COMMONWEALTH OF PENNSYLVANIA

December 22, 2020

E-FILED

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

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

Dear Secretary Chiavetta:

Enclosed please find the Exceptions to the Recommended Decision issued December 4, 2020, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

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

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

Sincerely,

/s/ Steven C. Gray

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

Enclosures
cc: Robert D. Knecht
Commission's Office of Special Assistants
Parties of Record

Office of Small Business Advocate
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS TO THE RECOMMENDED DECISION ON BEHALF OF THE OFFICE OF SMALL BUSINESS ADVOCATE

Steven C. Gray
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For: John R. Evans
Small Business Advocate

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Office of Small Business Advocate
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Date: December 22, 2020

I. Introduction

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

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

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

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

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

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

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

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

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

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

On October 30, 2020, the OSBA filed its Reply Brief.

On December 4, 2020, the ALJ issued her Recommended Decision ("RD").

The OSBA files these Exceptions in response to the ALJ's RD.

II. Exceptions

<u>Exception No. 1</u>: The ALJ's decision to recommend adoption of the OCA's Peak & Average COSS is not without consequences. (RD, at 394-395)

The ALJ recommended that the Commission adopt the cost of service study ("COSS," sometimes referred to as the allocated cost of service study "ACOSS") proffered by the Office of Consumer Advocate ("OCA") in this proceeding. Specifically, the ALJ stated, as follows:

> The ALJ recommends the Commission use the Peak & Average COSS, as promoted by OCA, in this base rate proceeding.
>
> * * *
>
> The ALJ agrees with OCA that its Peak & Average COSS corrects the errors in Columbia Gas' COSS and provides a useful guide to allocate distribution mains costs, and to guide the distribution of a revenue increase, if approved.
>
> * * *
>
> The ALJ accepts OCA's Peak & Average ACOSS [Allocated Cost of Service Study] (seen in its Table 5 attached to Schedule JDM-1) as the most reasonable of the COSS alternatives provided by Columbia Gas and the parties. Especially noteworthy is that the Peak & Average method, when using the Company's or using OCA's COSS, shows that currently the Residential class overpays for its cost of service.

ALJ RD, at 394.

The ALJ's reasoning for selecting the OCA's Peak & Average COSS was based upon three factors. Factor one, Columbia's Customer Demand ("CD") COSS contained serious flaws that the OCA's Peak & Average COSS corrected. Factor two, the Peak & Average ACOSS, whether following the Company's or the OCA's methodology, consistently demonstrated that the Company's residential customer class was overpaying for its cost of service. Factor three, the OCA created a Proportional responsibility ACOSS that verified the results of the OCA's Peak & Average ACOSS. ALJ RD, at 394-395.

The OSBA extensively briefed the issue of ACOSS methodologies in both its Main and Reply Briefs, and will not repeat those arguments here. *See* OSBA Main Brief, at 11-15; OSBA Reply Brief, at 9-22. Nevertheless, three points need to be made in response to the ALJ's recommendation of the OCA's Peak & Average ACOSS.

First, the OSBA agrees with the ALJ that the Peak & Average COSS is most favorable to the smallest customer classes of Columbia. OSBA Main Brief, at 13. What is unclear, however, is why that fact justifies the ALJ's choice. The ALJ appears to have decided that the best cost allocation method is one which produces the best result for the residential customer class. The OSBA respectfully submits that the appropriate cost allocation methodology is the one which best reflects how costs are actually caused on the distribution system, with due consideration of past practice and Commission precedent. These matters are addressed in detail in the OSBA briefs and those of many other parties, but appear to have been disregarded by the ALJ.

Nevertheless, if the Commission is going to follow the ALJ's recommendation, it is true that the residential customer class and the smallest commercial & industrial ("Small C&I") customer classes will benefit from the OCA's ACOSS. However, the customer classes with larger customers, including both medium commercial and large industrial customers, will face sustained large increases by this choice of an ACOSS. As Mr. Knecht demonstrated, under the Company's P&A allocation method, the Large General ("LDS/LGSS") service rate class would require a 108.8 percent rate increase to move rates into line with allocated costs. OSBA Statement No. 1, Table IEc-2, page 21. Moreover, the OCA's ACOSS approach would assign even *more* costs to that class (the LDS/LGSS class rate of return at current rates is 0.404% percent in the Company's P&A ACOSS at Exhibit 111, Schedule 2, page 2 and is -0.803% in the OCA's COSS at Schedule JDM-3).

Thus, under the ALJ's decision, Columbia's larger customers can look forward to many years of rate increases well above system average, constrained only by principles of rate gradualism and the industrial customers' ability to demand negotiated rate discounts. Needless to say, if the Commission picks a cost allocation method that focuses on the Company's residential customers, and the large industrial customers are able to flex their political muscle to obtain negotiated rates, the remaining small and medium businesses will get stuck with the tab.

Second, OSBA witness Robert D. Knecht observed that the current Commission precedent is the Average & Excess ("A&E") ACOSS, not the Peak & Average ACOSS. Mr. Knecht testified, as follows:

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

OSBA Main Brief, at 12.

The OSBA readily admits that Commission precedent is less than clear regarding which ACOSS methodology should be adopted in this proceeding. Mr. Knecht's testimony, set forth above, indicates that the most recent Commission precedent supports the use of a methodology that has no customer component of costs, and which uses an A&E ACOSS.

Regardless, the OSBA will repeat a point that it made in its Reply Brief:

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

OSBA Reply Brief, at 14, footnote 13.

Third, the ALJ's reliance on the Proportional Responsibility ("PR") method is misplaced. The PR method is not used by any gas distribution utility in Pennsylvania. It was advanced by OCA only because a former Columbia affiliate in Massachusetts uses that method, per the requirement of the Massachusetts regulator. It is simply another method which tries to hide the fact that gas distribution systems need to be constructed to (a) meet design day peak demand, and (b) interconnect all of the customers, while trying to pretend that average demand has some influence on the overall size and length of the mains. Columbia Statement No. 11-R, at 26-27.

Ultimately, the OSBA respectfully submits that the Commission should adopt the ACOSS recommended by the OSBA in its Main and Reply Briefs. The OCA's Peak & Average ACOSS is simply too favorable to the small customer classes at the expense of Columbia's larger customer classes.

III. Conclusion

Wherefore, the OSBA respectfully requests that the Commission consider OSBA Exception No. 1, as set forth above, and revise the Recommended Decision if it believes that the OCA's Peak & Average ACOSS, and the revenue allocation that flows from it, is not just and reasonable.

As set forth in the OSBA's Main Brief and Reply Brief, the OSBA recommends the adoptions of Mr. Knecht's 75/25 ACOSS. The OSBA also recommends the adoption of a revenue allocation based on a 75/25 ACOSS weighting; or in the alternative, if the Company's ACOSS methodology is approved, adopt the OSBA's revenue allocation proposal based on a 50/50 ACOSS weighting.

Respectfully Submitted,

/s/ Steven C. Gray

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CERTIFICATE OF SERVICE

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

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