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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 (filing room)
Harrisburg, PA 17120

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

The Pennsylvania State University v. Columbia Gas of Pennsylvania, Inc.; Docket No. C-2020-3020666;

THE PENNSYLVANIA STATE UNIVERSITY'S EXCEPTIONS

Dear Secretary Chiavetta:

Enclosed please find The Pennsylvania State University's Exceptions to the December 4, 2020 Recommended Decision in the above-referenced dockets. Copies have been served in accordance with the attached Certificate of Service.

Should you have any questions or comments, please feel free to contact me directly.

Very truly yours,

/s/ Thomas J. Sniscak

Thomas J. Sniscak
Whitney E. Snyder

Counsel for The Pennsylvania State University.

TJS/BRB
Enclosure
cc: Honorable Katrina Dunderdale (via email kdunderdal@pa.gov)
Per Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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Whitney E. Snyder

Dated this 22nd day of December, 2020

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS OF THE PENNSYLVANIA STATE UNIVERSITY

Respectfully submitted,

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Counsel for The Pennsylvania State University

DATED: December 22, 2020

INTRODUCTION AND SUMMARY

The Pennsylvania State University ("PSU"), by and through its attorneys in this matter, Hawke McKeon & Sniscak LLP, hereby submits its Exceptions to the Recommended Decision ("RD") of Administrative Law Judge ("ALJ") Katrina L. Dunderdale pursuant to the Secretarial Letter dated December 4, 2020 and 52 Pa. Code § 5.533.

The RD recommends that the Commission reject Columbia's rate increase in its entirety due to the wide-reaching impacts of the COVID-19 pandemic. The RD then provided an alternative analysis if the Commission decides not to agree with the RD's recommendation and to instead allow Columbia to implement a rate increase at this time. PSU excepts to one portion of the alternative recommendation.

In the alternative recommendation, the RD incorrectly adopted the Office of Consumer Advocate's ("OCA") Peak & Average Cost of Service Study ("COSS") rather than Columbia's balanced Average COSS. The Peak & Average COSS significantly subsidizes rates of the residential class, in contradiction to the Commission's established principles and *Lloyd*,[1] particularly when contrasted against Columbia's Average COSS which is a more just and fair approach that balances the interests of all rate classes. The Commission should find that the RD erred in adopting the OCA's Peak & Average COSS and should adopt Columbia's Average COSS.

[1] *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa Cmwlth. 2006) (*Lloyd*)

EXCEPTIONS

I. PSU Exception No. 1: The Commission should reject the RD's alternative recommendation to adopt the OCA's Peak and Average COSS because it is an unbalanced approach subsidizing the residential class.

The RD stated that Columbia's Customer Demand Study would be the preferred method, but then nonetheless recommended that OCA's Peak and Average COSS should be adopted.[2] The RD further held that Columbia did not meet the burden of proving the Company's averaging of Customer Demand and Peak and Average COSSs should apply.[3] The RD further incorrectly found that the OCA's Peak and Average COSS allocated the costs of mains in the most appropriate, sound, and reasonable method for cost allocation and adopted a 50 percent distribution main system costs allocation on the basis of peak demands and the remaining 50 percent of the Company's distribution main costs allocated on annual, or average, demands.[4] PSU and its witness as well as the evidence in this case show that Columbia's averaging of both of its COSS study methods was the most balanced and fair approach to the allocation of costs, whereas the Peak and Average study put forth by the OCA is biased to favor the residential class and leads to substantial subsidization of residential main costs in violation of *Lloyd.*

The RD, in adopting the OCA's Peak and Average COSS, failed to balance the interests of all customer classes in favor of the OCA's tilted study with the unsupported and incorrect rationale that the residential class overpays for its cost of service.[5] The RD, rather than balancing the interests of all of Columbia's customers, chose to subsidize the cost of service provided to the

[2] RD at 394-395.

[3] RD at 394

[4] RD at 394-395.

[5] RD at 394.

residential class at the expense of all other classes, disregarding both well-settled case law and Commission precedent.

<u>A. The OCA's Peak and Average COSS significantly subsidizes the rates of the residential class because it fails to reasonably allocate the cost of distribution mains</u>

The RD erroneously adopted the OCA's Peak and Average COSS which rejects the Company's Customer-Demand methodology and ultimately does not allocate the cost of service reasonably or appropriately under well-settled cost-causation principles. Simply put, the Peak and Average COSS methodology fails to take into account the number of customers for which a main must be sized to meet their demands, ignores the evidentiary record discussing characteristics of Columbia's suburban and rural service territory, and ignores the fact that distribution main costs are customer-driven expenses.[6] The result is a lop-sided rate structure, heavily subsidizing the residential class, at the expense of other rate classes.[7] This is easily seen in Table 8 of the RD that illustrates the increase to the residential classes RSS/RDS is 21.4%, while the increase to the small and large industrial classes SDS/LGSS and LDS is 36.0%. A decision recommending such an extreme difference in proposed revenue distribution is not fair and illustrates the flaws in adopting the OCA's recommended COSS. Importantly, Columbia's desire to fairly treat all customer groups led to its use of the Average COSS that balances the industrial-favoring Customer Demand COSS (which the RD actually said would be preferred) with Columbia's residential-favoring Peak & Average COSS.

As the Commonwealth Court has held in *Lloyd*, cost of service is the "polestar" for allocating revenue and cannot be simply ignored. *Lloyd* also held that cross-class subsidies in

[6] PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 7:4-9:9.

[7] Columbia St. No. 11, Direct Testimony of C. Notestone at 3:5-11.

existence from commercial and industrial classes may not be increased but should decrease over time. Rather than consider the Company's Average Study,[8] which resulted in a revenue allocation proposal that is a balanced approach and fairly weighs the interests of residential customers and industrial class customers such as PSU, the RD adopted the OCA's Peak and Average methodology which results in the residential rate class not paying for their fair share of mains and increasing cross-class subsidization.

PSU Witness Mr. Crist testified to the reasons why the costs of mains must be allocated based on the number of customers served – distribution costs. This is especially true in suburban and rural regions in Columbia's territory which greater necessitates that costs of distribution mains be allocated on a customer basis.[9] Indeed, capital costs for Columbia's distribution system are customer-focused because they are primarily driven by extensions to add additional customers or accelerated pipe replacement programs to replace aging customer pipes with new plastic gas piping.[10] PSU Witness Mr. Crist also testified the OCA's position that piping was designed to meet average demand rather than peak demand is flawed.[11] None of these reasons were discussed in the RD, rather the hundreds of pages of COSS related testimony in this proceeding were ruled on in sweeping conclusions totaling three paragraphs adopting the unbalanced OCA Peak and Average COSS.[12]

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[8] While PSU witness Mr. Crist correctly advocates for use of the Company's Customer Demand cost of service study and resulting revenue allocation, PSU argued in its main brief consistent with Mr. Crist's testimony that the ALJ and the Commission should adopt as a compromise position the Company's Average Study for cost of service and resulting revenue allocation and rate design. PSU MB at 2.

[9] PSU MB at 7-8 (citing PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 7:4-9:9.)

[10] *Id.*

[11] PSU MB at 9-10 (citing PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 9:18-10:13)

[12] RD at 394-395

Best highlighting the issue with the Peak and Average study was Columbia's Witness Notestone, who testified that the Peak and Average study ***grossly over allocates mains costs*** by assigning over 68 miles of pipe on average to 9 of the 10 largest customers.[13] That the RD did not consider this gross over allocation evidence and the issues with the Peak and Average study in its three-paragraph ruling on the COSS issue is telling. This substantial and credible evidence cannot be ignored. Accordingly, the Commission should reject the unbalanced OCA Peak and Average study and instead adopt the Average Study the Company presented, and PSU supports as discussed below.

<u>B. The Commission should adopt the Company's Average COSS</u>

The Average COSS is a balanced and fair cost of service study on which to base revenue allocation because it equally weighs the Company's Customer-Demand Study, which generally favors industrial class customers, and the Company's Peak and Average Study, which generally favors the residential class.[14] PSU Witness Mr. Crist testified that despite testimony dismissing the Customer-Demand Study, the customer-demand methodology is a valid, NARUC recognized methodology, and cannot be dismissed or ignored.[15] The RD, in rejecting the Customer-Demand Study, incorrectly found that the Company's studies contained flaws, appearing to adopt the OCA's position regarding the allocations of mains based on average throughput and entirely disregarding the customer component related costs in distribution mains allocation that the OCA incorrectly alleges skew the results of the Company's COSSs.[16] In this regard, the RD ignored the

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[13] Columbia St. No. 11-R, Rebuttal Testimony of C. Notestone at 9:8-10:7

[14] Columbia St. No. 11, Direct Testimony of C. Notestone at 3:5-11.

[15] PSU St. No. 1-R, Direct Testimony of J. Crist at 6:6-9:9

[16] RD at 309.

long-standing basis for balancing the interest of all rate classes under established rate making principles.[17] As Company witness Mr. Notestone testified:

> It is broadly accepted that a single allocated cost of service study cannot and should not be relied upon to determine the exact cost to serve each class of customers. The National Association of Regulatory Utility Commissioners, in its June 1989 Gas Distribution Rate Design Manual, stated that "there is no one correct cost of service, but rather a range of reasonable alternatives." Clearly, if Columbia or any other party to this case were to simply choose a single study as the basis for allocating costs, doing so would produce an outcome that unfairly favors or disfavors a specific class of customers.
>
> Columbia submitted three studies because of the very real understanding that no single study by itself can give an accurate determination of rate class cost of service to be used as a basis of revenue responsibility for each rate class.[18]

The core issue driving the dispute between cost of service methodologies is the treatment of main costs. Mains and services account for approximately 87% of the Company's gross plan investment and approximately 56% of O&M expenses.[19] Thus, allocation of these items significantly influences the outcome of the cost of service studies.[20] "With all three studies, the allocation of costs is essentially the same, with the exception of the allocation of mains."[21] The dispute centers on whether the costs of these mains should be allocated based on the number of customers and the peak day demand or the peak day design and the average throughput or a mix of the two.

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[17] *Lloyd*.

[18] Columbia St. No. 11-R, Rebuttal Testimony of C. Notestone at 2:13-3:3.

[19] Columbia St. No. 11, Direct Testimony of C. Notestone at 13:20-14:5.

[20] Columbia St. No. 11, Direct Testimony of C. Notestone at 13:20-14:5.

[21] Columbia St. No. 11-R, Rebuttal Testimony of C. Notestone at 3:7-8.

> The Customer/Demand Study weights the allocation of mains using a factor based on the number of customers (Customer) and the company's peak day design (Demand). This method recognizes the customer number component of mains.
> In the Peak & Average Study, the allocation of mains uses a factor weighting 50% to the Company's peak day design (Peak), and 50% to the Company's throughput (Average).
> As stated above, the Average Study gives equal weight to the Customer/Demand and the Peak & Average methods.[22]

Indeed, because 50% of mains costs in the Peak and Average study is based on throughput, the results of the RD's recommendation are not reflective of how Columbia incurs costs to provide service.[23]

The Company used a detailed, specific, and logical approach to allocation of these costs within its cost of service studies, considering different types of mains, the numbers of and types of customers that use them and the demands of those customers to allocate costs for each different type of main based on these factors "in order to allocate the cost of those systems to the customers who used them."[24]

> The primary purpose of assigning distribution mains into separate categories is to develop a mains cost allocation that is more consistent with cost incurrence. Because of the Company's Graphical Information System ("GIS"), the Company has the capability to identify which premises are served off which pipe segments, the operating pressures of those pipe segments, the size of pipe, and the pipe material (ie. steel, plastic). This further refinement allows Columbia to more accurately identify the specific mains being used to serve specific customers and, therefore, more accurately assign mains when determining the revenue responsibility for each rate class.[25]

[22] Columbia St. No. 11-R, Rebuttal Testimony of C. Notestone at 3:9-16.

[23] Columbia St. No. 11-R, Rebuttal Testimony of C. Notestone at 19.

[24] Columbia St. No. 11, Direct Testimony of C. Notestone at 5:8-14:5.

[25] Columbia St. No. 11-R, Rebuttal Testimony of C. Notestone at 24:10-18.

The RD erred in ignoring or misunderstanding the evidentiary record when finding that the Company did not meet the burden of proving the Company's Average COSS should apply.[26] The evidentiary record clearly shows the benefits of the Company's Averaged COSS – it provides equal weight to the industry favoring Customer-demand study and the residential favoring Peak and Average study, the result of which produces the most appropriate and reasonable cost allocation that neither creates additional cross-class subsidization in violation of *Lloyd* nor forces one rate class to pay rates at higher than balanced cost-of-service principles. Accordingly, the Commission should find that the RD's recommended Peak and Average COSS is not reasonable as supported by the record and adopt the more balanced approach presented in the Company's Averaged COSS.

[26] RD at 394.

CONCLUSION

For all of the foregoing reasons, PSU respectfully requests that the Commission ORDER:

a. That PSU's Exceptions are GRANTED;

b. That the Commission REJECT the RD's recommendation to use the OCA's Peak and Average COSS; and

c. That the Commission ADOPT Columbia's Average COSS as the fair and balanced study weighing the interests of all rate classes.

Respectfully submitted,

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DATED: December 22, 2020