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December 30, 2020

VIA ELECTRONIC FILING

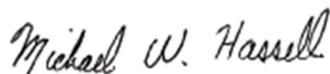
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed please find the Replies of Columbia Gas of Pennsylvania, Inc. to the Exceptions of Other Parties for filing in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Michael W. Hassell

MWH/jl
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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Date: December 30, 2020

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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.	:	

REPLIES OF COLUMBIA GAS OF PENNSYLVANIA, INC. TO THE EXCEPTIONS OF OTHER PARTIES

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I. INTRODUCTION

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

Columbia supports the Exceptions of the Pennsylvania Public Utility Commission's ("Commission") Bureau of Investigation & Enforcement ("I&E"). I&E correctly contends that the RD errs in rejecting an analysis of Columbia's rate filing using traditional ratemaking principles. I&E correctly recognizes that safety initiatives are the primary reason for Columbia's rate increase, and that Columbia has a statutory responsibility to provide safe and reliable service. I&E Exc., pp. 6-11. Columbia notes that its revised revenue requirement position of $76.8 million is substantially the same as I&E's recommended increase of $75.9 million. Columbia Exc., p. 3; I&E Exc., p. 6.[1]

In the Introduction to its Exceptions, the Office of Consumer Advocate ("OCA") quotes approvingly a statement in the RD that Columbia could re-file for a rate increase after it collects "specific data that will help Columbia Gas, the Commission, the advocates and the ratepayers" to find a combination of rates and programs that "will work best." RD, p. 51. However, this statement ignores the record evidence in this proceeding, and fails to identify what additional data would suffice to meet the OCA's new standard.

The OCA requests that the Commission deny Columbia's current rate increase proposal, despite substantial record evidence supporting said increase under longstanding Pennsylvania and constitutional law, in favor of an unidentified standard in its next proposed rate increase. The OCA's request is without merit, as it would imperil Columbia's ability to provide safe and

[1] Columbia also concurs with the Exceptions of The Pennsylvania State University ("PSU") with respect to allocation of the revenue increase among customer classes. PSU Exc., pp. 3-8.

adequate service to customers by improperly delaying a justified increase for an extended time. It also would impose upon Columbia a requirement to support an increase in rates that is not applicable to any other utility in Pennsylvania, and would improperly modify the Commission's regulations that identify the information to be submitted with a base rate increase under Section 1308 (d) of the Public Utility Code. See 52 Pa. Code § 53.53. As the Commission recently observed in the resolution of the PGW rate case:

> Under Section 1308(d), a utility seeking an increase in base rates carries the heavy burden to prove they are just and reasonable. When compiling information in support of a rate filing, the utility must provide evidence sufficient to support its claims. If parties disagree with the proposed rates, they have the ability to submit countervailing evidence with suggested adjustments to the proposed rates. This process is detailed in the statutory and regulatory structure of the Code and the Commission's bountiful Regulations.
>
> ***
>
> We are reticent to issue a directive to PGW that it must compile and submit information in its next base rate proceeding about warming trends and climate change impacts on its rates because it creates a new, but undefined bar of proof for PGW. It begs the question what amount of information would be sufficient to fulfill the Commission's informational filing mandate – that is, what quantum of PGW action and evidence would have PGW satisfy that mandate?

Pa. P.U.C. v. PGW, R-2020-3017206, Order entered November 19, 2020, Order at p. 91.

For reasons explained below, and in Columbia's briefs, the Commission should reject the Exceptions of the OCA, the Office of Small Business Advocate ("OSBA"), and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"). For reasons explained in Columbia's and I&E's Exceptions, the Commission should follow long established ratemaking standards, which justify an increase in rates in this proceeding.

II. REPLIES TO EXCEPTIONS

A. THE COMMISSION SHOULD REJECT OCA'S ALTERNATIVE COST OF COMMON EQUITY RECOMMENDATION OF 8.5%

Columbia has explained in its Exceptions that the Commission should adopt a return on common equity of no less than I&E's recommended 9.86%, using Columbia's actual projected capital structure of 42.22% long-term debt, 3.59% short-term debt and 54.19% common equity. Columbia Exc. No. 17.[2] OCA contends that the Commission should not approve a return on common equity allowance greater than OCA's 8.5% recommendation. For reasons explained next, and in Columbia's MB, pp. 72-91, and RB, pp. 43-57, OCA's totally inadequate recommendation should be denied.

1. OCA's Barometer Group Recommendation is Flawed and Should Not be Adopted.

OCA excepts to the RD's recommendation that the Commission adopt I&E's barometer group of seven companies. In its Exceptions, Columbia did not oppose 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.

OCA supports its use of a ten company barometer group, over the barometer groups used by I&E and the Company, on the basis that more data provides a more "robust" analysis. The error in this contention is that the addition of data from a non-comparable company does not improve the final analysis. OCA's barometer group is the same as Columbia's barometer group, except for the addition of UGI Corporation. Columbia MB, p. 73. However, UGI Corporation should not be included in a gas barometer group because it is not a comparable gas utility. Non-utility operations comprise 73% of UGI Corporation's assets, 82% of its revenues and 48% of its

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[2] Columbia has excepted to the RD's recommendation to adopt a hypothetical capital structure, which disregards established Commission precedent regarding the use of actual vs. hypothetical capital structure ratios. Columbia Exc. No. 16.

net income. Columbia St. No. 8-R, p. 15. Both Columbia and I&E correctly exclude UGI Corporation from their barometer groups because non-utility operations predominate. UGI Corporation also is not included in the Commission's group of gas companies used for Distribution System Improvement Charge ("DSIC") purposes because utility assets for UGI Corporation are less than 50%.

OCA attempts to defend its inclusion of UGI Corporation in its barometer group by contending that I&E and the Company both include Chesapeake Utilities in their barometer group, arguing that Chesapeake Utilities also has diverse business operations. OCA Exc., p. 16. However, OCA's attempted comparison of UGI Corporation to Chesapeake Utilities is without merit. Many utilities have non-utility affiliate operations. However, the issue, for barometer group purposes, is whether those non-utility operations predominate over the utility operations. OCA overlooks, or intentionally ignores, that Chesapeake Utilities' gas operations represent the bulk of its operations. Chesapeake Utilities is included in I&E's barometer group, which means it satisfies I&E Witness Mr. Keller's revenue screen of 50% or more utility revenues. Chesapeake Utilities has 79% of its assets in utility operations, and 84% of its income in utility operations. Columbia St. No. 8-R, p. 16. Chesapeake Utilities is included in the barometer group because it is a comparable gas utility.

OCA also argues in favor of its use of a stand-alone analysis of NiSource Inc. ("NiSource"), Columbia's parent company. However, the RD properly gave no weight to this separate analysis. A single company is not a barometer group, and thus provides no balanced analysis of the cost of equity for gas utilities. Columbia St. No. 8-R, p. 15.[3]

[3] OCA asserts that a separate analysis of NiSource avoids a problem of "circularity inherent in the inclusion of NiSource in the Company's and I&E's respective proxy groups." OCA Exc., p. 17. This contention is not logical. If there is as problem of "circularity" in use of parent data, a recommendation based in part on a stand-alone analysis only magnifies any circularity concerns.

The Commission should reject the use of OCA's barometer group, as well as OCA's stand-alone analysis of NiSource.

2. OCA's Recommended Cost of Common Equity is Flawed and Should Not be Adopted.

OCA proposes a cost rate for common equity of 8.5%, primarily based upon a claimed DCF range of 7.5% - 9.5%. There are a number of serious flaws in the growth rate portion of OCA's analysis, which produce an erroneous result that should not be relied upon.[4]

OCA's recommended growth rate range is 4% to 6%, which is unreasonable on its face. OCA derived this range from five sources: (1) "plowback", or retained earnings; (2) Value Line historical growth rates of earnings, dividends and book value; (3) Value Line forecasts of earnings, dividends and book value growth; (4) earnings forecast from CFRA, and (5) earnings forecast from Schwab. OCA St. No. 3, pp. 46-56. The three principal flaws in OCA's analysis of growth are the use of historic growth rates, the reliance on retained earnings growth, and the inclusion of dividend and book value growth rates.

OCA claims that its recommendation accords more weight to forecasted data than to historic data. OCA Exc., p. 20. However, OCA's exhibits demonstrate that this claim is not accurate. OCA Exhibit KWO-4, p. 1 shows that OCA's various historic growth rates range from 4% to 6.5%. That same exhibit shows that OCA's forecasted growth rates range from 5.4% to 9.3%. A simple average of OCA's projected growth rates, when added to its recommended dividend yield, produces a DCF result of 10.4%, as also shown on Exhibit KWO-4, p. 1. Indeed, Mr. Moul clearly demonstrated that the DCF return using the OCA forecast of earnings per share growth is 11.00%, as shown on page 22 of Statement No. 8-R. Thus, it is evident that OCA's recommended 4% to 6% growth rate range, and its resulting 7.5% to 9.5% return on common

[4] As explained in Columbia's Exceptions, the dividend yield recommendations of Columbia, I&E and OCA are consistent. Columbia Exc., p. 25.

equity recommendation, is heavily influenced by, if not primarily reliant upon, historic growth rate data. Historical growth is clearly incompatible with the Commission's prescription that states: "Multiple sources of the Barometer companies projected 5-year Earnings Per Share are used to calculate the Group Average Dividend Growth Estimate." *See* page 26 of the Quarterly Earnings Report at Docket Number: M-2020-3021797.

OCA's reliance upon historical growth rate information, and its criticism of I&E's reliance upon projected growth rates, is flawed. OCA Exc. pp. 22-23. The DCF is an expectational model, which recognizes that investors do not purchase past earnings, but look to projections of future earnings. While investors' projections of earnings are informed by historic experience, that historic information is already taken into account in the projected growth rates, and it is improper double counting to separately consider historic growth rates. Professor Myron Gordon, the foremost proponent of the DCF, has explained that the best measure of growth is a forecast of earnings per share growth. Columbia St. No. 8, p. 25. This case demonstrates well the error in relying substantially upon historic growth rates. OCA's historical results are heavily distorted by negative returns. See OCA Ex. KWO-1. Rational investors do not invest in a company with an expectation of negative growth and loss of capital.[5]

OCA's reliance on retained earnings growth in its common equity recommendation is similarly flawed and should be rejected. Retained earnings growth, often referred to as "b x r", is not a proper method to consider in developing a growth component for the DCF and has been rejected by the Commission. *See, UGI Electric*, pp. 90, 92. *Pa. PUC v. The York Water*

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[5] OCA's contention that economic uncertainties justify excessive reliance on historical growth rates is fundamentally flawed. OCA Exc. p. 22. Increased economic uncertainties add to a utility's risk, supporting higher future allowed returns. Mr. Moul prepared an update of his rate of return analysis as part of his rebuttal testimony, to capture changes to return on equity data in 2020 related to COVID-19. Those updates showed significant increases to Mr. Moul's DCF and CAPM results, with smaller downward changes to his Risk Premium and Comparable Earnings results. Columbia St. No. 8-R, pp. 8-10.

Company, 62 Pa. PUC 459, 504 (1986). As Columbia's expert witness Mr. Moul explained, the retained earnings approach merely adjusts an assumed return on book common equity by the difference in the dividend yield on book value and the dividend yield on market value. Columbia St. No. 8-R, pp. 21-22. This is evident from OCA witness Mr. O'Donnell's Exhibit KWO-2 and KWO-3. Mr. O'Donnell begins with a projected 10.1% return for his proxy group, which he derives from Value Line. He then calculates retained earnings growth, or "plowback," of 4.3%, resulting in a dividend yield on book value of 5.8% (10.1% - 4.3%). That dividend yield on book value is replaced by his calculated dividend yield on market value (averaging 3.43%) to produce a DCF return of 7.73%. OCA offers no explanation as to why an investor who expects a return of 10.1% should only have an opportunity to earn 7.73%. An achieved rate of return of 10.1% simply is not possible to attain if the authorized return is calculated to be less than 8%.

OCA's retained earnings growth methodology is clearly designed to achieve what OCA asserts as its goal: to "tamp down" investor expectations. OCA M.B., p. 90. However, the ratemaking process is not intended to tell investors what to expect. This is akin to telling investors that their stock market prices are too high and should be reduced to book value levels. The Commission previously has concluded that regulation is not intended to set market prices, or to override the market to tell investors to change their expectations. *Pa. P.U.C. v. York Water Company*, 1986 Pa. PUC LEXIS 26, *103, n. 24.

The third flaw in OCA's 4% to 6% growth rate recommendation is its use of dividend per share and book value growth, in addition to earnings per share growth. As Mr. Moul explained:

> Mr. O'Donnell presents EPS, DPS, and BPS growth rates. Mr. O'Donnell is incorrect to believe that DPS and BPS have any role in the DCF model. The theory of the model rests on the assumption that there will be a constant price-earnings multiple,

> and therefore the price of stock will increase at the same rate as earnings growth. Moreover, with the constant payout ratio assumption of the DCF, dividend growth will equal earnings growth in the long-term. Finally, with a consistent market-to-book ratio assumption of the DCF, book value per share will equal the other variables of growth, *i.e.*, earnings per share and dividends per share.

Columbia St. No. 8-R, p. 20.

If Mr. O'Donnell had relied upon earnings per share growth rate projections, his results would have been in line with Mr. Moul's recommendations. The forecasted earnings per share growth rates presented by Mr. O'Donnell from Value Line, CFRA and Schwab produce an average growth rate of 7.57%, comparable to Mr. Moul's recommended 7.5%.

For these reasons, OCA's recommended growth rate range of 4% to 6% is demonstrably flawed and should be rejected.

OCA further asserts that it prepared a CAPM analysis as a check on its DCF results. OCA Exc. pp. 20-21. However, OCA's CAPM analysis produces results so low as to be demonstrably unjustified, with a range of 5.5% (barely above Columbia's embedded debt cost) to 7.5%. While correctly using data for 30-year Treasury Bonds, OCA improperly uses only historic bond yields in its CAPM. OCA M.B., p. 91. The use of only historic data fails to reflect the expectational nature of rate of return calculations. Use of historic data also fails to reflect that rates are being set for a FPFTY. OCA also includes an improperly low equity risk premium of 4% to 6% (beta adjusted to 3.4% - 5.1%) in its CAPM. OCA M.B., p. 92. OCA derives this excessively low risk premium by using non-standard data sources in support of a market risk premium, and by using geometric means rather than arithmetic means in its historical analysis of total market returns. Columbia St. No. 8-R, p. 31.[6] The Commission has rejected the use of

[6] OCA used data from entities including BlackRock, Grantham Mayor Van Otterloo, JP Morgan Morningstar (10 year returns), Research Affiliates and Vanguard.

geometric means for CAPM purposes. *UGI Electric*, p. 99. OCA's CAPM analysis should be disregarded.

Columbia did prepare several CAPM analyzes. These analyzes produced results ranging from 10.19% to 12.49%. Columbia MB, p. 82. Even if Mr. Moul's recommended size adjustment of 1.02% is excluded, Columbia's CAPM results range from 9.17% to 11.47%, with an average of 10.32%. These results provide an appropriate check upon the 9.86% return on equity supported by I&E.

Finally, OCA points to the ALJ's reference to OSBA's argument that a return on equity in the range of 7.63% might be justified. OCA Exc. p. 18. Columbia has explained in its Exceptions that OSBA's Risk Premium/CAPM hybrid analysis is without merit and should be rejected. Columbia Exc., pp. 26-27.

B. OCA'S EXCEPTION TO THE ALJ'S DETERMINATION THAT COLUMBIA DOES NOT NEED TO EXPAND ITS OUTREACH EFFORTS SHOULD BE DENIED. (OCA EXC. 2)

Columbia recognizes the importance of effective outreach and supports programs that provide assistance to customers in need. Columbia believes that an integral part of providing effective assistance to customers is ensuring that customers are aware of the assistance programs available to them. *See* Columbia MB, pp. 25-26, 107-09. Columbia does not disagree with the fundamental outreach principles suggested by OCA, and has developed its outreach efforts consistent with those fundamental principles. As explained in Columbia's MB, pp. 25-26, 106-08, and RB, pp. 70-72, and as further detailed next, Columbia's outreach efforts are already strong and effective at reaching customers in need. The ALJ correctly determined that Columbia's outreach efforts are sufficient, and there is no need to change the Company's outreach initiatives at this time. Therefore, OCA's exception to the ALJ's recommendation should be denied. RD, pp. 240-41.

OCA suggested that Columbia implement four outreach principles: (1) use the community as a means of identifying and engaging the hard to reach population; (2) focus on relationship building as opposed to relying on staff contacts; (3) go to the community rather than making the community come to Columbia; and (4) rather than relying primarily on Company communications, rely on trusted messengers from within the community. OCA Exc., pp. 12-13. As explained in Columbia's briefs and summarized below, these principles are already embodied in Columbia's existing outreach efforts.

OCA's recommendation that Columbia use the community as a means of identifying and engaging the hard to reach population is already in practice. Columbia uses many different venues and methods to reach customers outside of Columbia's call center. Columbia uses community meetings, Customer Assistance Program ("CAP") screening agencies, web site updates, targeted mail solicitations, paid social media advertisements, advertisements on the Company website, television advertisements, advertisements on busses, billboards and radio advertisements to educate customers regarding the availability of assistance programs. Columbia MB, p. 108. The Company develops an annual strategy for outreach that includes an advertising component and at least one Company sponsored community engagement opportunity. Each year, the Company also identifies a new audience to specifically target, such as the elderly, veterans or the working poor. Columbia MB, p. 108. In addition, the Company works with its Universal Service Advisory Council ("USAC") members, which include representatives from the community, to review outreach efforts for effectiveness and develop new approaches. Columbia MB, pp. 107-08.

OCA's recommendation that Columbia focus on relationship building as opposed to relying on staff contacts is already in practice. Each year, the Company participates in fifteen to

twenty legislative and/or senior events and three Be Utility Wise events to promote programs to individuals, community advocates and caseworkers. Columbia works to build relationships in the community through these events. Columbia MB, p. 108.

OCA's recommendation that Columbia go to the community rather than making the community come to Columbia is already in practice. Columbia actively engages in outreach activities within the community, including accepting CAP applications in the community. For example, Columbia has accepted CAP applications at worship sites, unemployment offices, banks, stores, community action agencies, senior centers, Salvation Army offices, and in customer homes when necessary. Columbia MB, p. 108.

OCA's recommendation that Columbia rely on trusted messengers from within the community is already in practice. Columbia utilizes resources within the community to promote assistance programs. The Company has partnered with various community resources, including housing authorities, veterans' groups, career training centers, medical clinics, Department of Human Services, and other local community-based agencies to help reach low-income customers. Columbia MB, p. 108.

In response to the challenges faced by many customers as a result of the COVID-19 pandemic, Columbia has instituted enhanced programs that will enable customers to maintain service through targeted relief efforts, such as waiver of late fees and penalties, and expansion of customer assistance efforts. Columbia is using several different resources to educate customers regarding the Company's current collection practices and available assistance programs, including social media posts on Facebook and Twitter, targeted outbound calls for the Low Income Home Energy Assistance Program ("LIHEAP") recovery CRISIS program, e-mails to customers who may be eligible for the LIHEAP recovery CRISIS program, e-mails to customers

regarding current collection practices, updated information on the Company website regarding terminations for non-payment, bill inserts, and customer newsletters. Columbia MB, pp. 25-27.

As part of Columbia's proactive outreach measures, the Company also decided to reverse calls from its customer care call center. That is, rather than waiting for customers to contact Columbia, Columbia's customer service representatives made outbound calls to customers who were previously eligible for LIHEAP assistance but did not appear to be currently seeking LIHEAP assistance. The purpose of the outbound calls was to obtain permission from eligible customers to apply for LIHEAP on their behalf. The Company has assisted 1,376 customers in receiving $405,142 in LIHEAP Recovery CRISIS assistance, primarily as a result of outreach efforts made by Company representatives to customers. Columbia MB, pp. 25-26.

OCA contends that its outreach recommendations are necessary because they are designed to help address Residential customer arrears as identified in the Company's June 2020 Management Audit. *See Management and Operations Audit of Columbia Gas of Pennsylvania, Inc.,* Docket No. D-2019-3011582, June 2020 Management and Operations Audit, p. 59 ("*June 2020 Management and Operations Audit*"). OCA Exc., pp. 11-13. OCA's recommendations are not necessary to address the issue of Residential customer arrears because this issue is already being addressed in Columbia's Implementation Plan submitted in response to the *June 2020 Management Audit*. *See Management and Operations Audit of Columbia Gas of Pennsylvania, Inc.,* Docket No. D-2019-3011582, June 29, 2020 Implementation Plan ("*June 29, 2020 Implementation Plan*"). Specifically, the *June 29, 2020 Implementation Plan* provides, "[t]he Company's focus during this time is to work with customers to minimize arrearage balances through outreach." *June 29, 2020 Implementation Plan*, p. 16. Columbia's *June 29, 2020 Implementation Plan* consists of three action steps:

1. Create a multi-departmental focus group to identify process changes to improve the management of customer accounts and collection performance to reduce account arrearages.
2. Review all internal arrearage reports to define the content and promote consistency among data elements for better analysis and reporting.
3. Develop and document an Outreach Strategy and Communication plan to increase enrollment in Universal Service Programs, including CAP, with input from the Universal Service Advisory Council.

June 29, 2020 Implementation Plan, pp. 16-17. Columbia is currently in the process of executing the actions items identified in the *June 29, 2020 Implementation Plan*, including the development of an Outreach Strategy and Communication plan. See *June 29, 2020 Implementation Plan*, pp. 16-17. In April 2020, a detailed review of the Outreach Plan was conducted with the Company's USAC members, and Columbia has revised the Outreach Plan based upon feedback from the USAC. Columbia MB, p. 106.

For these reasons and the reasons explained in Columbia's MB, pp. 25-26, 106-08 and RB, pp. 70-72, the ALJ correctly determined that the Company's outreach efforts should not be changed at this time, and OCA's exception on this issue should be denied.

C. CAUSE-PA'S EXCEPTION TO THE ALJ'S RECOMMENDATION THAT THERE IS NO NEED TO CHANGE COLUMBIA'S OUTREACH INITIATIVES SHOULD BE DENIED. (CAUSE-PA EXC. 3)

As Columbia explained above in Section II. B of these Reply Exceptions, Columbia's existing outreach efforts are comprehensive and effective. CAUSE-PA proposes that Columbia design a plan to reach 50% of confirmed low-income customer enrollment in CAP by 2025. CAUSE-PA Exc., p. 13. After evaluating CAUSE-PA's proposal, the ALJ recommended that there is no need for Columbia to change its outreach initiatives at this time. RD, pp. 240-41. CAUSE-PA excepts to the ALJ's recommendation. While Columbia recognizes the importance of outreach, the Company agrees with the ALJ's determination that the Company's existing

outreach efforts are appropriate and working as intended. Further, Columbia disagrees with CAUSE-PA's proposed metric for evaluating CAP enrollment.

Contrary to CAUSE-PA's assertions, the Company's existing outreach and enrollment levels are already successful. There is no limit on the number of eligible customers who may enroll in Columbia's CAP. The Company undertakes extensive outreach to its low-income customers through social media, targeted outbound calls and e-mails to customers, bill inserts and customer newsletters. Columbia strives to promote CAP enrollment through everyday customer interaction, including community-based outreach efforts as explained in Section II. B of these Replies to Exceptions. Whenever Columbia is in contact with a customer regarding payment difficulties, CAP is explored as an option. In fact, the Company's call center scripting states that CAP is the best option for low-income customers. All identified low-income customers who need assistance with their gas bill are offered CAP. *See* Columbia MB, pp. 102-04; Columbia RB, pp. 64-66.

Columbia's extensive outreach efforts have resulted in the Company outperforming other gas utilities in Pennsylvania with respect to CAP participation. In 2017 and 2018, Columbia's CAP participation rate was the second highest according to the Commission's 2018 Universal Service Programs & Collections Performance Report.[7] Only one gas utility has reached 50% of confirmed low-income customer participation in the last three years and, unlike Columbia, that utility only counts customers as confirmed low-income if there is a documented income verification on file.[8]

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[7] Pennsylvania Public Utility Commission Report on 2018 Universal Service Programs & Collections Performance (published December 2019), available at https://www.puc.pa.gov/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2018.pdf.
[8] *Id.*

CAUSE-PA suggests an inappropriate metric for measuring CAP enrollment. As explained in Columbia's MB, pp. 103-05, CAP enrollment should not be evaluated based on the total number of enrolled CAP customers compared to the total number of confirmed low-income customers. This comparison is inappropriate because the number of confirmed low-income customers does not provide an accurate basis for evaluation. The reported number of "confirmed" low-income customers includes customers who self-declare their income. It is not uncommon for a customer to report their income but refuse CAP participation when they are required to provide income verification. The self-declared income provided by the customer remains "confirmed" low income even though the customer has refused to provide supporting documentation and is not enrolled in CAP. Thus, the confirmed low-income count is not a true reflection of customers eligible for CAP because not all self-declared low-income customers qualify for CAP based on documented income.

In addition, many confirmed low-income customers are able to afford their bill through other assistance programs, such as LIHEAP, and CAP is not necessary. Some confirmed low-income customers can afford their bill without any assistance or simply choose not to enroll in CAP. For these reasons, an evaluation of the Company's outreach efforts should be based on the activities that work toward the result of increased CAP participation, not the end result of enrollment. Columbia MB, pp. 104-05. Further, the Commission recently addressed the Company's projected CAP enrollment levels as part of its review of Columbia's current Universal Service and Energy Conservation Plan ("USECP") proceeding, and determined that Columbia's projected CAP enrollment levels were reasonable.[9]

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[9] *See Columbia Gas of Pennsylvania, Inc.'s 2019-2021 Universal Service and Energy Conservation Plan*, Docket No. M-2018-2645401 (Order entered August 8, 2019).

For these reasons and the reasons explained in Columbia's MB, pp. 102-04, and RB, pp. 64-66, the ALJ correctly determined that Columbia's existing outreach efforts should not be changed, and CAUSE-PA's exception on this issue should be denied.

D. CAUSE-PA'S EXCEPTION TO THE ALJ'S RECOMMENDATION THAT COLUMBIA MAINTAIN ITS EXISTING ENERGY BURDENS SHOULD BE DENIED. (CAUSE-PA EXC. 1)

In this proceeding, CAUSE-PA proposed to modify the maximum energy burden for CAP customers on the Percent of Income payment plan to match the guidelines suggested in the Commission's *Final CAP Policy Statement Order*. *See 2019 Amendments to Policy Statement on Customer Assistance Program, Final Policy Statement Order*, Docket No. M-2019-3012599 (Order entered November 5, 2019) ("*Final CAP Policy Statement Order*"). The *Final CAP Policy Statement Order* recommends a 4% energy burden for customers with income at or below 50% of the Federal Poverty Level and a 6% energy burden for customers with income between 51-150% of the Federal Poverty Level. Columbia's current energy burdens for customers on the Percent of Income payment plan range from 7.64% to 8.02%, as compared to other CAP payment options which range from having energy burdens of 2.92% to 5.34%. Columbia and OCA opposed CAUSE-PA's proposal. *See* Columbia MB, pp. 104-106; Columbia RB, pp. 66-70; OCA MB, p. 20. The ALJ appropriately denied CAUSE-PA's proposal to change Columbia's energy burdens in this proceeding. Specifically, the ALJ stated:

> Columbia Gas opposed the proposed changes to its energy burdens and the ALJ agrees with Columbia Gas. The energy burdens for Columbia Gas' CAP program should not be changed as a part of this base rate proceeding. The Commission anticipated utilities would address the energy burdens in their USECPs, and not in their base rate proceeding. *Final CAP Policy Statement Order* at 2. There is already a process in place with the Commission for utilities to address the energy burdens. The ALJ agrees with Columbia Gas that the appropriate level of the percentage of income burden should be determined in the Company's proceedings regarding its Universal Service and

> Energy Conservation Plan and not in this proceeding. Columbia St. 13-R at 15-16.

RD, p. 238. CAUSE-PA excepts to the ALJ's determination. CAUSE-PA Exc., pp. 4-8.

Any modification to the Company's existing energy burdens that are part of its CAP should be addressed in a USECP proceeding, not in a base rate proceeding. Columbia RB, p. 67. As the ALJ described, the Commission already has a process in place to evaluate energy burdens through the utility's USECP. RD, p. 238. Energy burdens should not be considered in isolation from other components of the Company's CAP and universal service offerings, but rather as part of the Company's entire universal service plan. As Columbia explained in its briefs, there are many other forms of assistance available to low-income customers that can work in conjunction with CAP to reduce the overall energy burden. *See* Columbia MB, pp. 100-02; Columbia RB, p. 67. For example, the addition of a LIHEAP grant would reduce the average energy burden for customers on the Percent of Income payment plan to 4.18%, which is in line with the Commission's *Final CAP Policy Statement Order*.

The ALJ correctly recommended that energy burdens be assessed as part of Columbia's USECP, where the costs of and need for the proposed changes can be fully assessed. RD, pp. 238-40. However, should the Commission determine that the instant proceeding is the proper proceeding to address the Company's current energy burdens, the record evidence in this proceeding supports a finding that a reduction of the energy burden for customers on the Percent of Income payment plan is not necessary. Only 4% of customers on the existing Percent of Income payment plan are removed from service for not paying their CAP payment. In addition, if a customer's energy burden under the Percent of Income Plan becomes unaffordable, Columbia offers other CAP payment plans with lower energy burdens, and customers can switch to these more affordable plans. Columbia RB, pp. 67-68.

In its Exceptions, CAUSE-PA contends that the ALJ erred by failing to direct Columbia to comply with the terms of the settlement of the Company's 2018 base rate case. CAUSE-PA Exc., p. 4. *See Pa. PUC et al. v. Columbia Gas of Pennsylvania, Inc.,* Docket No. R-2018-2647577 et al. (Order entered December 6, 2018) ("*2018 Base Rate Settlement*"). However, Columbia has fully complied with the *2018 Base Rate Settlement*. The *2018 Base Rate Settlement* does not require Columbia to change its energy burdens as part of this base rate filing. In the 2018 Base Rate Settlement, Columbia committed to the following:

> By no later than its next Universal Service and Energy Conservation Plan ("USECP") filing following the issuance of the Energy Burden Study or earlier date dictated by the Commission's Energy Burden Study (whichever is sooner), Columbia will make such filings as required by the Energy Burden Study to modify or change its CAP rate selection.

2018 Base Rate Settlement, ¶ 57. The Energy Burden Study does not direct utilities to modify their energy burdens. Columbia also has yet to file a USECP following the issuance of the Commission's Energy Burden Study.[10] On February 20, 2020, Columbia submitted a letter indicating that the Company will be prepared to address the new energy burdens set forth in the Commission's *Final CAP Policy Statement Order* no later than the Company's next USECP filing. A copy of the letter was provided as "Appendix A" to Columbia's Reply Brief. Columbia has fully complied with the commitments made in the *2018 Base Rate Settlement.*

CAUSE-PA questions whether Columbia's existing energy burdens result in reasonable CAP rates. CAUSE-PA Exc., pp. 5-6. Columbia will be prepared to address this question in its next USECP filing, where all aspects of Columbia's low-income programs, including energy burdens, can again be considered together, as was done with respect to the Company's most-

[10] Columbia filed its most recent USECP in February 2018, and is scheduled to file its next USECP in April 2023.

recently approved USECP.[11] As the Commission has observed, utilities are not required to adopt the exact energy burdens in the Commission's *Final CAP Policy Statement*. The Commission stated:

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

Petition of Office of Consumer Advocate for Reconsideration/Clarification of the November 5, 2019 Final CAP Policy Statement Order at Docket No. M-2019-3012599, Docket No. P-2020-3016885 (Order on Reconsideration/Clarification entered February 6, 2020), pp. 10-11 (emphasis added). The Company's next USECP is the most appropriate proceeding to consider any revision to energy burdens.

For these reasons and the reasons explained in Columbia's MB, pp. 104-06, and RB, pp. 66-70, the Commission should adopt the ALJ's recommendation to retain Columbia's existing energy burdens and deny CAUSE-PA's exception on this issue.

E. OCA'S AND CAUSE-PA'S EXCEPTIONS REGARDING THE ALLOCATION OF UNIVERSAL SERVICE COSTS SHOULD BE DENIED. (OCA EXC. 1; CAUSE-PA EXC. 2)

The ALJ appropriately determined that Columbia's existing practice of recovering universal service program ("USP") costs from the Residential class through Rider USP should not be changed. RD, pp. 398-99. OCA and CAUSE-PA except to the RD's rejection of their proposal to allocate USP costs to all customer classes. OCA Exc., pp. 3-11; CAUSE-PA Exc., pp. 8-12. Columbia, CII, PSU and OSBA opposed this proposal. *See* Columbia MB, pp. 145-

[11] Columbia notes that the Commission approved Columbia's current energy burdens *after* the Commission issued its *Final CAP Policy Statement Order*. *See Columbia Gas of Pennsylvania, Inc.'s 2019-2021 Universal Service and Energy Conservation Plan*, Docket No. M-2018-2645401 (Order entered January 16, 2020) ("*2020 USECP Order*"). Thus, the Commission could have directed Columbia to change its energy burdens in the USECP if it wished.

47; CII MB, pp. 17-20; PSU MB, pp. 15-20; OSBA MB, pp. 20-21. Columbia explained in its MB, pp. 145-47, and RB, pp. 91-95, why USP costs should not be allocated outside of the Residential customer class. The arguments raised in OCA's and CAUSE-PA's Exceptions do not support overturning the ALJ's recommendation on this issue, and OCA's and CAUSE-PA's Exceptions should be denied.

OCA and CAUSE-PA argue that the Commission's *Final CAP Policy Statement Order* directs that the issue of USP cost allocation be addressed in a utility's base rate case. However, as the RD appropriately observed:

> To consider the societal impacts of poverty and low income are slightly outside the bailiwick of a base rate proceeding, absent a clear directive from the Commission to consider these societal and macroeconomic theories in a base rate proceeding. Although the Final CAP Policy Statement Order does not ban the allocation of USP costs among the rate classes, more than silence is needed before a base rate proceeding should consider a regulatory issue that carries such wide-ranging policy implications.

RD, p. 399. The allocation of USP costs outside of the Residential class has far-reaching implications. *See* Columbia MB, pp. 146-47. Most Pennsylvania utilities, including those in Western Pennsylvania where Columbia operates, recover USP costs from the Residential class. OCA's and CAUSE-PA's proposal would impose an obligation on Columbia's Commercial and Industrial ("C&I") customers that is not placed on the C&I customers of other utilities in Pennsylvania. Requiring only Columbia's C&I customers, and not the C&I customers of competing natural gas distribution companies, to contribute to the costs of these programs could prompt C&I customers to bypass Columbia where they have the option to do so. Thus, OCA's and CAUSE-PA's proposal could have the unintended consequence of C&I customers leaving Columbia's system. With fewer C&I customers, a greater portion of the Company's revenue requirement must be recovered from all remaining customers, including Residential customers.

In addition, OCA's and CAUSE-PA's proposal does not consider how the revenue allocation would be adjusted to account for C&I customers with existing flex rate contracts who could not absorb the additional charge for USP costs. For these reasons, it is inappropriate to change the allocation of USP costs for the customers of a single utility in a base rate case.

OCA contends that the RD overlooks the doctrine of "public goods." OCA Exc., p. 5. As explained in Columbia's Reply Brief, pp. 94-95, OCA's "public goods" theory does not justify its proposed USP cost allocation. Universal service programs were created to reduce overall costs for Residential ratepayers related to customer arrearages and collections costs. C&I customers do not cause Columbia to incur any costs in relation to Residential customer arrearages and collections, nor do C&I customers benefit when these costs are reduced. Columbia MB, p. 146. To allocate the costs of universal service programs outside of the Residential class based on OCA's "public goods" theory would violate the principle of cost causation articulated in *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1016-21 (Pa. Cmwlth. 2006), *appeal denied*, 916, A.2d 1104 (2007).

When considered in conjunction with OCA's revenue allocation proposal in this proceeding, allocating USP costs outside of the Residential class would result in an even greater amount of revenue being allocated to C&I customers, contrary to principles of fairness and gradualism. As explained in Columbia's MB, pp. 139-40, and Columbia's Exceptions, pp. 32-34, under OCA's proposed revenue allocation, C&I customers would pay more than their fair share of the revenue increase. OCA's and CAUSE-PA's USP cost allocation proposal would exacerbate OCA's already inequitable revenue allocation.

In their Exceptions, OCA and CAUSE-PA reference a portion of the Natural Gas Competition Act, 66 Pa. C.S. § 2203(6) ("Competition Act"). Section 2203(6) provides:

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

66 Pa. C.S. § 2203(6). Specifically, OCA and CAUSE-PA contend that the word "nonbypassable" means that all rate classes must pay for USP costs, and no customer can avoid these costs. CAUSE-PA Exc., pp. 8-9; OCA Exc., pp. 6-7. As explained in Columbia's Reply Brief, pp. 92-95, the Competition Act provides no support for OCA's and CAUSE-PA's argument. The Commission and the Commonwealth Court have specifically rejected OCA's and CAUSE-PA's interpretation of the word "nonbypassable." *See Metropolitan Edison Company and Pennsylvania Electric Company*, Docket Nos. R-00061366 and R-00061367, *aff'd Met-Ed Indus. Users Group v. Pa. PUC*, 960 A.2d 189 (Pa. Cmwlth. 2008) ("*Met-Ed Indus. Users Group*") (upholding the Commission's decision to limit recovery of USP costs to the Residential class). In *Met-Ed Indus. Users Group*, the Commission stated that a "nonbypassable" charge is one that is paid by all customers in a rate class regardless of whether the customers in that rate class shop or take default service. A "nonbypassable" charge does not imply that the charge must be paid by all rate classes. *Id.* OCA's and CAUSE-PA's proposal is contrary to this precedent.

For these reasons and the reasons explained in Columbia's Main Brief, pp. 145-47, and Reply Brief, pp. 91-95, the Commission should adopt the ALJ's recommendation and deny OCA's and CAUSE-PA's proposal to allocate USP costs outside of the Residential customer class.

III. CONCLUSION

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

Respectfully submitted,

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