium from December 1st through March 31st. This is demonstrated by the zero CAP disconnects shown for 5 of the months on Mr. Colton's Table 1.

Columbia St. No. 13-R, pp. 1-3.

In an attempt to cure its faulty comparison, OCA presents a table showing the percentage of CAP payments compared to the CAP accounts receiving a Low-Income Home Energy Assistance ("LIHEAP") bill credit. OCA M.B., p. 117. OCA then concludes that the accounts receiving a LIHEAP bill credit do not make up for the number of unpaid CAP bills. OCA is using an unrealistic measure. OCA's chart ignores those unpaid bills resulting from accounts that the Company is prohibited by the Commission's regulations from terminating. Despite Columbia's vigilant collection efforts, the Company will not pursue termination if doing so is prohibited by the Commission's regulations.[51] Columbia's Main Brief explains the situations in which Columbia will not terminate service. Columbia M.B., pp. 100-01. Because these

[51] *See* 52 Pa. Code § 56.92; 52 Pa. Code § 56.100; 52 Pa. Code § 56.111.

customers are permitted to retain their utility service despite being in arrears, it is inevitable that the CAP bills paid will be less than the total number of CAP bills.

OCA's data does not support its conclusion that Columbia's collection efforts are insufficient. Rather, the fact that Columbia's percentage of CAP bills paid was the third highest of all Pennsylvania gas utilities demonstrates that Columbia is doing an excellent job with its collection efforts, and the Company's CAP collections efforts are already effective at collecting customer payments on CAP bills. The percentage of CAP bills paid as reported in the Commission's 2018 Universal Service Programs & Collections Performance is more reflective of the Company's collection efforts than the OCA's flawed comparison. Therefore, OCA's recommendation that Columbia should submit to its Universal Service Advisory Council ("USAC") the question of how customer payments on CAP bills can be pursued through a reasonable collections process is not necessary and should be denied.

b. CAP Participation Rate

CAUSE-PA recommends that Columbia be required to develop a plan to enroll 50% of its confirmed low-income customers in CAP by 2025. CAUSE-PA Statement No. 1, p. 44. Relatedly, CAUSE-PA suggests that Columbia expand CAP enrollment by adopting several strategies, including increasing outreach and working with stakeholders to identify solutions to achieve improvements in CAP enrollment. CAUSE-PA further recommends that Columbia be required to submit annual reports to the Commission regarding its progress. CAUSE-PA M.B., p. 23. As Columbia fully explained in its Main Brief, CAUSE-PA's proposals should be denied because (1) Columbia's CAP enrollment efforts are already successful; (2) it is improper to evaluate CAP enrollment efforts based on the percentage of low-income customers enrolled; and (3) CAUSE-PA's 50% enrollment goal is unrealistic. Columbia M.B., pp. 103-05.

Columbia's existing CAP outreach is effective. Columbia strives to promote CAP enrollment through everyday customer interaction. Columbia's outreach efforts include participation in community meetings and events, collaboration with CAP screening agencies and community-based agencies, web site updates, targeted mail solicitations, paid social media advertisements, advertisements on the Company website, television advertisements, advertisements on busses, billboards and radio advertisements. Columbia Statement No. 13-R, pp. 5-8. In addition, whenever Columbia is in contact with a customer regarding payment difficulties, CAP is explored as an option. Columbia St. No. 13-R, pp. 5-6. Through these outreach efforts, Columbia's low-income customers (whether or not they are "confirmed" low-income) are informed of the CAP benefits available to them. Ultimately, it is the customer's decision whether to apply for CAP.

Columbia's successful outreach is demonstrated by the fact that Columbia is outperforming other gas utilities in Pennsylvania with respect to CAP participation. In 2017 and 2018, Columbia's CAP participation rate was the second highest according to the Commission's 2018 Universal Service Programs & Collections Performance Report.[52] Contrary to CAUSE-PA's position, Columbia is already achieving successful CAP enrollment levels.

Columbia explained in its Main Brief why CAUSE-PA's suggested 50% enrollment is unrealistic. Columbia M.B., pp. 103-05. In addition, Columbia explained in its Main Brief why the Company disagrees that CAP enrollment should be evaluated based on the percentage of customers enrolled in CAP compared to the number of confirmed low-income customers

[52] Pennsylvania Public Utility Commission Report on 2018 Universal Service Programs & Collections Performance (published December 2019), available at http://www.puc.state.pa.us/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2018.pdf.

reported. CAUSE-PA even admits that using the number of confirmed low-income customers as a metric has is limitations. CAUSE-PA M.B., p. 21.[53]

For these reasons and as more fully explained in Columbia's Main Brief, CAUSE-PA's proposal to require 50% CAP participation should be denied.

c. CAP Percent of Income Payment Plan

Columbia's CAP Percent of Income payment plan was recently approved by the Commission in January 2020. *See Columbia Gas of Pennsylvania, Inc.'s 2019-2021 Universal Service and Energy Conservation Plan*, Docket No. M-2018-2645401 (Order entered January 16, 2020) ("*2020 USECP Order*"). CAUSE-PA now seeks to modify the maximum energy burden for CAP customers on the Percent of Income payment plan that was approved by the Commission. Columbia and OCA disagree with CAUSE-PA's recommendation. As explained below and in Columbia's Main Brief, CAUSE-PA's recommendation is both untimely and unnecessary.

CAUSE-PA seeks to implement this change just nine months after the Commission approved Columbia's energy burdens in its *2020 USECP Order.* Columbia and OCA do not believe that CAUSE-PA's recommendation to modify the energy burden for Percent of Income Payment Plan customers at this time is in customers' best interests. OCA M.B., pp. 119-22. As Columbia witness Davis explained, Columbia is in the process of implementing costly programming changes related to its recently approved plan. Columbia Statement No. 13-R, pp. 15-16. Changing the program guidelines before the program can even be fully implemented is not cost-effective.

[53] Customers have not increased CAP participation during the pandemic as there was not an imminent need for customers to address accruing arrearages due to the Commission's temporary moratorium on terminations. Columbia St. No. 13-R, p. 13.

OCA and Columbia also agree that a decision to change a portion of Columbia's CAP based upon perceived energy burdens should be addressed in USECPs, not in a base rate proceeding. OCA M.B., p. 20. The energy burdens of customers on Percentage of Income Payment Plans should not be considered in insolation from other components of the utility's CAP and universal service offerings, but rather as part of a utility's entire universal service plan, including the need for the changes and associated costs. Only in the context of a USECP proceeding can the need for changes and associated costs be fully assessed. For example, Columbia has explained the interrelationship of other parts of its CAP and universal service program offerings, and the cost impact of a change to one CAP component.

Other forms of energy assistance are available to help customers afford their utility bills, without changing the current CAP payment requirements. The addition of a LIHEAP grant would reduce the average energy burden for Percent of Income customers to 4.18%, which is line with the energy burden in the Commission's *CAP Policy Statement*. CAUSE-PA contends that LIHEAP should not be considered when determining affordability because it is too speculative. CAUSE-PA M.B., pp. 17-18. Columbia disagrees. The fact is that Columbia's CAP customers are eligible for and do receive LIHEAP assistance. LIHEAP grants are not insignificant. The average LIHEAP grant is $280.00, which would drop the average CAP payment from $56.00 per month to $32.00 per month. Columbia St. No. 13-R, pp. 16-17. To ignore the availability of LIHEAP when setting energy burdens would unnecessarily raise the cost of CAP that is borne by other Residential customers.

The flexibility available under CAP to offer different payment plans also demonstrates that a change to a single CAP component – the energy burden for customers under a Percent of Income Payment Plan – is not necessary. Only 4% of existing Percent of Income customers are

removed from service for not paying their CAP payment. If a customer's energy burden is unmanageably high under the Percent of Income Plan, Columbia offers other CAP payment plans with lower energy burdens, and customers can switch to these more affordable payments plans.

A USECP proceeding is also a more appropriate forum to consider the costs of CAUSE-PA's proposed change. As explained in Columbia's Main Brief, CAUSE-PA's recommended changes would have a significant financial impact on Columbia's non-CAP ratepayers. The cost to reduce the Percent of Income payment plan option to a 4%-6% energy burden would be more than $1 million per year in CAP credits (the "shortfall" amount). This cost is paid for by non-CAP customers (including non-CAP low-income customers) and would result in an approximate 5% annual increase to non-CAP customers. Columbia St. No. 13-R, p. 18. In a USECP proceeding, the Commission can weigh the lack of need against the high cost of implementing CAUSE-PA's proposal.

CAUSE-PA argues that the energy burdens for Percent of Income Payment Plan customers do not comply with the energy burdens set forth in the Commission's *CAP Policy Statement Order*. However, the Commission indicated that utilities are not required to adopt the energy burdens provided in the CAP Policy Statement. The Commission stated:

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

Petition of Office of Consumer Advocate for Reconsideration/Clarification of the November 5, 2019 Final CAP Policy Statement Order at Docket No. M-2019-3012599, Docket No. P-2020-3016885 (Order on Reconsideration/Clarification entered February 6, 2020), pp. 10-11

(emphasis added). CAUSE-PA also fails to recognize that the Commission approved Columbia's energy burdens *after* its *CAP Policy Statement Order* was issued. If the Commission disapproved of Columbia's energy burdens, it could have rejected them in its *2020 USECP Order.*

For the first time in this proceeding, CAUSE-PA raises an argument in its Main Brief related to a commitment from the settlement of Columbia's 2018 base rate case. *See Pa. PUC et al. v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-2018-2647577 et al. (Order entered December 6, 2018) ("2018 Base Rate Settlement").[54] In particular, CAUSE-PA implies that Columbia has not complied with Paragraph 57 of the 2018 Base Rate Settlement, which provides:

> Following release of the Commission's Energy Burden Study, Columbia will present information to its USAC about how Columbia's then-current payment selection options address the issues raised by the Energy Burden Study. By no later than its next Universal Service and Energy Conservation Plan ("USECP") filing following issuance of the Energy Burden Study or earlier date dictated by the Commission's Energy Burden Study (whichever is sooner), Columbia will make such filing as required by the Energy Burden Study to modify or change its CAP rate selection. Columbia will serve a copy of this filing on all parties to this proceeding. In the interim, Columbia agrees to conduct a bi-annual review of accounts enrolled on the average of payments and percent of bill CAP payment plan options that exceed the maximum energy burden recommended by the Commission in the CAP Policy Statement. The Company will change each account to a lower payment plan option, if available.

Pa. PUC et al. v. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577 (Order entered December 6, 2018). Columbia has clearly complied with this provision. The Energy Burden Study does not direct an earlier filing than Columbia's next USECP filing. Columbia has

[54] CAUSE-PA's argument is untimely. *See Application of PPL Electric Utilities Corp.*, 2009 Pa. PUC LEXIS 2323, 227 (2009) (a conjecture introduced for the first time in a brief with no basis in the record will be ignored).

yet to file a USECP following the Commission's Energy Burden Study. However, Columbia did submit a letter in response to the Commission's *CAP Policy Statement Order*. In that letter, Columbia indicated as follows:

> **Columbia's USECP is not consistent with the following CAP Policy Statement amendments. Columbia will be prepared to address these amendments no later than its next USECP filing:**
>
> - a. Establish new maximum tiered CAP energy burdens of 6% for natural gas heating, 4% for electric non-heating, and 10% for electric heating for FPIG tiers 51%-100% and 101%-150%. For FPIG tier 0%-50%, the maximum energy burdens should be 4% for natural gas heating, 2% for electric non-heating, and 6% for electric hearing.

See February 20, 2020 Letter Re: Columbia Gas of Pennsylvania, Inc. Universal Service and Energy Conservation Plan for 2019-2023, Docket No. M-2018-264540, p. 2. A copy of Columbia's February 20, 2020 Letter to the Commission is attached hereto as "Appendix A." Columbia has fully complied with the commitments made in the 2018 Base Rate Settlement.

2. Low-Income Customer Outreach

OCA recommends four outreach principles and four specific outreach mechanisms that it believes Columbia should adopt. OCA M.B., p. 123. As Columbia previously explained, the Company's outreach strategy already embodies the OCA's recommendations. Columbia witness Davis described how Columbia is currently implementing each of the OCA's recommendations as follows:

> **Q. Please provide Mr. Colton recommendations regarding the Company's outreach to low income customers.**
>
> A. Mr. Colton recommends four specific outreach mechanism, all of which Columbia already utilizes in its customer outreach strategy. The first recommendation is to offer CAP when establishing a payment arrangement. The Company already offers CAP to all level 1[55] customers in arrears, so this mechanism is currently in practice. The second recommendation is to offer CAP

[55] Level 1 refers to all customers at or below 150% of the Federal Income Poverty Guidelines.

> prior to involuntary service disconnection. The Company's current ten day notice of termination includes information including income charts and a request for customers to contact the company to determine what programs and payment options are available to them. When a customer calls in to inquire about stopping a termination, all level 1 customers are provided information on CAP and pre- screened and referred to CAP if the customer agrees. This recommendation is currently in practice. The third recommendation is to offer CAP when a disconnected customer calls requesting to be reconnected. When a customer calls requesting reconnection, financial information is requested and all level one customers are referred to CAP. This recommendation is already in practice. And the fourth recommendation is to offer CAP when contacting a customer through the cold weather survey. When a customer on the cold weather survey calls to connect service, financial information about the household is requested. All customers identifying themselves as level 1 are referred to CAP. This recommendation is already in practice.

Columbia St. No. 13-R, pp. 5-6.

OCA also recommends that Columbia adopt the following four principles as part of its outreach strategy: (1) use the community as a means of identifying and engaging the hard to reach population; (2) focus on relationship building as opposed to relying on staff contacts; (3) go to the community rather than making the community come to you; and (4) rather than relying primarily on Company communications, rely on trusted messengers from within the community. OCA M.B., p. 123. As explained in Columbia's Main Brief, these principles are already embodied in Columbia's existing outreach efforts. *See* Columbia M.B., p. 108-10.

In its Main Brief, OCA emphasizes that customer outreach should include leveraging trusted resources in the community in order to reach otherwise hard-to-reach low-income customer populations. OCA then criticizes the Company for appearing to "overly rely on Company-driven outreach strategies." OCA M.B., p. 130. Columbia disagrees. While the Company's outreach efforts do include many efforts that are driven directly by the Company (e.g., Company web site updates, targeted mail solicitations and outbound calls) Columbia also

heavily engages trusted resources in the communities of its low-income customers as part of its outreach efforts. Specifically, the Company has partnered with community resources, including housing authorities, veterans' groups, career training centers, medical clinics, the Department of Human Services, and other local community-based agencies. Columbia has accepted CAP applications in the community at worship sites, unemployment offices, banks, stores, community action agencies, senior centers, Salvation Army offices, and even in customer homes when necessary. Columbia's outreach efforts include community meetings, fifteen to twenty legislative and/or senior events and three Be Utility Wise events each year to promote programs to individuals, community advocates and caseworkers. Columbia Statement No. 13-R, pp. 5-8.

Columbia recognizes the importance of promoting its low-income programs through trusted resources in the community. Columbia disagrees with OCA that the Company's efforts are deficient in this regard. OCA ignores the many ways in which Columbia engages the community as part of its outreach activities. OCA's recommendations regarding Columbia's outreach efforts are unnecessary because they are already in practice.

3. Health and Safety Pilot

CAUSE-PA recommends that funding for the Health and Safety Pilot be increased by $600,000. CAUSE-PA M.B., p. 26. As Columbia explained in its Main Brief, CAUSE-PA's proposal to increase funding for the Health and Safety Pilot is not prudent at this time. The program was designed as a pilot program to test whether the program is beneficial. The pilot is in its first year. Funding for the pilot should not be changed until the effectiveness of the program can be evaluated. Columbia Statement No. 13-R, p. 19. While CAUSE-PA points out that more homes could be improved if funding is increased, there are too many unknowns at this time to increase funding. CAUSE-Pa M.B., p. 27. For example, it is not even clear that more

homeowners would be willing to participate in the program. CAUSE-PA's recommendation to increase funding without any evaluation of the program's costs and benefits should be rejected.

4. LIURP

CAAP seeks to increase Columbia's Low-Income Usage Reduction Program ("LIURP") budget by $420,000 annually. CAAP M.B., p. 8. While Columbia does not dispute the importance of LIURP, the Company submits that not only is LIURP adequately funded, it is *over*-funded as evidenced by the carry-over funding from year to year. Columbia Statement No. 13-R, pp. 21-22. CAAP does not dispute that county weatherization providers throughout Columbia's service territory often find it difficult to spend their annual allotted weatherization funds. While CAAP claims that there are additional customers who are eligible for LIURP, CAAP does not provide any analysis suggesting that these additional customers would in fact enroll in LIURP. CAAP M.B., p. 8. Columbia's LIURP budget is already the second highest of all utilities behind Philadelphia Gas Works and the highest in western Pennsylvania.[56] CAAP's proposal to increase LIURP funding should be denied as there is no evidence that additional funding is needed.

5. Hardship Fund

CAAP recommends that Columbia increase the Hardship Fund from $650,000 to $800,000 annually. CAAP M.B., p. 8. CAAP's Main Brief is completely deficient of any support for its funding proposal. In its Main Brief, Columbia discussed all of the resources that are used to provide Hardship Fund funding, including shareholder contributions, customer and Company sponsored fundraising, and pipeline penalty credits and refund proceeds. Columbia M.B., pp.

[56] Pennsylvania Public Utility Commission Report on 2018 Universal Service Programs & Collections Performance (published December 2019), available at http://www.puc.state.pa.us/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2018.pdf.

111-13. As a result of these funding avenues, the Company has a current surplus in its Hardship Fund balance of more than $700,000. Columbia Statement No. 13-R, pp. 22-23. CAAP does not dispute that existing funding levels are more than sufficient. CAAP's proposal should be rejected because the Hardship Fund is already adequately funded and capable of serving the customers who qualify for Hardship Fund grants under the existing guidelines.

Moreover, as explained in Section II of this brief, on October 26, 2020, Columbia requested that the Commission temporarily amend its USECP to increase the number of customers who can qualify for assistance through the Hardship Fund. A copy of Columbia's request is attached hereto as "Appendix B." Currently, the Hardship Fund is available to customers with incomes at or below 200% of the Federal Poverty Income Guidelines. Columbia seeks to temporarily expand eligibility for the Hardship Fund to customers with incomes that are at or below 300% of the Federal Poverty Income Guidelines. Columbia seeks to expand the Hardship Fund to assist customers who have been financially impacted by the COVID-19 pandemic, but do not currently qualify for other forms of assistance. In order to accommodate the increased number of customers eligible for the Hardship Program, Columbia has secured $400,000 in additional funding from the NiSource Foundation, which it believes will sufficiently cover the cost of the additional customers. Any unused funds will remain in the Hardship Fund at the conclusion of the program year. Columbia has already taken the necessary steps to ensure that customers who need Hardship Fund assistance are able to receive it.

B. PIPELINE REPLACEMENT ISSUES

1. DIMP

I&E proposes that Columbia modify its DIMP to explain how it uses quantitative data and Subject Matter Expert ("SME") input to develop a DIMP risk score. I&E M.B., p. 71.

As explained in Columbia's Main Brief, Columbia does not oppose amending its DIMP to explain the process of using quantitative risk scores and SME input to derive a quantitative risk evaluation that is used to determine the High-Medium-Low risk level for each asset-threat combination published in the DIMP. Columbia M.B., pp. 113-116. The quantitative data is calculated numerically from leakage rates, damage data and other sources. Columbia St. No. 7-R, pp. 3-4. The SMEs further review the asset-threat combinations, and develop probability and consequence scores using a numerical risk matrix. Columbia St. No. 7-R, p. 6, Columbia Ex. MJD-2R. These scores ultimately establish the published risk level. However, Columbia does not propose to change the DIMP to show risk scores, but instead will continue to show the High-Medium-Low characterizations of risk to impress upon all SMEs the importance of treating all High risks as urgent items.

I&E continues to recommend that Columbia update Section 7.1.2.2 of its DIMP to reflect the inclusion of all historical data in the evaluation of risks. I&E M.B., p. 72. There appears to be a single point of potential disagreement. I&E states that the Company should include "all available historical data on leakage history." I&E M.B., p. 72. However, Columbia explained that pre-2016 leakage data is not reliable for trending purposes, as a result of changes to data collection and quality assurance processes. Columbia M.B., p. 117. DIMP evaluations should not be distorted by data uncertainty and Columbia opposes the I&E recommendation to use "all available historical data" if it is to include pre-2016 leakage history.

2. Pipeline Replacement

I&E continues to recommend that the Commission, in this proceeding, direct the Company to increase its pipeline replacement efforts. I&E M.B., pp. 76-77. Columbia opposes this recommendation in the context of these proceedings, because the Commission already has opened a mid-plan review of Columbia's Commission-approved LTIIP. A generic order to increase pipeline replacement efforts in this proceeding should not be issued to modify the specific pipeline replacement goals established through the LTIIP. Columbia M.B., pp. 117-119.

I&E asserts that it disagrees with Columbia's position that the amount of pipeline to be replaced is better addressed in an LTIIP proceeding. I&E M.B., p. 76. What is lacking in I&E's testimony and brief is any explanation *why* a generic declaration in a base rate proceeding is better than the approval of specific plans in an LTIIP proceeding. I&E states that through rate cases it can bring to light safety impacts, including costs, risk calculations and incidents. However, nothing prevents I&E from presenting this information in the open mid-term LTIIP review process, and making recommendations to change the LTIIP. By regulation, the LTIIP must include:

(1) Types and age of eligible property;

(2) Schedule for its planned repair and replacement;

(3) Location of the eligible property;

(4) Reasonable estimates of the quantity of property to be improved;

(5) Projected annual expenditures and measures to ensure that the plan is cost effective;

(6) Manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service;

(7) A workforce management and training program; and

(8) A description of a utility's outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects.

Therefore, nothing prevents I&E from presenting comments and proposing changes to the LTIIP. *See Periodic Review of Peoples TWP, LLC's Long-Term Infrastructure Improvement Plan*, Docket No. M-2015-2505105, Order entered July 21, 2016 (directing Peoples TWP, LLC. to file a new LTIIP to incorporate changes proposed by I&E).

Finally, Columbia notes that its currently approved LTIIP already provides for increasing footage of main replacement throughout its term. *Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Major Modification to its Existing Long-Term Infrastructure Improvement Plan and for Approval of its Second Long-Term Infrastructure Improvement Plan*, Docket No. P-2017-2602917 (Order entered September 21, 2017), p. 14. Whether any further change to that accelerated pace should be made is properly considered in the context of the LTIIP review.

For the reasons explained above and in Columbia's Main Brief, I&E's proposal to increase pipeline replacements should be rejected. I&E should present its concerns about the pace of pipeline replacements in the context of the current LTIIP mid-term review.

3. Pipeline Replacement Costs

As explained in Columbia's Main Brief, Columbia does not oppose I&E's revised recommendation that Columbia meet annually with I&E's Pipeline Safety Division for a status update on cost control efforts.[57]

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[57] I&E notes two recent main replacement projects incurred substantial restoration costs. Columbia explained the reason for these high costs:

> Both projects were in an urban area and required more restoration than a typical project. The South Side, Phase I project consisted of laying pipeline under pavement along Sarah Street, 25th Street and Jane Street because the buildings are close to the sidewalks in this area of Pittsburgh. The City of Pittsburgh required 3.5 inch "mill and overlay" of half the width of each street and most of the intersections. Similarly for the Glenwood project, the Borough of Ambridge required "mill and overlay" as well as sidewalk restoration.

Columbia St. No. 14-R, pp. 9-10.

4. Leaks/Risk Reduction

a. Root Cause Analysis

I&E recommends that Columbia undertake a formal root cause analysis to determine why total leaks found have increased by 8.5% from 2017-2019, in the context of ongoing replacement of at-risk pipe. I&E M.B., p. 79-52. Columbia opposes this recommendation as premature.

Leak detection and repair are high priorities for Columbia. As explained in Columbia's Main Brief, Columbia has reduced open Type-2 leaks on its system by 91% since 2007. Leak repair and pipeline replacements clearly have contributed to this successful effort.

Columbia is not opposed to undertaking a formal root cause analysis of issues in appropriate circumstances. However, such an analysis would require Columbia to reassign employees from other programs to undertake the analysis. I&E supports cost-effective rehabilitation efforts. I&E M.B., pp. 77-79. Therefore, Columbia believes that a decision to undertake a formal root cause analysis needs to consider more than just an identification of a recent increase in leaks found.

In this case, Columbia believes it is premature to undertake a formal root cause analysis. The reasons why it is premature include:

- Leaks found have decreased 15.6% from 2015-2019.
- Leaks do not reduce in lock step with pipe replacement, as remaining pipe ages and becomes more susceptible to leaking.
- Columbia increased pipes surveyed annually by 13.8% from 2017 through 2019 which can contribute to discovery of the 8.5% higher leaks found during that period of time.
- Additional data can determine if this is a potential problem or a short-term phenomenon.

b. Field Assembled Risers

Columbia agrees with I&E's recommendations to identify and develop a plan to replace field assembled risers. Columbia M.B., pp. 124-125. However, as explained in Section IV.G.1.d. of this brief and Columbia's Main Brief, OCA opposes recovery of the additional spending needed to accelerate replacement of field assembled risers.

c. Maps and Records

Columbia and I&E agree on the need to continue and complete updating of maps and records as quickly as possible, and Columbia will keep I&E apprised of its progress. Columbia M.B., p. 125; I&E M.B., p. 84. However, as in the case for field assembled risers, OCA opposes recovery of the additional $491,000 in FPFTY spending to accelerate this work. See Section VI.6.1.c. of this brief and Columbia's Main Brief.

X. <u>RATE STRUCTURE</u>

A. INTRODUCTION

All active parties addressed issues related to the Company's proposed rate structure in their Main Briefs. Columbia anticipated and responded to many of the arguments raised by other parties in its Main Brief. In responding to other parties' Main Briefs, Columbia will minimize repeating arguments that were set forth in its Main Brief. For the reasons explained below and in Columbia's Main Brief, the Company's proposed revenue allocation and rate design should be approved.

B. COST OF SERVICE

1. Allocated Cost of Service Studies

In its Main Brief, Columbia explained why the results of the Company's Average Study should be used to guide revenue allocation. Columbia M.B., pp. 129-136. OSBA supports a

75%/25% weighting of the Peak & Average Study and the Customer-Demand Study as opposed to Columbia's proposed equal weighting of the two studies. OSBA M.B., p. 14. CII supports the Customer-Demand Study, and in the alternative, Columbia's Average Study. CII M.B., p. 10. PSU supports Columbia's Average Study as a "balanced and fair cost of service study." PSU M.B., p. 5. I&E and OCA criticize Columbia's Average Study. I&E recommends that the Commission rely exclusively on the Company's Peak & Average Study, while OCA presented its own version of the Peak & Average Study. I&E M.B., p. 86; OCA M.B., p. 133.

In its Main Brief, Columbia explained why OCA's proposed Peak & Average Study and I&E's recommendation to rely exclusively on the Company's Peak & Average Study should be rejected. Columbia M.B., pp. 129-136. Nevertheless, it is appropriate for Columbia to respond to certain contentions advanced by I&E and OCA in their Mains Briefs. For the reasons explained below, as well as those more fully explained in Columbia's Main Brief, OCA's and I&E's proposed cost of service studies and opposition to the Company's Average Study are without merit and should be rejected. *See* Columbia M.B., pp. 129-136.

a) The Commission has not Selected One Cost of Service Study as the Required Study.

The Commission's decisions cited by I&E and OCA do not support their preference for the Peak & Average Study. I&E and OCA state that the Commission has previously rejected use of the Customer-Demand Study in *Pa. P.U.C. v. Philadelphia Gas Works*, Docket No. R-00061931, 2007 Pa. PUC Lexis 46 (Order entered September 28, 2007). I&E M.B., p. 87; OCA M.B., p. 145. However, in more recent cases, the Commission has accepted the use of a Customer-Demand methodology. *See Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597, at 113 (Order entered December 28, 2012) citing *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2010-2161694, at 46 (Order entered December 21, 2010).

I&E also states that the Peak & Average Study has been previously accepted by the Commission in *Pa. PUC v. National Fuel Gas Distribution Co.,* 83 Pa. PUC 262, 1994 Pa. PUC LEXIS 134 (1994) ("*National Fuel*"). I&E M.B., p. 89. *National Fuel* is distinguishable from the present case because in *National Fuel*, the utility presented two slightly different versions of the Peak & Average Study. Thus, the Commission was not presented with an option to select a cost of service study that included a customer component. Here, unlike in *National Fuel*, Columbia has presented both a Peak & Average Study and a Customer-Demand Study, as well a third study which averages the other two studies. The Commission's decision in *National Fuel* is of minimal relevance to Columbia's base rate proceeding. The Commission must review each proposed revenue allocation considering the facts specific to that case. Here, Columbia has demonstrated that the Company's Average Study is the most appropriate basis upon which to allocate revenue. *See* Columbia M.B., pp. 129-136.

The Commission has not expressly accepted one cost of service study as controlling, nor has the Commission specifically rejected the use of a particular cost of service study. Rather, the Commission has recognized that cost allocation studies require considerable judgment and are not an exact science. *Application of Metropolitan Edison Co.,* R-00974008 (Order dated June 30, 1998); *Pa. P.U.C. v. Pennsylvania Power & Light Co.,* 55 PUR 4th 185 (Order dated Aug. 19, 1983). There is no one "right" cost of service study, and the proper method to allocate revenue must be examined on a case-by-case basis. I&E even admits that the Commission must examine the cost of service studies as presented in each case. I&E M.B., p. 90. The evidence presented in this case demonstrates that the Average Study with its equal weighting of the Customer-Demand Study and the Peak & Average Study represents a revenue allocation that

most accurately reflects the cost of service, avoids cross-class subsidization to the extent possible, and is fair to all rate classes.

b) I&E's and OCA's Preferences to Rely Solely on a Peak & Average Study are Inappropriate and Should Be Rejected.

I&E witness Mr. Cline recommends that the Commission rely solely on the Peak & Average study based on his position that throughput is a driver of mains cost. I&E witness Mr. Cline stated that the purpose of a natural gas distribution company, such as Columbia, is to deliver gas at all times, 365 days a year. I&E M.B., p. 89. In response, Columbia witness Mr. Notestone explained why Mr. Cline's position is inaccurate. As Mr. Notestone explained:

> **Q. Does the Company agree with Mr. Cline and Mr. Mierzwa that throughput determines 50% of the amount of main investment?**
>
> A. No. Each of Columbia's customers have a unique cost that contributes to the total cost to serve the rate class in which those customers are included. Obvious distinctions in customer costs are: 1) the distance from the transmission main to the customer meter; 2) the design day capacity of the customer; 3) the age of the pipe; 4) the customer density on the distribution main; 5) the geographic location of the main (urban vs. rural); 6) the number of customers and capacity requirements downstream of the customer; and 7) the operating pressure of the main. All are factors contributing to cost. The simple fact is that customer throughput has no impact on the determination of the size, length, or cost of the distribution main serving the customer. Customer throughput is simply a measurement of the utilization of the distribution main and as such is a factor in the customer's decision of selecting gas service. In other words, the availability of receiving gas 365 days a year is a reason the customer requests gas service and causes the gas distribution company to invest in the purchase and installation of gas mains but has nothing to do with Columbia's incurred cost of the pipe or the cost of installing the gas main to provide service to the customer.

Columbia St. No. 11-R, p. 6. In its Main Brief, I&E mischaracterizes Mr. Notestone's testimony as claiming that "a customer who wants gas service is the reason that Columbia incurs the cost of serving that customer but providing the requested service has nothing to do with the cost of

connecting [the] customer," which according to I&E "makes no sense." I&E M.B., p. 90. I&E misses the point. What Mr. Notestone was explaining is that the cost to install a main is based on several factors, including how far the system must be extended to connect the customer and the diameter of pipe required to meet the customer's peak demand. The cost to install the pipe would not change based on the customer's level of throughput, i.e. their usage throughout the year. Therefore, to rely solely on the Peak & Average Study would place too much emphasis on the throughput component without recognizing the customer component as a driver of mains cost. Such an approach would not accurately reflect the Company's true cost of service.

In an attempt to justify its Peak & Average Study, OCA presents a Proportional Responsibility Study for comparison purposes. OCA states that the Proportional Responsibility method was used by a former Columbia affiliate in a proceeding before the Massachusetts Department of Public Utilities ("DPU"). OCA M.B., p. 135. The Massachusetts DPU requires that the Proportional Responsibility Study be included in all Massachusetts natural gas distribution utility rate case filings. The Massachusetts DPU's requirement for the Proportional Responsibility Study is not binding on the Pennsylvania Commission, and Columbia does not support this method. Columbia Statement No. 11-R, p. 28. Moreover, the results of the Proportional Responsibility study do not validate OCA's Peak & Average Study. As Columbia witness Mr. Notestone explained:

> The Proportional Responsibility method also has no relevance in independently verifying Mr. Mierzwa's modified Peak & Average Study as the sole study in which to determine revenue by rate class. The Peak & Average method uses 50% weighting based on throughput and 50% weighting based on design day demand. The Proportional Responsibility method is based on monthly throughput throughout the year with a weighting from lowest usage months toward highest usage months to account for deign day usage. It is no wonder that an allocation of mains based on average throughput and design day usage would produce similar

> results to an allocation of mains based solely on monthly throughput weighted to account for design day usage.

Columbia St. No. 11-R, p. 27.

c) OCA's Criticisms of the Customer-Demand Study are Without Merit and Should Be Rejected.

OCA makes various arguments against the Customer-Demand Study. All of OCA's arguments are without merit and should be rejected.

OCA witness Mr. Mierzwa cites Professor James Bonbright in *Principles of Public Utility Rates* in support of his position that it is improper to allocate a portion of mains on the basis of being customer related. OCA M.B., p. 144. However, Professor Bonbright accepts that it is appropriate to recognize a customer component of distribution mains for cost allocation when he states, "a material part of the operating and capital costs of a utility business is more directly and closely related to the number of customers than to energy consumption on the one hand or maximum kilowatt demand on the other." *Principles of Public Utility Rates*, p. 400-01. Professor Bonbright also states that:

> Customer costs are invariant with respect to consumption. They are costs incurred to serve a customer even if the customer does not use the service at all. The most obvious examples of these customer costs are the expenses associated with local connection facilities, metering equipment and meter reading, billing and accounting, and a portion of the distribution system.

Columbia St. No. 11-R, pp. 13-14 (emphasis added). In addition, and as explained in Columbia's Main Brief at pages 132-33, there are other recognized authorities who agree that it is proper to include a customer component in the distribution mains allocation. *See The Regulation of Public Utilities*, Charles F. Phillips, Jr., Public Utility Reports, 1984; *Gas Rate Fundamentals*, Fourth Edition, American Gas Association, 1987.

OCA witness Mr. Mierzwa also provides a hypothetical example in an attempt to support his argument that the number of customers to be served does not impact mains investment. OCA M.B., pp. 140-41. Columbia witness Mr. Notestone rebutted this position. Mr. Notestone explained the following:

> **Q. Mr. Mierzwa states on page 11 of his direct testimony that "Distribution mains are not sized for the number of customers served from them, but for the loads placed upon them." He then cites an example that he believes makes his point clear. What is the example that he gives and does his example prove his statement to be true?**
>
> A. The example given is as follows: Located along one city block are ten residential customers with a coincident peak demand of one dekatherm ("Dth") each. The distribution main running down the street would have to be capable of delivering 10 Dth at peak. On another city block is only one small plastics factory that exhibits a maximum demand of 10 Dth. Finally, imagine that the plastics factory is torn down to make room for five large residences, each of which exhibits a demand at time of coincident peak of 2 Dth. Again, the main that is sized to deliver 10 Dth is adequate. Mr. Mierzwa asserts that "the existence of one customer, five customers, or ten customers does not determine the amount of mains investment; rather, mains investment is a function of the loads to be served."
>
> Columbia believes that Mr. Mierzwa is only partly correct. The amount of mains investment made by the company depends on the cost to extend the main to the new customer, the cost of the capacity required by the new customer, and the incremental revenue the new customer will provide to recover, over time, the incremental cost and a contribution toward overhead and return.
>
> First, in Mr. Mierzwa's example, he only discusses peak demand. Columbia agrees that peak demand is a causation of cost and that is why Columbia uses peak demand (design day demand) in all three of its allocated cost of service studies. Peak demand is the determination of the diameter of the main; in the Customer/Demand Study, it is the demand component.
>
> In Mr. Mierzwa's example, he assumes that both streets are one block long. I, in turn, assume he intended to infer that the capital investment on both streets was the same. Under the Company's

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> line extension policy there must be enough incremental revenue from the new customers to provide recovery, over time, of the incremental cost and a contribution toward overhead and return. Using current rates, the street with 1 commercial customer will contribute toward revenue $66.90 [(10 Dth x $4.415/Dth) + ($22.75 customer charge x 1 customer)]. The street with the 10 residential customers will contribute toward revenue $228.26 [(10 Dth x $6.076/Dth) + ($16.75 customer charge x 10 customers)]. Consequently because the commercial customer only contributes $66.90 toward the recovery of the mains investment and the 10 residential customers contribute $228.26, the commercial customer would likely be required to make a contribution in aid of construction ("CIAC") toward the mains investment on its street where there would be no requirement of a CIAC for the 10 residential customers. So under this example, the mains investment made <u>by the Company</u> for the 1 commercial customer is significantly less than the mains investment made <u>by the Company</u> for the 10 residential customers because the commercial customer would most probably be required to pay a CIAC to compensate for the amount of the Company's mains investment.

Columbia St. No. 11-R, pp. 10-12.

OCA contends that under the Customer-Demand Study, Residential customers should be entitled to a credit for their demands that can be met by the minimum system because the proportionate share of demands being met by the minimum system for Residential customers is greater than that of other rate classes. OCA M.B., pp. 143-44. Columbia refuted this argument in its Main Brief. *See* Columbia M.B., p. 133-34. OCA claims that Columbia's position in this case is inconsistent with the Company's analysis in a base rate case from five years ago in which a Company witness determined that the minimum system was capable of meeting most Residential customers' demand. OCA M.B., pp. 143-44. OCA takes the testimony from Columbia's 2015 base rate proceeding out of context. The point that Columbia's witness was making by stating that most Residential customers' demand can be met with the minimum system is that the cost to serve a Residential customer remains relatively the same regardless of

usage.[58] Thus, the prior testimony had nothing to do with whether larger upstream facilities benefit the Residential class.

OCA's argument that Residential customers do not "use" facilities other than the minimum system also fails to recognize how the system is designed. Simply because the minimum system can serve most Residential customers' demand does not mean that Residential customers do not benefit from larger sized upstream facilities. As explained in the Company's Main Brief, quite the opposite is true. *See* M.B., pp. 132-33. Without the larger upstream facilities, it would not be possible to serve the Residential customers by delivering gas to the lower pressure system further downstream. Therefore, to claim that Residential customers should not share in the costs of these larger facilities is contrary to the fundamental cost of service principles articulated in *Lloyd v. Pa.* P.U.C., 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007).

Finally, with respect to the allocation of mains' cost, OCA is the only party that challenged Columbia's proposed separation of mains by pressure group. In fact, I&E, CII, OSBA and PSU all expressed support for Columbia's assignment of mains to separate pressure groups because doing so more accurately identifies the mains being used to serve specific customers, and, in turn, more accurately assigns mains when determining revenue responsibility for each rate class. I&E M.B., p. 92; CII M.B., pp. 12-13; PSU M.B., p. 7; OSB St. No. 1, p. 15. Columbia explained in its Main Brief why the Company's direct assignment of mains cost is appropriate. *See* Columbia M.B., pp. 130-31, 135-36. OCA's criticisms of Columbia's proposed allocation of mains cost should be rejected.

[58] July 15, 2015 Rebuttal Testimony of Mark Balmert, at Docket No. R-2015-2468056, pages 31-32.

2. Customer Charge Studies

I&E's position is that Columbia's customer cost analysis that includes mains cost should be rejected because it is contrary to the Commission's directive in prior cases. I&E M.B., p. 94-95. While Columbia disagrees that a customer component of mains should not be included in the customer charge study for the reasons explained in its Main Brief, the Company has also presented a customer charge study excluding the cost of mains. *See* Columbia M.B., pp. 136-37. Columbia notes that I&E's position on the customer cost analysis is irrelevant for purposes of determining the Residential customer charge because Columbia's proposed Residential customer charge is supported by the customer charge study excluding mains. In fact, I&E states that it agrees with the Company's proposed Residential customer charge. I&E M.B., p. 101.

C. REVENUE ALLOCATION

1. Columbia's Proposed Revenue Allocation Should Be Accepted

Columbia's proposed revenue allocation is set forth on page 138 of its Main Brief. PSU supports Columbia's proposed revenue allocation based on the Average Study. PSU M.B., p. 14. OCA and OSBA each presented their own proposed allocation of revenue to the rate classes. OSBA M.B., p. 18; OCA St. No. 4, p. 35. I&E recommended that revenue be allocated in accordance with the Company's Peak & Average Study. I&E St. No. 3, p. 16. CII did not present a revenue allocation proposal except to argue that LDS customers should receive less of an increase. CII St. No. 1, p. 9. Columbia explained in its Main Brief why each of the other parties' revenue allocation proposals should be rejected in favor of the Company's proposal.

In its Main Brief, OSBA claims that Columbia's revenue allocation is not consistent with its cost analysis. OSBA M.B., p. 16. In particular, OSBA questions the proposed increases to the SGS/DS-2 and SDS/LGSS classes. OSBA M.B., p. 18. Contrary to OSBA's position, Columbia's proposed revenue allocation for all classes is consistent with the results of the

Average Study. Columbia witness Bell explained how the Company developed its proposed revenue allocation, beginning with the results of the Average Study. Columbia St. No. 3, p. 31-33. According to the Average Study, the initial allocation of revenue to the rate classes was as follows:

Columbia's Initial Revenue Allocation Proposal of Revenue Requirement

RS/RDS	SGS/DS-1	SGS/DS-2	SDS/LGSS	LDS/LGSS	MLDS	Flex
$73,521,431	$8,465,322	$9,714,590	$5,477,321	$3,854,297	$138,239	$1,227,764
72.99%	8.27%	9.49%	5.35%	3.76%	0.14%	1.20%

Columbia St. No. 3, p. 32. As fully explained in Columbia's Main Brief, the Company then reallocated revenue among the classes to bring each class closer to the system average rate of return. Columbia St. No. 3, pp. 32-33. In addition, any revenue increase to flex customers above what would be collected through the increased customer charges to these customers was shifted to all rate classes. This resulted in Columbia's final proposed revenue allocation which is shown in the table below.

Columbia's Final Revenue Allocation Proposal of Revenue Requirement

RS/RDS	SGS/DS-1	SGS/DS-2	SDS/LGSS	LDS/LGSS	MLDS	Flex
$73,989,928	$8,615,322	$9,889,590	$5,722,321	$4,167,686	$0	$14,117
72.27%	8.41%	9.66%	5.59%	4.07%	0.0%	0.01%

Columbia St. No. 3, p. 33.

Simply because Columbia's final revenue allocation proposal and the results of the Average Study do not match exactly does not mean that the proposed revenue allocation is inconsistent with the cost of service analysis. As the Commission has recognized, "[r]arely, if

ever, is revenue requirement allocated strictly on the basis of cost-of-service results." *Pa. PUC v. Duquesne Light Co.*, Docket No. R-821945, 57 Pa. PUC 1, 61 (1983). Columbia's proposed revenue allocation is consistent with the results of the Average Study, while also considering the principles of fairness and gradualism.

2. Flex Customers

a) OSBA's Proposed Revenue Allocation Should be Rejected

OSBA witness Mr. Knecht did not recognize in his revenue allocation proposal a portion of the revenue increase that cannot be assigned to flex customers based on his unsupported assumption that certain of Columbia's flex rates are not justified. OSBA M.B., p. 20. No other party challenged Columbia's flex rate discounts. OSBA's Main Brief offers no real argument in support of its treatment of flex rate revenues. As explained in Columbia's Main Brief, Columbia's flex rates are fully supported by the required customer certification and the competitive alternative analysis that is conducted at the time the flex rate agreements are entered. Columbia M.B., pp. 141-45. Therefore, OSBA's revenue allocation proposal should be rejected because it fails to reflect the amount of revenue increase that cannot be allocated to flex rate customers.

b) I&E's Request for a Competitive Alternative Analysis Should be Rejected

I&E recommends that Columbia provide an update to the competitive alternative analysis for any customer who has not had their alternative fuel source verified for a period of ten years or more when Columbia files its next base rate case. I&E M.B., p. 96. For the reasons explained here and in Columbia's Main Brief, I&E's recommendation is not a prudent use of resources and should be rejected. *See* Columbia M.B., pp. 146-47. I&E fails to recognize that Columbia cannot avoid its contractual obligations without consequence if circumstances change. To break

an agreement with a flex rate customer based on new information becoming available would be poor practice. Not only would Columbia be exposing itself to potential damages for breach of contract, there would be little incentive for competitive customers to enter such agreements in the future if the Company could simply choose to no longer honor the agreement at any time. Such a scenario is not in Columbia's customers' best interests. Even if Columbia were to discover that a flex rate was no longer justified due to a change in competitive alternatives, Columbia could not violate the contract by no longer offering the flex rate. Thus, to conduct a competitive alternative analysis for a contract that is not up for renegotiation would not be a prudent use of resources.

Moreover, the terms of Columbia's flex agreements typically do not extend beyond ten years, at which time competitive alternatives would be verified as part of the normal renegotiation process. Columbia St. No. 1-R Redacted, p. 62. If circumstances have changed and the flex rate is no longer justified, the best course of action is for Columbia to review the competitive alternatives at the time that the flex rate contract expires and no longer offer the flex rate. Columbia diligently reviews the competitive alternatives for each customer before reentering a flex rate agreement and will not enter a new agreement if the competitive circumstances do warrant a flex rate. Columbia's current practice is working well as demonstrated by its unwillingness to continue offering a flex rate to Knouse Foods upon expiration of its flex rate contract. Columbia St. No. 1-R Redacted, p. 65. Columbia should be permitted to continue its current practice of reviewing competitive alternatives based on when flex rate contracts are set to expire rather than based on an arbitrary timeframe as I&E suggests.

3. Allocation of Universal Service Costs

OCA and CAUSE-PA recommend that the cost of universal service programs be recovered from all customers, not just the Residential class. OCA M.B., p. 159; CAUSE-PA

M.B., pp. 29-38. Columbia, OSBA, CII and PSU oppose this proposal. Columbia St. No. 1-R Redacted, pp. 22-26; OSBA St. No. 1-R, pp. 2-11; PSU St. No. 1-R, pp. 16-21; CII St. No. 1-R, p. 2. For the reasons explained below and in Columbia's Main Brief, OCA's and CAUSE-PA's proposal should be rejected. See Columbia M.B., pp. 147-48.

CAUSE-PA argues that the Natural Gas Competition Act, 66 Pa. C.S. §§ 2201, *et seq.* ("Competition Act") does not permit a rate class to bypass universal service costs. As support for its argument, CAUSE-PA cites Section 2203(6) of the Competition Act, which provides:

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

66 Pa. C.S. § 2203(6). CAUSE-PA interprets the word "nonbypassable" to mean that no rate class can "bypass" universal service costs. The Commission and the Commonwealth Court have specifically rejected this interpretation. *See Metropolitan Edison Company and Pennsylvania Electric Company*, Docket Nos. R-00061366 and R-00061367, *aff'd Met-Ed Indus. Users Group v. Pa. PUC*, 960 A.2d 189 (Pa. Cmwlth. 2008) (upholding the Commission's decision to limit recovery of universal service costs to Residential customers) ("*Met-Ed Indus. Users Group*"). In *Met-Ed Indus. Users Group,* the Commission provided the following interpretation of the word "nonbypassable" in the context of the Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. §§ 2801, *et seq.*, which the Commonwealth Court affirmed:

> In the context of a regulatory environment in which there is retail competition, a nonbypassable charge is one in which customers pay the charge whether they "shop" for generation supply or take service under [PLR] rates from an EDC. A nonbypassable charge would generally require that the charge be recovered in a rate that is paid by all customers in the class, both shopping and non-shopping. Such a charge does not imply an allocation scheme in

> which costs are assigned to all rate classes. Rather, in the context of the Competition Act, a nonbypassable charge means that universal service costs that were in the bundled rates for a particular customer class should remain within that class after rate unbundling. Specifically, if universal service costs were recovered only from residential customers prior to unbundling, **as they were**, then all residential customers should continue to pay these costs regardless of whether a residential customer begins shopping or does not shop.

Met-Ed Indus. Users Group at 201-02. (emphasis in original).

The Commission and the Commonwealth Court have made clear that a nonbypassable charge is one that must be paid by all customers of the *same* rate class whether they are shopping or non-shopping customers. Specifically, in the context of the universal service provisions of the Competition Act, nonbypassable means that Residential customers cannot avoid their pre-competition funding of universal service costs by choosing to shop. *Met-Ed Indus. Users Group* at 202. Thus, CAUSE-PA's interpretation is inconsistent with the meaning of a nonbypassable charge. CAUSE-PA also ignores the "competitively neutral" language in Section 2203(6), which makes clear that the language is referring to shopping versus non-shopping customers, not customers in different rate classes.

CAUSE-PA relies on *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) *appeal denied*, 916 A.2d 1104 (2007) ("*Lloyd*") as support for its argument. CAUSE-PA M.B., p. 33. In *Met-Ed Indus. Users Group*, the Commonwealth Court determined that *Lloyd* is inapplicable in the context of universal service program costs. The Commonwealth Court stated:

> In *Lloyd*, this court considered an argument that the Sustainable Energy Fund (SEF) programs should not be funded through electric distribution rates because the SEF programs benefit electric generation, not electric distribution service. This court commented that the Competition Act "only provides that it be funded by 'non-bypassable rates' without any requirement that it be by a rate that is directly benefited by the program." Thus, under *Lloyd*, there is no statutory requirement that the funding for special

> programs come only from those who benefit from the programs. However, the lack of such a requirement does not mean that funding for special programs must come from those who do not benefit. In fact, in *Lloyd*, this court pointed out that, according to the credible evidence, SEF programs do benefit distribution service. Therefore, SEF programs are funded by those benefit from them. Clearly, then, *Lloyd*, is not dispositive here.

Met-Ed Indus. Users Group at 202. Thus, *Lloyd* provides no support of CAUSE-PA's position.

CAUSE-PA and OCA ignore Section 2203(5) of the Competition Act, which prohibits unreasonable discrimination against one customer class for the benefit of another. *See* 66 Pa. C.S. § 2203(5), which provides:

> 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.

CAUSE-PA's and OCA's proposal violates Section 2203(5) of the Competition Act because it unreasonably discriminates against Columbia's Commercial and Industrial ("C&I") customers to the benefit of its Residential customers. As explained in Columbia's Main Brief, C&I customers receive no benefit from Columbia's universal service programs and are not eligible to participate in these programs. Residential customers receive all the benefits of Columbia's universal service programs. *See* Columbia M.B., p. 147. Therefore, it would be unreasonable and discriminatory to require C&I customers to subsidize these Residential class programs from which C&I customers receive no benefit.

OCA's suggestion that universal service programs are a "public good" does not justify allocating universal service program costs outside of the Residential class for ratemaking purposes. OCA M.B., p. 176. Universal service programs were created to reduce overall costs for Residential ratepayers related to customer arrearages and customer collection costs by reducing Residential customer arrearages. C&I customers do not cause Columbia to incur any

costs in relation to Residential customer arrearages and collections. Columbia St. No. 1-R, pp. 24-26. C&I customers also do not benefit from any reduction to residential uncollectible expense or residential collection costs, as these are allocated to the Residential class in the allocated cost of service. Columbia St. No. 1-R, p. 25. To allocate the costs of Residential universal service programs to other customer classes based on OCA's arbitrary "public good" theory would be contrary to the ratemaking principle of cost causation. *See Lloyd*, 904 A.2d 1010, 1016-21. The Residential customer class should not be permitted to shift these costs to the C&I class.

Finally, CAUSE-PA criticizes Columbia for not addressing the issue of universal service cost recovery from classes other than the Residential class in its filing. CAUSE-PA M.B., p. 30. First, Columbia notes that the Commission's Final CAP Policy Statement Order does not direct utilities to propose cross-class allocation of universal service costs in their base rate filings, nor does it require these costs to be allocated outside of the Residential class. *See 2019 Amendments to Policy Statement on Customer Assistance Program*, 52 Pa. Code § 69.261-69.267, Docket No. M-2019-3012599 (Order entered November 5, 2019). Second, Columbia did, in fact, state in its filing that the Company continues to support its current practice of recovering universal service costs from its Residential customers. *See* Columbia St. No. 3, p. 35.

B. RATE DESIGN

1. Residential Rate Design

a) Residential Customer Charge

As explained in Columbia's Main Brief, the Company proposes to increase the Residential customer charge from $16.75 to $23.00. *See* Columbia M.B., pp. 149-53. I&E supports Columbia's proposed Residential customer charge. I&E M.B., p. 101. OCA, CAUSE-PA and CAAP raised various arguments in opposition to the Company's proposal to increase the

customer charge, including various concerns with respect to the impacts of the proposed customer charge on low-income customers. In its Main Brief, Columbia anticipated and responded to many of these arguments. Nevertheless, it is appropriate for Columbia to respond to certain arguments advanced by CAUSE-PA, CAAP and OCA in their Main Briefs.

i. The "No Increase" Proposals of OCA, CAAP and CAUSE-PA Should be Rejected.

OCA, CAAP, and CAUSE-PA argue that the Residential customer charge should not increase. OCA M.B., p. 186; CAUSE-PA M.B., p. 38; CAAP M.B., p. 9. OCA's, CAUSE-PA's and CAAP's "no increase" proposals are not based on any cost analysis but rather their belief that the fixed portion of a Residential customers' bills should not increase. Such an extreme stance has no basis in cost causation principles and has been previously rejected by the Commission. *See Pa. PUC v. PPL Electric Utilities Corporation,* Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (October 19, 2010 R.D.; Order entered December 28, 2012) (rejecting I&E's and OCA's position of "no increase" to the customer charge because it was not based on a proper cost analysis) citing *Pa. Publ. Util. Comm'n v. Aqua Pennsylvania, Inc.,* Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, 236 P.U.R.4th 218 (August 5, 2004). Similarly, these "no increase" proposals should be rejected here.

ii. Columbia's Proposed Increase to the Residential Customer Charge Does Not Violate the Principle of Gradualism.

OCA contends that Columbia's proposed increase to the customer charge from $16.75 to $23.00 violates the principles of gradualism. OCA M.B., p. 185, 188. OCA ignores controlling precedent by attempting to advance gradualism considerations ahead of the cost to serve the Residential class. *See Lloyd*, 904 A.2d 1010, 1020-21 (factors such as gradualism are not permitted to trump cost of service as the primary basis for allocating the revenue increase). Thus,

gradualism concerns should not override the cost of service in evaluating Columbia's proposed customer charge.

The proposed increase in the Residential customer charge is supported by the results of Columbia's customer charge study that excludes mains. Columbia Exhibit No. 111, Schedule 1, p. 25. Columbia's proposal is consistent with the Commonwealth Court's decision in *Lloyd,* 904 A.2d 1010, 1020, which held that rate structures should be adjusted to reflect the cost of service to each rate class and to eliminate cross-subsidization. Columbia's proposed increase to the Residential customer charge is necessary to bring the Residential customer charge in line with the cost of service and eliminate cross-subsidization from other classes, as required by *Lloyd*, and should be approved.

OCA also fails to consider the last time the Company's Residential customer charge was increased was in 2012.[59] A $6.25 increase in the customer charge is gradual considering that the customer has remained the same for the past eight years. The OCA's gradualism concern does not justify its "no increase" position and should be rejected.

iii. Columbia's Proposed Increase to the Residential Customer Charge Will Not Negatively Impact Low-Income Customers' Ability to Reduce Their Bills Through Conservation.

CAUSE-PA argues that increasing the Residential customer charge will undermine the Low-Income Usage Reduction Program ("LIURP") because LIURP customers will not be as effective at lowering their bill through conservation efforts if the fixed portion of their bill increases. CAUSE-PA M.B., p. 38. Similarly, OCA claims that low-income customers will not realize the effects of conservation on their bills if the customer charge is increased. OCA M.B., p. 190. As Columbia explained in its Main Brief, CAUSE-PA's and OCA's assertions that

[59] *Pa. PUC et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket No. R-2012-2321748 (R.D. April 4, 2013, p. 29; Order entered May 23, 2013).

customers will not be able to effectively lower their bills through conservation is simply inaccurate. *See* Columbia M.B., p. 152-53. At proposed rates, the Residential customer charge of $23.00 represents approximately 21.9% of the total monthly bill of a typical Residential customer. Even with the $23.00 customer charge, the majority of a customer's bill will continue to be made up of volumetric charges, including the recovery of commodity costs. Therefore, customers, including those participating in LIURP, will be able to realize savings on their bills through conservation efforts. Columbia St. No. 3-R, pp. 19-20.

iv. OCA's Concerns that Low-Income Customers Will Not Be Protected From the Proposed Customer Charge Increase are Without Merit.

OCA contends that low-income customers will not be adequately protected from the increased customer charge. OCA M.B., pp. 189-191. As Columbia explained in its Main Brief, OCA's concerns are not a valid reason to avoid increasing the customer charge for all customers because there are programs in place that will adequately protect low-income customers should they become unable to afford an their utility bill. *See* Columbia M.B., p. 103. OCA advocates for a customer charge for the Residential class that is insufficient to support the cost of service based on its position that some low-income customers may not be able to afford their utility bills with the rate increase. OCA ignores the many Residential customers who are not struggling to pay their utility bill. Columbia submits that the more appropriate approach is to set the Residential customer charge based on the cost of service and provide assistance to those customers in need through the proper low-income programs.

In an attempt to support its argument, OCA makes a comparison between what it believes to be the annual total dollar amount of increased customer charges paid by all low-income customers and the total amount of Low Income Usage Reduction Program ("LIHEAP") cash

grants received by Columbia's customers. OCA's comparison is flawed and provides no support for its position.

First, comparing the total amount of LIHEAP cash grants received by Columbia's low-income customers to the fixed portion of a low-income customer's bill is a meaningless comparison. LIHEAP is a federal program that helps eligible households maintain utility service during winter months in the form of a cash grant. LIHEAP is just one option to Columbia's low-income customers and is intended to work in conjunction with Columbia's many other low-income programs, such as the Customer Assistance Program ("CAP"). Columbia Statement No. 13-R, pp. 16-17. Thus, Columbia's low-income customers receive assistance not only from LIHEAP but from these other programs as well. To say that the total amount of LIHEAP cash grants is less than the increased customer charges to low-income customers fails to take into consideration the many other forms of assistance available to low-income customers.

Second, OCA vastly overstates the amount of increased customer charges that will actually be paid by low-income customers. OCA determined that increasing the customer charge by $6.25 per month would result in a total annual increase in the customer charge of $75.00 ($6.25/month x 12 months). OCA then multiplied the total number of estimated low-income customers in Columbia's service territory (101,375) by an annual increase in the customer charge of $75 per year to arrive at a total increase in annual customer charges for low-income customers of $7.6 million. OCA M.B., pp. 192-93. OCA's calculation is flawed because it incorrectly assumes that all of Columbia's low-income customers will pay the full amount of the customer charge increase. To the contrary, many of Columbia's low-income customers are enrolled in CAP, which offers budget billing that is based on the customer's ability to pay rather than the total bill amount. Columbia Statement No. 13-R, pp. 9-10. Thus, many of Columbia's low-

income customers will not pay the full amount of any bill increase. For those low-income customers who are eligible but not currently enrolled in CAP, they may enroll in CAP at any time should their bill become unaffordable.

OCA also states that Columbia did not address Mr. Colton's claims that low-income customers are generally low-use customers who benefit from lower fixed charges. OCA M.B., p. 194. OCA is incorrect. Columbia refuted Mr. Colton's claim both in the testimony of witness Bell and in its Main Brief at pages 152-53. Columbia witness Bell explained that not all low-income customers have low usage. For example, some low-income customers reside in older, large, poorly insulated homes with less efficient furnaces. These customers would use more than the average Residential customer consumption. Columbia St. No. 3-R, pp. 28-29. Therefore, Mr. Colton's conclusion regarding low-income customers is incorrect. Regardless of income status, a higher fixed component of the bill will benefit customers who consume more gas than the average.

b) Columbia's Proposal to Remove the 3% Deadband from the Weather Normalization Adjustment Should be Approved

As explained in Columbia's Main Brief, Columbia proposes to remove the 3% deadband from the Weather Normalization Adjustment ("WNA"). Columbia M.B., pp. 153-56. I&E and OCA oppose Columbia's proposal. For the reasons explained below and in Columbia's Main Brief, I&E's and OCA's arguments for maintaining the 3% deadband are without merit and should be rejected.

I&E claims that the WNA should apply only in cases of extreme weather. According to I&E, Columbia has failed to show that weather variations within 3% above or below the established baseline is not "normal" weather. I&E M.B., p. 105. Columbia submits that normal weather levels occur when the actual heating degree days for a month equal the normal heating

degree days for that month as determined by twenty years of historical data. To be most effective, the WNA should apply anytime that weather for a given month is warmer or colder than normal. Placing an arbitrary percentage cap on when the WNA applies undermines the purpose of the WNA, which is to eliminate revenue and bill variations due to fluctuations in weather, not just account for extreme weather conditions. Columbia St. No. 3-R, p. 4.

I&E claims that if weather is only slightly warmer or colder than normal, the impact on the Company and customers should be insignificant and, for that reason, eliminating the 3% deadband is not necessary. I&E M.B., pp. 104-106. I&E fails to recognize that the degree of temperature variation determines the amount of the adjustment. If temperatures are only slightly warmer or colder than normal, the corresponding bill adjustment would be smaller to reflect that smaller variation from normal temperatures. This is not a valid reason to maintain the deadband. Moreover, the WNA only applies during the heating season (November through May), and therefore the effects of even smaller changes from normal can be significant.

OCA claims that eliminating the 3% deadband would be "unfair" to customers. OCA M.B., p. 200. Quite the opposite is true. The WNA is not one-sided. The WNA will lower customers' bills when the temperatures are colder than normal and bill more to customers when temperatures are warmer than normal. Columbia's experience with the WNA demonstrates that both the Company and customers benefit from the revenue and bill stabilization provided by the WNA. For example, the 2018/2019 heating season was colder than normal, and as a result, Columbia billed $3.7 million less to Residential customers than it would have without the WNA. Columbia St. No. 3, p. 18. Customers will continue to benefit from the WNA if the deadband is removed. To illustrate, if actual temperatures were 2.5% colder than normal during the peak winter billing months of January through March, an average residential customer would pay over

$8 more in bills than they would if no deadband were in place. Columbia St. No. 3-R, pp. 5-7. Calculated across Columbia's approximately 400,000 residential customers, this approximates $3.2 Million in revenues that would be returned to customers if the deadband were eliminated. Columbia St. No. 3-R, pp. 5-7. Eliminating the 3% deadband is in the best interest of Columbia and its customers because it will continue to insulate Columbia and its customers from fluctuations in temperatures but in a more accurate manner than the WNA with the 3% deadband.

c) Columbia's Proposal to Implement the Revenue Normalization Adjustment Should be Approved

As explained in Columbia's Main Brief, the Company is proposing to implement a Revenue Normalization Adjustment ("RNA"). *See* Columbia M.B., pp. 159-64. I&E, OCA, CAUSE-PA and CAAP oppose Columbia's proposal. For the reasons explained below and in Columbia's Main Brief, the Company's proposal to implement the RNA should be approved.

i. I&E's and OCA's Claims that the RNA is Not Needed are Without Merit and Should Be Rejected.

I&E and OCA claim that the RNA is not necessary because the Company can use other mechanisms to provide revenue stability, such as the Fully Projected Future Test Year ("FPFTY"), Distribution System Improvement Charge ("DSIC"), WNA, purchased gas adjustment mechanism and a fixed customer charge. As Columbia explained in its Main Brief, none of these mechanisms serve the same purpose as the RNA.

I&E claims that the RNA is unnecessary if Columbia uses a FPFTY because the Company can build into its revenue requirement an adjustment for revenue lost as a result of declining usage. I&E M.B., p. 107. I&E's suggestion that Columbia should simply take advantage of the FPFTY rather than implement the RNA implies that the Company should file rate cases continually to adjust for declining usage. While many factors influence whether the

Company files a rate case, without the RNA, the only way for the Company to recover revenue lost due to declining usage is through a rate case.

I&E and OCA suggest that the DSIC can be used in place of the RNA. I&E M.B., p. 107; OCA M.B., p. 204. I&E and OCA fail to recognize that the amount of the DSIC is capped at 5% of distribution revenues, which limits its usefulness for Columbia due to the Company's high rate of infrastructure replacement. Columbia St. No. 3-R, p. 27. The DSIC capped at 5% is not a viable alternative to the RNA. Moreover, the DSIC only recovers new plant investment. The DSIC is not designed to adjust base rate revenues due to changes in customer usage.

OCA also claims that the fixed customer charge and purchased gas cost adjustment provide revenue stability. OCA M.B., p. 204. However, Columbia's current and proposed customer charges do not fully recover the fixed costs incurred to serve Residential customers, and OCA opposes cost-based changes to the Residential customer charge. The purchased gas adjustment collects only gas costs and has nothing to do with stabilizing distribution service revenue.

Finally, I&E and OCA claim that the RNA is not needed because Columbia can use the WNA to stabilize revenue. I&E M.B., p. 107; OCA M.B., p. 204. The RNA and WNA serve different purposes and do not overlap. The WNA adjusts only for variances related to weather and not other factors that impact revenue levels. As explained on pages 163-64 of Columbia's Main Brief, the WNA is not intended to serve as a substitute for the RNA, but rather work in conjunction with the WNA. Thus, I&E's suggestions that Columbia can simply rely on the WNA in place of the RNA should be rejected.

ii. I&E's, CAUSE-PA's and CAAP's Arguments Regarding the RNA's Impacts on Conservation Efforts are Without Merit and Should Be Rejected.

I&E contends that the RNA has the potential to harm customers because it is contrary to conservation efforts. I&E M.B., pp. 107-08. CAUSE-PA and CAAP express similar concerns that the RNA would disproportionately harm low-income customers who attempt to lower their bill through conservation efforts. CAAP M.B., p. 10; CAUSE-PA M.B., p.42. Columbia fully rebutted these arguments in its Main Brief but will briefly respond to certain points raised by I&E, CAAP and CAUSE-PA in their Main Briefs. *See* Columbia M.B., p. 160-61.

The RNA does not undermine customers' ability to save through conservation. In fact, customers will have the same incentive to conserve if the RNA is implemented. First, a significant portion of a customer's bill is comprised of commodity gas costs, which are not impacted by the RNA. Thus, customers who conserve will see their commodity costs lowered. Second, the RNA, unlike the WNA, does not result in real time billing adjustments. For this reason, conservation efforts will result in immediate savings on a customer's bill. Columbia St. No. 3-R, p. 11. CAAP states that the "lag time" in billing adjustments means that customers would not be able to make the connection between reduced consumption and a reduced bill. CAAP has it exactly backward. CAAP M.B., p. 10. By postponing the adjustment until a later billing period, a customer who implements a conservation measure will experience the associated savings on their next bill. Third, the RNA is designed to reflect what would normally happen in a rate case when customer usage declines – fixed costs are spread over lower volumes and Residential rates increase. The RNA serves the same purpose without the time and expense of a rate case.

With respect to the RNA's impact on low-income customers, Columbia proposes to exclude CAP customers from the RNA. Therefore, CAP customers' bills with not be affected.

Any CAP customers who seeks to lower their bill by reducing usage will be able to successfully do so. CAUSE-PA recommends that all low-income customers, not just those enrolled in CAP, be excluded from the RNA. CAUSE-PA M.B., p. 42. Excluding all low-income customers from the RNA is not necessary because eligible low-income customers who become unable to afford their bill can apply for CAP at any time.

iii. OCA's Allegations that Columbia Has Not Complied with the Commission's Procedural Requirements for Proposing an Alternative Ratemaking Mechanism are Without Merit and Should Be Rejected.

OCA claims that Columbia's proposal to implement the RNA should be denied because the Company has not complied with the procedural requirements set forth in the Commission's Alternative Ratemaking Policy Statement, *Fixed Utility Distribution Rates Policy Statement, Final Policy Statement Order*, Docket No. M-2015-2518883 (Order entered July 18, 2019). OCA is incorrect.

OCA claims that the RNA should not be approved because Columbia did not comply with the Commission's Alternative Ratemaking Policy Statement. OCA M.B., p. 201. As Columbia noted in its Main Brief, policy statements provide nonbinding guidance and do not have the force of law. *See Petition of Philadelphia Gas Works for a Statement of Policy on the Application of Philadelphia Gas Works' Cash Flow Ratemaking Method,* 2009 Pa. PUC LEXIS 2018, *20 (December 30, 2009) (policy statements are only an indication of how the PUC intends to proceed); *Pa. Associated Builders & Contrs., Inc. v. Commonwealth Dep't of Gen. Servs.*, 996 A.2d 576, 583 (Pa. Cmwlth. 2010); *R.M. v. Pennsylvania Hous. Fin. Agency*, 740 A.2d 302, 308 (Pa. Cmwlth. 1999). The Commission made this point clear in its Act 58 Implementation Order when it stated:

> The Commission recognizes that the proceeding at Docket No. M-2015-2518883 began prior to the passage of Act 58 and that

> both address policy considerations related to alternative ratemaking methodologies available to utilities. The Commission notes, however, that Act 58 and the proposed policy statement, while addressing utility alternative ratemaking, each have a different function in the process of establishing such rates for utilities. As will be discussed more fully below, Act 58 gave the Commission express statutory authority to approve alternative rate mechanisms for electric, natural gas, and water or wastewater utilities and what notices of such ratemaking requests are to be given to customers. While establishing the Commission's express statutory authority to approve alternative rate methodologies, Act 58 did not expressly determine which alternative rate methodology, if any, are to be used by which utility.
>
> **On the other hand, the proposed policy statement is intended only to give guidance to fixed utilities and interested stakeholders on what is to be considered when investigating alternative ratemaking methodologies in a Section 1308 rate proceeding. While intending to assist utilities and stakeholders, the policy statement does not establish a binding norm, nor does it establish a predicate for the adoption of an alternative rate mechanism by any fixed utility.** The Commission is continuing to review the comments submitted under Docket No. M-2015-2518883, as well as the comments submitted under the above-referenced Docket relating to the proposed policy statement and will consider how to proceed, taking into consideration what, if any, impact Act 58 has on the policy statement and how that policy statement will interact with Act 58.

Act 58 Implementation Order, pp. 3-4 (emphasis added). Therefore, the Commission's Policy Statement cannot serve as the basis for rejecting the RNA. Nevertheless, Columbia has explained how it considered the factors that are applicable to the RNA as set forth in the Commission's Policy Statement. First, Columbia addressed this topic in its direct testimony. *See* Columbia St. No. 3, pp. 20-29. In its direct testimony, OCA claimed that it was not satisfied with Columbia's level of explanation. Therefore, Columbia explicitly laid out in its rebuttal testimony how it considered the applicable factors. Columbia witness Bell explained:

> **Q. Mr. Mierzwa, beginning on page 40, line 14 and through Page 41 line 13 of his Direct Testimony, addresses the**

alternative ratemaking proceeding, Docket No. M-2015-2518883, initiated by the Commission. Specifically, he mentions 14 factors identified in its Statement of Policy. Has the Company, either directly or indirectly, addressed any of the factors identified in the Statement of Policy?

A. Yes. Please refer to my Direct Testimony, starting on page 20 for a full description of the Company's proposed RNA, which indirectly addressed some of factors relevant to the RNA mechanism.

Q. Please identify the factors which are relevant to the Company's proposed RNA mechanism, and explain the impact to the rates of each customer class.

A. First, it is important to note that the Company is only proposing an RNA mechanism for the non-CAP residential customer class, therefore, there is no impact to the Company's proposed rates for any other rate class. Also, the RNA provides for the establishment of benchmark distribution revenue levels for the non-CAP residential customer class, which the Company would compare to actual non-gas distribution billed revenues for two separate six-month periods[60]. Since the adjustment to the non-CAP residential customer's bill will take place at a future point in time, the Company cannot quantify the impact, if any, to the proposed non-CAP residential rates. Please see below for the factors relevant to the RNA:

- **Factor 1 –** How the Ratemaking Mechanism and Rate Design align revenues with cost causation principles as to both fixed and variable costs – The RNA establishes a benchmark distribution revenue based upon approved costs in this proceeding, which will allow the Company to collect the non-CAP residential revenue requirement;
- **Factor 5 –** How the Ratemaking Mechanism and Rate Design limit or eliminate disincentives for the promotion of efficiency programs – Because the link between level of throughput and base revenue recoveries is broken, reduced throughput will not lead to revenue and earnings erosion due to under-recovery (see Factor 1) of these costs and aligns the Company's and its customers interests as it pertains energy efficiency and conservation initiatives.
- **Factor 6 –** How the Ratemaking Mechanism and Rate Design impact customer incentives to employ efficiency measures and distributed energy resources - See Factor 5;

[60] Columbia Statement No. 3, Direct Testimony of Melissa J. Bell, page 21, lines 5 through 13.

- **Factor 9 -** How weather impacts utility revenue under the Ratemaking Mechanism and Rate Design – The RNA, as proposed will only capture differences net of weather as the benchmark is based upon normal weather and the actual revenue will include billed WNA adjustments;
- **Factor 12 –** Whether the alternative Ratemaking mechanism and Rate Design Include appropriate consumer protections – The RNA as proposed establishes a Benchmark Distribution Revenue per Bill ("BDRB") residential customer. Rider RNA will refund any amount over the established benchmark, and collect any amount below the benchmark. By design, the Company cannot retain revenue in excess of the BDRB, which protects the customer from being over-charged. As stated on page 26 of my Direct Testimony, lines 1 through 4, the Company will submit two filings per year for the RNA mechanism, which can be reviewed and audited by the Commission, similar to the process for the Company's PGC and Rider USP filings.

Columbia St. No. 3-R, p. 22-25. Rather than respond to Columbia's testimony on substantive grounds, OCA has chosen to repeatedly ignore Columbia's explanation and continues to make the same procedural arguments in a baseless attempt to have the RNA denied. OCA's position should not be accepted.

iv. The RNA Benefits Both the Company and its Customers.

I&E claims that the RNA does not benefit Columbia's customers. I&E M.B., p. 109. Columbia disagrees. The stability provided by the RNA is beneficial for both the Company and its Residential customers because not only would the Company collect any distribution revenues under the benchmark revenue per customer, the Company would credit to customers any distribution revenues over the benchmark revenue per customer. Columbia St. No. 3, p. 22-27. In that way, the RNA works to ensure that the amount of revenues collected by the Company is equal to the level of revenue approved in a base rate case. Providing a credit to customers when usage is high helps to lower a customer's total bill by offsetting higher commodity costs.

The RNA is a fair mechanism that benefits Columbia and its customers by achieving greater revenue stability while allowing customers to experience the benefit of controlling their usage and conserving. Columbia's proposed RNA should be approved.

2. Small C&I Customer Rate Design

Columbia's proposed customer charges for Small C&I customers are set forth in its Main Brief. Columbia M.B., p. 164-65. OSBA supports the Company's proposed customer charges for Small C&I customers. OSBA M.B., p. 24. I&E recommends that the proposed customer charges for Small C&I customers be lowered. As explained in Columbia's Main Brief, I&E's proposed customer charges for the Small C&I class are inconsistent with sound ratemaking and should be rejected. *See* Columbia M.B., p. 165. Columbia's proposed customer charges for these classes fall within the range of the two customer charge studies and are well below the minimum system charges shown in the customer charge study including mains. Columbia Exhibit No. 111, Schedule 1, p. 16, ln. 41. Columbia's proposed customer charges for Small C&I customers are reasonable and should be approved.

3. Large C&I Customer Rate Design

PSU indicated that it supports Columbia's proposed rate design for Large C&I customers. PSU M.B., p. 20. No other party addressed Large C& Rate Design in their Main Briefs. For the reasons explained in Columbia's Main Brief, the Company's proposed rate design for Large C&I customers is reasonable and should be approved. Columbia M.B., p. 166.

4. Gas Procurement Charge Rider

Columbia's proposed Gas Procurement Charge ("GPC") of $0.00102 per therm was addressed in the Company's Main Brief. Columbia M.B., p. 167. No party challenged the Company's proposed GPC in their Main Briefs. The GPC of $0.00102 per therm should be approved.

E. BILL IMPACTS

Columbia provided the bill impacts at the Company's proposed revenue requirement for the Residential class and Small C&I class in its Main Brief. Columbia M.B., p. 167.

In its Main Brief, Columbia also addressed the Company's proposal for recovering new base rates resulting from this proceeding as of the end of the statutory suspension period pursuant to the Commission's August 20, 2020 Order. *See Pa. PUC v. Columbia Gas of Pennsylvania, Inc.,* Docket No. R-2020-3018835 (Order entered August 20, 2020). No party challenged Columbia's proposed method of recovery, and it should be approved.

XI. CONCLUSION

For all of the foregoing reasons, Columbia Gas of Pennsylvania, Inc. respectfully requests that Administrative Law Judge Katrina L. Dunderdale and the Pennsylvania Public Utility Commission approve the rate increase and other proposals set forth in Supplement No. 307 to Tariff Gas – PA. P.U.C. No. 9.

Respectfully submitted,

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Appendix A

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February 20, 2020

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
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Re: Columbia Gas of Pennsylvania, Inc. Universal Service and Energy Conservation Plan for 2019-2023 Docket No. M-2018-2645401

Dear Secretary Chiavetta:

On February 6, 2020, the Pennsylvania Public Utility Commission entered an Order on Reconsideration and Clarification at Docket Nos. M-2019-3012599 and P-2020-3016889, requesting information from certain electric and natural gas distribution companies regarding their Universal Service and Energy Conservation Plans ("USECP"). The Order directed these companies to file and serve cover letters at their respective USECP dockets that list the amendments to the CAP Policy Statement that are already included in their USECPs and the amendments that are not included but will be addressed in a company's next USECP proceeding. Pursuant to the Order, Columbia Gas of Pennsylvania, Inc. submits the following:

Columbia's current USECP is consistent with the following amendments to the CAP Policy Statement:

- Utilities should allow CAP households to retain CAP enrollment when they transfer service within the utility's (or an affiliate's) service territory.
- Utilities should accept income documentation of at least the last 30 days or 12 months, whichever is more beneficial to the household, when determining CAP eligibility at application or recertification. CAP applications and recertification letters should identify acceptable income timeframes and explain how each may benefit the customer.

- Utilities should exempt CAP customers from late payment charges.

- Utilities should provide CAP customers with (a) pre-program arrearage (PPA) forgiveness for each on-time and in-full monthly CAP payment regardless of in-CAP arrears and (b) retroactive PPA forgiveness for any month(s) missed once the household pays its in-CAP/in-program balance/debt in full.

- Utilities may request Social Security numbers (SSNs) but not require them for household members when verifying identity for CAP enrollment. Utilities and entities acting on their behalf should offer and explain the options on CAP applications and other communications with customers.

- Utilities should establish online CAP applications and allow customers to submit documentation electronically. (Columbia's online CAP application will be implemented by December 2020.)

- Utilities should initiate collection activity for CAP accounts when a customer has no more than two (2) in-program payments in arrears. Customers should not be removed or defaulted from CAP as a precursor to termination for non-payment.

- Utilities should evaluate household CAP bills at least quarterly to determine whether the customer's CAP credit amount or billing method is appropriate.

- Utilities should work with stakeholders to develop Consumer Education and Outreach Plans.

- Utilities should use the definition of "household income" in Chapter 14 of the Public Utility Code.

Columbia's USECP is not consistent with the following CAP Policy Statement amendments. Columbia will be prepared to address these amendments no later than its next USECP filing:

- a. Establish new maximum tiered CAP energy burdens of 6% for natural gas heating, 4% for electric non-heating, and 10% for electric heating for FPIG tiers 51%-100% and 101%-150%. For FPIG tier 0%-50%, the maximum energy burdens should be 4% for natural gas heating, 2% for electric non-heating, and 6% for electric heating.
  b. Minimum CAP payment requirements should be set in USECP proceedings rather than in the CAP Policy Statement. Utilities may propose alternatives to a flat minimum payment for each account type, such as basing them on the household's FPIG level.

- Eliminate the provision in the CAP Policy Statement that low-income customers must be "payment-troubled" to qualify for CAPs. Utilities may, however, impose such a requirement to prioritize CAP enrollments and control CAP costs if determined appropriate by the Commission.

- Eliminate the provision in the CAP Policy Statement that a customer should designate the Low Income Home Energy Assistance Program (LIHEAP) grant to the utility sponsoring the CAP (Section 69.265(9)(i)) or be penalized for not applying for LIHEAP (Section 69.265(9)(ii) and (iv)).[1] However, all CAP customers should participate in LIHEAP, if eligible. Eliminate the provisions in the CAP Policy Statement that a LIHEAP grant should be applied to reduce the amount of CAP credits (Section 69.265(9)(iii)).

- Maximum CAP credit limits should be set in USECP review proceedings rather than in the CAP Policy Statement and should consist of a tiered structure based on the household's FPIG level (*i.e.*, 0-50%, 51-100%, and 101-150%) which should provide lower income households with higher CAP credit limits. Utilities should notify CAP customers when they approach their CAP credit limits, instruct them to contact the utility if they meet any exceptions, and refer them to LIURP (if eligible).

- Utilities should use a standardized zero-income form and develop other industry-wide standardized forms.

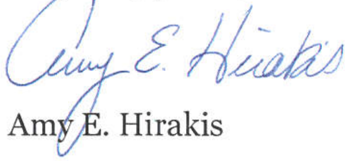
- Establish new maximum recertification timeframes for CAPs and strive to minimize disruptions in CAP participation.
  - CAP households reporting no income should be required to recertify at least every six (6) months regardless of LIHEAP participation;
  - CAP households with income that participate in LIHEAP annually should be required to recertify at least once every three (3) years;
  - CAP households whose primary source of income is Social Security, Supplemental Security Income (SSI), or pensions should be required to recertify at least once every three (3) years; and
  - All other CAP households should recertify at least once every two (2) years.

The February 6, 2020 Order also directed the companies to file an addendum to reflect enrollment and budget projections for the extended USECP term pursuant to the Filing Schedule Order entered on October 3, 2019 at Docket No. M-2019-3012601. Columbia filed and served its Addendum on January 6, 2020 and therefore does not include an addendum with this cover letter.

[1] Consistent with the Order on Reconsideration entered November 14, 2019 at Docket No. 2018-2645401, Columbia does not remove customers from CAP if the customer fails to apply for LIHEAP despite language within the USECP stating that removal from CAP is a consequence for not applying for LIHEAP.

Should you have any questions, please do not hesitate to contact the undersigned at (717) 233-1351.

Very truly yours,



Amy E. Hirakis

Counsel for Columbia Gas of Pennsylvania, Inc.

/kak
Enclosure
Cc Certificate of Service (w/enc)
Joseph Magee, BCS, jmagee@pa.gov
Jennifer Johnson, BCS, jennifjohn@pa.gov
Christina Chase-Pettis, Communications, cchasepett@pa.gov
Shari A. Williams, Communications, shariwilli@pa.gov
Louise Fink Smith, Law Bureau, finksmith@pa.gov

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing documents upon the participants, listed below, in accordance with the requirements of § 1.54 (relating to service by a participant) VIA E-MAIL AND FIRST CLASS MAIL

Christy M. Appleby, Esquire
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Elizabeth R. Marx, Esquire
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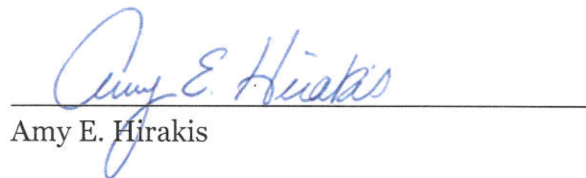
Date: February 20, 2020



Amy E. Hirakis

Appendix B

Amy E. Hirakis
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October 26, 2020

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Columbia Gas of Pennsylvania, Inc. Universal Service and Energy Conservation Plan 2019-2023
Docket No. M-2018-2645401

Dear Secretary Chiavetta:

Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") respectfully submits this letter requesting that its Universal Service and Energy Conservation Plan ("USECP") be temporarily amended to increase the number of customers who can qualify for assistance through the Hardship Fund. The Hardship Fund is a company-sponsored universal service program that provides financial assistance through grants to residential customers with incomes at or below 200% of the Federal Poverty Income Guidelines ("FPIG") with overdue balances and an inability to pay energy bills. The Hardship Fund is funded by a mix of customer and Company contributions and residential pipeline penalty credits and refund proceeds.[1]

Since the onset of the pandemic, Columbia has relaxed certain provisions relating to the Hardship Fund, including lifting the restriction on CAP customers participating[2] in the program and requiring a good-faith payment. Through this instant request, Columbia seeks approval to temporarily increase the income limit for the Hardship Fund from the current 200% of the FPIG to 300% of the FPIG for the duration of this program year (the current program year runs from October 1, 2020 through Sept. 30, 2021). At the

[1] Specifically, the Company shareholders contribute $150,000 annually; customers and Company sponsored fundraising contribute another $150,000 annually; and up to an additional $375,000 is provided from funds retained by the Company from pipeline penalty credits and refund proceeds, for a total yearly budget for the Hardship Fund of $675,000.

[2] CAP customers will remain eligible to apply for grants through the Hardship Fund through the current Hardship Fund program year (i.e., September 30, 2021).

conclusion of this program year the income limit would revert back to 200% of the FPIG. Columbia seeks to make this change to the Hardship Fund to assist customers who have been impacted financially by the COVID-19 pandemic, but do not qualify for the Company's Customer Assistance Program, LIHEAP or the Hardship Fund. The Company's request to increase the income limit to 300% of the FPIG also aligns the Hardship Fund with the Commission's October 13, 2020 Order, at Docket No. M-2020-3019244, which modifies the Commission's Emergency Order and identifies customers with incomes at or below 300% of the FPIG as "protected customers" and provides enhanced protections against service termination. Approval of the Company's request will provide customers with incomes between 201% - 300% of the FPIG with access to a program that provides financial assistance.

Because this modification will increase the number of customers eligible for the Hardship Program, Columbia has secured additional funding in the amount of $400,000 from the NiSource Foundation, which will be added to the Hardship Fund to fund the additional customers that the Company anticipates will participate in the program. The Company believes that the additional $400,000 in Hardship Funding will sufficiently cover the additional customers. Any unused funds will stay in the Hardship Fund at the conclusion of this program year.

Since March of this year, Columbia has taken many actions to assist customers experiencing financial hardship due to the pandemic; however, securing financial assistance for residential customers between 201% - 300% of the FPIG remains an objective for the Company. In April, the Company filed a petition, docketed at P-2020-3019578, seeking to implement a temporary grant program for residential customers with incomes at or below 300% of the FPIG. The petition sought approval to fund the temporary grant program with funds from residential pipeline penalty credit and refund proceeds currently assigned to the Hardship Fund and a matching charitable contribution from the NiSource Foundation. On July 16, 2020, the Commission issued an Order ("July 16th Order") that denied the Company's petition, finding that it was not in the public interest to reduce funding to the Hardship Fund to create a temporary program that would only be available to higher income levels.

Although the Company's petition was denied, the July 16th Order did provide the Company guidance on how to achieve its objective of making financial assistance available to customers at or below 300 of the FPIG. Specifically, the July 16th Order included the following paragraph:

> The Columbia Gas RIGP proposal would take grant money from its Hardship Fund and put it into a new program that would exclude Hardship Fund-eligible customers from accessing those funds. The funds would then be available only to customers with incomes between 201%-300% of the FPIG. This is very different from expanding the income limits of a Hardship Fund program within an

> existing USECP, as we approved for PPL and Duquesne Light, and making additional grant monies available to all eligible customers. <u>Expanding the existing Hardship Fund eligibility coupled with the increased $400,000 from utility contribution would provide a synergism to assist eligible customers below 300% of the FPIG who have been impacted by the COVID-19 pandemic.</u>

Order at 23 (Emphasis added). Columbia submits that its current proposal is consistent with this guidance. Further, the current proposal does not divert any funds from the Hardship Fund or any other low income program.

Columbia presented this proposal at its most recent Universal Service Advisory Committee meeting, held on October 22, 2020, and also discussed this request with the Office of Consumer Advocate ("OCA") and the Coalition for Affordable Utility Service and Energy Efficiency ("CAUSE-PA"). The OCA and CAUSE-PA have authorized the Company to state that they do not oppose the Company's instant request.

As indicated on the accompanying Certificate of Service to this letter, the Company has served an electronic copy of this document to the OCA and CAUSE-PA, which are the parties in the above referenced proceeding. For informational purposes only, the Company has also provided an electronic copy to the parties in the Company's 2018 and 2020 base rate proceedings (docket numbers R-2018-2647577 and R-2020-3018835, respectfully).

Should you have any questions, please do not hesitate to contact the undersigned at (717) 210-9625.

Very truly yours,

Amy E. Hirakis

Enclosure
Cc: Joseph Magee, BCS
Louise Fink Smith, Law Bureau

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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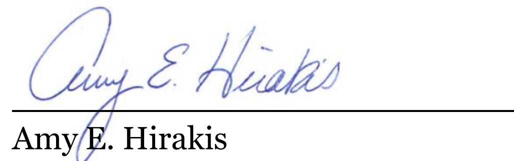
Dated: October 26, 2020



Amy E. Hirakis