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December 22, 2020

VIA ELECTRONIC FILING

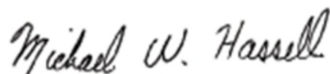
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Attached for filing please find Columbia Gas of Pennsylvania, Inc.'s Exceptions to the Recommended Decision in the above-referenced proceeding. Copies will be provided per the attached Certificate of Service.

Very truly yours,



Michael W. Hassell

MWH/kls
Attachment

cc: Honorable Katrina L. Dunderdale *(via email; w/attachment)*
Office of Special Assistants *(via email; w/attachment)*
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.	:	

EXCEPTIONS OF COLUMBIA GAS OF PENNSYLVANIA, INC. TO RECOMMENDED DECISION

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I. INTRODUCTION

Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") hereby files these Exceptions to the Recommended Decision ("RD") issued by Administrative Law Judge Katrina A. Dunderdale (the "ALJ").

In an unprecedented decision, the RD recommends that the Commission summarily deny any rate increase in base rates, without considering Columbia's extensive evidence justifying an increase. In doing so, the RD disregards Columbia's constitutional rights to an opportunity to earn a fair return and ignores statutory requirements, Commission regulations and over 100 years of established practice by rejecting the traditional revenue requirement formula. The RD bases this recommendation on financial hardships experienced by various customers resulting from COVID-19. In so doing, the RD proposes that the Commission declare that COVID-19 concerns prohibit rate increases, despite the fact that the Commission has approved three base-rate increases since October 2020. An unconstitutional ban on rate increases is not the appropriate approach to assisting customers facing financial hardship due to COVID-19. The RD barely recognizes the important program changes that Columbia has implemented to assist customers affected by COVID-19. RD, p. 14. Space limitations prevent listing in these Exceptions every action undertaken by Columbia to assist customers experiencing financial hardship due to COVID-19. Columbia respectfully asks the Commission to refer to Columbia's Main Brief ("MB"), pp. 26-30, for a full description of those efforts. In addition, subsequent to the close of the record in this case, the Commission approved a Columbia proposal to amend temporarily its Hardship Fund requirements to increase this income limit to assist customers impacted financially by COVID-19. Columbia secured $400,000 in additional funding to fund this

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expansion.[1] In addition, as explained in Exception No. 20, Columbia voluntarily offers a phase in approach for an increase, consistent with phase-ins recently accepted by the Commission.

The RD also provides alternative rulings on the merits of issues presented in the case. However, with respect to revenue requirement issues and revenue allocation/rate design issues, the RD summarily rejects Columbia's position on every issue. As explained in these Exceptions, most of these recommendations fail to consider the evidence of record, disregard clear Commission precedent or effectively propose to eviscerate the entire Fully Projected Future Test Year ("FPFTY") process by rejecting projected increases on the basis that the spending was not undertaken in the Historic Test Year ("HTY"), or prior to close of the record in the Future Test Year ("FTY").

Columbia emphasizes that the primary driver of this case is safety. Columbia projects to add $550 million in rate base in the FTY and FPFTY, the large majority of which is for Distribution System Improvement Charge ("DSIC")-eligible plant.[2] Columbia also proposed increased spending on a number of Operations and Maintenance ("O&M") safety initiatives, designed to address high risk issues identified in the Company's Distribution Integrity Management Program ("DIMP"). Failure to support these programs with appropriate rate relief would represent a 180-degree reversal of the Commission's support for efforts to improve safety for Columbia's customers, employees and the public.

In recognition of the current unique circumstances, Columbia voluntarily is withdrawing and not taking Exception to several claims, including the stock compensation portion of its

[1] *Petition of Columbia Gas of Pennsylvania to Temporarily Amend its Current 2019 Universal Service and Energy Conservation Plan (USECP),* Docket Nos. P-2020-3022691 and M-2018-2645401, November 17, 2020 Secretarial Letter.

[2] Columbia is prepared to demonstrate that its actual plant additions for the FTY substantially exceed its budget additions. Columbia also has agreed to provide a report to the parties and the Commission on actual plant additions following the end of the FPFTY.

incentive compensation program, the management efficiency adder to return on common equity, its proposed Weather Normalization Adjustment revision and its proposed Revenue Normalization Adjustment mechanism, reserving its rights to present these claims in a future case. Columbia is also not taking Exception to several other issues and is revising downward its return on common equity position. As a result, Columbia's revised proposed increase is $76.8 Million. Nevertheless, the remaining list of issues is substantial, and the page limits on these Exceptions[3] constrains Columbia's ability to fully explain its positions. The Company requests that the Commission review Columbia's MB and Reply Brief ("RB") for further explanations of its positions as noted herein.

II. EXCEPTIONS

A. EXCEPTION NO. 1 – THE ALJ ERRED IN CONCLUDING THAT COLUMBIA'S PROPOSED RATE INCREASE COULD BE DENIED WITHOUT APPLYING THE RATEMAKING FORMULA

The ALJ concludes in the RD that the Commission can deny a proposed rate increase on the basis of the consequences of COVID-19, without applying the ratemaking formula. RD, p. 50.[4] The RD asserts that no constitutional provision, statute, regulation or policy assures that "the utility will receive an approved rate which gives the utility an opportunity to earn a return for the investors." RD, p. 49. The RD also concludes that any positive return, specifically a 5.52% overall return and a 6.53% return on equity for the fully projected future test year ("FPFTY"), are sufficient to meet constitutional standards.[5] RD, pp. 13, 51. These conclusions

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[3] 52 Pa. Code § 5.533(c).

[4] After citing at length the effects of COVID-19 on customers, the RD states that the estimates for the FPFTY are speculative and that this is the basis for denying the increase. RD, p. 50. This finding is erroneous, as explained in Exception No. 2.

[5] OCA calculates that its no increase proposal, adopting all of OCA's ratemaking adjustments, produces an overall rate of return of 5.52%. OCA MB, Table I (Zero Increase). This presumes that Columbia will forego all of the safety initiatives presented in the case, and not undertake the full level of plant additions presented in its Long-Term Infrastructure Improvement Plan ("LTIIP"). If some or all of OCA's rate base and expense adjustments, and/or its proposed hypothetical capital structure, are rejected Columbia's return on common equity would be well below the

are erroneous and fundamentally flawed. Long established public utility law provides that a utility must be permitted to recover its reasonable expenses and be provided an opportunity to earn a fair return. *Bluefield Waterworks and Improvement Co. v. Public Service Commission*, 262 U.S. 679; Columbia MB, pp. 16-21. The ratemaking formula is designed to guide that process and determine the return at current rates. Expert testimony is then used to determine the required return. By declining to apply the ratemaking formula and process on the basis that *some* customers will not be able to afford an increase in rates, the RD fails to provide the fundamental analysis that is necessary to determine whether increases are required to meet constitutional standards and are just and reasonable.[6] This fundamental process was explained in detailed testimony by former Chairman Cawley who also explained that declining to increase rates based solely on customer effects, as the RD has now done, fails to provide the constitutionally required balancing of the interests of both customers and investors and would be poor public policy. As to the balancing of customer and investor interests, the RD improperly concludes, without any market-based evidence, that the very low returns for the FPFTY at present rates would not be confiscatory. Mr. Cawley also explained that denying a rate increase based on customer effects provides no analytical standard on whether to allow increases in rates, would provide the Commission with total discretion to approve or deny rate increases and would create deep uncertainty as to both the amount and timing of future rate increases. He further explained that the ultimate result of such an action would be to disrupt the current reasonable expectations of capital markets that capital committed to jurisdictional utilities would be provided a fair

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6.54% projected by OCA with no increase, and barely above its embedded cost of long-term debt. Columbia MB, p. 61.

[6] Section 1301 of the Public Utility Code also requires the Commission to apply the ratemaking formula and the data required by the Commission's regulations in adjudicating a proposed increase in rates. Columbia MB, p. 18.

opportunity to earn a reasonable return, thereby making it difficult to obtain capital on reasonable terms. Columbia St. No. 16-R, pp. 16-17; Columbia MB, pp. 20-21.[7]

Only three parties have provided a complete revenue increase analysis in this proceeding. The Company's analysis, prior to the concessions set forth in these Exceptions[8], indicates an increase of $100.4 million, based upon a 10.95% equity return. Columbia MB, Tables I and I(A). I&E proposed a revenue increase of $75.9 million based upon a 9.86% equity return. I&E MB, Tables I and I(A). OCA's analysis produced a $31.5 million increase, based upon an 8.5% equity return. OCA St. No. 3, pp. 19-20; OCA St. No. 2, p. 4. OCA MB, Tables I and I(A) (Traditional Ratemaking). None of these market-based equity cost analyses presented in the evidence provide any basis for concluding that the 6.53% equity return referenced by the ALJ for the FPFTY is a fair return and not a violation of constitutional requirements.[9] RD, p. 13.

Contrary to the RD's statements, Columbia is not unmindful of the effects of COVID-19 on some customers and Columbia is working to help customers who are having trouble paying bills in many ways, as explained in the Introduction to these Exceptions. However, denying any rate increase because some customers will have trouble paying utility bills is not the answer. Many of Columbia's customers remain gainfully employed. In this regard, the RD cites unemployment rates of 8.8% to 19.2% of the working population in Columbia's service area, but

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[7] The RD's citation to *Popowsky v. Pa. PUC*, 665 A.2d 805 542 Pa. 99 (1995) does not provide the Commission complete discretion as the RD suggests. RD pp. 48-50. It requires both a conclusion based on evidence that rates are not confiscatory and still requires a balancing of the interests of the utility and customers in obtaining both safe and reliable service and reasonable rates. It recognizes that constitutional protections are applicable to **both** the utility and its customers. As explained by the United States Supreme Court:

> "a State's decision to arbitrarily switch back and forth between methodologies in a way which required investors to bear the risk of bad investments at some times while denying them the benefit of good investments at others would raise serious constitutional questions."

Duquesne Light Co. v. Barasch, 488 U.S. 299, 315 (1989).

[8] Columbia's proposed revenue requirement after these concessions is $76.8 million, reflecting an equity return of 9.86%, $20 million of which is a roll-in of current DSIC charges. *Infra*, Exception No. 20.

[9] The RD appears to approve the I&E equity return of 9.86%, although this is unclear. RD, p. 185. The Company notes that I&E's 9.86% equity return is lower than the current gas DSIC return of 10.15% published by the Commission. The RD's reference to the OSBA's 7.63% proposed equity return is unjustified. Columbia Exception No. 17.

this leaves a large majority of customers who continue to be employed and remain capable of paying utility bills. RD, p. 48. In addition, customers who have lost their jobs have received substantial government support and may receive more support from the government, as well as assistance from Columbia. Columbia MB, pp. 25-30.

The RD also fails to consider the actual effect of the proposed increase on customers. The RD fails to take into consideration that $20 million of the proposed increase in base rates will not be a net increase to customers because it will be a roll-in to base rates of DSIC rates for FTY plant additions as of January 2021. Columbia RB, pp. 18-19.[10] After deducting the roll-in amount, and taking into account a revised Columbia revenue requirement of $76.8 million after the concessions set forth in these Exceptions, the net increase effective January 23, 2021 will be approximately $56.8 million. Columbia also proposes a phase in of that increase.[11] It also is noted that customers who have experienced a reduction or loss of their incomes are eligible to apply for CAP. The RD fails to consider the actual effects on customers and must be rejected.

Columbia plans to spend $289 million on pipe replacements and other LTIIP-approved investments in the FPFTY.[12] The Commission cannot reasonably expect Columbia to be able to finance such investment based upon an opportunity to earn a 6.53% equity return that assumes Columbia will only invest in $261 million in plant in the FPFTY. Columbia Exception No. 3. Further, the disallowance of any increase would result in no transfer of DSIC revenues to base

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[10] Columbia explained that the DSIC is inadequate even to cover all FTY DSIC-eligible plant additions. Columbia St. No.9-R, pp. 3-4. The RD criticizes Columbia for not petitioning the Commission to increase its DSIC if the 5% revenue cap limits its use. RD, p. 63. Columbia did petition to increase its DSIC several years ago, but its request was denied, in substantial part because the Commission concluded that Columbia had the ability to use base rate cases to recover its increasing DSIC-eligible spending. *Petition of Columbia Gas of Pennsylvania, Inc. for a Waiver of the DSIC Cap*, Docket No. P-2016-2521993, Order entered December 22, 2016.

[11] *Infra*, Exception No. 20.

[12] Columbia has a small amount of FPFTY non-LTIIP eligible spending related to growth, required relocations and Information Technology, which are projected to meet its service obligations. It is noted that reductions in Columbia's plant investment would substantially reduce both jobs and economic activity in its service area. Columbia St. No. 17-R, pp. 5-6; Columbia MB, pp 23-25.

rates, which will result in Columbia hitting the DSIC rate cap effective January 1, 2021 based upon plant expenditures made before the end of the FTY.[13] With no base rate increase, Columbia will earn no return on part of its FTY plant investments and no return on any of its FPFTY plant investments. Columbia MB, p. 23. Therefore, the effect of the RD's "no rate increase" determination is to defeat the legislatively-created FPFTY and DSIC which were designed to provide current return and depreciation on investments to replace aging infrastructure that could prevent safety issues.[14]

The RD also fails to appreciate the consequences of its recommendation. If no increase is granted, even when justified by a traditional revenue requirement analysis, then the magnitude of Columbia's next rate filing will be compounded, as another $50-$75 million rate increase will be added to the $100 million request in this case, as a further year of plant additions, wage increases and other increased expenses are incurred.

For the reasons explained above, and in further detail in Columbia's MB, pp. 15-30 and RB, pp. 4-16, the RD's rejection of the rate increase without completion of a revenue requirement analysis is contrary to the law and the evidence of record and must be rejected.

B. EXCEPTION NO. 2 – THE RD IMPROPERLY CONCLUDES THAT COLUMBIA'S ENTIRE RATE PRESENTATION IS SPECULATIVE (RD, P. 50)

The RD seeks to justify its unprecedented rejection of a traditional revenue requirement analysis by claiming Columbia "cannot prove the accuracy of its projections into the future using historic data." RD, p. 50. This assertion is factually erroneous, places an impossible burden of

[13] Based upon plant investment through November 30, 2020, Columbia will reach the 5% DSIC cap with the DSIC filing effective January 1, 2021.

[14] The RD asserts that Columbia "insists it cannot continue to provide safe and reliable service without a $100.4 million rate increase." RD p.46. This is a faulty description of Columbia's position. Columbia explained that its rate increase is primarily driven by pipeline replacement and a number of new or expanded safety initiatives. A reasonable increase is necessary if Columbia is to maintain and improve safe and adequate service.

proof on Columbia and would nullify the entire concept of a FPFTY, which relies upon the use of reasoned projections.

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 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.

The RD points to no evidence that Columbia's projections are unreliable because there is no such evidence in this case. 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. Columbia RB, pp. 12-13. 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. 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, consistent with its Commission-approved LTIIP. Columbia RB, pp. 13-14.

The Legislature anticipated that projections used for FTY and FPFTY may vary from actual results, and provided a mechanism to address that possibility. As the Commission explained in *Pa. PUC v. UGI Utilities, Inc. – Electric Division ("UGI Electric"):*[15]

> Furthermore, the legislature has addressed the concerns of overstated plant projections in Section 315(e) of the Code, which authorizes a Commission audit of the FPFTY results after the fact to determine whether they were accurate and an adjustment of rates to reflect material differences. Section 315(e) provides in pertinent part:
>
> > …Whenever a utility utilizes a…fully projected future test year in any rate proceeding and such…fully projected test year forms a substantive basis for the final rate determination of the commission, the utility shall provide, as specified by the commission in its final order, appropriate data evidencing the accuracy of the estimates

[15] Docket No. R-2017-2640058 (Order entered October 2, 2018). *See also, McCloskey v. Pa. PUC*, 225 A.3d 192, 197 (Pa. Cmwlth. 2020).

> contained in the…fully projected future test year, and the commission may after reasonable notice and hearing, in its discretion, adjust the utility's rates on the basis of such data…

UGI Electric at p. 26. To declare, without evidence, that Columbia's projections are unreliable nullifies the entire structure of the FPFTY ratemaking process established by the Legislature. The RD's conclusion that Columbia's projections are speculative should be rejected for the reasons explained above and in Columbia's RB, pp. 12-16.

C. EXCEPTION NO. 3 – THE RD IMPROPERLY REDUCES FPFTY PLANT USING A THREE-YEAR AVERAGE (RD, P. 58)

Columbia excepts to the RD's adoption of OCA's proposal to reduce Columbia's FPFTY net plant additions by $76,783,000, from $338.56 million to 261.78 million, by using an average of actual and projected plant additions from 2018-2020. The resulting average is over $19 million lower than the $280.7 million in FTY plant additions that have not been challenged by any party. Associated adjustments to depreciation reserve and ADIT result in a net reduction of $72,303,000 to FPFTY rate base. The RD asserts Columbia "did not prove why there is a significant increase or the need for the increase from 2020 to 2021." RD, p. 58. To reach this conclusion, the RD simply disregards the evidence.

Columbia demonstrated that the primary driver of its FPFTY plant additions is for LTIIP-eligible construction. As explained in Columbia's MB, pp. 31-34, Columbia projects to spend $289 million, or over $27 million more than the RD allowance, on LTIIP-eligible construction alone in 2021. The remaining non-DSIC eligible additions include amounts for mandatory facility relocations, Information Technology and new business.[16] Details of the amounts to be spent were provided in Columbia Exh. 108, Sch. 1 and Columbia Gas-RR-14. Importantly, OCA

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[16] OCA suggests the Company could postpone new business spending. However, Columbia has a statutory obligation to serve, and cannot refuse justified requests for new service. 66 Pa.C.S. § 1501.

has not asserted that any specific project is imprudent, unnecessary or unlikely to be completed. *See*, OCA MB, p. 29; Columbia RB, p. 17. Similarly, OCA has not asserted that its adjustment is based upon any historic experience that Columbia has underspent its budgeted plant additions, and any such assertion would be disproven by the uncontradicted evidence in this case. Columbia MB, pp. 31-32.

The RD seeks to justify its factually unsupported adjustment by claiming the adjustment "is in the public interest because customers will not have to pay for plant that is not service (*sic*) in the event actual additions are not as high as expected." RD, p. 58. This purported reason to support the adjustment is flawed and has previously been rejected by the Commission. First, as explained above, no party offered any evidence that Columbia would not meet its FPFTY capital spend. Second, the assertion that FPFTY plant additions can be reduced because the DSIC could be used to recover disallowed additions was soundly rejected by the Commission in *UGI Electric* as quoted on page 34 of Columbia's MB. The RD offers no explanation for ignoring the Commission's *UGI Electric* decision.[17]

For reasons explained above and in Columbia's MB, pp. 31-34 and RB, pp. 16-17, the Commission should reject the RD's rate base adjustment of $72,783,000.

D. EXCEPTION NO. 4 – THE RD IMPROPERLY CONCLUDES COLUMBIA'S REVENUE PROJECTIONS ARE TOO SPECULATIVE BECAUSE OF COVID (RD, P. 63)

As the RD acknowledged, no party proposed any adjustments to FPFTY revenues. RD, p. 62. Nevertheless, the RD *sua sponte* concludes that Columbia's revenue projections are speculative because of the COVID-19 pandemic. There is no evidence that Columbia's

[17] As the Commission explained in *UGI Electric*, Section 315(e) of the Public Utility Code requires a utility to provide data after the fact to substantiate the accuracy of its FPFTY estimates. In this case, as has been the case in prior rate case settlements, Columbia agreed with I&E's recommendation that it provide reports to substantiate the accuracy of its projections. RD, p. 58.

projections of revenues for the FPFTY are unreasonable. Columbia fully explained how it developed its FPFTY revenue projections and met its initial burden to present a prima facie case. The RD's rejection of those projections, without evidentiary support, is improper and should not be adopted.

E. EXCEPTION NO. 5 – THE RD IMPROPERLY IGNORES RECENT COMMISSION PRECEDENT THAT ACCEPTS FPFTY PAY INCREASE ANNUALIZATION ADJUSTMENTS (RD, PP. 105-106)

The RD recommends that the Commission adopt I&E's proposed disallowance of $546,602 in FPFTY payroll annualization expense. The RD asserts, using I&E's reasoning, that Columbia would recover, dollar for dollar, an expense level that would not be reached in the FPFTY. RD, p. 105. The RD offers no basis, either in evidence or law, for disregarding the Commission's longstanding process of annualizing expenses to end of test year conditions and its recent determination on this precise issue in *UGI Electric*. Therein, the Commission stated:

> I&E argued against allowance of FPFTY end-of-year salaries and wages, on the basis that an accurate representation of expenses actually incurred in that twelve-month period would not include anticipated FPFTY end-of-year pay increases. I&E M.B. at 45; I&E St. No. 1 at 16; I&E St. No. 1-SR at 12.
>
> I&E rejected UGI's year-end methodology, which annualizes the anticipated expenses the Company will pay across the twelve months that make up the FPFTY. I&E maintained that annualization of the end-of-year salaries and wages, that include all increases would allow the Company to recover in rates more than it requires for the test year utilized. I&E St. No. 1-SR at 13; I&E M.B. at 15-24, I&E St. No. 3 at 3-13.
>
> **d. Disposition**
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> We agree with the ALJ's recommendation on this issue, approving UGI's end-of-year methodology and providing for an annualization adjustment to recoup costs incurred over the course of the FPFTY. We are likewise persuaded by UGI's argument that the FPFTY should reflect end-of-the-year conditions.

UGI Electric at pp. 61-62.

For reasons explained above and in Columbia's MB, pp. 39-40 and RB, pp. 20-21, the Commission should approve Columbia's annualization of labor expense.

F. EXCEPTION NO. 6 – THE RD FAILED TO INCLUDE AN OVERTIME OFFSET TO THE LABOR COMPLEMENT ADJUSTMENT (RD, P. 106)

The RD adopts OCA's proposed adjustment of $1,144,000 to labor expense, associated with the FPFTY labor complement. However, the RD fails to recognize that Columbia's claim for FPFTY labor, which was based upon a full complement of employees needed to fulfill its Work Plan, included an offsetting reduction of $1.3 million in overtime costs. As explained in Columbia's MB, pp. 40-42, and Columbia's RB, pp. 22-23, Columbia's budget process reduced its overtime payroll for the FPFTY in recognition of an assumed higher level of full-time employees. If full-time positions are unfilled, Columbia's overtime costs will increase to complete the work plan for the year. Columbia demonstrated that, over the three-year period from 2017-2019, its actual labor expense has exceeded budget, even though there were full-time employee vacancies each year. This is because, in the absence of a full employee complement, overtime must increase over budget to meet Columbia's obligation to maintain reasonable and adequate service. For these reasons, the RD's adjustment to labor expense should be rejected or revised to include an offsetting increase to FPFTY overtime costs.

G. EXCEPTION NO. 7 – THE RD SHOULD BE REVISED TO REFLECT THE CURRENT INVOICE FOR COMMISSION, OCA AND OSBA FEES (RD, P. 110)

The RD adopts I&E's adjustment to PUC, OCA and OSBA fees of $348,549, resulting in an allowance of $1,913,451. Columbia RB, p. 28. This adjustment is claimed to be based upon 2020-2021 PUC assessment factors, multiplied by FTY revenues.

However, prior to the close of the record, Columbia received its actual 2020 PUC invoice. The actual invoice amount is $2,008,792. Columbia Ex. NJDK-1RJ. If the most up-to-

date actual information on PUC, OCA and OSBA fees is to be used, it should not be limited to published assessment factors used to derive the 2020 invoice. Instead, it should reflect the actual amount of the 2020 invoice.

For reasons explained above and in Columbia's MB, p. 47 and Columbia's RB, p. 28, the RD should be revised to reflect the most recent PUC invoice of $2,008,792.

H. EXCEPTION NO. 8 – THE ADJUSTMENT TO OUTSIDE SERVICES EXPENSE OF $1,757,000 IMPROPERLY DISALLOWS RECOVERY OF IMPORTANT SAFETY PROGRAMS INCLUDED IN COLUMBIA'S BUDGET (RD, P. 111)

The RD disallows recovery of $1,757,000 in projected outside services expense. The adjustment would reduce Columbia's outside services expense to a level approximately $450,000 less than the Company's normalized historic test year ("HTY") level of outside services expense. The RD claims Columbia failed to present proof to support its claim. RD, pp. 111-112.

The RD fails to consider Columbia's detailed and accurate budget process, or the important new gas safety projects that are the drivers of the increased FPFTY outside services expense.

As explained in Columbia's MB, pp. 37-38, Columbia does not use a strict build up from HTY expense to develop a FPFTY budget. Instead, budgets are developed at a grass-roots level by those responsible for the Work Plan for the budget year. Columbia has in place a rigorous review process throughout the year, to keep actual spending in line with the budget. As Columbia's witness, Ms. Krajovic, 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.

Columbia St. No. 9-R, pp. 14-15. The accuracy of Columbia's budgeting process, and the controls in place to track spending, are evidence that Columbia's FPFTY budget for outside services expenses is reasonable and should be adopted.

The RD's rejection of Columbia's projection of outside services expense would deny Columbia the financial resources to undertake important safety initiatives included in the FPFTY budget that are not included in the 2020 (FTY) budget. These include:

- Underground storage well inspection and remediation, required by PHMSA regulations;
- Maximum allowable operating pressure ("MAOP") documentation/reconfirmation, required by PHMSA regulations;
- Corrosion remediation;
- Improvements to GPS locating programs, to identify the location of new and replacement facilities;
- Increased leak repair contractor costs; and
- Increased line location costs.

Columbia MB, pp. 49-50.

The RD further fails to recognize the safeguards in place under Section 315(e) of the Public Utility Code, that provide for after-the-fact review of FPFTY costs, and rate adjustments for inaccurate projections.

For reasons explained herein, and in Columbia's MB, pp. 49-51 and RB, p. 29, the recommended adjustment to outside services expense should be rejected.

I. EXCEPTION NO. 9 – THE RD IMPROPERLY REJECTS COLUMBIA'S PROPOSAL TO ACCELERATE ITS CROSS BORE IDENTIFICATION PROGRAM (RD, P. 113)

Columbia has in place a cross bore identification program. Cross bores can occur when existing unmarked underground facilities, such as water or sewer lines, are damaged by direct bore installation of underground facilities. Columbia has identified cross bores as a high risk in its DIMP. Columbia St. No. 7, p. 21. At the current pace, it will take Columbia 68 years to complete inspections. Columbia proposes to increase FPFTY spending by $1.4 million over its current budget of $1.3 million, to reduce the inspection timeframe to 31 years. The RD disallows the proposed increase, stating that Columbia has not provided "sufficient justification . . . to explain the expense and the need for the expense." RD, p. 113. In briefs, OCA asserted that Columbia failed to demonstrate a need to increase the expense in the FPFTY, because its actual cross bore expenses in 2019 and 2020 were less than in prior years.

As explained in Columbia's MB, p. 53, Columbia has budgeted the same amount for its cross bore program from 2014 through 2020, as it examined the magnitude of cross bore incidents. Throughout that time, Columbia met its cross bore budget, and exceeded the budget in years when additional resources were available. Columbia MB, pp. 53-54. After identifying 406 cross bore incidents to date, Columbia identified cross bores as a high risk in its DIMP, and proposed to accelerate its program to remediate the risk much faster.

There should be no adverse inference drawn from the fact that Columbia has not substantially increased cross bore spending in 2020 over 2019, because the planned acceleration of cross bore spending is scheduled to begin in 2021. Columbia does not have unlimited resources to spend over budget, and the current budget for 2020 does not provide for an increase in 2020 spending on cross bore investigations over prior years. Columbia St. No. 7-R, p. 21.

There is no requirement that a utility may only recover an increased level of spending if it has proven that it has already increased its pace of spending. Such a requirement would eviscerate the FPFTY process, and in effect return ratemaking to the era when a utility could only rely upon an historic test period. This would reinstitute the regulatory lag that the FPFTY was designed to ameliorate, as a utility would always have to bear the cost of an increase in expense before it could make a claim for the increase in a rate proceeding.

For reasons explained above and in Columbia's MB, pp. 52-54 and RB, pp. 30-31, the Commission should reject the RD's disallowance of the increased expense for this safety initiative.

J. EXCEPTION NO. 10 – THE RD INCORRECTLY DISALLOWS THE COST TO ADD TWO NEW GAS QUALIFICATION TRAINING SPECIALISTS (RD, P. 114)

The RD recommends that Columbia not be allowed to include $185,000 in additional costs to hire two new Gas Qualification Training Specialists on the basis that the two employees have not been hired as of the close of the record. RD, p. 114.

Columbia has explained that as long-term employees retire in accelerating numbers, the Company must be prepared to provide increased training for a new generation of employees. This new generation is accustomed to learning in a different way. As explained in Columbia's MB, p. 55, Columbia is developing new training methods to educate these employees on the increased demands for gas safety. As the existing workforce is needed to execute Columbia's Work Plan, the two new specialists are needed to support this training initiative. No party challenged the need for training specialists to support a 21st century workforce.

The fact that these 2021 employee additions have not been hired in 2020 should not be a basis to reject this FPFTY expense. The use of projections is inherent in the FPFTY process, and

is not a basis for rejecting this important gas safety initiative. Therefore, for reasons explained above and in Columbia's MB, pp. 54-55, the Commission should grant Columbia's Exception.

K. EXCEPTION NO. 11 – THE RD IMPROPERLY REJECTS COLUMBIA'S PROPOSAL TO HIRE ADDITIONAL EMPLOYEES TO ACCELERATE UPDATING OF SERVICE LINE RECORDS (RD, P. 115)

In January 2019, Columbia implemented a legacy service line record enhancement program. The program reviews and corrects legacy service line records. Accurate records are critically important to maintaining a safe system. Columbia St. No. 7, p. 23.

Columbia currently uses just temporary employees for this work. To accelerate the effort, and minimize the challenges of turnover and training of temporary employees, Columbia has proposed to add seven new permanent employees, supplemented with temporary employees, to undertake the work, at a cost of $491,000. Columbia MB, pp. 55-56.

The RD recommends rejection of this expense because the employees had not been hired by the close of the record. RD, p. 114. However, as is the case with the prior two Exceptions, this cost has not been incurred as of the close of the record because this is a new expense proposed to be incurred beginning in 2021.

The RD is also internally inconsistent on this issue. I&E has recommended that Columbia accelerate its updating of maps and records as a safety concern, if the Commission approves Columbia's request for the $491,000 to hire additional full time employees. I&E St. No. 5, pp. 13-14. The RD recommends that Columbia be directed to update its maps and records "as quickly as possible." RD, p. 249. This is fundamentally unfair. The Commission should not direct Columbia to accelerate a safety initiative, but deny rate relief for the cost to accelerate.

For reasons explained above and in Columbia's MB, pp. 55-56 and RB, p. 32, the Commission should authorize recovery of the costs to accelerate the pace of review and correction of legacy service line records.

L. EXCEPTION NO. 12 – THE RD ERRS IN DENYING ANY ADDITIONAL RECOVERY FOR INCREMENTAL REPLACEMENT OF CUSTOMER-OWNED FIELD ASSEMBLED RISERS (RD, P. 116)

Columbia included a claim of $1,700,000, added to its budget, for replacement of 2,712 customer-owned field assembled risers.[18] Columbia's budgets for 2019, 2020 and 2021 include no amounts for replacement of customer-owned field assembled risers, although Columbia was able to shift funds to replace 1,279 customer-owned risers in 2019. Columbia MB, p. 56.

The RD rejects Columbia's claim, asserting that "Columbia did not provide any explanation or support for this requested increase except the Company's initial explanation that the FPFTY expense is incremental not to the HTY expense, but rather to the FPFTY budget." RD, p. 115.

Columbia disagrees with the RD's analysis for reasons explained in its MB, pp. 56-57. However, even if the FPFTY budget is assumed incorrectly to reflect the expense of the 1,279 customer-owned risers replaced in the HTY, the RD should have allowed recovery of 1,433 additional risers to be replaced in the FPFTY over the HTY level. The average replacement cost per riser is approximately $625 ($1,700,000 ÷ 2,712). Therefore, the RD should have allowed recovery of at least 1,433 incremental risers at a cost of approximately $900,000.

Columbia notes that I&E testimony supports the replacement of all field assembled risers on Columbia's system. Columbia RB, p. 34. The Commission should support the accelerated replacement of field-assembled risers, which are identified as a high risk in Columbia's DIMP. Columbia RB, p. 32. Therefore, for reasons explained above and in Columbia's MB, pp. 56-58

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[18] A riser is a section of pipe that connects fuel lines and meter sets outside a customer's premises. Field-assembled risers are risers that were assembled in the field and installed. The Company has identified a higher incidence of failure in risers that are field-assembled rather than pre-assembled. Columbia ceased installing field assembled risers in 2007. The Company first began to target and replace Company owned field-assembled risers after failures were identified after the 2014-2015 winter. However, like service lines, on Columbia's system most risers are installed and owned by customers. I&E St. No. 5, p. 11; Columbia St. No. 7, p. 25; Columbia St. No. 7-R, pp. 17-18. The Commission has authorized Columbia to replace customer-owned field assembled risers. Columbia MB, p. 57.

and RB, pp. 32-34, the RD should be revised to allow $900,000 in incremental customer-owned field assembled riser costs.

M. EXCEPTION NO. 13 – THE RD INCORRECTLY DISALLOWS FPFTY COMPENSATION ADJUSTMENTS FOR BELOW MARKET FIELD EMPLOYEE PAY

Columbia has determined that 54 of its field operations leaders are being paid substantially below market rates. Columbia has proposed to rectify this situation by increasing these employees' pay in 2021. In addition, Columbia has identified a compensation issue that concerns field leaders' pay for emergency response. Salaried field leaders who are required to be on standby for emergency callouts are not paid overtime when called out. This is a disincentive for field employees to move into leadership positions, as they lose overtime pay. Columbia proposes to increase the pay to leaders in this position, to enhance Columbia's ability to promote and retain qualified individuals. This total cost for these two FPFTY payroll adjustments is $432,000, as detailed on pages 57-58 of Columbia's MB.

The RD recommends rejection of this expense, citing *Pa. PUC v. Pa. Power & Light Co.*, 85 Pa. PUC 306 (1995) for the proposition that speculative estimates may not be recovered.

However, the *Pa. Power & Light Co.* case does not support rejection of this FPFTY expense. 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 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. If FPFTY projections are to be declared "speculative" because they were not implemented in the HTY or early portion of the FTY, then the purpose of the FPFTY will be thwarted.[19]

For reasons explained above and in Columbia's MB, pp. 58-59 and RB, pp. 34-35, the RD recommendation with respect to FPFTY compensation adjustments for certain field leaders should be rejected.

N. EXCEPTION NO. 14 – THE REDUCTION TO DEPRECIATION EXPENSE PROPOSED BY THE RD SHOULD BE REJECTED (RD, P. 117).

The RD recommends a $1,958,000 adjustment to depreciation expense, associated with the recommended adjustment to FPFTY plant in service. For the reasons explained in Columbia Exception No. 3, the Commission should reject this adjustment to depreciation expense.

O. EXCEPTION NO. 15 – THE PAYROLL TAX ADJUSTMENTS RECOMMENDED BY THE RD SHOULD BE REJECTED CONSISTENT WITH COLUMBIA'S EXCEPTION NOS. 4 AND 5 (RD, P. 121)

The RD recommends a reduction of $151,119 to Columbia's FPFTY taxes other than income taxes. These recommended disallowances are associated with the payroll annualization adjustment that is the subject of Columbia Exception No. 5 ($40,119) and the employee complement adjustment that is the subjection of Exception No. 6 ($111,000). For the reasons explained in Columbia Exception Nos. 4 and 5, these payroll tax adjustments should be rejected.

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[19] In *UGI Electric*, the Commission approved rate recognition of a new Company Owned Service Program, to be undertaken in the FPFTY.

P. EXCEPTION NO. 16 – THE RD DISREGARDS ESTABLISHED COMMISSION PRECEDENT IN RECOMMENDING A HYPOTHETICAL CAPITAL STRUCTURE (RD, P. 181)

The RD recommends adoption of OCA's proposed hypothetical capital structure of 50% debt and 50% common equity. Columbia proposed the use of its projected FPFTY actual capital structure of 42.22% long-term debt, 3.59% short-term debt and 54.19% common equity. Columbia MB, p. 64. Columbia's projected FPFTY capital structure is essentially the same as its year end 2019 capital structure of 45.8% debt (short- and long-term) and 54.2% common equity. Columbia Ex. 400 (updated), p. 3.[20] The RD's only reasoning for adopting a hypothetical capital structure is "because it contains too much equity and is unfair to consumers." RD, p. 181.

The RD fails to offer any analysis or reasoning for ignoring clear Commission precedent on the use of actual vs. hypothetical capital structure ratios. The Commission has determined that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered. *See, Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981). In determining whether the claimed capital structure is atypical, the Commission has looked to see whether the capital structure used by the utility is outside the range of that employed by the barometer group of companies considered in the rate of return analysis. If a utility's capital structure is within a reasonable range of similar risk barometer group companies, the utility's capital structure should be used and not a hypothetical capital structure. For example, in *Pa. P.U.C. v. ALLTEL*, the Commission stated as follows:

> The ALJ recommended use of the Company's stand-alone capital structure since it met the following characteristics of an appropriate capital structure: (1) It was within a reasonable range of similar risk barometer group companies. (2) It reflected the

[20] Columbia explained how its proposed actual capital structure was developed to finance FTY and FPFTY rate base increases. Columbia MB, p. 65.

> Company's actual capital structure and projected near term capital structure. (3) It is consistent with the Company's apparent capital structure goal. (R.D., p. 28).
>
> We concur with the recommendation of the ALJ, particularly for the reason that the Company's actual capital structure falls within a range employed by similar risk barometer group companies, described by Mr. Shiavo as commensurate with capital ratios employed by other independent telephone operating companies.[21]

This analysis was reaffirmed by the Commission in PPL Electric's 2012 rate case:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure. *See, Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Carnegie Natural Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981). With regard to these factors, we are persuaded by the arguments of PPL that its actual capital structure is not atypical, is within a range of reasonableness, and, pursuant to precedent, provides no basis to employ a hypothetical capital structure. Also, we are further swayed by PPL's assertion that it requires an equity ratio near the high end of the historic range employed by the barometer group companies to support is expanded infrastructure replacement program and its credit rating.[22]

As explained at pages 65-66 of Columbia's MB, Columbia's actual common equity ratio clearly lies within the range of common equity ratios of comparable gas utilities. Table 4 of 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%. 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." Columbia's capital structure contains more equity than OCA's proposed 50% to support its infrastructure replacement program, consistent with its Commission-approved LTIIP.

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[21] *Pa. P.U.C. v. ALLTEL Pa., Inc.*, Docket No. R-942710 et al., 59 Pa. PUC 447, 491, 1985 Pa. PUC LEXIS 53, *106 - *107, (Order entered May 24, 1985), ("*ALLTEL*").
[22] *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597, 212 Pa. PUC LEXIS 1757, Order at p. 68.

For the reasons explained above, and in Columbia's MB, pp. 65-69 and RB, pp. 39-42, the Commission should reject the RD's proposed use of a hypothetical capital structure and adopt Columbia's projected actual capital structure.

Q. EXCEPTION NO. 17 – THE COMMISSION SHOULD ESTABLISH A RETURN ON COMMON EQUITY CONSISTENT WITH I&E'S RECOMMENDED 9.86% (RD, P. 185)

The RD recommends that the Commission accept I&E's proposal to calculate return on common equity pursuant to the DCF methodology, using I&E's barometer group. RD, p. 185. However, it is unclear whether the RD is recommending adoption of I&E's recommended 9.86% return on common equity, because there are no tables included with the RD. Columbia excepts to the RD's conclusions with respect to any return on common equity allowance that would be below 9.86%. Under the present circumstances, Columbia would support a return on common equity of 9.86%.

Columbia presented evidence supporting a return on common equity of 10.95%, inclusive of a management performance adder of 20 basis points. Columbia MB, pp. 70-97. Although Columbia believes the record supports recognition of management performance,[23] consistent with prior Commission determinations on this issue, Columbia has decided to withdraw its request for a management performance adder, in recognition of the effects of the pandemic and the time in which vaccine distribution is anticipated to be administered. Columbia also does not except to calculating the return on common equity in this case relying principally upon the DCF methodology consistent with recent Commission decisions, although the Company continues to support the use of multiple methods to account for infirmities inherent in all methods used to calculate returns on common equity. Columbia MB, p. 70.

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[23] Columbia MB, pp. 93-97; Columbia RB, pp 57-60.

Columbia also is not excepting to the recommendation to adopt I&E's barometer group, because the resulting DCF returns on common equity are not dramatically different based upon the choice between Columbia's and I&E's barometer group. However, Columbia disagrees with the exclusion of two utilities from I&E's barometer group, New Jersey Resources and Southwest Gas Holdings. Columbia MB, pp. 72-74; Columbia RB, pp. 44-45. The Commission includes these two companies in the barometer group used to calculate return on common equity for DSIC purposes.

For the reasons explained below and in Columbia's briefs, the rate of return on common equity adopted in this proceeding should be no less than I&E's recommended 9.86%.

a. The Dividend Yield Should be Between 3.34% and 3.4 %.

The DCF dividend yields of Columbia, I&E and OCA are consistent. Columbia's updated dividend yield is 3.39%. Columbia Ex. 400 (updated), p. 14. I&E's dividend yield is 3.34%. I&E St. No. 2, p. 23. OCA's dividend yield is a range of 3.3% - 3.5%, with a midpoint of 3.4%. OCA St. No. 3, p. 46. The record supports a dividend yield between 3.34% to 3.4%, and Columbia dose not oppose a dividend yield of 3.34%.

b. The DCF Growth Rate Should be Set Between a Range of 6.42% and 7.09%

Columbia's expert witness recommended a DCF growth rate of 7.5%, principally based upon five-year forecasts of earnings per share growth from four separate forecasts. Columbia MB, pp. 74-75.[24] I&E recommended a DCF growth rate of 6.42%, also relying upon forecasts of earnings per share growth from multiple sources. I&E St. No. 2, p. 25.

The principal difference between Columbia's and I&E's growth rates is I&E's exclusion of one growth rate projection for Northwest National Gas. The difficulty with this adjustment is

[24] The DCF is an expectational model. Thus, it is appropriate to rely primarily upon projected growth rates. Columbia St. No. 8, p. 25; Columbia MB, p. 90.

that it retains excessively low growth rate projections for Northwest National Gas. The resulting adjusted growth rate of 3.10% for Northwest National Gas is below the adjusted growth rate for any other company in I&E's proxy group, and well below the average growth rate for the remaining companies in I&E's proxy group. Columbia MB, pp. 86-87. If all growth rate data for Northwest Natural Gas had been excluded as abnormal, the resulting I&E DCF growth rate would have been 7.09%. Columbia St. No. 8-R, p. 19.[25] In recognition of the current circumstances, Columbia does not oppose a growth rate of 6.42%.

OCA's recommended growth rate range of 4% - 6%, and its recommended mid-point of 5%, is unreasonable and should not be adopted. As explained in Columbia's MB, pp. 80-90, and RB, pp. 54-56, the primary flaw in OCA's growth rate analysis is its reliance upon the retained earnings growth, or "b x r," methodology. The "b x r" method has not been adopted by the Commission, as it implicitly uses differences in market and book dividend yields to drive down growth rates. Columbia MB, p. 55. OCA's growth rate also is flawed by its specific inclusion of historic growth rates. Historic growth is already considered in investors' projections, and therefore it would be double-counting, and contrary to the concept of the DCF as an expectational model, to include a historic growth rate to reduce investor projections. Investors do not purchase past earnings, but look to projections of future earnings. Further, in this case, OCA's historical results are heavily distorted by negative returns. Rational investors do not invest in a company with expectations of negative returns. Columbia MB, pp. 89-90.

c. OSBA's Hybrid Risk Premium Approach Should be Given No Weight

The RD points to OSBA's assertion that Commission precedent implies that Columbia should receive a return on common equity of 7.63%. RD, p. 185. The RD errs in suggesting that

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[25] If I&E included all Northwest Natural Gas growth rate data, the resulting growth rate would be 7.64%. Columbia MB, p. 87.

Commission precedent may support OSBA's hybridized risk premium approach. OSBA's calculation is flawed and should be given no weight.

OSBA's recommendation is not based upon any data for a barometer group, or any real analysis of current or projected market data. Instead, OSBA looks back to data several years old that was presented in the *UGI Electric* case, to claim that the Commission implicitly awarded a 6.9% risk premium over the asserted yield on 10-year treasury bonds at the time. However, OSBA fails to recognize the accepted risk premium theory that risk premiums move inversely to interest rates. Columbia St. 8-R, p. 35. Therefore, any calculation of a risk premium from several years ago, when interest rates were higher, is not relevant to current circumstances because the risk premium would be higher at today's lower interest rates. Further, OSBA's use of 10-year treasury bonds, as a measure of risk-free interest rates, improperly conflates the risk premium and CAPM methods. OSBA also fails to recognize the industry-specific risks and differences between allowed returns for gas and electric utilities. *See* the *Quarterly Earnings Summary Report for the Year Ended June 30, 2020*, Docket No. M-2020-3021797. OSBA's calculation of a common equity return rate of 7.63% must be rejected. Columbia MB, pp. 91-92.

d. The Commission's Return on Common Equity Determination Should be No Less than 9.86% in Recognition of the Commission's DSIC Return Allowance

In testimony, Columbia's expert witness explained why the DSIC authorized return is a relevant factor in assessing the reasonableness of the cost rate for common equity in a base rate proceeding:

> It just makes no sense that the cost of equity in a rate case could be any lower than the DSIC return. First, investment 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.

Columbia recognizes that the data considered in a base rate case is more detailed than that considered in the DSIC context. However, the DSIC return uses that same barometer group of companies, and uses the DCF methodology.

Thus, in assessing an appropriate return on common equity, the Commission should consider what is being authorized for DSIC purposes for natural gas distribution companies. It is not rational to provide Columbia with a return in the range suggested by OCA and OSBA, and other parties that oppose any rate increase, while other gas companies are earning 10.15% on DSIC investments.

e. Conclusion as to Return on Common Equity

The Commission should authorize a fair rate of return on common equity that is no less than the rate of return of 9.86% recommended by I&E.

R. EXCEPTION NO. 18 - THE RD ERRED IN SELECTING OCA'S PEAK & AVERAGE STUDY AS THE PREFERRED METHOD FOR ALLOCATING REVENUE (RD, P. 394)

Columbia excepts to the RD's recommendation that the Commission adopt OCA's Peak & Average Study as the basis for allocating a Commission-approved revenue increase. OCA's Peak & Average Study is not an accurate reflection of the Company's cost to serve each customer class. Therefore, the RD erred in concluding that OCA's proposed Peak & Average Study is the most reasonable of the Allocated Cost of Service ("ACOS") study alternatives presented by the parties. RD, pp. 394-95.

The RD selects OCA's Peak & Average Study as the preferred ACOS study because it shows that the Residential class is overpaying for its cost of service, and therefore would allocate less of an increase to the Residential class. RD, p. 394. However, the RD does not acknowledge that the ACOS study presented by Columbia demonstrates that the Residential class is under-contributing, and therefore should be allocated a greater portion of the total revenue increase. Columbia MB, p. 183. The RD incorrectly selected OCA's Peak & Average Study based on the desired result of minimizing a rate increase to the Residential customer class without evaluating whether the ACOS studies proposed in this proceeding accurately represent the cost to serve each class.

The RD overlooks the many problems with OCA's proposed Peak & Average Study, all of which are fully explained in Columbia's MB, pp. 131-36. For example, OCA's Peak & Average Study does not include a customer component to mains. Without the customer component, the ACOS study excludes a major driver of distribution mains investment – the cost to extend a distribution main to a new customer – and therefore is not as reflective of the Company's actual cost of service. The RD ignores recent precedent in which the Commission has determined that a proper ACOS study should recognize both a customer component and a peak demand component of distribution plant. *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). The RD's selection of OCA's Peak & Average Study is not supported by Commission precedent because the customer component is missing from OCA's Peak & Average Study.

Unlike the Company's Peak & Average Study, which was accepted by I&E, OCA's Peak & Average Study does not assign distribution mains into separate categories by pressure group.

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. *See* I&E M.B., p. 92; CII M.B., pp. 12-13; PSU M.B., p. 7; OSBA St. No. 1, p. 15. The RD does not address why it adopts OCA's preference not to separate mains by pressure group over the positions of all the other parties.

The RD's selection of OCA's Peak & Average Study is also based on the erroneous finding that the Proportional Responsibility ("PR") method confirms the reasonableness of OCA's Peak & Average Study. RD, pp. 394-95. As fully explained in Columbia's RB, pp. 83-84, the PR method does not independently verify the results of OCA's Peak & Average Study because both methods are based on the same incomplete metrics, *i.e.* average throughput and design day usage (Peak & Average) and monthly throughout weighted to account for design day usage (PR method). The PR method is an allocation methodology unique to Massachusetts, which has never been adopted in Pennsylvania. Columbia RB, pp. 83-84.

For these reasons and the reasons more fully explained in Columbia's MB, pp. 129-136 and RB, pp. 79-87, the Commission should reject the RD's conclusion that OCA's Peak & Average Study is the preferred method for allocating revenue.

S. EXCEPTION NO. 19 - THE RD INCORRECTLY REJECTED COLUMBIA'S AVERAGE STUDY (RD, P. 394).

The RD incorrectly concluded that Columbia's proposed Average Study is unreasonable and should not be used to guide the allocation of a Commission-approved revenue increase in this proceeding. RD, p. 394. In reaching its conclusion as to the proper ACOS study, the RD states that "Columbia Gas' Customer Demand COSS would be the preferred method, but it

contains serious flaws that skews its reliability and makes it unsuitable for use **at this time and with this NGDC.**" RD, p. 394 (emphasis added). Thus, the RD acknowledges that the timing of Columbia's rate case filing was a factor in the recommendation to reject Columbia's proposed ACOS study. Rather than select the ACOS study that most accurately reflects the cost to serve each class, the RD improperly based its recommendation on achieving an outcome to shift cost recovery to commercial and industrial customers that the RD perceived as appropriate given the timing of the Company's requested revenue increase during the COVID-19 Pandemic.

Contrary to the RD's finding, Columbia's proposed Average Study is not unreasonable. Without any analysis, the RD accepts OCA's argument that Columbia's Average Study is "flawed." RD, p. 394. The RD overlooks the Company's evidence, which demonstrates that of the ACOS studies presented in this proceeding, the Company's Average Study most fairly and accurately represents Columbia's cost to serve the customer classes. The Average Study balances the two most often used cost allocation methods, Peak and Average and Customer-Demand. Columbia MB, p. 127-31. The RD also fails to address the positions of OSBA, PSU and CII, parties that supported use of the Average Study as proposed by Columbia or with slight modification.[26]

For these reasons and the reasons more fully explained in Columbia's MB, pp. 127-36 and RB, pp. 79-87, the Commission should reject the RD's conclusion that Columbia's Average Study is unreasonable and adopt the Company's Average Study as the basis for allocating the approved revenue increase.

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[26] PSU advocated for use of the Average Study as a "balanced and fair cost of service study on which to base revenue allocation." PSU MB, p. 5. CII argued that the Customer-Demand Study would provide the most appropriate ACOS study mechanism, but the Commission should adopt Columbia's Average Study without modification in the alternative. CII MB, p. 9. OSBA proposed a combination of the Peak & Average and Customer-Demand Studies with a 75% weighting to the Peak & Average Study and a 25% weighting to the Customer-Demand Study. Highly Confidential OSBA St. No. 1, p. 27.

T. EXCEPTION NO. 20 - THE RD ERRED IN RECOMMENDING A REVENUE ALLOCATION THAT DOES NOT ACCURATELY REPRESENT THE COST OF SERVICE (RD, P. 394-96).

a. The RD Incorrectly Selected OCA's Proposed Revenue Allocation.

The RD recommends that the Commission utilize OCA's revenue allocation proposal if a revenue increase is approved. RD, p. 396. Columbia excepts to the RD's recommendation that the Commission adopt OCA's proposed revenue allocation because it is based on OCA's flawed Peak & Average Study, is not driven by the cost of service, violates the principle of gradualism, and does not represent a fair allocation of the revenue increase among the customer classes.

The RD's recommendation that the Commission adopt OCA's proposed revenue allocation is based on the RD's conclusion that Columbia's proposed ACOS study is unreasonable and OCA's Peak & Average Study should be used instead. RD, p. 395-96. As explained in Exception Nos. 18 and 19, the RD's conclusions regarding the proposed ACOS studies are erroneous, and therefore should not be relied upon to select a revenue allocation. Specifically, the Commission should reject the RD's adoption of OCA's proposed revenue allocation because it relies upon OCA's flawed Peak & Average Study.

The RD's proposed revenue allocation reflects a substantial change to previously approved revenue allocations, contrary to gradualism concepts. In particular, the percentage increases to Small C&I customers and Large C&I customers under the RD's revenue allocation are significantly greater than the percentage allocations approved in prior rate case settlements. The RD's revenue allocation recommends allocating 30% of the rate increase to Small C&I customers and 5.6% of the rate increase to Large C&I customers, as compared to the settlement of Columbia's 2018 rate case, which allocated 23.85% of the increase to Small C&I customers and 3.85% of the increase to Large C&I customers and the settlement of Columbia's 2016 rate

case, which allocated 22.85% of the increase to Small C&I customers and 3.14% of the increase to Large C&I customers. RD, p. 396.[27]

The RD's recommended revenue allocation is inconsistent with the cost of service principles 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) ("*Lloyd*") because the RD's revenue allocation does not move each class closer to the cost of service. *See Pa. Publ. Util. Comm'n, et al. v. PPL Electric Utilities Corporation*, Docket Nos. R-00049255, et al., 2007 Pa. PUC LEXIS 55 (Order on Remand entered July 25, 2007) (a proposed revenue allocation will only be found to be reasonable where it moves distribution rates for each class closer to the full cost of providing service). For example, the RD recommends allocating $62,613,739 of the full rate increase to the Residential class even though the Company has demonstrated that allocating $73,521,431 of the full revenue increase to the Residential class is necessary to recover the cost of service for that class. RD, p. 396; Columbia M.B., p. 137-40. The RD's proposed revenue allocation falls short of recovering the actual cost to serve the Residential class from the customers in that class and would result in an unfair shifting of costs outside of the Residential class.

By adopting OCA's revenue allocation, the RD overlooks the actual cost of service in order to achieve a result that limits any revenue increase to Residential customers. Specifically, the RD allocates revenue in a manner that ignores the cost of service for the purpose of minimizing a rate increase to residential customers during the COVID-19 Pandemic. Columbia recognizes the difficult economic circumstances facing some of its Residential customers, as well as customers in other rate classes, amidst the COVID-19 Pandemic. However, the RD's

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[27] *See Pa. PUC, at al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2018-2647577, et al. (December 6, 2018 Order approving Joint Petition for Partial Settlement); *Pa. PUC, et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket Nos. R-2016-2529660, et al. (October 27, 2016 Order approving Joint Petition for Settlement).

selection of a revenue allocation that shifts costs between classes in a manner that is inconsistent with the cost of service is not an appropriate solution.

Columbia submits that a more appropriate solution would be to implement a phase in of the approved revenue increase based on Columbia's proposed revenue allocation, similar to the approach that was recently approved by the Commission in *Pa. PUC et al. v. UGI Utilities, Inc. – Gas Division,* Docket No. R-2019-3015162, et al. (October 8, 2020 Order approving settlement). Columbia believes that a phase in of the revenue increase represents a fair alternative to the RD's flawed approach. The Company's phase-in proposal would soften the impact of the rate increase to all customer classes without sacrificing an accurate revenue allocation.[28] The details of Columbia's revenue phase-in proposal are provided below in Subsection b.

For these reasons and the reasons more fully explained in Columbia's MB, pp. 137-41 and RB, pp. 88-90, the RD erred in recommending that the Commission adopt OCA's proposed revenue allocation. The Commission should adopt Columbia's proposed revenue allocation as set forth on page 138 of its MB because Columbia has demonstrated that its proposed revenue allocation properly considers the cost to serve each customer class, and other factors such as fairness and gradualism, consistent with the Commonwealth Court's directive in *Lloyd.* If the Commission rejects the RD's no rate increase recommendation, the Company is willing to accept a phase in of the total Commission-approved revenue increase as explained below.

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[28] In addition, as Columbia explained in its briefs, the Company has many targeted programs in place to help Residential customers who need payment assistance. Columbia MB, pp. 98-99. The Commission also recently granted Columbia permission to temporarily expand the limits of its Hardship Fund Program from 200% of the federal poverty income guidelines ("FPIG") to 300% of the FPIG through September 30, 2021. *See Petition of Columbia Gas of Pennsylvania to Temporarily Amend its Current 2019 Universal Service and Energy Conservation Plan (USECP),* Docket Nos. P-2020-3022691 and M-2018-2645401, November 17, 2020 Secretarial Letter. Columbia also notes that it is not excepting to the RD's recommendation to maintain the existing fixed Residential customer charge of $16.75 at this time, even though increasing the customer charge to $23.00 is fully supported by the Company's customer cost studies, and the Company has not increased its Residential customer charge in several years. RD, p. 401; Columbia MB, pp. 149-53.

b. As an Alternative to the RD's Improper Revenue Allocation, the Commission Should Implement a Phase In of the Approved Revenue Increase Based on Columbia's Proposed Revenue Allocation.

The RD criticizes Columbia's rate filing for not requesting a "stepped-up" approach to implementing an increase. RD, p. 47. Columbia recognizes that several companies have agreed to phased in increases as a further way to assist customers due to COVID. *See, e.g., Pa. PUC et al. v. UGI Utilities, Inc. – Gas Division,* Docket No. R-2019-3015162, et al. (October 8, 2020 Order approving settlement); *Pa. PUC et al. v. Philadelphia Gas Works*, Docket Nos. R-2020-3017206 et al. (November 19, 2020 order approving settlement); *Pa. PUC et al. v. Pittsburgh Water and Sewer Authority – Water*, Docket No. R-2020-301951 (December 3, 2020 Order approving settlement). These were done in the context of settlements, but despite numerous efforts, a settlement could not be achieved in this case. Columbia is not averse to phasing in a rate increase that is based upon a traditional revenue requirement analysis. However, Columbia recognizes that the Commission has recently determined that it cannot order a phase in of an increase, consistent with Section 1308(d) of the Public Utility Code, without the utility's consent: "Section 1308(d) and the related caselaw cited by I&E and PGW clearly establishes that it is not within the Commission's 1308(d) powers to mandate effective dates of rates beyond the end-of-suspension period."[29] Given the economic impact of the COVID-19 Pandemic, Columbia is willing to accept a two-part phase-in method for implementing the full amount of the Commission-approved revenue increase, with 50% of the approved rate increase taking effect on January 23, 2021, the statutory suspension date, ("Phase 1") and the remaining 50% of the approved rate increase taking effect on July 1, 2021 ("Phase 2"). Columbia would defer the portion of the approved revenue increase not implemented in Phase 1 into a regulatory asset as

[29] *Pa. PUC v. PGW*, Docket No. R. 2020-3017206, Order entered November 19, 2020, order at p. 70.

an alternate revenue program[30] and recover the regulatory asset over a 12-month period beginning January 1, 2022 and ending on December 31, 2022. No interest would be applied to the revenue deferred under the alternate revenue program. Columbia would recover the deferred revenue captured in the regulatory asset through a fixed fee that will be temporarily added to the bill during the 12-month recovery period.[31]

Columbia is providing the following example of the Company's proposed phase-in alternative revenue program for illustrative purposes only, using the Company's proposed revenue allocation and its proposed increase as revised by these Exceptions. If the Commission determines that Columbia's phase-in alternative revenue program is an appropriate method to the RD's recommended revenue allocation, the Company will adjust these amounts in accordance with the total amount of the rate increase approved by the Commission for each customer class. At a revenue requirement of $76.8 million, after the concessions set forth in Columbia's Exceptions, the Company would implement an annual revenue increase of $38.4 million on January 23, 2021,[32] allocated to the customer classes as follows:

January 23, 2021 through June 30, 2021:

Pro forma annual revenue increase of $38.4 million (1st step tariff billing rate increase), allocated to customer classes as follows:

Rate RS/RDS: $27.7 million

Rate SGS/DS-1: $3.2 million

Rate SGS/DS-2: $3.7 million

Rate SDS/LGSS: $2.1 million

[30] Columbia requests recognition of the phase in as an alternative revenue program pursuant to ASC 980, which allows current accounting recognition of a phase in increase.
[31] This is substantially similar to the phased-in increase approved in the settlement of UGI Gas' recent base rate case. *Pa. PUC et al. v. UGI Utilities, Inc. – Gas Division,* Docket No. R-2019-3015162, et al. (October 8, 2020 Order approving settlement).
[32] The net increase effective January 23, 2021 would be approximately $18.4 million, because the DSIC rate would be reset to zero.

Rate LDS/LGSS: $1.6 million

Rate MLDS $0 million

Flex $0 million[33]

Phase I would be effective from January 23, 2021 through June 30, 2021. Columbia would calculate the amount of deferred revenue during this period by applying a revenue curve for the months of January 2021 through June 2021,[34] to the Phase 2 rate increase of $38.4 million, for a revenue deferral of $20.4 million, after concessions. The deferred revenue by month[35] is shown below:

Month	Total	RS/RDS	SGS/DS-1	SGS/DS-2	SDS/LGSS	LDS/LGSS	MLDS	Flex
Jan. 2021	**1,561,091**	**1,128,178**	**131,288**	**150,724**	**86,383**	**62,644**	**0**	**1,874**
Feb. 2021	**6,084,648**	**4,397,289**	**511,719**	**587,475**	**336,694**	**244,166**	**0**	**7,306**
Mar. 2021	**5,189,329**	**3,750,255**	**436,423**	**501,031**	**287,151**	**208,239**	**0**	**6,231**
Apr. 2021	**3,678,721**	**2,658,560**	**309,380**	**355,182**	**203,562**	**147,621**	**0**	**4,417**
May 2021	**2,260,772**	**1,633,828**	**190,131**	**218,278**	**125,100**	**90,721**	**0**	**2,714**
June 2021	**1,666,463**	**1,204,329**	**140,150**	**160,897**	**92,214**	**66,872**	**0**	**2,001**
Period Total	**$20,441,023**	**14,772,438**	**1,719,090**	**1,973,587**	**1,131,103**	**820,262**	**0**	**24,543**

On July 1, 2021, Phase 2 of the rate increase would go into effect as shown below.

July 1, 2021 forward:

Additional pro forma annual revenue increase of $38.4 million (2nd step tariff billing rate increase), allocated to customer classes, as follows:

Rate RS/RDS: $27.7 million

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[33] The revenue increase for flex customers is $5,465, which is limited to the increased customer charge for the SGDS/SDS/LDS classes.

[34] The revenue curve was derived by dividing the monthly base revenue produced at proposed rates by the total proposed base revenue shown on Exhibit 103, Schedule 8. Base revenue by month is calculated by multiplying proposed rates by rate class (RS/RDS, SGS/DS-1, SGS/DS-2, SDS/LGSS, LDS/LGSS, MLDS) by the rate classes monthly billing determinants, as summarized in Exhibit 103, Schedule 8.

[35] The revenue curve percentage for the month of January would be adjusted to calculate only a partial month's percentage to reflect the January 23, 2021 effective date of rates.

Rate SGS/DS-1:	$3.2 million
Rate SGS/DS-2:	$3.7 million
Rate SDS/LGSS:	$2.1 million
Rate LDS/LGSS:	$1.6 million
Rate MLDS	$0 million
Flex	$0 million

As a result, the July 1, 2021 rates would be designed to produce the total amount of the Commission-approved increase on an annual basis over Columbia's current rates.

Finally, in order for Columbia to recover the deferred revenue FPFTY (*i.e.*, the period that rates would have been in effect as a result of this proceeding), Columbia proposes to bill the deferred revenue using the Company's monthly pro forma throughput volumes and the Commission's approved revenue allowance. The Company would recover the deferred revenue recorded in the regulatory asset through a temporary fixed fee over the defined one-year period beginning on January 1, 2022 and ending on December 31, 2022. Columbia believes that this phase-in alternative revenue program appropriately balances the Company's need to continue funding its critical infrastructure replacement and safety work, while also considering the economic effect of COVID-19 on its customers.

U. EXCEPTION NO. 21-THE RD ERRED IN RECOMMENDING THAT THE COMMISSION REQUIRE COLUMBIA TO UPDATE ITS COMPETITIVE ALTERNATIVE ANALYSIS (RD, PP. 396-97).

The RD erred in recommending that the Commission require Columbia to provide an update to the competitive alternative analysis for any customer whose alternative fuel source has not been verified for a period of ten years or more when Columbia files its next base rate case, as requested by I&E. RD, p. 397. The RD reasons that "[f]rom time to time, the utility needs to investigate and analyze competitive alternatives to verify the flex rate is not discounted lower

than necessary to avoid the customer choosing the alternative supply." RD, p. 397. The RD fails to recognize that Columbia currently analyzes competitive alternatives and verifies that a flex rate is justified before the Company enters or renews a flex rate agreement. Columbia MB, pp. 146-47. Thus, Columbia already verifies competitive alternatives for flex rate customers "from time to time" when the Company has the option not to renew an expiring flex rate agreement or the ability to decline entering a new flex rate agreement. Columbia demonstrated that its existing process is effective, and the Company has discontinued flex rates that it determines are no longer justified upon expiration of the flex rate contract. Columbia MB, p. 145; Columbia RB, pp. 90-91. Requiring the Company to undertake an additional competitive alternative analysis during the terms of existing flex contracts that are not yet up for renegotiation would serve no useful purpose and would not be a prudent use of resources.

For these reasons and the reasons explained in Columbia's briefs, the Commission should reject the RD's recommendation to require Columbia to undertake a competitive alternative analysis.

V. EXCEPTION NO. 22 – THE RD ERRED IN CONCLUDING THAT COLUMBIA'S CAP COLLECTIONS POLICY MAY NOT BE CONSISTENT WITH THE COMMISSION'S *FINAL CAP POLICY STATEMENT ORDER* (RD, P. 237).

Columbia excepts to the RD's conclusion that Columbia's Customer Assistance Program ("CAP") collections policy may not comply with the Commission's *Final CAP Policy Statement Order*. RD, pp. 237-38. The Commission's *Final CAP Policy Statement Order* states that "a utility should initiate collection activity for CAP accounts after no more than two payments in arrears." 52 Pa. Code § 69.265; *2019 Amendments to Policy Statement on Customer Assistance Program, Final Policy Statement Order*, Docket No. M-2019-3012599 (Order entered November 5, 2019). As Columbia explained in its MB, pp. 99-101, and RB, pp. 61-64, Columbia follows its

CAP collections policy as set forth in the Company's Commission-approved Universal Service and Energy Conservation Plan ("USECP"), which provides that the Company will pursue collections on CAP bills after two missed payments. Therefore, Columbia's CAP collections policy is consistent with the Commission's *Final CAP Policy Statement Order,* and the Commission should reject the RD's contrary conclusion.

III. CONCLUSION

For all the foregoing reasons, Columbia Gas of Pennsylvania, Inc. respectfully requests that the Pennsylvania Public Utility Commission grant the above Exceptions and approve the Company's revised rate increase request of $76.8 million.

Respectfully submitted,

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Date: December 22, 2020