



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

August 26, 2025

Via Electronic Filing

Matthew L. Homsher, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
Columbia Gas of Pennsylvania, Inc.
Docket No. R-2025-3053499
I&E Main Brief

Dear Secretary Homsher:

Enclosed for electronic filing please find the Main Brief of the Bureau of Investigation and Enforcement in the above-captioned proceeding.

Copies are being served on parties per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads 'Scott B. Granger'.

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SBG/ac
Enclosures

cc: Administrative Law Judge Jeffrey A. Watson (via email – jeffwatson@pa.gov)
Administrative Law Judge Chad L. Allensworth (via email – callenswor@pa.gov)
Per Certificate of Service

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I. INTRODUCTION

A. Description of Company

Columbia Gas of Pennsylvania, Inc. (“Columbia Gas” or “Columbia” or “CPA” or the “Company”) has its principal office in Canonsburg, Pennsylvania, and provides natural gas distribution service in portions of 26 counties in Pennsylvania, primarily in the Western half of the Commonwealth, as well as parts of Northwest, Southern and Central Pennsylvania.¹ Columbia delivers natural gas service to approximately 446,000 residential, commercial, and industrial customers.² Columbia Gas is a wholly owned subsidiary of NiSource.³ NiSource, headquartered in Merrillville, Indiana, is an energy holding company whose subsidiaries provide natural gas and electricity distribution services to approximately 3.8 million customers.⁴

B. Procedural History

The following is a summary of the procedural history of this proceeding. On March 20, 2025, Columbia Gas filed Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 (“Supplement 392”) pursuant to 66 Pa. C.S. § 1308, seeking a general rate increase. Supplement 392 issued March 20, 2025, to be effective May 19, 2025, proposes changes to Columbia’s base distribution rates, and removes, revises, and adds various tariff provisions. Columbia’s filing requested an overall revenue increase of approximately \$110.5 million per year. The filing also included a request for approval of a Revenue

¹ Columbia St. No. 1, p. 3.

² *Id.*

³ *Id.*

⁴ *Id.*, p. 4.

Normalization Adjustment mechanism and a request to make permanent a previously approved Weather Normalization Adjustment pilot program.

Additionally, Columbia's filing included requests to extend its Energy Efficient Pilot for residential customers, initiate an Energy Efficiency Program Pilot for small commercial customers, and sought approval of an Economic Development Distribution Service tariff.

Finally, pursuant to the requested rates, which included the most recently effective gas cost rates, the total bill for a residential customer who purchases 70 therms of gas from Columbia per month, would increase from \$138.52 to \$154.29 per month, or by 11.38 percent.⁵

The parties to this base rate proceeding are Columbia Gas, the Commission's Bureau of Investigation and Enforcement ("I&E"); the Office of Consumer Advocate ("OCA"); the Office of Small Business Advocate ("OSBA"); the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"); the Pennsylvania Weatherization Providers Task Force ("PWPTF"), and The Pennsylvania State University ("Penn State" or "PSU"). Additionally, there were five formal complaints filed by Columbia ratepayers that were consolidated into this proceeding.

By Order entered on April 24, 2025, the Commission suspended the rate filing until December 19, 2025 and directed an investigation to determine the lawfulness, justness, and reasonableness of the rates, rules and regulations contained in this rate filing.

⁵ *Id.*, p. 7.

The matter was assigned to the Office of Administrative Law Judge, Administrative Law Judges Jeffrey A. Watson and Chad L. Allensworth presiding, for the prompt scheduling of hearings to culminate in the issuance of a Recommended Decision. A Telephonic Prehearing Conference was held on May 7, 2025.

Public input hearings were held on June 3, 2025, in-person in Washington, PA at 1:00 p.m. and 6:00 p.m.; on June 4, 2025, telephonically at 1:00 p.m. and 6:00 p.m.; and on June 11, 2025, in-person in York, PA at 1:00 and 6:00 p.m.

Pursuant to the established litigation schedule, I&E filed the following pieces of direct, rebuttal and surrebuttal testimony:

Getachew Bedasa

I&E Statement No. 1
I&E Exhibit No. 1
I&E Statement No. 1-SR
I&E Exhibit No. 1-SR

D.C. Patel

I&E Statement No. 2
I&E Exhibit No. 2
I&E Statement No. 2-SR
I&E Exhibit No. 2-SR

Esyau Sakaya

I&E Statement No. 3
I&E Exhibit No. 3
I&E Statement No. 3-SR
I&E Exhibit No. 3-SR

Alexander Pankiw

I&E Statement No. 4
I&E Statement No. 4-SR

During the course of this proceeding the parties held a series of settlement conferences but were unable to amicably resolve the issues presented in this base rate

proceeding. On Wednesday, August 6, and Thursday, August 7, 2025, at the time and place set for the evidentiary hearing, the parties appeared in-person before ALJs Watson and Allensworth. Prior to the hearing, the parties agreed to waive cross-examination of a majority of the witnesses while conducting cross examination on the few remaining witnesses. Accordingly, all parties moved for the admission of their pre-served written testimony and exhibits as well as their specific hearing exhibits. I&E moved the pieces of I&E testimony and exhibits identified *supra* into evidence. A court reporter was present and a Hearing Transcript (“Hrg. Tr.”) for August 6 and 7, 2025, was prepared and later distributed to the parties. That same day, I&E served electronic copies of the I&E testimony and exhibits, along with witness verifications, on The Sargent’s Group court reporting by email.

I&E now submits this Main Brief (“I&E MB”) in support of the arguments made by the I&E witnesses in the record evidence presented.

C. Burden of Proof

It is axiomatic that the burden of proof in any proceeding involving a utility’s existing or proposed rates is on the utility.⁶ Columbia must satisfy its burden of proof by presenting a preponderance of evidence.⁷ A preponderance of the evidence is such evidence that is more convincing, by even the smallest amount, than that presented by

⁶ See 66 Pa. C.S. §§ 1301, 315(a); *Brockway Glass Co. v. Pennsylvania Public Utility Commission*, 437 A.2d 1067 (Pa. Commw. 1981); *Lower Frederick Twp. v. Pennsylvania Public Utility Commission*, 409 A.2d 505 (Pa. Commw. 1980).

⁷ *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).

another party.⁸ If a preponderance of evidence is submitted, the burden of going forward with competing evidence shifts to opposing parties to produce credible evidence of at least equal weight.

While the burden of going forward and producing evidence may shift back and forth between the parties, the ultimate burden of persuasion remains with the Company. Further, the Commission must ensure that any adjudication is supported by substantial evidence. “Substantial evidence” is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion.⁹

I&E asserts that Columbia Gas has failed to meet its burden and therefore I&E respectfully requests that the Administrative Law Judges and the Commission adopt the adjustments and the overall revenue requirement set forth in the record evidence presented by I&E as summarized in this I&E Main Brief and in the Appendices attached hereto.

II. SUMMARY OF ARGUMENT

I&E’s total recommended revenue requirement for the Company is \$996,415,410. This recommended revenue requirement represents an increase of \$78,643,542 to the Company’s claimed present rate revenues of \$917,771,868.

RATE BASE

Rate base, also known as measure of value, is the depreciated original cost of a utility’s investment in plant a utility has in place to serve customers plus other additions

⁸ *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).

⁹ *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission*, 413 A.2d 1037 (Pa. 1980).

and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers.

I&E finds that \$356,242,461 (\$3,845,381,715 - \$3,489,139,254) of rate base additions are associated with the FPFTY.

REVENUES

The revenue requirement formula used in base rate cases is $RR = E + D + T + (RB \times ROR)$. Columbia has filed nine base rate cases in a span of twelve years requesting a cumulative total additional revenue increase of \$717.35 million. I&E recommends the Commission consider the impact any rate increase will have on Columbia's customers given the recent history of the many rate increases.

I&E recommends the Commission disallow in its entirety the inclusion of the requested regulatory asset to defer and amortize the non-depreciable loss on the sale of the Blackhawk Storage Facility of \$5,031,739 and the expenses for the feasibility study of \$389,005, for a total of \$5,420,743 to be amortized over five years.

DEPRECIATION EXPENSE

I&E did not present any record evidence or make any recommendations regarding depreciation expense.

O&M EXPENSES

I&E recommends a rate case expense allowance of \$731,372 or a reduction of \$589,628 (\$1,321,000 - \$589,628) to be normalized over 16-months for rate making purposes.

I&E recommends an allowance of \$7,754,135 for other employee benefits expense, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim.

I&E recommends an allowance for other rents and leases equal to the supported HTY actual expense of \$475,203.

I&E recommends complete disallowance of the \$4,528,579 claim for NiSource Corporate Services Company allocated stock awards expense.

I&E recommends an allowance of \$326,469 for interest on customer deposits.

I&E continues to recommend that based on the settlement agreement mentioned above, the Company should include a lead/lag study in its first base rate case to be filed on or after January 1, 2026.

I&E recommends the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider.

TAXES

I&E did not propose any adjustments for taxes in this proceeding.

RATE OF RETURN

I&E recommends the following rate of return for the Company:

I&E Recommendation Columbia Gas of Pennsylvania, Inc. Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	43.28%	5.22%	2.26%
Short-Term Debt	2.32%	5.00%	0.12%
Common Equity	<u>54.40%</u>	10.51%	<u>5.72%</u>
Total	<u>100.00%</u>		<u>8.10%</u>

Regarding proxy groups, I&E recommends that the Commission consider only the gas distribution utilities group meeting the criteria set forth by I&E when evaluating Columbia's requested return on equity (ROE) in this proceeding.

I&E reiterates that the percentage of revenues is an appropriate criterion in selection of the proxy group companies and recommends that Southwest Gas Holdings, Inc. should not be included in the proxy group because it derives less than 50% of its revenue from its regulated gas operation revenues.

I&E recommends using the Company's claimed capital structure as it falls within the range of the I&E proxy group's 2024 capital structures, which is the most recent information available at the time of I&E's analysis.

I&E recommends using the Company's FPFTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.

I&E continues to recommend using the Discounted Cash Flow ("DCF") method as the primary method to determine the cost of common equity. The DCF method has the most wide-spread regulatory acceptance and I&E still recommends primary reliance on the DCF method due to the shortcomings associated with the CAPM method.

I&E recommends a cost of common equity of 10.51% for Columbia in this base rate proceeding.

I&E recommends that Commission not give the CAPM, ECAPM, and RP considerable weight, instead relying on the DCF results.

Columbia faces the same exposure to the variety of claimed risks and uncertainties as all the other companies in the proxy groups.

The cost of equity I&E recommends in this proceeding is adequately measured by I&E's proxy group and Columbia's equity rich capital structure adequately compensates for the risk differentials claimed by Columbia.

I&E recommends that any additional consideration or adjustments for the Company's claimed risk profile in determining the cost of equity for Columbia is/are unwarranted, unjustified, and unsupported.

I&E recommends that the "low end" DCF result, removed by Columbia witness Mr. Rea, is added back in to the Company's calculations for purposes of Commission review of the cost of common equity.

I&E recommends that the Company's proposed leverage adjustment be rejected in its entirety. The application of the Company's proposed leverage adjustment would serve only to manipulate the DCF's market-based methodology and would cause substantial harm to ratepayers through higher rates.

I&E recommends that the proposed flotation cost adder should be rejected in its entirety.

I&E recommends the Commission continue its historic practice of recognizing the 10-year Treasury Note as the superior measure for the risk-free rate, as long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation.

I&E recommends the Commission reject Columbia's use of a 7.00% market risk premium instead of the prospective risk premium of 6.83% in their CAPM analysis.

I&E recommends that the Company's proposal to use a CAPM size adjustment of 61-basis points (0.61%) be disallowed.

I&E recommends the Commission entirely reject Columbia's calculated ECAPM results of 11.18% without the flotation cost adjustment and 11.21% with the flotation cost adjustment.

I&E recommends that the Commission not award Columbia additional management performance basis points for doing what they are required to do by the Public Utility Code and Commission regulations in order to provide adequate, efficient, safe, and reasonable service. The twenty-five (25) basis points management performance adder would cost Columbia's ratepayers an additional \$7,253,514 annually.

I&E recommends the Company's proposed subjective and inflated DCF growth rate be summarily rejected.

I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 8.10%. This recommended overall rate of return is comprised of a weighted average of a 2.26% rate of return on long-term debt, a 0.12% rate of return on short-term debt, and a 5.72% rate of return on common equity. I&E notes that I&E's recommended return on common equity of 10.51% is higher than the average return on equity of 9.73% of all gas utility rate cases decided/approved by state regulatory authorities in the first quarter of 2025.

RATE STRUCTURE AND RATE DESIGN

A utility's rate structure implements the Commission's approved revenue increase to determine how the overall increase will be allocated among the utility's various rate

classes. A properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another.

I&E recommends the Commission order that Columbia's new rates become effective January 1, 2026 (the first day of the FPFTY) instead of December 18, 2025, to avoid any unreasonable and unjustified impact on ratepayers.

Columbia performed and provided three Allocated Cost of Service Studies in its initial filing. I&E recommends the Company use the peak and average methodology to allocate any potential revenue increases among Columbia customer classes; and that the Company continuing to show a separate customer class for flex rate customers.

Revenue allocation is described as the allocation of revenue responsibility between rate classes. The Company prepared two customer cost analyses. I&E recommends that the Company's customer cost analysis that does not include the cost of mains should be utilized in this proceeding; and, the Company's customer cost analysis that includes the cost of mains should not be considered.

Regarding rate design and customer charges, I&E relied on the Company's rate design recommendation and applied the customer cost analysis that does not include the cost of mains. I&E concluded that customer charges for the RS, RDS, and RC2 classes are too high. I&E recommends the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.

I&E accepted the proposed customer charges for LDS class customers. I&E also accepted the proposed customer charges for SGS1, SGS2, and SDS/LGSS customers as the proposed charges are consistent with the applicable customer cost analysis.

If the Commission grants an increase less than the amount requested by the Company, then I&E recommends that all proposed increases to customer charges and usage rates be scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.

ALTERNATIVE RATEMAKING

The Commission noted in its PECO WNA Order “it is a primary concern of the Commission that alternative ratemaking is, in some way, rooted in the cost of service.”

As is stated at 52 Pa. Code § 69.3301, “an alternative rate design methodology should reflect the sound application of cost-of-service principles, establish a rate structure that is just and reasonable, and consider customer impacts.”

I&E recommends that Columbia’s Weather Normalization Adjustment pilot program be allowed to expire and no permanent WNA be put in place.

If, in the alternative, the Commission decides to approve the WNA on a permanent basis, then I&E recommends three (3) modifications should be made to the WNA. First, the shoulder month of May should be removed from the WNA. Second, the time period used to determine normal Heating Degree Day HDDs be shortened to ten years. And third, the deadband should be increased to 5%.

I&E recommends that the Company’s proposal to implement a Revenue Normalization Adjustment be denied.

CUSTOMER SERVICE/QUALITY OF SERVICE

Most of the customer service and quality of service issues were raised by the OCA and CAUSE-PA.

I&E recommends that the Commission not allow the Company's proposed annual budgeted expense claim of \$300,000 for the SAP program to be recovered from ratepayers' bills using the USP rider.

UNIVERSAL SERVICE PROGRAMS

Most of the universal service programs issues were raised by the OCA, CAUSE-PA, and PWPTF.

I&E recommends that no increase in the budgeted LIURP amount be approved in this proceeding. I&E reasoned that, while PWPTF's and CAUSE-PA's recommendations are well-intentioned, it is inappropriate to consider an increase in the LIURP budget in this base rate proceeding. "This complexity and the need for balance are best addressed in USECP proceedings."

I&E recommends that no increase to the Company's contribution to its Hardship Fund be approved in this proceeding. If an increase is ultimately approved in this proceeding, any increase to the Hardship Fund as proposed by the PWPFT should be funded by shareholders and not via mandatory ratepayer funding.

ENERGY EFFICIENCY PROGRAMS

Columbia's current residential Energy Efficiency Plan pilot was originally approved as part of the Company's 2022 base rate case at Docket No. R-2022-3031211 with a budget of \$4.0 million for the years 2023 to 2025 and is set to expire at the end of 2025 and Columbia is proposing a Phase II Three Year EEP.

I&E recommends that the Company's proposal for its Phase II EEP be disallowed in this base rate proceeding.

If, in the alternative Phase II is approved, then, in the interest of customer protection, I&E recommends the Commission put a maximum annual cap on the plan's total administration cost (exclusive of the incentives cost) at 20% of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.

COMPETITIVE SUPPLY ISSUES

I&E did not submit any record evidence nor make any recommendations regarding any competitive supply issues.

TARIFF ISSUES

I&E continues to recommend that Columbia's proposed Economic Development Distribution Service rate class be disallowed in its entirety. If, on the other hand, the Commission grants Columbia's request to implement the EDDS, then I&E urges the Commission to address the concerns raised by I&E, especially the allocation of costs.

MISCELLANEOUS AND PIPELINE SAFETY ISSUES

I&E Pipeline Safety highlighted the usefulness and safety benefits of methane detectors within structures and the ability of real-time smart reporting technology to simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations. I&E recommends that the Company implement a pilot program utilizing SRMDs in a region where Columbia has risky pipe for the installation of 500 to 1000 SRMDs to allow the Company to study the effectiveness of the SRMDs and monitor the related expenses.

CONCLUSION

Columbia Gas has not met its burden of proof as the record evidence presented by Columbia does not substantiate a revenue increase of \$110.5 million. Instead, based on the weight of the record evidence, the Commission should only grant Columbia the I&E recommended revenue increase of \$78,643,542. Further, the Commission should implement the recommendations set forth by I&E in its testimony, exhibits and main brief arguments.

III. I&E OVERALL POSITION ON RATE INCREASE REQUEST

I&E's total recommended revenue requirement for the Company is \$996,415,410.¹⁰ This recommended revenue requirement represents an increase of \$78,643,542 to the Company's claimed present rate revenues of \$917,771,868.¹¹ This total recommended allowance incorporates I&E adjustments made in I&E direct, rebuttal and surrebuttal testimony to O&M expenses,¹² and the recommended adjustments made in the direct and surrebuttal testimony of I&E witnesses DC Patel¹³ and Esyan Sakaya.¹⁴

IV. RATE BASE

Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers. Rate base is one

¹⁰ I&E St. No. 1-SR, p.4. *See also* App. A, Table I *infra*.

¹¹ *Id.*

¹² *See* I&E St. No. 1; I&E St. No. 1-R; and I&E St. No. 1-SR.

¹³ *See* I&E St. No. 2; and I&E St. No. 2-SR.

¹⁴ *See* I&E St. No. 3; and I&E St. No. 3-SR.

part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding.

Additionally, the depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as salvage value, from the original cost of the plant in service that is projected to be used and useful in the public service. The depreciated original cost of the plant in service is determined by taking a “snapshot” look at the depreciated original cost value of used and useful utility plant in service at the end of the FPFTY.

Further, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers or plant projected to be completed and in service by the end of the FPFTY is eligible to be reflected in rates.

A. Fair Value

Columbia’s claimed rate base for the end of the FPFTY (December 31, 2026) is \$3,845,381,715.¹⁵ Columbia’s FTY rate base is \$3,489,139,254.¹⁶ Therefore, I&E finds that \$356,242,461 (\$3,845,381,715 - \$3,489,139,254) of rate base additions are associated with the FPFTY.¹⁷

B. FPFTY Reporting Requirements

I&E recommended and continues to recommend that that the Company be required to provide the Bureau of Investigation and Enforcement and the Office of

¹⁵ I&E St. No. 3, p. 3, *citing* Columbia Exh. No. 108, p. 3, col. 5.

¹⁶ *Id.*, *citing* Columbia Exh. No. 108, p. 3, col. 3.

¹⁷ *Id.* *See also* Columbia Exh. No. 108, Sch. 1.

Consumer Advocate with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2026, under this docket number, which should include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2025.¹⁸ Additionally, I&E recommended that the Company be required to provide actuals through December 31, 2026, no later than April 1, 2027.¹⁹

I&E reasoned there is value in determining how closely Columbia's projected investments in future plant align with the actual investments that are made by the end of the FTY and FPFTY.²⁰ Determining the correlation between Columbia's projected and actual results will help inform the Commission and the parties in Columbia's future rate cases as to the validity of Columbia's projections.²¹

The Company agreed with I&E's recommendation; therefore, I&E's recommendation should be approved.²²

V. REVENUE

A. Overall Revenue Requirement

The revenue requirement formula used in base rate cases is as follows:

$$RR = E + D + T + (RB \times ROR)$$

Where:

RR = Revenue Requirement

E = Operating Expenses

¹⁸ I&E St. No. 3, pp. 3-4.

¹⁹ *Id.*, p. 4.

²⁰ *Id.*

²¹ *Id.*

²² I&E St. No. 3-SR, p. 3.

D = Depreciation Expense

T = Taxes

RB = Rate Base

ROR = Overall Rate of Return²³

In the above formula, the rate of return is expressed as a percentage.²⁴ The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes.²⁵ As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.²⁶

Columbia has consistently filed base rate cases to primarily recover the capital cost of its pipeline infrastructure replacement program, which has consistently increased.²⁷ Columbia has filed nine base rate cases in a span of twelve years requesting a cumulative total additional revenue increase of \$717.35 million.²⁸ No other regulated utility in Pennsylvania has filed base rate cases as frequently as Columbia has in the last twelve years.²⁹ When compared to the other Pennsylvania jurisdictional natural gas distribution companies, Columbia has the highest average monthly bill for a residential hating customer using 73.7 Ccf/Month.³⁰ Columbia's response to ever increasing

²³ I&E St. No. 2, p. 3.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.*

²⁷ *Id.*, pp. 5-6.

²⁸ *Id.*, p. 6. I&E notes many of these cases settled or litigated resulting in a lesser rate increase than was requested.

²⁹ *Id.*

³⁰ *Id.*, p. 9.

customer bills is that the Company realizes that rate increases will always have an impact on customers; however, considering the large, ongoing and growing capital program, which is necessary to retire and replace aging infrastructure, a rate increase is unavoidable.³¹

In consideration of the above and the record evidence presented, I&E recommends the Commission consider the impact any rate increase will have on Columbia's customers given the recent history of the many rate increases.

B. Blackhawk Storage Facility Sale – Requested Amortization

Columbia's request for the amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility was not part of Columbia's original March 20th filing. Columbia only raised the issue of the requested amortization four months later in its July 17th rebuttal testimony.³² The request was for a regulatory asset to defer and amortize the non-depreciable loss on the sale of \$5,031,739 and the expenses for the feasibility study of \$389,005, for a total of \$5,420,743 to be amortized over five years, producing an annual amortization expense of \$1,084,149 ($\$5,420,743 \div 5$ years).³³

I&E opposes the inclusion of the regulatory asset in this current base rate case for several reasons. First, Columbia stated in its application, and the Commission noted in its Order approving the sale, that Columbia "anticipates that, in a base rate proceeding filed after Commission approval of the sale *and the closing of the transaction [emphasis added]*, the Company's claimed cost of service will reflect both the divestiture of the

³¹ *Id.*, citing Columbia St. No. 1, p. 7.

³² I&E St. No. 3-SR, p. 4, citing Columbia St. No. 4-R, pp. 6-10.

³³ *Id.*

Blackhawk Storage Field, reduced operation, and maintenance costs associated with that asset.”³⁴ The Commission noted further that Columbia stated that “[t]he treatment of the proceeds from the sale will be determined in a future base rate proceeding.”³⁵ Clearly Columbia’s March 20, 2025 base rate filing was and is not a “future base rate proceeding” occurring after the April 24, 2025 Blackhawk Order. If a company, any company, pledges to do something in an application to the Commission they should be held to that pledge.

Second, there are legitimate questions regarding the prudence of the Blackhawk related feasibility study.³⁶ I&E posits that it appears questionable whether the amount of money spent on this study was prudent and in the interest of ratepayers³⁷ and is one more reason to disallow inclusion of the regulatory asset in this base rate case.

Therefore, in consideration of the record evidence presented and Commission precedent, I&E recommends the Commission disallow the inclusion of the requested regulatory asset in this case.

VI. DEPRECIATION EXPENSE

I&E did not present any record evidence or make any recommendations regarding depreciation expense other than using the Company’s as-filed depreciation expense in

³⁴ I&E St. No. 3-SR, p. 5 quoting *Application of Columbia Gas of Pennsylvania, Inc. to Transfer by Sale to Pin Oak Energy Partners LLC of its Blackhawk Storage Field located in South Beaver Township, Beaver County, Pennsylvania* (“Blackhawk Order”), Docket No. A-2025-3053161, p. 4 (Order Entered April 24, 2025).

³⁵ Blackhawk Order, p. 4.

³⁶ I&E St. No. 3-SR, pp. 6-7.

³⁷ *Id.*

I&E's analysis of Columbia's base rate filing and in conjunction with all other I&E base rate calculations.

VII. O&M EXPENSES

It is well settled that a utility is entitled to recover its reasonably and prudently incurred expenses.³⁸ Operating and maintenance expenses, if properly and prudently incurred, are allowed as part of the overall base rate computation. As such, a public utility is entitled to recover all reasonable and normal operating and maintenance expenses incurred by providing regulated service.³⁹ To the extent that expenses are not incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable.⁴⁰

A. Rate Case Expense

The Company's FPFTY claim for base rate case expense is \$1,321,000.⁴¹ Further, the Company proposed to normalize the entire estimated rate case expense of \$1,321,000 over a 12-month period based on prior base rate case filing experience and the expectation of annual filings for future base rate cases.⁴²

³⁸ *UGI Corp. v. Pa. P.U.C.*, 410 A.2d 923, 932 (Pa. Commw. 1980).

³⁹ *Western Pennsylvania Water Company v. Pa. P.U.C.*, 422 A.2d 906 (Pa. Commw. 1980).

⁴⁰ 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

⁴¹ I&E St, No. 1, p. 5, *citing* Columbia Vol. 6, Exh. No. 104, Sch. 1, p. 2.

⁴² *Id.*, pp. 5-6, *citing* Columbia St. No. 4, pp. 22-23 and 41-42.

I&E disagreed with the Company's claimed total rate case expense of \$1,321,000.⁴³ I&E also disagree with applying a 12-month normalization period, because it is not supported by the Company's historic actual rate case expenses and the historic rate case filing frequency.⁴⁴

I&E recommends an allowance of \$731,372 or a reduction of \$589,628 (\$1,321,000 - \$589,628) to the Company's claim.⁴⁵ The Company's response to I&E discovery provided the actual rate case expense incurred and claimed in recent cases with the last litigated rate case being in 2020.⁴⁶ Columbia's response shows the most recent litigated case in 2020 resulted in the Company spending only 73.82% ($\$782,522 \div \$1,060,000$) of the total claim.⁴⁷ Regarding the normalization period, the Company's proposed normalization period fails to properly rely upon the historic data and is speculative in nature. In contrast to the Company's claimed 12-month normalization period, I&E recommends a 16-month normalization period, which is reasonable and is validated by the Company's recent filing history.⁴⁸

Finally, Columbia's average historic filing frequency is 16 months ($((12 + 12 + 24) = 48 \div 3)$), which supports I&E's recommended normalization period.⁴⁹ The Company's rate case expense normalization of 12 months is speculative and is not supported by the

⁴³ *Id.*, p. 6; I&E St. No. 1-SR, pp. 6-7.

⁴⁴ *Id.*; *Id.*, pp. 7-8.

⁴⁵ *Id.*

⁴⁶ *Id.*, citing I&E Exh. No. 1, Sch. 1, p. 2.

⁴⁷ *Id.*

⁴⁸ *See* I&E St. No. 1, p. 7, citing I&E Exh. No. 1, Sch. 1, p. 2.

⁴⁹ *Id.*

historic filing frequency, and the Company is merely relying on its expectation of future base rate case filings.

The Commission has historically stated that it considers prudently incurred rate case expense as an ongoing expense, occurring at irregular intervals, related to the rendering of utility service. *A Guide to Utility Rate Making*⁵⁰ clearly states:

The Commission's practice is to recognize all prudently-incurred rate case expense and set a normalization period based upon historic filing frequency.⁵¹

Additionally, recent Commission orders have supported using normalization for rate case expense.⁵² In the *Emporium Water Company*⁵³ base rate case; the *City of DuBois*⁵⁴ base rate case, and most recently the *Columbia Gas*⁵⁵ base rate case the Commission found in favor of I&E's recommendation for a normalization period based on the actual historic filing frequency.

Regardless of whether the Company speculates that it will file yearly base rate cases, it is more appropriate to utilize the historic filing frequency of 16 months. Therefore, inconsideration of the record evidence presented, I&E recommends an

⁵⁰ *A Guide to Utility Ratemaking*, Cawley and Kennard (2018 Edition) (*Ratemaking Guide*).

⁵¹ *Ratemaking Guide*, p. 112.

⁵² See I&E St. No. 1, pp. 8-12.

⁵³ *Pa. P.U.C. v. Emporium Water Company*, Docket No. R-2014-2402324, p. 50 (Order Entered January 28, 2015).

⁵⁴ *Pa. P.U.C. v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, pp. 65-66 (Order Entered March 28, 2017).

⁵⁵ *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, p. 78, Order Entered February 19, 2021.

allowance of \$731,372 or a reduction of \$589,628 (\$1,321,000 - \$589,628) to be normalized over 16-months for rate making purposes.⁵⁶

B. Other Employee Benefits Expense

The Company is claiming other employee benefits expense in the amount of \$8,915,459⁵⁷ which includes insurance premium costs for health, dental and vision (medical), 401K plan contributions, group life and long-term disability insurance, profit sharing, and other benefits.⁵⁸

I&E, on the other hand, recommends an allowance of \$7,754,135 for other employee benefits expense, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim based on a benefits-to-payroll expense factor of 20% as explained in I&E witness Mr. Bedasa's testimony and exhibits.⁵⁹ After considering the historic variance in the actual benefits expense as compared to the budgeted amounts, I&E recommends adjusting the FPFTY benefits expense claim to 20% of the payroll expense claim as follows: Total FPFTY Payroll Expense Claim of \$38,770,674 x 20% = \$7,754,135 recommended allowance, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim.⁶⁰

While the Company tried to offer an explanation, including the why the Company has historically underspent benefits expense as compared to the budgeted expense, it did not provide an explanation for prior years' underspending, and eventually admitted to the

⁵⁶ I&E St. No. 1, pp. 6-7; I&E St. No. 1-SR, pp. 5-8.

⁵⁷ I&E St. No. 1, p. 11, *citing* Columbia Vol. 6, Exh. No. 104, Sch. 1, p. 2.

⁵⁸ *Id.*, p. 12; I&E Exh. No. 1, Sch. 2, pp. 2-4.

⁵⁹ *Id.*, pp. 11-14; I&E St. No. 1-SR, pp. 8-12.

⁶⁰ *Id.*, p. 14.

underspending.⁶¹ As such, a gap between budgeted amounts and actual expenses incurred would create an unjust and unreasonable burden on ratepayers if the Company's claim is allowed.⁶²

Finally, I&E accepts that other employee benefits may fluctuate over the years, and asserts that I&E's recommendation does not contradict this premise.⁶³ And, in consideration of all of the record evidence presented, I&E recommends an allowance of \$7,754,135 for other employee benefits expense, or a reduction of \$1,161,324 (\$8,915,459 - \$7,754,135) to the Company's claim.⁶⁴

C. Other Rents and Leases

The Company is claiming other rents and leases expense of \$545,640.⁶⁵ The other rents and leases claim includes communications equipment and lines, office machines, and other items.⁶⁶ The Company's FPFTY claim for other rents and leases expense is based on adjustments made to the FTY by \$71,365 and the FPFTY by (\$928).⁶⁷

I&E recommends an allowance of \$475,203 for other rents and leases expense, or a reduction of \$70,437 (\$545,640 - \$475,203) to the Company's claim.⁶⁸ I&E argues, using the most recent known and measurable amounts, this expense has trended downward year after year from 2022 to 2024 (from \$532,730 in 2022, to \$505,142 in

⁶¹ *Id.*, pp. 9-10, *citing* Columbia St. No. 18-R, p. 9.

⁶² *Id.*

⁶³ I&E St. No. 1-SR, p. 11.

⁶⁴ *Id.*, p. 12.

⁶⁵ I&E St. No. 1, p. 15, *citing* Columbia Vol. 6, Exh. No. 104, Sch. 1, p. 2.

⁶⁶ *Id.*, p. 14, *citing* Columbia St. No. 4, p. 12.

⁶⁷ *Id.*, p. 15, *citing* Columbia Vol. 6, Exh. No. 104, Sch. 1, p. 2.

⁶⁸ *Id.*, p. 15; I&E St. No. 1-SR, p. 14.

2023, and \$475,203 in 2024).⁶⁹ Additionally, the Company provided no support for the FTY and FPFTY increases⁷⁰ only arguing it applied an inflation rate on the three-year average.⁷¹

Therefore, in consideration of the record evidence presented and in the absence of support for a higher claim, I&E recommends an allowance equal to the supported HTY actual expense of \$475,203.

D. Allocated Compensation – Stock Awards Expense

The Company is claiming stock awards of \$4,528,579, which are included in the total NiSource Corporate Services Company (“NCSC”) expense claim.⁷² These NCSC expenses are a part of the NCSC employees’ service charge, based on a budgeted allocation in the FTY and FPFTY claims based on the HTY 2024 normalized expense level and ratemaking adjustments.⁷³ NCSC was established to provide centralized services to the individual operating companies within NCSC and to coordinate the allocation and billing of charges to the NCSC operating companies for services provided by both NCSC directly and by third-party vendors.⁷⁴ The rendering of services on a centralized basis enables the affiliates to realize benefits from economies of scale by leveraging the use and specialized expertise of personnel and equipment across the whole enterprise.⁷⁵

⁶⁹ *Id.*, p. 15.

⁷⁰ *Id.*, pp. 15-16, *citing* I&E Exh. No. 1, Sch. 3, p. 3.

⁷¹ I&E St. No. 1-SR, pp. 13-14.

⁷² I&E St. No. 1, p. 17, *citing* I&E Exh. No. 1, Sch. 4, p. 1.

⁷³ *Id.*, p. 16.

⁷⁴ *Id.*

⁷⁵ *Id.*

I&E recommends complete disallowance of the \$4,528,579 claim for NCSC allocated stock awards expense.⁷⁶ Stock awards are a type of incentive compensation linked to financial goals and targets such as earnings per share.⁷⁷ These goals are specifically shareholder-oriented goals and not ratepayer-oriented goals.⁷⁸ While there may be other requirements that are operational in nature, it is I&E's understanding is that the primary target is financial goals.⁷⁹ Thus, stock awards should not be funded by ratepayers. Allowing this claim in rates would result in higher rates and revenues at the expense of ratepayers, which would directly benefit the parent company's financial goals. Additionally, it must be noted that the stock awards are limited to leadership positions.⁸⁰

Columbia noted that that 75%-80% of goals are earnings per share and shareholder return-related.⁸¹ This only affirms I&E's concern that these awards, that are limited to certain top-level executives, are mainly of benefit to shareholders and should not be recovered from ratepayers.⁸² Therefore, in consideration of the record evidence presented, I&E recommends complete disallowance of the \$4,528,579 claim for NCSC allocated stock awards expense.

⁷⁶ *Id.* p. 17: I&E St. No. 1-SR, p. 17.

⁷⁷ *Id.*, p. 18.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.*

⁸¹ I&E St. No. 1-SR, pp. 15-16.

⁸² *Id.*, p. 16.

E. Interest On Customer Deposits

The Company claims \$373,107 interest expense on customer deposits.⁸³ The Company's FPFTY claim is based on calculating 8% interest on the 2024 average customer deposit balance of \$4,663,841 ($\$4,663,841 \times 0.08 = \$373,107$).⁸⁴ Also, the Company said that it did not make further adjustments to this item for either the FTY or the FPFTY because it has made no projected change to the HTY balance for customer deposits.⁸⁵

I&E reviewed the claim and recommended an allowance of \$326,469 for interest on customer deposits, or a reduction of \$46,638 ($\$373,107 - \$326,469$) to the Company's claim.⁸⁶ I&E reasoned and now argues Columbia should pay the ratepayers the legal rate of interest on the customers' security deposit based on an updated interest rate each year.⁸⁷ Based on information provided by the Company in response to I&E-RE-49-D, I&E adjusted the interest on customer deposits by multiplying the updated interest rate of 7% for 2025 by the average customer deposit balance of \$4,663,841.⁸⁸ This produces I&E's recommended allowance of \$326,469 ($\$4,663,841 \times 0.07$).⁸⁹

In consideration of the above and the record evidence presented, I&E continues to recommend an allowance of \$326,469 for interest on customer deposits.

⁸³ I&E St. No. 1, p. 19, *citing* Columbia Vol. 6, Exh. No. 104, Sch. 1, p. 2.

⁸⁴ *Id.*, *citing* Columbia Vol. 2, Exh. No. 4, Sch. 2, p. 29.

⁸⁵ *Id.*, *citing* Columbia St. No. 4, p. 28.

⁸⁶ *Id.*, p. 20.

⁸⁷ *Id.*

⁸⁸ *Id.*, *citing* I&E Exh. No. 1, Sch. 5, p. 2.

⁸⁹ *Id.*

F. Cash Working Capital

In Columbia's 2024 base rate proceeding Columbia agreed to perform a lead/lag study in its first base rate case filed after January 1, 2026, as agreed in the 2024 settlement at Docket No. R-2024-3046519.⁹⁰ As this case was filed before January 1, 2026, Columbia did not include a lead/lag study in this case.

I&E continues to recommend that based on the settlement agreement mentioned above, the Company should include a lead/lag study in its first base rate case to be filed on or after January 1, 2026.⁹¹

G. Energy Assistance Team (EAT)

The Company is proposing to recover Energy Assistance Team ("EAT") employee costs associated with Customer Assistance, Referral and Evaluation Services program ("CARES") and Customer Assistance Program ("CAP") through the USP rider.⁹² Currently, the Universal Service Costs associated with the Company's EAT, which handles the administration of LIHEAP/CRISIS and CAP accounting are recovered in base rates.⁹³ The Company wants to remove recovery of the EAT employee costs, which is approximately \$220,000 annually, from base rates and move recovery to the USP rider.⁹⁴

⁹⁰ See I&E St. No. 1, pp. 20-22. See also I&E Exh. No. 1, Sch. 6, p. 1.

⁹¹ *Id.*, p. 22.

⁹² See I&E St. No. 2, pp. 103-104, *citing* Columbia St. No 16, pp. 10-12.

⁹³ *Id.*

⁹⁴ *Id.*, p. 104.

I&E recommended the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider for two reasons.⁹⁵ First, moving EAT cost recovery from base rates to USP rider provides Columbia a guaranteed recovery of EAT labor costs and eliminates the Commission's authority to review reasonableness and prudence of EAT labor costs.⁹⁶ Second, I disagree with Ms. Davis's claim that shifting EAT cost recovery through the USP rider will permit the Company to appropriately staff for fluctuating demands for additional staffing.⁹⁷ Fluctuation in staffing needs is a routine event in business operations for the Company at large for various reasons, which is required to be managed appropriately as the staffing need changes.⁹⁸ Additionally, keeping all staffing costs under O&M ensures no duplicate recovery of related costs in base rate proceedings.⁹⁹ Theoretically, if this request is approved, the Company could add or remove employees without scrutiny.¹⁰⁰

Therefore, in consideration of the record evidence presented, I&E recommends the Commission reject the Company's proposal to move EAT labor cost recovery from base rates to the USP rider.

VIII. TAXES

A. Tax Adjustments

I&E did not propose any adjustments for taxes in this proceeding.

⁹⁵ *Id.*, p. 105.

⁹⁶ *Id.* See also I&E St. No. 2-SR, pp. 65-66.

⁹⁷ *Id.*; *Id.*

⁹⁸ *Id.*; *Id.*

⁹⁹ I&E St. No. 2-SR, p. 66.

¹⁰⁰ I&E St. No. 2, p. 105.

IX. RATE OF RETURN

A. Introduction - Rate of Return Standards

The Company claimed the following rate of return:¹⁰¹

COLUMBIA GAS OF PENNSYLVANIA, INC. Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	43.28%	5.22%	2.26%
Short-Term Debt	2.32%	5.00%	0.12%
Common Equity	<u>54.40%</u>	11.35%	<u>6.17%</u>
Total	<u>100.00%</u>		<u>8.55%</u>

I&E recommended the following rate of return for the Company:¹⁰²

I&E Recommendation Columbia Gas of Pennsylvania, Inc. Summary of Cost of Capital			
Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	43.28%	5.22%	2.26%
Short-Term Debt	2.32%	5.00%	0.12%
Common Equity	<u>54.40%</u>	10.51%	<u>5.72%</u>
Total	<u>100.00%</u>		<u>8.10%</u>

Rate of return is one of the components of the revenue requirement formula.¹⁰³

Rate of return is the amount of revenue an investment generates in the form of net

¹⁰¹ I&E St. No. 2, p. 11.

¹⁰² *Id.*, p. 11; I&E St. No. 2-SR, pp. 53-54.

¹⁰³ *Id.*, p. 2.

income.¹⁰⁴ It is typically expressed as a percentage of the amount of an asset base at a particular point in time, which in base rate proceedings, is the projected rate base balance at the end of the test year.¹⁰⁵

In the revenue requirement formula used in base rate cases ($RR = E + D + T + (RB \times ROR)$) the rate of return is expressed as a percentage.¹⁰⁶ The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes.¹⁰⁷ As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.¹⁰⁸

Further, A fair and reasonable overall rate of return is one that will allow the utility an opportunity to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.¹⁰⁹ The Commission has the authority to determine the fair revenue requirement and rate of return, which the utility has the opportunity to earn, but not a guarantee to earn.¹¹⁰

The *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679, 692-93 (1923) (“*Bluefield*”), and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) (“*Hope Natural Gas*”) cases set forth

¹⁰⁴ *Id.*, p. 2.

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

¹⁰⁹ *Id.*

¹¹⁰ I&E St. No. 2, pp. 3-4.

the principles that are generally accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return:

- A utility is entitled to the opportunity of a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures;
- A utility is entitled to the opportunity of a return level reasonably sufficient to assure financial soundness;
- A utility is entitled to the opportunity of a return sufficient to maintain and support its credit and raise necessary capital; and,
- A fair return can change (increase or decrease) along with economic conditions and capital markets.¹¹¹

In base rate proceedings, the overall rate of return is traditionally calculated using the weighted average cost of capital method.¹¹² To calculate the weighted average cost of capital, a company's capital structure must first be determined by comparing the percentage of each capitalization component which has financed the rate base to total capital.¹¹³ In Columbia's case, the capital components consist of long-term debt, short-term debt, and common equity.¹¹⁴ Next, the effective cost rate of each capital structure component must be determined.¹¹⁵ The historical component of the debt cost rate can be computed accurately, and any future debt issuances are based on estimates.¹¹⁶ The cost

¹¹¹ I&E St. No. 2, pp. 3-4.

¹¹² *Id.*, p. 4.

¹¹³ *Id.*, pp. 4-5.

¹¹⁴ *Id.*, p. 5.

¹¹⁵ *Id.*

¹¹⁶ *Id.*

rate of common equity is not fixed and is more difficult to measure.¹¹⁷ Because of this difficulty, a proxy group is used as discussed later in this direct testimony.¹¹⁸ Then, each capital structure component percentage is multiplied by its corresponding effective cost rate to determine the weighted capital component cost rate.¹¹⁹ The table in the “*I&E Position*” section in I&E Statement No. 2 demonstrates the interaction of each capital structure component and its corresponding effective cost rate.¹²⁰ Finally, the sum of the weighted cost rates produces the overall rate of return.¹²¹ This overall rate of return is multiplied by the rate base to determine the return portion of a company’s revenue requirement.¹²²

B. Proxy Group

A proxy group is a set of companies that have similar traits as compared to the subject utility.¹²³ This group of companies acts as a benchmark for determining the subject utility’s rate of return in a base rate case.¹²⁴ Further, a proxy group’s cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of companies with corresponding risks and uncertainties.¹²⁵

117 *Id.*

118 *Id.*

119 *Id.*

120 *Id.*, citing I&E St. No. 2, p. 11.

121 I&E St. No. 2, pp. 5, 11.

122 *Id.*, p. 5.

123 I&E St. No. 2, p. 12.

124 *Id.*

125 *Id.*

The criteria I&E witness D.C. Patel used for his proxy group is designed to select companies that are representative of Columbia. I&E applied the following criteria to the Value Line Investment Survey Industry Classification as a “Natural Gas Utility” proxy group:

1. Fifty percent or more of the company’s revenues must be generated from 4 the regulated gas utility industry.
2. The company’s stock must be publicly traded.
3. Investment information for the company must be available from more than one source, which must include Value Line.
4. The company must not be currently involved in an announced merger or the target of an acquisition.
5. The company must have four consecutive years of historic earnings data.
6. The company must be operating in a state that has a deregulated gas utility market.¹²⁶

Mr. Patel’s proxy group included seven companies.¹²⁷

I&E disagreed with the Company’s selection of proxy group companies.¹²⁸

Columbia argues that consolidated income rather than company revenue revenues, is more closely correlated to the net cash flows a company receives from each line of business¹²⁹ even though the Commission rejected this theory in the past. In the most recent Columbia Water Company base rate proceeding, the Commission concluded:

¹²⁶ *Id.*, p. 13.

¹²⁷ *See Id.*, p. 14 for the complete list.

¹²⁸ *See I&E St. No. 2*, pp. 12-20; *I&E St. No. 2-SR*, pp. 6-9 for the complete proxy group analysis and arguments against the use of the Company’s selected proxy group.

¹²⁹ *I&E St. No. 2-SR*, p. 2, *citing Columbia St. No. 8-R*, p. 15.

In *Columbia Gas 2021*, we stated the following regarding the proxy group at issue in that proceeding: First, as I&E and the ALJ pointed out, a company's revenues represent the percentage of cash flow the company receives from each business line related to providing a good or service. Therefore, if less than fifty percent of revenues come from the regulated gas sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business.

As further noted by I&E, while two companies or segments can have the same level of revenue, their net operating income may vary greatly, depending on their performance and decisions. The purpose of a proxy group is to compile a set of companies that have similar risks to the subject utility. As such, we are of the same opinion, as in our decisions in *Columbia Gas 2021* and *PECO 2021*, that if less than 50% of a utility's revenues come from the regulated business sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business.

Based on the specific record developed in the instant case, we find that the percentage of revenues generated from regulated utility operations, in this instance regulated water utility operations, is the appropriate criterion to include when setting Columbia's proxy group. Therefore, we concur with I&E that Essential Utilities should be excluded from the proxy group that we will use in setting the authorized ROE and the resulting overall rate of return for Columbia in this proceeding.¹³⁰

Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends that the Commission consider only the gas distribution utilities group when evaluating Columbia's requested return on equity (ROE) in this proceeding.¹³¹ Further, I&E reiterates that the percentage of revenues is an appropriate criterion in selection of the proxy group companies and recommends that

¹³⁰ I&E St. No. 2-SR, pp. 7-8, *citing Pa. PUC v. Columbia Water Company*, Docket No. R-2023-3040258, pp.75, 76, and 77 (Order Entered January 18, 2024).

¹³¹ *Id.*, p. 20.

Southwest Gas Holdings, Inc. should not be included in the proxy group because it derives less than 50% of its revenue from its regulated gas operation revenues.¹³²

C. Capital Structure

A capital structure represents how a firm has financed its rate base with different sources of funds.¹³³ The primary sources of funding are long-term debt and common equity. A capital structure may also include preferred stock and/or short-term debt.¹³⁴

I&E recommends using the Company's claimed capital structure as it falls within the range of the I&E proxy group's 2024 capital structures, which is the most recent information available at the time of I&E's analysis.¹³⁵ The most recent five-year average ranges of my proxy group companies' capital structure ratios are from 39.33% to 57.23% long-term debt, 0.51% to 12.82% short-term debt, and 35.96% to 60.16% common equity, with an overall five-year average of 47.42% long-term debt, 7.85% short-term debt, and 44.73% common equity.¹³⁶

D. Cost of Short-Term and Long-Term Debt

I&E recommended using the Company's FPPTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.¹³⁷

Columbia obtains its short-term debt from the NiSource intra-system financing vehicle, commonly referred to as the "money pool," which has commercial paper as its

¹³² I&E St. No. 2-SR, p. 9.

¹³³ I&E St. No. 2, p. 20.

¹³⁴ *Id.*

¹³⁵ I&E St. No. 2, pp. 20-24; I&E St. No. 2-SR, p. 10.

¹³⁶ *Id.*, p. 23, *citing* I&E Exh. No. 2, Sch. 2.

¹³⁷ *Id.*, p. 25, *citing* Columbia Exh. No. VVR-4.

underlying source.¹³⁸ The proposed short-term interest rate in this case was determined on the basis of the forecast of the Federal Funds target rate of 4.00%, plus 0.50%, which reflects the recent historical yield differential between the Fed Funds rate and the commercial paper borrowing rate for NiSource’s commercial paper credit rating of A-2 at S&P and P-2 at Moody’s for a 75-day duration, plus an additional 0.50% risk premium to recognize uncertainty surrounding the degree to which the Federal Reserve Board will continue reducing the Federal Funds target rate.¹³⁹ While I&E does not agree with the arbitrary interest premium adder; I&E is not adjusting for it in this case due to the minimal impact on the overall result.¹⁴⁰

Therefore, in consideration of the record evidence presented, I&E recommends the Company’s FPFTY claimed short-term debt cost rate of 5.00% and long-term debt cost rate of 5.22%.

E. Cost of Common Equity

I&E continues to recommend using the Discounted Cash Flow (“DCF”) method as the primary method to determine the cost of common equity.¹⁴¹ Additionally, I&E provides a Capital Asset Pricing Model (“CAPM”) analysis to be used as a comparison, not as a check, to the DCF results.¹⁴² The DCF method has the most wide-spread

¹³⁸ *Id.*, p. 25, *citing* Columbia St. No. 8, p. 48.

¹³⁹ *Id.*, *citing Id.*, pp. 48-49.

¹⁴⁰ *Id.*, p. 26.

¹⁴¹ I&E St. No. 2, pp. 28-29.

¹⁴² *Id.*, p. 29.

regulatory acceptance and I&E still recommends primary reliance on the DCF method due to the shortcomings associated with the CAPM method.¹⁴³

I&E recommends using the DCF for a variety of reasons.¹⁴⁴ The DCF is appealing to investors since it is based on the concept that the receipt of dividends in addition to expected appreciation is the total return requirement determined by the market.¹⁴⁵ The use of a growth rate and expected dividend yield are also strengths of the DCF, as this recognizes the time value of money and is forward-looking.¹⁴⁶ The use of the utility's own, or in this case the proxy group's, stock prices and growth rates directly in the calculation also causes the DCF to be industry and company specific.¹⁴⁷ Further, the current inflationary and economic trends are most certainly reflected in a stock's price, which is used in determining the dividend yield, and the earnings growth rates forecasted by independent professional analysts.¹⁴⁸ Therefore, the DCF contains the most up-to-date projected information of any model and is the superior method for determining the rate of return for the current economic market conditions because it measures the cost of equity directly.¹⁴⁹

I&E witness, Mr. Patel, also fully explained why the CAPM should not be used as a primary method and explained why it should only be used as a comparison to, not a

¹⁴³ *Id.* See *Id.*, pp. 31-35 for an analysis of the shortcomings of the CAPM method.

¹⁴⁴ *See Id.*, pp. 29-20.

¹⁴⁵ *Id.*, p. 29, *citing* David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2020 Edition, p. 153.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*, pp. 29-30. See also *Id.*, pp. 25-34 for a complete discussion and critique of the other cost of common equity methodologies.

check of, the DCF.¹⁵⁰ Thus, Mr. Patel disagrees with a method that provides the CAPM comparable weight to the DCF method.¹⁵¹ In fact, the extreme variations in the CAPM analysis results between Columbia's (11.66%), and I&E's (10.51%) only highlight the unreliability and subjectivity of the CAPM while Columbia's DCF results (10.97%) more closely aligns with I&E's DCF results (10.51%).¹⁵² These variations highlight the problems with CAPM and invalidate CAPM from establishing an appropriate ROE for ratemaking.¹⁵³

In consideration of the record testimony, exhibits and evidence presented by I&E, as well as the relevant Commission precedent, I&E recommends a cost of common equity of 10.51% for Columbia in this base rate proceeding.¹⁵⁴ I&E's recommendation is based on the use of the DCF method.¹⁵⁵ I&E used the CAPM result only to present a comparison to the DCF results.¹⁵⁶ I&E's DCF analysis uses the proxy group companies' spot dividend yield, a 52-week dividend yield, and five-year earnings growth forecasts.¹⁵⁷ In calculating the dividend yield, I&E uses the forecasted dividend, and with the five-year earnings growth forecasts, the DCF result provides a forward-looking estimation for

¹⁵⁰ See I&E St. No. 2-SR, p. 26.

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *Id.*

¹⁵⁴ I&E St. No. 2, p. 38, *citing* I&E Exh. No. 2, Sch. 1. See also, I&E St. No. 2-SR, pp. 53-54.

¹⁵⁵ *Id.*, pp. 38-48.

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

the cost of equity that would be more appropriate and consistent for FPFTY ratemaking.¹⁵⁸

F. Weights Given to CAPM, ECAPM. And RP Methods

I&E disagrees with Columbia's reliance on the CAPM, ECAPM, and RP methods.¹⁵⁹ While I&E is not opposed to providing the Commission with the results of the CAPM methodology for a point of comparison to the results of the DCF calculation; I&E is opposed to giving the CAPM, ECAPM, and RP models considerable weight.¹⁶⁰ For the reasons discussed in the I&E rate of return testimony, it is inappropriate to give the CAPM, ECAPM, and RP model results similar weight to the DCF as Columbia has attempted to do in creating their indicated cost of equity range of 10.85% to 11.35% and recommending the middle of this range or an 11.10% cost of equity for Columbia.¹⁶¹ As discussed in I&E testimony, the CAPM and ECAPM (a modified version of CAPM) measure the cost of equity indirectly and can be manipulated by the time period chosen.¹⁶² Since the RP is a simplified version of the CAPM, it suffers these same flaws.¹⁶³ Columbia acknowledges that it is not aware of any instances where a utility commission overseeing base rate proceedings explicitly adopted the ECAPM and RP results as presented by Columbia witness Rea in the past three years (I&E Exhibit No. 2, Schedule 13, pp. 1-2).¹⁶⁴

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Id.

159 I&E St. No. 2, pp. 47-48.

160 *Id.*, p. 47.

161 *See Id.*, pp.27-36, 41-46.

162 *Id.*

163 *Id.*

164 *Id.*, pp. 47-48.

Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends that Commission not give the CAPM, ECAPM, and RP considerable weight, instead relying on the DCF results.

G. Risk Analysis

The Company set forth a variety of claimed risk factors in this proceeding.¹⁶⁵ Columbia cites to various business risks such as market competition; bypass threats due to pipelines; large customer group attrition; regulatory mechanisms; weather normalization disallowance; revenue normalization disallowance; and fixed customer charge adjustments.¹⁶⁶

However, most companies in the natural gas utility sector face similar potential risks of bypass or competition with other suppliers and alternative energy sources.¹⁶⁷ In this regard, the companies within I&E's proxy group provide a good measure of the risk associated with competition from alternate suppliers.¹⁶⁸ Though Columbia witness, Mr. Rea, admits to not studying the risk of bypass threat of each company in his proxy group, he acknowledges that he is aware that bypass is usually a threat to all LDCs when there are a number of interstate pipelines in close proximity to large volume users served by an LDC or when customers of the LDC are in close proximity to gas producing wells.¹⁶⁹

To summarize, the risks referenced by Columbia affect the entire gas utility industry, therefore, Columbia faces the same exposure to these risks and uncertainties as

¹⁶⁵ See I&E St. No. 2, pp. 48-57.

¹⁶⁶ *Id.*, pp. 48-49, citing Columbia St. No. 8, p. 39.

¹⁶⁷ *Id.*, p. 49.

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*, citing I&E Exh. No. 2, Sch. 14.

all the other companies in the proxy groups.¹⁷⁰ Investors voluntarily buy and hold shares of stocks in natural gas utility companies, indicating they are aware of these risks and the returns.¹⁷¹ The cost of equity I&E recommends in this proceeding is adequately measured by I&E's proxy group and Columbia's equity rich capital structure adequately compensates for the risk differentials claimed by Columbia.¹⁷²

Therefore, in consideration of the record evidence and the arguments presented, I&E recommends that any additional consideration for the Company's risk profile and making corresponding adjustments or adders in determining the cost of equity for Columbia is unwarranted, unjustified, and unsupported.

H. Elimination of "Low-End" DCF Results

Columbia chose to eliminate the DCF results of one of the companies from its calculations because of what Columbia determined was a "low-end" DCF result.¹⁷³

I&E disagrees with the elimination of a "low-end" DCF result from the DCF calculations because the decision is subjective and introduces additional unnecessary bias.¹⁷⁴ It is important to note that the low-end DCF results of the eliminated company are due to lower forecasted growth rates by S&P Global and Zacks. Columbia ignored the fact that analysts making earnings per share growth forecasts are aware of the

¹⁷⁰ See I&E St. No. 2, pp. 48-57; I&E St. No. 2-SR, pp. 27-31 for a complete discussion and critique of Columbia's Risk Analysis claims.

¹⁷¹ *Id.*, p. 57.

¹⁷² *Id.*

¹⁷³ I&E St. No. 2, pp. 57-58.

¹⁷⁴ *Id.*, pp. 58-60. See also I&E St. No. 2-SR, pp. 10-12.

economic conditions and the operation and financial conditions of the gas utility and consider all other factors that they believe impact future growth.

Adding the “low-end” result back in yields results with averages of 9.96% $[(9.92\% + 9.42\% + 10.53\%) \div 3]$ rather than 10.43% $[(10.70\% + 10.10\% + 10.50\%) \div 3]$.¹⁷⁵

Therefore, I&E recommends that the “low end” DCF result, removed by Columbia witness Mr. Rea, be added back in to the Company’s calculations for purposes of Commission review of the cost of common equity.

I. Leverage Adjustment

The Company proposed to make a 64-basis point leverage adjustment to the result of its DCF analysis to account for applying a market valued cost of equity to a book value capital structure¹⁷⁶. I&E recommends that the Company’s proposed 64-basis point (0.64%) leverage adjustment be rejected because it is based on inappropriate characterization of financial risk and is inconsistent with Commission precedent, and is actually a pass-through burden on ratepayers.¹⁷⁷

I&E, through its witness D.C. Patel argued that the rating agencies assess financial risk based upon a company’s booked debt obligations and the ability of its cash flow to cover the interest payments on those obligations.¹⁷⁸ The agencies use a company’s financial statements for their analysis, not market capital structure.¹⁷⁹ It is a company’s financial statements that affect the market value of the stock, and, therefore, the financial

¹⁷⁵ *Id.*, pp. 59-60.

¹⁷⁶ Columbia St. No. 8, App. C, p. 3.

¹⁷⁷ I&E St. No. 2, p. 62-67.

¹⁷⁸ *Id.*, p. 63.

¹⁷⁹ *Id.*

statements and the book value capital structure are relied upon in an analysis such as that done by rating agencies.¹⁸⁰

Regarding Commission precedent, I&E witness Patel provided a summary of recent Commission orders that rejected proposed leverage adjustments.¹⁸¹ First, in *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*,¹⁸² the Commission rejected the ALJ's recommendation for a leverage adjustment stating, "[t]he fact that we have granted leverage adjustments in the past does not mean that such adjustments are indicated in all cases."¹⁸³

Second, in *Pa. P.U.C. v. City of Lancaster – Bureau of Water*,¹⁸⁴ the Commission agreed with the I&E position and stated, "any adjustment to the results of the market based DCF are unnecessary and will harm ratepayers. Consistent with our determination in *Aqua 2008* there is no need to add a leverage adjustment."¹⁸⁵

Third, in *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*,¹⁸⁶ the Commission agreed with the I&E position and stated, "we conclude that an artificial adjustment in this proceeding is unnecessary and contrary to the public interest. Accordingly, we decline to include a leverage adjustment in our calculation of the DCF cost of equity."¹⁸⁷

¹⁸⁰ *Id.*

¹⁸¹ *Id.*, pp. 63-65.

¹⁸² *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, at Docket No. R-00072711 (Order Entered July 31, 2008).

¹⁸³ *Id.*, p. 38.

¹⁸⁴ *Pa. P.U.C. v. City of Lancaster – Bureau of Water*, at Docket No. R-2010-2179103 (Order Entered July 14, 2011).

¹⁸⁵ *Id.*, p. 79.

¹⁸⁶ *Pa. P.U.C. v. UGI Utilities, Inc. – Electric Division*, at Docket No. R-2017-2640058 (Order Entered October 25, 2018).

¹⁸⁷ *Id.*, p. 93-94.

Fourth in *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*,¹⁸⁸ the Commission adopted the ALJ's recommendation to use I&E's DCF methodology, which excluded the use of a leverage adjustment.¹⁸⁹

Fifth, in *Pa. P.U.C. v. PECO Energy Company – Gas Division*¹⁹⁰, the Commission similarly adopted the ALJ's recommendation to use I&E's DCF methodology, which excluded the use of Peco's proposed leverage adjustment.¹⁹¹

Finally, the Commission again adopted the ALJ's recommendation to use I&E's DCF methodology and exclude a proposed leverage adjustment in *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*¹⁹²

Additionally, if the Commission were to approve the proposed leverage adjustment to the cost of equity, it would force ratepayers to fund an exorbitant additional amount of \$18,568,996 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes and uncollectibles.¹⁹³

Finally, I&E asserts that investors are aware of and base their decisions on book value debt and equity ratios for the regulated utilities, therefore, no adjustment is needed.¹⁹⁴ The Company's proposed adjustment would only serve to manipulate the

¹⁸⁸ *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, at Docket No. R-2020-3018835 (Order Entered February 19, 2021)

¹⁸⁹ *Id.*, pp. 137-141.

¹⁹⁰ *Pa. P.U.C. v. PECO Energy Company – Gas Division*, at Docket No. R-2020-3018929 (Order Entered June 22, 2021).

¹⁹¹ *Id.*, pp. 172-173.

¹⁹² *Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, at Docket No. R-2021-3027385 (Order Entered June 22, 2021) , pp. 154-155.

¹⁹³ I&E St. No. 2, pp. 66.

¹⁹⁴ *Id.*, p. 67.

DCF's market-based methodology and would cause substantial harm to ratepayers through higher rates.¹⁹⁵ Therefore, I&E recommends that the Company's proposed leverage adjustment be rejected in its entirety.

J. Flotation Cost Adjustment

The Company proposed a 3 basis point (0.03%) adder to adjust to all cost of equity analyses to adjust for flotation cost, or costs associated with the new issuances of common stock, in this case by Columbia's parent company NiSource, Inc.¹⁹⁶ I&E recommends this proposed adder be rejected, as there is no indication that NiSource will issue new stocks during the FPFTY when the new rates will be effective, and flotation costs are accounted for on the books of the issuer company, making it inappropriate to present the potential impact of this cost on FPFTY equity cost rate based on a historic O&M expense such as flotation cost¹⁹⁷. An allowance to recover historic flotation costs in this manner would represent inappropriate retroactive ratemaking.¹⁹⁸ Finally, this adjustment would force ratepayers to fund a significant additional amount of \$870,421 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes, uncollectibles, and assessments.¹⁹⁹

Therefore, based on the record evidence presented, I&E recommends that the proposed flotation cost adder should be rejected in its entirety.

¹⁹⁵ *Id.*

¹⁹⁶ I&E St. No. 2, p. 67, *citing* Columbia St. No. 8, App. D, pp. 2-3.

¹⁹⁷ I&E St. No. 2, p. 69.

¹⁹⁸ I&E St. No. 2-R, p. 22.

¹⁹⁹ I&E St. No. 2, p. 70.

K. Risk Free Rate of Return

Though the Company's calculation of risk-free rate is similar to I&E's, Company witness Rea used the 30-year Treasury Bond as the relevant treasury yield, while I&E uses the 10 year Treasury Note.²⁰⁰ I&E recommends the Commission continue its historic practice²⁰¹ of recognizing the 10-year Treasury Note as the superior measure for the risk-free rate, as long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation.²⁰² I&E maintains that the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.²⁰³

L. CAPM Market Risk Premium

Columbia used a 7.00% market risk premium in their CAPM analysis results, which was calculated by averaging the prospective market risk premium of 6.83% (prospective market return of 11.48% minus risk free rate of 4.65%) and Kroll's historic average market risk premium (1926-2023) of 7.17%.²⁰⁴

I&E rejects this application of a market risk premium and argues that the Company inappropriately mingled the historic risk premium with the prospective risk premium and used the average of 7.00% $((6.83\% + 7.17\%) \div 2)$ risk premium in their

²⁰⁰ I&E St. No. 2, p. 71

²⁰¹ *See Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order entered October 25, 2018), p. 99. (Disposition of Capital Asset Pricing Model (CAPM)).

²⁰² I&E St. No. 2, p. 72.

²⁰³ *Id.*

²⁰⁴ I&E St. No. 2, p. 73, *citing* Columbia Exh. VVR-11, p. 1.

CAPM analysis.²⁰⁵ Since the cost of equity is determined for the FPPTY, using a historic risk premium skews the prospective market risk premium and the CAPM results.²⁰⁶ The Company should have used the prospective risk premium of 6.83% rather than using a 7.00% average risk premium, which unnecessarily inflates their CAPM results. In fact, Kroll's latest forecast (April 15, 2025) equity risk premium is 5.50%,²⁰⁷ which is lower than Columbia's prospective risk premium of 6.83%.²⁰⁸

Further, using the prospective risk premium, Columbia's CAPM results would be 10.87% as opposed to 11.02%.²⁰⁹ If Columbia would have used Kroll's risk premium of 5.50%, then Columbia's CAPM results would be 9.66%.²¹⁰

Finally, I&E's cost of common equity recommendation is based on the DCF method as the primary method to determine the cost of common equity.²¹¹ I&E is providing the results of its CAPM analysis as a comparison, and not as a check, to its DCF results.²¹² I&E's inclusion of the Kroll ERP in its CAPM analysis is to provide more information to the Commission as it has recently expressed an interest in the CAPM model.²¹³ Kroll is a trusted and publicly available source that bases its recommended ERP on current and forecasted economic and financial conditions.²¹⁴ Columbia witness

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Id.

206

Id.

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Id., p. pp. 73-74, citing [Kroll Cost of Capital Inputs Updated to Reflect Heightened Uncertainty in Global Economy](#) (accessed on May 29, 2025).

208

Id., p. 74.

209

Id., citing Columbia Exh. VVR-11, p. 1.

210

Id.

211

I&E St. No. 2-SR, p. 36.

212

Id.

213

Id.

214

I&E St. No. 2-SR, p. 36.

Rea's opposition to I&E's use of Kroll's ERP further demonstrates that the inputs to the CAPM are highly subjective and can lead to wildly different results.²¹⁵ This is not the case with the DCF inputs and analysis results, which another reason the DCF methodology should be controlling.²¹⁶

Therefore, in consideration of the record evidence presented, I&E recommends the Commission reject Columbia's use of a 7.00% market risk premium in their CAPM analysis.

M. Size Premium Adjustment to CAPM

I&E recommends that the Company's proposal to use a CAPM size adjustment of 61-basis points (0.61%) be disallowed.²¹⁷ The Company's proposed size adjustment is unnecessary and unsupported because none of the technical literature the Company cited in testimony supporting investment adjustments related to the size of a company is specific to the utility industry, and is thus irrelevant in this proceeding.²¹⁸

I&E cites Dr. Annie Wong to support its recommendation to reject the Company's proposal.²¹⁹ In her article "Utility Stocks and the Size Effect: An Empirical Analysis," Dr. Wong concludes:

The objective of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for utility stocks. This implies that although the size phenomenon has been strongly

²¹⁵ *Id.*

²¹⁶ *Id.*

²¹⁷ I&E St. No. 2, pp. 74-79; I&E St. No. 2-SR, pp. 37-43.

²¹⁸ I&E St. No. 2, p. 75.

²¹⁹ *Id.*, pp. 76-78

documented for the industrials, the findings suggest that there is no need to adjust for the firm size in utility rate regulation.²²⁰

Columbia presented no evidence to support application of a non-utility study regarding a size adjustment for risk to a utility setting. Additionally, the Commission has recently rejected the application of a size adjustment to the CAPM cost of equity calculation where it agreed that the same literature the Company cites is not specific to the utility industry,²²¹ and the Company has not cited to any case where the Commission has approved such a size adjustment to CAPM analysis.²²² Absent any credible evidence to refute Dr. Wong's findings, the Company's proposed size adjustment to its CAPM results should be rejected, as the addition of 61 basis points for the size premium adjustment in this case would force ratepayers to fund an excessive additional amount of \$17,698,574 annually to cover the increase of the overstated rate of return along with the associated impact resulting from increases to income taxes and uncollectibles.²²³ The additional articles cited by the Company, particularly the study by Dr. Thomas Zepp, does not contain enough credible evidence to refute Dr. Wong's findings,²²⁴ and further the analysis by I&E witness Patel supports the argument that it is not appropriate to link the small size effect of non-regulated companies with the regulated utility industry due to the

²²⁰ Dr. Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," *Journal of Midwest Finance Association* 1993, pp. 95-101.

²²¹ *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018) , p. 100 (Disposition of Cost of Common Equity).

²²² I&E St. No. 2, p. 77.

²²³ *Id.*, pp. 77-78.

²²⁴ I&E St. No. 2-SR, p. 39.

notable differences between the industries such as reduced competition and regulatory ratemaking mechanisms.²²⁵

N. ECAPM

The ECAPM is a modified version of the CAPM which attempts to address the belief that the actual risk versus return correlation is flatter than what is predicted by the CAPM.²²⁶ The use of the ECAPM in estimating the cost of capital does not increase the validity of the result, but instead it injects another measure of subjectivity to the CAPM in an attempt to make the Security Market Line more accurate.²²⁷ The ECAPM reduces the purpose of the beta, which is the only company-specific variable in the CAPM model.²²⁸ This additional layer of subjectivity provides an even stronger basis to rely on the DCF, as I&E recommends, as the primary method to calculate a utility's cost of equity.²²⁹ Additionally, I&E reiterates that Columbia witness, Mr. Rea, acknowledged he is not aware of any instances where a utility commission overseeing base rate proceedings explicitly adopted the ECAPM results presented by him as a rate of return witness in the past three years.²³⁰

Therefore, in consideration of the record evidence, I&E recommends the Commission entirely reject Columbia's calculated ECAPM results of 11.18% without the flotation cost adjustment and 11.21% with the flotation cost adjustment.²³¹

²²⁵ *Id.*, pp. 39-42.

²²⁶ I&E St. No. 2, p. 79.

²²⁷ *Id.* See also I&E St. No. 2-SR, pp. 43-45.

²²⁸ *Id.*; *Id.*, pp. 43-44.

²²⁹ *Id.*, pp. 79-80; *Id.*, p. 44.

²³⁰ *Id.*, p. 80, citing I&E Exh. No. 2, Sch. 13, p. 1.

²³¹ *Id.*, p. 80.

O. Management Performance

The Company has proposed an upward adjustment of 25 basis points (0.25%) to the cost of equity results based on the Company's exceptional management performance.²³² I&E disagrees and asserts that true strong management performance is earning a higher return through its efficient use of resources and cost cutting measures.²³³ The greater net income resulting from cost savings and true efficiency in management and operations is then available to be passed on to shareholders.²³⁴ Therefore, Columbia, or any utility, should not be awarded additional rate of return basis points for doing what they are required to do in order to provide adequate, efficient, safe, and reasonable service under 66 Pa. C.S.A. § 1501.²³⁵

The Company argues that Columbia has demonstrated exceptional management performance based on its commitment to low-income customers, the results from the Utility Consumer Activities Report and Evaluation (UCARE) and quality of service reports, process improvements enhancing customer service, employee and system safety, and management audit performance.²³⁶

I&E rejects the Company's arguments and asserts that, first, many of the arguments presented by Columbia fall within the categories of reliability, customer satisfaction, and safety which are required of every public utility company under 66 Pa.

²³² I&E St. No. 2, pp. 80-81; I&E St. No. 2-SR, pp. 49-50.

²³³ *Id.*, p. 80-85; *Id.*, pp. 49-53.

²³⁴ I&E St. No. 2, p. 85.

²³⁵ *Id.*

²³⁶ I&E St. No. 2, p 81, *citing* Columbia statement No. 9 pp. 3-40.

C.S.A. § 1501.²³⁷ Second, the costs and expenses to implement the Company's cited programs are recovered from ratepayers via base rates or through a DSIC mechanism for capital expenditure recovery.²³⁸ Third, if the Company is as effective at controlling operating and maintenance costs, those savings should flow through to ratepayers and/or investors.²³⁹ Fourth, the claimed savings to the ratepayers would likely be offset by the addition of basis points for management performance as ratepayers would have to fund the additional costs. This would defeat the purpose of cutting expenses to benefit ratepayers, particularly as the 0.25% adder would result in an additional amount of \$7,253,514 annually that the ratepayers must cover.²⁴⁰ Finally, given that this case is the Company's ninth base rate case filed since 2014,²⁴¹ Columbia customers have encountered increased rates on an almost annual basis in addition to standard rate surcharges.²⁴²

Though the issuance of equity points to recognize exemplary management performance must be done on a case-by-case basis, previous issuances by the Commission of additional points for exemplary management performance, such as a 2021 case where Aqua was awarded 25 additional basis points²⁴³ would not be comparable, as the *Aqua* decision cited specific efforts by Aqua to rescue troubled water/wastewater

²³⁷ I&E St. No. 2, p. 81.

²³⁸ *Id.*, p. 82.

²³⁹ *Id.*

²⁴⁰ I&E St. No. 2, p. 82, I&E St. No. 2-SR, p. 87.

²⁴¹ I&E St. No. 2, p. 6.

²⁴² *Id.*, p. 82.

²⁴³ *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 168-173 (Order entered May 16, 2022).

systems (some at the Commission’s request) and prevent health concerns regarding drinking water.

Finally, the Commission affirmed the Administrative Law Judge’s denial of management performance points in Columbia’s 2020 rate case referenced *supra*. The Commission summarized the Recommended Decision and stated:

[The ALJ] agreed with I&E, the OCA, and the OSBA that Columbia failed to provide sufficient evidence to support its proposal for an additional twenty-basis points for “strong management performance.” The ALJ reasoned that while effective operating and maintenance cost measures should flow through to ratepayers and/or investors, Columbia’s proposal defeats the purpose of cutting expenses to benefit ratepayers, particularly during a pandemic when so many ratepayers have experienced reduced household income from job loss or reduction in hours. Therefore, the ALJ recommended that no upward management effectiveness adjustment be made to the Company’s cost of equity.²⁴⁴

Therefore, in consideration of the above and the record evidence presented, I&E recommends that the Commission not award Columbia additional basis points for doing what they are required to do by the Public Utility Code and Commission regulations in order to provide adequate, efficient, safe, and reasonable service.²⁴⁵

P. Inflated Growth Rate

I&E recommends that the Company’s assertion that DCF growth rates can be determined subjectively and inflated be rejected.²⁴⁶

²⁴⁴ *Columbia Gas*, p. 134.

²⁴⁵ I&E St. No. 2, p. 80-85; I&E St. No. 2-SR, pp. 50-53.

²⁴⁶ I&E St. No. 2, pp. 36-38; I&E St. No. 2-SR, pp. 7-9.

The Company subjectively “chose” a DCF growth rate of 7.50% even though the average growth rate of the Company’s sources is 7.13%.²⁴⁷

I&E asserts DCF growth rates should be established by mathematical formulation, and that any alternative method is subjective and introduces additional and unnecessary bias and should be avoided when possible.²⁴⁸ Further, the Company’s use of a higher growth rate than the average of the Company’s proxy group ignores the fact that analysts making earnings per share growth forecasts are already aware of the economic conditions and the state of the water utility industry.²⁴⁹ The reasons the Company has given for choosing 7.50% are factors that are already included in the earnings per share growth forecasts; thus, choosing a growth rate higher than the average of the Company’s proxy group would account for the same factors twice.²⁵⁰

In summary, since analysts’ projected growth forecasts are most often overly optimistic, there is no need to arbitrarily and non-formulaically increase the estimates used in a DCF analysis.²⁵¹ Therefore, I&E recommends the Company’s proposed subjective and inflated DCF growth rate be summarily rejected.

Q. Conclusion - Overall Rate of Return

In consideration of the above and the record evidence presented, I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of

²⁴⁷ *Id.* pp. 36-37.
²⁴⁸ *Id.*, p. 37; *Id.* pp. 8-9.
²⁴⁹ *Id.*; *Id.*
²⁵⁰ *Id.*; *Id.*
²⁵¹ I&E St. No. 2, p. 38.

8.10%.²⁵² This recommended overall rate of return is comprised of a weighted average of a 2.26% rate of return on long-term debt, a 0.12% rate of return on short-term debt, and a 5.72% rate of return on common equity.²⁵³ I&E notes that I&E’s recommended return on common equity of 10.51% is higher than the average return on equity of 9.73% of all gas utility rate cases decided/approved by state regulatory authorities in the first quarter of 2025.²⁵⁴ Additionally, the average of equity ratios authorized for gas utilities was 52.13% in 2024, while Columbia is claiming a higher equity ratio of 54.40%.²⁵⁵

X. RATE STRUCTURE AND RATE DESIGN

A utility’s rate structure implements the Commission’s approved revenue increase to determine how the overall increase will be allocated among the utility’s various rate classes. Once a class revenue allocation is determined, development of a rate design will address how the tariffed rates and rate elements will generate the allocated revenues. A properly designed rate structure will not unduly burden one class of ratepayers to the benefit of another. Under the Public Utility Code, “[n]o public utility shall ... make or grant any unreasonable preference to any person, corporation ... No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service.”²⁵⁶ Differences in rates charged to different classes are permissible so long as there is reasonable basis for the discrepancy.²⁵⁷ Generally “public

²⁵² I&E St. No. 2-SR, pp. 53-54.

²⁵³ *Id.*

²⁵⁴ *Id.*, p. 54.

²⁵⁵ *Id.*

²⁵⁶ 66 Pa. C.S. § 1304.

²⁵⁷ *See generally, Peoples Natural Gas Company v. Pa. P.U.C.*, 409 A.2d 446 (Pa. Commw.1979).

utility rates should enable the utility to recover its cost of providing service and should allocate this cost among the utility's customers in a just, reasonable and nondiscriminatory manner."²⁵⁸

A. Effective Date of New Rates

In its filing, Columbia declared that it was using the Fully Projected Future Test Year to determine its base rates and the first day of the FPFTY is January 1, 2026.²⁵⁹ Yet, when asked in discovery about the effective date of new rates, Columbia indicated that the effective date of its new rates will be December 18, 2025.²⁶⁰ The Company apparently applied twisted logic involving the Historic Test Year; the 120 day limit prior to the date of the filing; the Future Test Year; the FPFTY being defined as the twelve month period beginning with the first month that new rates will go into effect; but not until after the expiration of the full suspension period; with the full statutory suspension period concluding in December of 2025.²⁶¹

I&E, on the other hand, applied the simple logic that Columbia's new rates should/shall take effect on the first day of the FPFTY, which, by Columbia's own choosing, is January 1, 2026.²⁶² I&E reasoned it would be unjust and unreasonable for the Commission to allow Columbia to make new rates effective on December 18, 2025 because the ratemaking calculations or claims in this base rate filing are based on

²⁵⁸ See generally *Pa. P.U.C. v. West Penn Power*, 73 Pa. P.U.C. 454, 510, 199 PUR 4th 110 (1990).

²⁵⁹ I&E St. No. 2, p. 105. See also, Columbia St. No. 4, p. 3.

²⁶⁰ *Id.*, pp. 105-106, citing I&E Exh. No. 2, Sch 18, p. 1.

²⁶¹ *Id.*, p. 106.

²⁶² *Id.*, pp. 106-107.

projected changes that will occur in the FPFTY (January 1, 2026 through December 31, 2026).²⁶³ The higher new rates should not be made applicable during the 14-day period of period December 18, 2025 through December 31, 2025 as that period is not supported by Columbia’s FPFTY ratemaking calculation.²⁶⁴

Further, if Columbia is permitted to charge new rates effective on December 18, 2025 instead of January 1, 2026, then at the full revenue increase request of \$110,496,797, the Company would recover a minimum unsupported and unreasonable additional revenue increase of \$4,238,233 ($\$110,496,797 \div 365 \times 14$) for that 14-day period from ratepayers.²⁶⁵

Therefore, in consideration of the record evidence presented, I&E recommends that the Commission order that Columbia’s new rates become effective January 1, 2026 (the first day of the FPFTY) instead of December 18, 2025, to avoid any unreasonable and unjustified impact on ratepayers.²⁶⁶

B. Allocated Cost of Service

Columbia performed and provided three Allocated Cost of Service Studies (“ACOSSs”) in its filing sponsored by Columbia witness Kevin L. Johnson as described in Columbia Statement No. 6.²⁶⁷ The first is a customer-demand ACOSS;²⁶⁸ the second is a peak and average ACOSS;²⁶⁹ and, the third ACOSS is an average of the customer-

²⁶³ *Id.*, p. 107.

²⁶⁴ *Id.*

²⁶⁵ *Id.*

²⁶⁶ *Id.*, p 108.

²⁶⁷ I&E St. No. 3, p. 36, citing Columbia St. No. 6, pp. 4-5.

²⁶⁸ *Id.*, citing Columbia Exh. No. 111, Sch. 1.

²⁶⁹ *Id.*, citing Columbia Exh. No. 111, Sch. 2.

demand studies and the peak and average studies.²⁷⁰ Consistent with the Commission's Order from Columbia's 2020 base rate case, discussed above, the Company utilized the peak and average study, presented on Columbia Exhibit No. 111, Schedule No. 2, to allocate the proposed revenue increases.²⁷¹

I&E agrees with the Company's use of the peak and average methodology to allocate any potential revenue increases among Columbia customer classes.²⁷² Further, I&E agrees with the Company continuing to show a separate customer class for flex rate customers.²⁷³ I&E believes that this is important so that the Commission can determine the cost to provide service to the flex and non-flex customers and the subsidy being provided by tariff rate customers. With this information, the Commission can establish fair and reasonable rates for all other non-flex customers in non-flex classes.

The OCA agrees with I&E's position even though Penn State does not.²⁷⁴ I&E relied on a previous Columbia Gas Commission Order that determined that the peak and average methodology was the most appropriate methodology to use in that proceeding and denied PSU's COSS argument regarding the Customer-Demand methodology.²⁷⁵ Finally the OCA stated that the peak and average cost allocation method should be accepted in this current proceeding.²⁷⁶

²⁷⁰ *Id.*, citing Columbia Exh. No. 111, Sch. 3.

²⁷¹ *Id.*, p. 38, citing Columbia St. No. 6, p. 4.

²⁷² I&E St. No. 3, p. 38; I&E St. No. 3-SR, pp. 36-37.

²⁷³ *Id.*; *Id.*

²⁷⁴ See I&E St. No. 3-SR, pp. 34-37.

²⁷⁵ *Id.*, pp. 35-36, citing *PA P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Opinion and Order at Docket No. R-2020-3018835, p. 218 (Ordered Entered February 19, 2021).

²⁷⁶ *Id.*, p. 36, citing OCA St. No. 4-R, p. 2.

Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends the Company use the peak and average methodology to allocate any potential revenue increases among Columbia customer classes; and that the Company continuing to show a separate customer class for flex rate customers.

C. Revenue Allocation

Revenue allocation is described as the allocation of revenue responsibility between rate classes.²⁷⁷ It is routinely accepted that for class revenue allocation purposes, cost of service is the “polestar.”²⁷⁸ Generally, utilities that provide more than one different type of utility service cannot shift costs from one operation to the other.²⁷⁹ For example, a utility that provides both gas and electric service cannot require its gas customers to pay for plant serving electric customers.

The Company prepared two customer cost analyses presented in Columbia Exhibit No. 111, Schedule 2, pp. 16 and 25.²⁸⁰ The Company’s first customer cost analyses shown on Columbia Exhibit No. 111, Schedule 2, p. 11 allocates a portion of the cost of mains to customers.²⁸¹ The Company’s second customer cost analyses shown on Columbia Exhibit No. 111, Schedule 2, p. 25 does not allocate any portion of the cost of

²⁷⁷ *Ratemaking Guide*, p. 138.

²⁷⁸ *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010 (Pa. Commw. 2006).

²⁷⁹ *Ratemaking Guide*, p. 141.

²⁸⁰ *See*, I&E St. No. 3, pp. 39-42. *See also*, I&E St. No. 3-SR, pp. 37-38.

²⁸¹ *Id.*, pp. 40-41.

mains to customers.²⁸² According to Columbia, it designed its rates to include the principles of efficiency, simplicity, continuity, fairness, and earnings stability.²⁸³

I&E reviewed Columbia's customer cost analyses and now argues that the Commission established in Columbia's 2020 base rate case that mains are not properly included as a customer cost.²⁸⁴ Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends that the Company's customer cost analysis that does not include the cost of mains should be utilized in this proceeding; and, the Company's customer cost analysis that includes the cost of mains should not be considered.²⁸⁵

D. Rate Design – Customer Charges

Columbia set forth its proposed rate design and proposed customer charges based on its original requested overall revenue increase of approximately \$110.5 million at Columbia Exhibit No. 103, Schedule 8, pages 5-9.²⁸⁶ I&E relied on its recommendation and applied the customer cost analysis that does not include the cost of mains and concluded that customer charges for the RS, RDS, and RC2 classes are too high.²⁸⁷ Instead, I&E recommended the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.²⁸⁸

²⁸² *Id.*, p. 41.

²⁸³ *Id.*, citing Columbia St. No. 6, p. 16.

²⁸⁴ *See Id.*, pp. 41-42, citing *Pa. P.U.C. v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, OPINION AND ORDER, p. 218 (Order entered February 19, 2021).

²⁸⁵ *Id.*, p. 42.

²⁸⁶ *See I&E St. No. 3*, pp. 42-46.

²⁸⁷ *Id.*, pp. 42-43. *See also I&E St. No. 3-SR*, pp. 38-40.

²⁸⁸ *Id.*, p. 43; *Id.*

I&E supported its recommendation to keep the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25 by arguing, first, Columbia’s Residential customer charge proposal is out of line with the Residential customer charges of other NGDCs in the Commonwealth.²⁸⁹ Second, a high fixed monthly customer charge is inconsistent with the Commission’s general goal of fostering energy conservation because actual usage becomes less of a cost saving measure.²⁹⁰ And, finally, the Company’s analysis of customer costs includes costs that are not appropriately included in a customer charge and is based on the Company’s requested increase, which in all likelihood will be higher than the increase authorized by the Commission in this proceeding.²⁹¹

I&E did, however, accept the proposed customer charges for LDS class customers because higher usage customers generally favor a higher fixed charge and lower usage charges.²⁹² I&E also accepted the proposed customer charges for SGS1, SGS2, and SDS/LGSS customers as the proposed charges are consistent with the applicable customer cost analysis.²⁹³

Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25.

²⁸⁹ *Id.*, pp. 44-45.

²⁹⁰ *Id.*, p. 44.

²⁹¹ *See, Id.*, pp. 42-46.

²⁹² *Id.*, p. 43.

²⁹³ *Id.*

E. Scale Back of Rates

If the Commission grants an increase less than the amount requested by the Company, then I&E recommends that all proposed increases to customer charges and usage rates be scaled back proportionately based on the ACOSS that is ultimately approved by the Commission.²⁹⁴

Finally, it is generally accepted that gradualism is a well-established ratemaking concept that seeks to limit the immediate increases customers receive when rates are increased and instead seeks to implement a necessary significant rate changes on a more gradual basis over time. If the Commission should approve a rate increase, then the Commission has the discretion²⁹⁵ to apply the concept of gradualism if the Commission determines the rate increase would result in a sudden and excessive increase that would violate the concept of gradualism. For this reason, I&E identifies the concept of gradualism as one of the tools of discretion in the Commissions toolbox.

XI. ALTERNATIVE RATEMAKING

Columbia has proposed both making its' pilot Weather Normalization Adjustment (“WNA”) permanent and initiating a Revenue Normalization Adjustment (“WNA”). The Commission has noted in recent cases that Act 58 of 2018 was approved on June 28, 2018, and went into effect on August 27, 2018, and was codified at 66 Pa. C.S. § 1330.²⁹⁶

²⁹⁴ I&E St. No. 3, p. 47; I&E St. No. 3-SR, pp. 40-41.

²⁹⁵ See Columbia Gas Order, pp. 44-55, Docket No. R-2020- 3018835, Order Entered February 19, 2021 (for a comprehensive discussion of the Commission’s discretionary authority).

²⁹⁶ See *Pa. PUC v. PECO Energy Company - Gas* (“PECO WNA Order”), Docket No. R-2024-3046932, p. 14 (Order Entered December 12, 2024) .

Section 1330(a)(1) of the Code states that “the commission may approve an application by a utility in a base rate proceeding to establish alternative rates and rate mechanisms.”

66 Pa. C.S. § 1330(a)(1).²⁹⁷

The Commission may authorize the implementation of alternative ratemaking mechanisms, such as decoupling mechanisms like the WNA; however, in order to implement an alternative ratemaking mechanism, the proposing utility must provide substantial evidence that the specific mechanism proposed by the utility would result in just and reasonable rates. 66 Pa. C.S. §§ 315(a), 1330.²⁹⁸

The Commission explained to determine “just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose” of the Commission’s policy and the policy laid out in Section 1330, the Commission, in a Policy Statement, developed 14 factors to be considered.²⁹⁹ Section 1330, however, does not waive the Code’s burden of proof requirements, or the Administrative Agency Law’s requirement that the decisions of Commonwealth agencies (including the Commission) be supported by substantial evidence.³⁰⁰ See 2 Pa. C.S. § 704.

Further, the Commission noted in its PECO WNA Order “it is a primary concern of the Commission that alternative ratemaking is, in some way, rooted in the cost of service.”³⁰¹ As is stated at 52 Pa. Code § 69.3301, “an alternative rate design

²⁹⁷ PECO WNA Order, p. 14.

²⁹⁸ *Id.*, p. 15.

²⁹⁹ *Id.*, p. 15, *citing* 52 Pa. Code § 69.3302(a).

³⁰⁰ *See*, 2 Pa. C.S. § 704.

³⁰¹ *Id.*, p. 16.

methodology should reflect the sound application of cost-of-service principles, establish a rate structure that is just and reasonable, and consider customer impacts.”³⁰²

A. Weather Normalization Adjustment (WNA)

In its base rate filing, Columbia requested that the Commission allow Columbia’s current WNA pilot to become permanent.³⁰³ The Company argued that its WNA ensures that neither Columbia nor ratepayers are harmed by fluctuating revenues related to fluctuations in weather sensitive usage.³⁰⁴ Historical data shows that Columbia has recovered over \$74 million in revenue through the application of the WNA from the Columbia rate payers.³⁰⁵

In response to Columbia’s request to make its WNA pilot permanent, I&E recommended the Commission reject the Company’s request and disallow the WNA from being applied going forward.³⁰⁶ For the reasons stated in I&E direct³⁰⁷ and surrebuttal³⁰⁸ testimony, I&E believes Columbia’s WNA program should end.

I&E’s analysis of Columbia’s current WNA included utilizing the guidance provided by the Commission in its 2019 Statement of Policy where the Commission identified fourteen factors to consider when evaluating an alternative rate making

³⁰² PECO WNA Order, pp. 16-17, *quoting* 52 Pa. Code §§ 69.3301, 69.3302(a).

³⁰³ I&E St. No. 3, p. 9, *citing* Columbia St. No. 17, p. 9.

³⁰⁴ *Id.*

³⁰⁵ *See* I&E St. No. 3-SR, p. 15; I&E Exh No. 3-SR, Sch. 1, p. 4.

³⁰⁶ I&E St. No. 3, p. 11.

³⁰⁷ *See Id.*, pp. 9-21.

³⁰⁸ *See* I&E St. No. 3-SR, pp. 8-23.

mechanism.³⁰⁹ I&E focused on Policy Questions Nos. 1, 5, 6, 12 and 13.³¹⁰ I&E argued that Columbia’s WNA does not properly align revenues with cost causation principles as to both fixed and variable costs.³¹¹ I&E also argued that Columbia’s WNA serves to shift costs from customers who can afford to make efficiency improvements to those customers who cannot afford to make efficiency improvements while at the same time creating an imbalance in the WNA share to cover the revenue shortfall not based on actual usage.³¹² Further, while some may see the 3% deadband as a customer protection, in this real-world application, it did not afford much protection at all.³¹³ Finally, it is clear to everyone that WNAs in general and the WNA billing process are too complex and confusing to customers.³¹⁴

In consideration of I&E’s analysis of Columbia’s existing WNA pilot program relative to the Commission’s Policy Questions and the reasoning applied in the PECO Gas proceeding relative to the WNA,³¹⁵ I&E recommends that the pilot program be allowed to expire and no permanent WNA be put in place.³¹⁶

If, however, the Commission decides to allow Columbia to move forward with its WNA, then I&E recommended certain changes be made to the WNA in an effort to

³⁰⁹ See I&E St. No. 3, p. 10, *citing* Statement of Policy (“2019 Statement of Policy”), Docket No. M-2015-2518883, Order entered July 18, 2019.

³¹⁰ See I&E St. No. 3, pp. 10-16; I&E St. No. 3-SR, pp. 10-17.

³¹¹ *Id.*, p. 12.

³¹² I&E St. No. 3-SR, pp. 12-13.

³¹³ *Id.*, pp. 14-16.

³¹⁴ *Id.*, pp. 16-17.

³¹⁵ See I&E St. No. 3, p. 18, *citing* *Pa. PUC v. PECO Energy Company – Gas*, Docket No. R-2024-3046932, pp. 94-101 (Order Entered December 12, 2024) .

³¹⁶ *Id.*, p. 8.

soften its impact on Columbia’s rate payers, especially those that try to conserve usage to reduce their monthly bill. I&E recommended that if the Commission decides to approve the WNA on a permanent basis, three (3) modifications should be made to the WNA.³¹⁷ First, the shoulder month of May should be removed from the WNA. Second, the time period used to determine normal HDDs be shortened to ten years. And third, the deadband should be increased to 5%.

First, the month of May is not a winter or traditional heating month in Pennsylvania but more appropriately a shoulder month when customers can expect to start seeing their heating bills decline.³¹⁸ By including May in its calculation, customers could see WNA bill increases as late as June.³¹⁹

Second, I&E argued that by utilizing a twenty-year weather cycle to determine normal HDDs, the Company is ignoring what even the Company argues is a “recent” winter weather warming trend that is representative of Pennsylvania winters, which results in more winter months falling short of “normal” based on how the Company calculates what is “normal.”³²⁰ Using a twenty-year cycle rather than a ten-year cycle results in an “historical bias” that diminishes the effect of the claimed recent trends and results in providing revenue to the Company when instead, customers should be realizing savings.³²¹ The Company cites to a recency bias in a claimed weather warming trend yet

³¹⁷ I&E St. No. 3, p. 18; I&E St. No. 3-SR, pp. 16-17.

³¹⁸ *Id.*, p. 19; *Id.*, p. 19.

³¹⁹ *Id.*; *Id.*, p. 20.

³²⁰ *Id.*; *Id.*, pp. 17-19.

³²¹ *Id.*; *Id.*, p. 20.

won't recognize that same recency bias when calculating what is "normal" regarding their HDD.

Finally, if the goal of the WNA is to improve stability regarding customer bills and Company revenue, a 5% deadband adequately captures what could be considered normal weather fluctuations in Pennsylvania and places more of the burden for calculating and forecasting weather variations back onto the Company as a normal part of doing business.³²² It goes without saying that the Company is far better equipped to meet that challenge than the customers.

These three rational adjustments to Columbia's WNA would add additional protection for the customers from fluctuating monthly usage billing and would encourage conservation by the ratepayers. Therefore, in consideration of all of the above and the record evidence presented, I&E recommends that if Columbia's WNA is made permanent, the Commission should apply the three modifications recommended by I&E.

B. Revenue Normalization Adjustment (RNA)

In its filing, Columbia proposed to implement a Revenue Normalization Adjustment and apply it to its non-CAP residential and Commercial and Industrial ("C&I") customers.³²³ An RNA is described as a decoupling mechanism that separates a utility distribution revenue from its level of sales, thereby "breaking the link" so that a utility may recover an established amount of revenues, even as sales vary.³²⁴

³²² *Id.*

³²³ I&E St. No. 3, p. 21, *citing* Columbia St. No. 17, p. 43.

³²⁴ *Id.*, *citing* Columbia St. No. 17, p. 46.

I&E opposes the RNA and recommends that the Commission deny implementation of an RNA.³²⁵ I&E noted that the Company has repeatedly proposed enacting the RNA in previous rate cases and I&E has opposed the RNA every time.³²⁶ Most recently, the Company proposed to enact an RNA in its 2020, 2021, 2022, and 2024 base rate cases at Docket Nos. R-2020-3018835, R-2021-3024296, R-2022-3031211, and R-2024-3046519.³²⁷

Once again, in its opposition, I&E relied on the Commission's July 18, 2019 Statement of Policy.³²⁸ I&E reviewed the fourteen factors set forth in the Statement of Policy and stated its concerns regarding Policy Questions 1, 2, 8, 10 and 12,³²⁹ ultimately concluding that Columbia's current system of rates and charges, which include fixed monthly customer charges, a purchased gas adjustment mechanism, and potentially a distribution system improvement charge provide Columbia with the revenue stability it needs.³³⁰ Therefore, Columbia has not met its burden of proving that these revenue sources are inadequate.³³¹ Additionally, the Company has not presented credible evidence that implementation of the RNA will result in fewer base rate cases, thus removing any benefit from the residential customers.³³² Finally, I&E also proffers that the RNA will have a chilling effect on voluntary conservation by the ratepayers.³³³

³²⁵ I&E St. No. 3, p. 23.

³²⁶ *Id.*, p. 22.

³²⁷ *Id.*

³²⁸ *Id.*, p. 24, *citing* 2019 Statement of Policy.

³²⁹ *Id.*, pp. 24-28.

³³⁰ *Id.*, p. 28.

³³¹ *Id.*

³³² *Id.*, *citing* Columbia St. No. 17, p. 51.

³³³ *Id.*

Therefore, in consideration of the record evidence presented and the relevant Commission precedent, I&E recommends that the Company's proposal to implement an RNA be denied.

XII. CUSTOMER SERVICE / QUALITY OF SERVICE

Most of the customer service and quality of service issues were raised by the OCA and CAUSE-PA. I&E did not submit testimony on most of the issues raised by the other parties. The issues where I&E did submit testimony are addressed *infra*.

A. Speech Analytics Pilot Program (SAP)

The Columbia proposed a two-year SAP program using technology to review customer calls to identify customers that may be eligible for the CAP who were not referred to the program during the call.³³⁴ The Company's stated long-term goal is to improve customer service representative recognition of potential low-income customers to more quickly target them for CAP and the Company proposes that Speech Analytics Technology (SAT) using artificial intelligence and natural language processing will assist in analyzing customer conversations from live or recorded audio data.³³⁵ The ultimate goal of the SAT is to increase appropriate referrals to the CAP from the Customer Care Center.³³⁶ The estimated annual budget for this program is \$300,000, which will include Columbia's pro-rated portion of the annual licensing fee, programming the SAT,

³³⁴ I&E St. No. 2, p. 99, *citing* Columbia St. No. 1, p. 11.

³³⁵ *Id.*, pp. 99-100.

³³⁶ *Id.*, *citing* Columbia St. No. 16, p. 8.

analyzing results and any potential follow up related to training.³³⁷ Columbia proposes to recover this annual budgeted cost through its Universal Service Plan (USP) Rider.³³⁸

I&E recommended not allowing the Company's annual budgeted expense claim of \$300,000 for the SAP program to be recovered from ratepayers' bills using the USP rider for several reasons.³³⁹ First, the SAP program is not specifically mandated by statute or regulation for the utility to implement.³⁴⁰ Second, there is no identified basis or support for the expense claim of \$300,000.³⁴¹ Third, the approval of the SAP program with the USP rider mechanism provides Columbia a guaranteed expense recovery though there is no established measurement of success and real term benefits to ratepayers.³⁴²

Fourth, Columbia's in-house call center staff is currently using the following software applications for speech analytics:³⁴³

- (a) NICE Engage: Source system for call audio recording extraction.
- (b) Azure AI Services: Microsoft cloud technology platform used for call transcription, PII redaction, and data analysis.
- (c) Large Language Model (LLM): Used to analyze and extract information from the transcribed calls. LLMs are advanced AI models that can understand and generate human language, enabling us to extract data from transcripts by asking questions in natural language. Considering the current application of software applications, I&E argues it is imprudent to enhance SAP by investing additional funds for the SAT, which will be funded by all residential customers to improve identification of potential CAP customers over telephonic conversations of the call center staff.

³³⁷ *Id.*, p. 100.

³³⁸ *Id.*, *citing* Columbia St. No. 16, p. 9.

³³⁹ *Id.*

³⁴⁰ *Id.*, p. 101.

³⁴¹ *Id.*

³⁴² *Id.*

³⁴³ *Id.*, *citing* I&E Exh. No. 2, Sch. 17.

Fifth, there is no proven benchmark or other utilities' SAT experience or performance metrics to improve customer service representatives' awareness and identification of eligible CAP customers over telephonic conversation, which could justify or support Columbia's expense claim.³⁴⁴ In the absence of a verifiable analysis results of effectiveness of the SAT use or integration with the SAP, the success of the proposed SAP is speculative, and therefore, the expense claim is unjustified and unsupported in this proceeding.³⁴⁵

Additionally, the Commission has recently held that it is more appropriate for Columbia to propose the SAP pilot, accompanied by an analysis results of similar programs implemented by other utilities, in Columbia's Universal Service and Energy Conservation Plan proceeding, where all stakeholders including the Commission's Bureau of Consumer Services would have an opportunity to review and evaluate the SAP alongside other universal service programs and policies.³⁴⁶

Therefore, in consideration of the record evidence presented, I&E recommends that the Commission not allow the Company's proposed annual budgeted expense claim of \$300,000 for the SAP program to be recovered from ratepayers' bills using the USP rider.

³⁴⁴ *Id.*, p. 102.

³⁴⁵ *Id.*

³⁴⁶ See I&E St. No. 2, pp. 102-103, *citing Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order Entered June 22, 2021); and *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 (Order Entered February 19, 2021).

XIII. UNIVERSAL SERVICE PROGRAMS

Most of the universal service programs issues were raised by the OCA and CAUSE-PA. I&E did not submit testimony on most of the issues raised by the other parties. The issues where I&E did submit testimony are addressed *infra*.

A. Low Income Usage Reduction Program (LIURP)

The Pennsylvania Weatherization Providers Task Force recommended that LIURP funding be increased by \$1,500,000 per year and that any unused funds be carried over and added to the following year's funding despite the fact that the Company is not proposing any increase to LIURP funding.³⁴⁷ Additionally, CAUSE-PA recommends that Columbia be required to increase its LIURP budget by a percentage equal to any approved rate increase in this proceeding.³⁴⁸

I&E recommended that no increase in the budgeted LIURP amount be approved in this proceeding.³⁴⁹ I&E reasoned that, while PWPTF's and CAUSE-PA's recommendations are well-intentioned, it is inappropriate to consider an increase in the LIURP budget in this base rate proceeding.³⁵⁰ Any potential increase should be addressed in the Company's Universal Service and Energy Conservation Plan ("USECP") proceedings, where consideration and evaluation of all other related programs and comments from all stakeholders and interested parties can occur.³⁵¹ In his rebuttal testimony, I&E witness Getachew Bedasa cited to several recent Commission

³⁴⁷ See I&E St. No. 1-R, p. 2-3, *citing* PWPTF St. No. 1, p. 7.

³⁴⁸ *Id.*, p. 3-4, *citing* CAUSE-PA St. No. 1, pp. 40-41.

³⁴⁹ *Id.*, p. 4.

³⁵⁰ *Id.*

³⁵¹ *Id.*

decisions and Commissioner statements that all support the finding that modifications to LIURP and other universal service programs should be made in the universal service and energy conservation plan proceedings and not in base rate proceedings.³⁵²

In *PA PUC v. Aqua Pennsylvania, Inc.*,³⁵³ the Commission stated:

Our decision on this issue is consistent with prior decisions in which we have determined that it was not appropriate to consider proposals relating to a public utility’s energy burdens, CAP, and other universal service program issues within the context of a base rate proceeding, finding that such proposals are more properly considered in a public utility’s Universal Service and Energy Conservation Plan (USECP) proceeding.³⁵⁴

Additionally, in the recent PECO Energy Company - Gas Division proceeding, the Commission did not consider CAUSE-PA’s proposals related to CAP and other universal service program issues within the context of the base rate proceeding because they would be more properly considered in its USECP proceeding.³⁵⁵ In that proceeding, the Commission also referenced Columbia’s 2020 base rate proceeding³⁵⁶ where it concluded, “that energy burdens should not be considered separately from other parts of the Company’s CAP and universal service programs but should be considered as part of

³⁵² See I&E St. No. 1-R, pp. 5-7, *citations omitted*.

³⁵³ I&E St. No. 1-R, p. 5, *citing PA Public Utility Commission et al. v. Aqua Pennsylvania, Inc.*, (2022 Aqua Order), Docket No. R-2021-3027386 (Order Entered May 16, 2022) .

³⁵⁴ *Id.*, p. 5, *citing* 2022 Aqua Order, p. 333.

³⁵⁵ *Id.*, p. 5-6, *citing PA PUC v. PECO Energy Company - Gas Division*, (2021 PECO Order), Docket No. R-2020-3018929, pp. 195-196 (Order Entered June 22, 2021).

³⁵⁶ *Id.*, p. 6, *citing PA PUC v. Columbia Gas of Pennsylvania, Inc.*, (2021 Columbia Order), Docket No. R-2020-3018835 (Order Entered February 19, 2021) .

the Company's entire universal service plan, including the need for changes and associated costs."³⁵⁷

Of further note, the Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, states:

[A] LIURP budget can only be revised through a USECP proceeding initiated pursuant to the periodic USECP review process or in response to a petition to amend a USECP earlier than the periodic USECP review process.³⁵⁸

It also states:

As LIURP is a ratepayer-funded program, considerations impacting its budget determination should be open to scrutiny and comment. USECP proceedings allow all interested parties to provide comments, raise questions, and review information justifying the proposed change to the LIURP budget in an on-the-record proceeding.³⁵⁹

And finally, in a recent UGI Utilities, Inc. - Electric Division base rate proceeding, Commissioner John F. Coleman stated the following,

In addition to my concerns about the lawfulness and reasonableness of the automatic enrollment modifications in this specific Settlement, I am becoming increasingly uncomfortable with the modification of universal service programs within base rate cases, especially in base rate cases

³⁵⁷ 2021 PECO Order, p. 195.

³⁵⁸ Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, (2023 LIURP Rulemaking Order), Docket No. L-2016-2557886, p. 36 (Order Entered May 18, 2023).

³⁵⁹ 2023 LIURP Rulemaking Order, p. 37.

that result in black box settlements.³⁶⁰

In that same statement, Commissioner Coleman asserted that, “This complexity and the need for balance are best addressed in USECP proceedings.”³⁶¹

Therefore, in consideration of the record evidence presented and the Commission precedent and guidance cited, I&E recommends that no increase in the budgeted LIURP amount be approved in this proceeding.

B. Hardship Fund

The PWPTF recommended that the Company’s contribution to its Hardship Fund be increased commensurate with the percentage increase in rates of the residential class that would result from this proceeding.³⁶² PWPTF then argues that a modest increase in comparison to other universal service funding will help customers deal with a rate increase in these difficult economic times.³⁶³

I&E recommended that no increase to the Company’s contribution to its Hardship Fund be approved in this proceeding.³⁶⁴ However, I&E argued, if an increase is ultimately approved in this proceeding, any increase to the Hardship Fund as proposed by the PWPFT should be funded by shareholders and not via mandatory ratepayer funding.³⁶⁵ I&E reasoned, it is inappropriate to consider an increase in the Hardship

³⁶⁰ *Pa. P.U.C. v. UGI Utilities, Inc.- Electric Division*, Docket No. R-2022-3037368, et al., Statement of Commissioner John F. Coleman, Jr., (Statement of Commissioner Coleman), p. 2 (Statement Entered September 21, 2023).

³⁶¹ Statement of Commissioner Coleman, p. 2.

³⁶² I&E St. No. 1-R, p. 7, *citing* PWPTF St. No. 1, p. 7.

³⁶³ *Id.*, pp. 7-8.

³⁶⁴ *Id.*, p. 8.

³⁶⁵ *Id.*

Fund in this base rate proceeding, regardless of the source of the funding.³⁶⁶ Columbia’s Hardship Fund is funded by shareholders, customer contributions, fundraising activities, and natural gas supplier refunds and penalty credits.³⁶⁷ In the absence of any analysis of funding sources or the historic spending level of the Hardship Fund, it is inappropriate to consider any increase in this base rate proceeding.³⁶⁸ As noted in the 2024 USECP Order, “shareholders, employees, and customers are the primary contributors to the fund.”³⁶⁹

Therefore, in consideration of the record evidence presented and prior Commission precedent, I&E recommends that no increase to the Company’s contribution to its Hardship Fund be approved in this proceeding

XIV. ENERGY EFFICIENCY PROGRAMS

A. Energy Efficiency Plan (“EEP”)

Columbia’s current residential EEP pilot was originally approved as part of the Company’s 2022 base rate case at Docket No. R-2022-3031211 with a budget of \$4.0 million for the years 2023 to 2025 and is set to expire at the end of 2025.³⁷⁰ Therefore, Columbia is proposing a Phase II Three-Year EEP (2026-2028) while adding additional residential measures and a commercial component to the overall program.³⁷¹

³⁶⁶

Id.

³⁶⁷

Id.

³⁶⁸

Id.

³⁶⁹

Id., p. 9, citing *Columbia Gas of Pennsylvania Inc. Universal Service and Energy Conservation Plan for 2024-2028 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2023-3039487, p. 93 (Order Entered April 4, 2024).

³⁷⁰

I&E St. No. 2, p. 88, citing Columbia St. No. 13, p. 3.

³⁷¹

Id.

I&E, however, recommended that the Company's proposal for its Phase II EEP be disallowed in this base rate proceeding.³⁷² Alternatively, if the Commission considers Columbia's EEP appropriate and reasonable for approval in this proceeding pending the outcome of performance results of EEP Pilot (Phase I) ending in December 2025, then in the interest of ratepayers and as an added consumer protection, I&E recommended the Commission put a maximum annual cap on the plan's total administration cost (exclusive of the incentives cost) at 20% of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.³⁷³

To summarize, over the three years of the Phase II EEP, Columbia proposes to spend \$7.9 million on the administration and delivery of two residential energy efficiency programs and one commercial energy efficiency program.³⁷⁴ A breakdown of the total projected Phase II EEP cost of \$7.9 million and projected spending by customer class was set forth in a table provided by Columbia.³⁷⁵ Further, Columbia provided a breakdown of the total spending at the portfolio level by budget category and year³⁷⁶ claiming the FPFTY Phase II EEP expense of \$1,235,965 in the total operation and maintenance expense claim³⁷⁷ and simultaneously including EEP rider revenue of \$1,235,965 in the FPFTY total operating revenues.³⁷⁸ Finally, Columbia proposes to recover the EEP costs for the fiscal years 2026-2028 from ratepayers via an EE Rider,

³⁷² See I&E St. No. 2, pp. 88-98; I&E St. No. 2-SR, pp. 54-60 for a complete analysis.

³⁷³ *Id.*; *Id.*

³⁷⁴ I&E St. No. 2, p. 88, *citing* Columbia St. No. 13, p. 13.

³⁷⁵ See *Id.*, pp. 88-89, *citing* Columbia Exh. JAN-2, p. 5.

³⁷⁶ *Id.*, p. 89, *citing* Columbia Exh. JAN-2, p. 6.

³⁷⁷ *Id.*, p. 90, *citing* Columbia Exh. 104, Sch. 1, p. 2.

³⁷⁸ *Id.*, *citing* Columbia Exh. 102, Sch. 3, p. 3.

which will appear as a separate line item on residential and small commercial customers' bills.³⁷⁹ For the fiscal year 2026, the residential program cost of \$1,963,496 and small commercial program cost of \$503,366 Columbia proposes it will be recovered via the EE rider at \$0.00634 per/Therm and \$0.00343 per/Therm respectively.³⁸⁰

I&E recommended that the Company's claim for its proposed Phase II EEP be disallowed in its entirety.³⁸¹ The disallowance of the proposed EEP results in a reduction of \$1,235,965 in unnecessary operating expenses and corresponding recovery in customers' rates through the EE Rider.³⁸² Further, the Company is claiming EEP rider revenue of \$1,235,965 and includes corresponding expenses of \$1,235,965 in the total operating expense claim of \$222,116,320 for the FPFTY.³⁸³ Additionally, since I&E recommended rejection of the Company's proposed Phase II EEP, I&E also recommended disallowance of the FPFTY EEP rider revenue claim of \$1,235,965 and related expense claim of \$1,235,965 from the total operating expense claim of \$222,116,320.³⁸⁴

I&E's recommendation is based on four points of consideration.³⁸⁵ They are:

1. NGDCs are under no mandate under Act 129 to develop the EEP and are therefore subject to no civil penalties for failure to meet stated goals.
2. EEPs are not essential to the provision of safe and reliable natural gas service.

³⁷⁹ *Id.*, p. 91, *citing* Columbia Exh. KLJ-7.

³⁸⁰ *Id.*

³⁸¹ *See* I&E St. No. 2, pp. 91-98 for a complete analysis.

³⁸² *Id.*, p. 91, *citing* Columbia Exh. 102, Sch. 3, p. 3 and Exh. 104, Sch. 1, p. 2.

³⁸³ *Id.*

³⁸⁴ I&E St. No. 2, p. 92.

³⁸⁵ *See Id.*, pp. 92-93.

3. Residential home appliances and equipment using natural gas as a source of power are generally more efficient over time, so the implementation of EEP by an NGDC is unnecessary. Additionally, the EEP may not encourage customers' participation in conservation measures by replacing currently working equipment with new ones due to the upfront higher cost of the newer or latest equipment.
4. The EEP portfolio-wide administration costs including marketing, inspection, and evaluation represents 45.41% of the Company's total program investment ($(\$2,717,625 + \$449,875 + \$243,000 + \$170,000) \div \$7,884,579$). A program demonstrating this level of a customer cost to customer value ratio should not be approved.

I&E reasoned further, the main beneficiary, due to the guaranteed recovery through the proposed EEP rider, would be the Company (along with the relatively small number of participants who opt to participate in the EEP) with no threat of a potential penalty or fines if goals are not met.³⁸⁶ Additionally, unlike electric utilities that are being affected by decommissioning of power plants and the potential huge electric power demand from data centers, there are no similar issues impacting the provision of reliable service by Pennsylvania NGDCs.³⁸⁷ With the abundance of Marcellus Shale gas, enforcing or mandating conservation measures is not necessary to ensure reliable service.³⁸⁸

Whether an expense is essential, just, and reasonable is the yardstick by which expenses are measured in a rate case claim.³⁸⁹ The ratepayers are expected to bear all the costs of the program with no risk to the Company if the EEP is unsuccessful.³⁹⁰

³⁸⁶ *Id.*, p. 94.

³⁸⁷ *Id.*

³⁸⁸ *Id.*

³⁸⁹ *Id.*

³⁹⁰ *Id.*, pp. 94-95.

Furthermore, EEP costs are not shown to be necessary for the provision of safe and reliable service, and the advertising and administrative costs associated with the proposed renewed plan are excessive compared to the total budget.³⁹¹

EEPs are traditionally evaluated based on expected net total resource benefits with an overall total resource cost (TRC) benefit-cost ratio (BCR).³⁹² Columbia's cost benefit analysis was based on the assumptions of estimated customers' participation in each category of EE programs, estimated savings in gas usage, the program incentives, and the administration costs.³⁹³ The Phase II EEP's portfolio-wide administration cost of the total annual spending budget and customer incentives is summarized in I&E witness D.C. Patel's direct testimony.³⁹⁴ The referenced data reveals that Columbia's EEP administration costs are excessively high and inefficient when compared to the customer incentive amount by year.³⁹⁵ At this level of administration cost, Columbia is projecting the number of customer participation by program and year as shown in Mr. Patel's direct.³⁹⁶

In summary, Columbia provides gas distribution service to approximately 446,000 customers, revealing just 1.98% for 2026, 2.26 % for 2027, and 2.53%for 2028 percent of projected customer participation in the Phase II EEP even after implementing the EEP Pilot for two full years.³⁹⁷ I&E reasons, in this scenario, all non-participating customers

³⁹¹ See I&E St. No. 2, pp. 95-98.

³⁹² *Id.*, pp. 96-97.

³⁹³ *Id.*, p. 97.

³⁹⁴ See *Id.*, citing Columbia St. No. 13, p. 14; Columbia Exh. JAN-2, p. 6.

³⁹⁵ *Id.*

³⁹⁶ *Id.*, citing Columbia Exh. JAN-2, pp. 17-18; 28-29.

³⁹⁷ *Id.*, p. 98.

(approximately 98% of Columbia’s total customers count) will fund the EEP spending for the perceived benefits to approximately 2% of participating customers.³⁹⁸ Further, if the anticipated customer participation in the EEP is not achieved or the EEP is not successful, the plan implementation costs would be an imprudent and wasteful expenditure burdening customers’ rates via the EEP rider.³⁹⁹

Therefore, in consideration of the record evidence presented, I&E recommends that the Company’s proposal for its Phase II EEP be disallowed in this base rate proceeding. Alternatively, if the Commission considers Columbia’s EEP appropriate and reasonable for approval in this proceeding pending the outcome of performance results of EEP Pilot (Phase I) ending in December 2025, then in the interest of customer protection, I&E recommend the Commission put a maximum annual cap on the plan’s total administration cost (exclusive of the incentives cost) at 20% of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.⁴⁰⁰

XV. COMPETITIVE SUPPLY ISSUES

I&E did not submit any record evidence nor make any recommendations regarding any competitive supply issues.

XVI. TARIFF ISSUES

A. Economic Development Distribution Service Rate (“EDDS”)

In its filing, Columbia proposed adding a new Economic Development Distribution Service rate class to its tariff to allow the Company the flexibility to bring on

³⁹⁸ *Id.*

³⁹⁹ *Id.*

⁴⁰⁰ I&E St. No. 2, p. 98; I&E St. No. 2-SR, p. 60.

new large load customers that may have near-term natural gas needs in a manner that provides for accelerated cost recovery while protecting the interests of the existing Columbia customer base.⁴⁰¹

I&E raised concerns that no current jurisdictional customers are interested this new class of service, how these new customers would be classified jurisdictionally, which class(es) of customers would or should pay for all future improvements including a plan on how stranded costs would be handled, and how individual contracts associated with this rate class could possibly never change resulting in potential subsidization by jurisdictional customers.⁴⁰²

The Company argued that the Company is in preliminary discussions with a potential customer that would qualify for this class of service.⁴⁰³ Columbia indicated that it determined the EDDS rate schedule was more efficient and provides for the opportunity to cleanly bifurcate costs between jurisdictional customers and the large-load customers.⁴⁰⁴ Further, Columbia stated a contractual agreement between the Company and the large-load customer ensures the risk of non-payment is borne by the Company, not its jurisdictional customers.⁴⁰⁵

In response, I&E reiterates its concerns here that Columbia's proposal to make the EDDS rate class non-jurisdictional places that rate class outside PUC jurisdiction.⁴⁰⁶

⁴⁰¹ *Id.*, pp. 28-29, *citing* Columbia St. No. 1, p. 10.

⁴⁰² *Id.*, pp. 29-30.

⁴⁰³ I&E St. No. 3-SR, p. 32, *citing* Columbia St. No. 9-R, pp. 34-39.

⁴⁰⁴ *Id.*

⁴⁰⁵ *Id.*, p. 33.

⁴⁰⁶ I&E St. No. 3-SR, p. 33.

Because of this, any potential future improvements made to that rate class might ultimately result in jurisdictional customers subsidizing the costs of non-jurisdictional customers.⁴⁰⁷ This jurisdictional issue could create stranded cost issues related to transmission between both categories, which will likely only impact jurisdictional customers because of the unregulated operating environment and confidential terms of non-jurisdictional individual contracts.⁴⁰⁸

In consideration of the above and all of the record evidence presented, I&E continues to recommend that Columbia's proposed EDDS rate class be disallowed in its entirety. If, on the other hand, the Commission grants Columbia's request to implement the EDDS, then I&E urges the Commission to address the concerns raised by I&E, especially the allocation of costs.

XVII. MISCELLANEOUS ISSUES / PIPELINE SAFETY

A. Methane Detector Pilot Program

This issue was raised by I&E Pipeline Safety in the direct testimony of I&E witness Alexander Pankiw. Mr. Pankiw highlighted the usefulness and safety benefits of methane detectors within structures and the ability of real-time smart reporting technology to simultaneously notify the customer and the emergency gas response officials to potentially hazardous situations.⁴⁰⁹ Mr. Pankiw also opined that implementation of a methane detector installation program would provide Columbia's customers with a safety tool that provide early warning alarms signaling a gas leak and a

⁴⁰⁷ *Id.*

⁴⁰⁸ *Id.*

⁴⁰⁹ I&E St. No. 4, pp. 2-9.

potentially hazardous situation.⁴¹⁰ Implementing an early warning audible alarm will afford additional time to safely evacuate and notify the emergency response officials.⁴¹¹

Ultimately Mr. Pankiw recommended that the Company implement a pilot program utilizing SRMDs in a region where Columbia has risky pipe for the installation of 500 to 1000 SRMDs to allow the Company to study the effectiveness of the SRMDs and monitor the related expenses.⁴¹² Further, I&E recommended Columbia continue implementing the AMI technology communication network for the notification methodology utilized by these devices as part of its pilot program.⁴¹³ I&E suggested that Columbia may choose to use a risk-based approach to maximize the benefits in determining the location and rollout of the SRMD program.⁴¹⁴

In consideration of all of the record evidence submitted by I&E witness Pankiw, I&E continues to recommend Columbia implement a pilot program to study the effectiveness and to monitor expenses. Or, in the alternative, I&E recommends that Columbia implement an internal study to determine whether a pilot program is feasible and how Columbia would implement a pilot program.

XVIII. CONCLUSION

I&E respectfully submits that for all the reasons presented in this I&E Main Brief, Columbia Gas has not met its burden of proof as the record evidence presented by Columbia Gas does not substantiate a revenue increase of \$110.5 million. Instead, based

⁴¹⁰ *Id.*, pp. 3-4.

⁴¹¹ *Id.*, p. 4.

⁴¹² *Id.*, pp. 8-9.

⁴¹³ *Id.*, p. 9.

⁴¹⁴ *Id.*

on the weight of the record evidence, Your Honor and the Commission should only grant Columbia Gas the I&E recommended revenue increase of \$78,643,542 million in accordance with the record evidence presented by I&E and summarized in this I&E Main Brief and the appended I&E Tables.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott B. Granger". The signature is written in a cursive, flowing style.

Scott B. Granger
Prosecutor
Bureau of Investigation & Enforcement
PA Attorney ID No. 63641

Dated: August 26, 2025

Appendix A Tables

I&E TABLE I

TABLE I							
Columbia Gas of Pennsylvania, Inc.							
INCOME SUMMARY							
Docket No. R-2024-3046519							
Dollars in \$000							
	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates Adjusted (1)	I&E Adjustments	I&E Pro Forma Present Rates	I&E Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	919,008	0	919,008	(1,236)	917,772	78,644	996,416
Expenses:							
O&M Expense	467,930	0	467,930	(8,910)	459,020	1,059	460,079
Depreciation	154,651	0	154,651	0	154,651	0	154,651
Taxes, Other	4,494	0	4,494	0	4,494	0	4,494
Income Taxes:							
State	4,580	0	4,580	563	5,143	5,811	10,954
Federal	13,498	0	13,498	1,461	14,959	15,072	30,031
Deferred Taxes/ITC	25,196	0	25,196	0	25,196	0	25,196
Total Expenses	670,349	0	670,349	(6,886)	663,463	21,942	685,405
Net Inc. Available for Return	248,659	0	248,659	5,650	254,309	56,702	311,011
Rate Base	3,839,638	0	3,839,638	0	3,839,638		3,839,638
Rate of Return	6.48%		6.48%		6.62%		8.10%
(1) Company Rebuttal Testimony							

I&E TABLE I(A)

TABLE I(A)					
Columbia Gas of Pennsylvania, Inc.					
RATE OF RETURN					
Docket No. R-2024-3046519					
	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.37600000%		
Long-term Debt	43.28%	5.22%	2.26000000%		2.26%
Short-term Debt	2.32%	5.00%	0.12000000%		0.12%
Preferred Stock	0.00%	0.00%	0.00000000%	0.730829	0.00%
Common Equity	54.40%	10.51%	5.72000000%	0.730829	7.83%
	<u>100.00%</u>		<u>8.10000000%</u>		<u>10.21%</u>
Pre-Tax Interest Coverage	4.52				
After-Tax Interest Coverage	3.58				

I&E TABLE I(B)

TABLE I(B)					
Columbia Gas of Pennsylvania, Inc.					
REVENUE FACTOR					
Docket No. R-2024-3046519					
100%					<u>1.00000000</u>
Less:					
Uncollectible Accounts Factor (*)					0.01346130
PUC, OCA, OSBA Assessment Factors (*)					0.00000000
Gross Receipts Tax					0.00000000
Other Tax Factors (adjust for rounding)					<u>0.00000000</u>
					0.98653870
State Income Tax Rate (*)					<u>0.07490000</u>
Effective State Income Tax Rate					<u>0.07389200</u>
Factor After Local and State Taxes					0.91264670
Federal Income Tax Rate (*)					<u>0.21000000</u>
Effective Federal Income Tax Rate					<u>0.19165600</u>
Revenue Factor (100% - Effective Tax Rates)					<u><u>0.72099100</u></u>
(*) I&E Surrebuttal					

I&E TABLE III

TABLE III	
Columbia Gas of Pennsylvania, Inc.	
INTEREST SYNCHRONIZATION	
Docket No. R-2024-3046519	
Dollars in \$000	
	Amount
Company Rate Base Claim	\$ 3,839,638
I&E Rate Base Adjustments	0
I&E Rate Base	3,839,638
Weighted Cost of Debt	2.380%
I&E Interest Expense	91,383
Company Claim (1)	91,230
Total I&E Adjustment	(153)
Company Adjustment	0
Net I&E Interest Adjustment	(153)
State Income Tax Rate	7.49%
State Income Tax Adjustment	(11)
Net I&E Interest Adjustment	(153)
State Income Tax Adjustment	(11)
Net I&E Adjustment for F.I.T.	(142)
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	\$ (30)
(1) Company Rebuttal Testimony	

I&E TABLE IV

TABLE IV				
Columbia Gas of Pennsylvania, Inc.				
CASH WORKING CAPITAL - Interest and Dividends				
Docket No. R-2024-3046519				
Accrued Interest			Preferred Stock Dividends	
	Long-Term Debt	Short-Term Debt		
Company Rate Base Claim	\$3,839,638	\$3,839,638	Company Rate Base Claim	\$3,839,638
I&E Rate Base Adjustments	\$0	\$0	I&E Rate Base Adjustments	\$0
I&E Rate Base	\$3,839,638	\$3,839,638	I&E Rate Base	\$3,839,638
Weighted Cost of Debt	2.26000000%	0.12%	Weighted Cost Pref. Stock	0.00000000%
I&E Annual Interest Exp.	\$86,776	\$4,608	I&E Preferred Dividends	\$0
Average Revenue Lag Days	0.0	0.0	Average Revenue Lag Days	0.0
Average Expense Lag Days	0.0	0.0	Average Expense Lag Days	0.0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
Working Capital Adjustment				
I&E Daily Interest Exp.	\$238	\$13	I&E Daily Dividends	\$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
I&E Working Capital	\$0	\$0		\$0
Company Claim (1)	\$0	\$0	Company Claim (1)	\$0
I&E Adjustment	\$0	\$0		\$0
Total Interest & Dividend Adj.	\$0			
(1) Company Rebuttal				

I&E TABLE V

TABLE V									
Columbia Gas of Pennsylvania, Inc.									
CASH WORKING CAPITAL - TAXES									
Docket No. R-2024-3046519									
Description	Company Proforma Tax Expense Present Rates	I&E Adjustments	I&E Pro forma Tax Expense Present Rates	ALJ Allowance	I&E Adjusted Taxes at Present Rates	Daily Expense	Net Lead/Lag Days	Accrued Tax Adjustment	
PUC Assessment	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
Public Utility Realty	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
Capital Stock Tax	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
	\$0	\$0	\$0	\$0	\$0	\$0.00	0.00	\$0	
State Income Tax	\$0	\$563	\$563	\$5,811	\$6,374	\$17.46	0.00	\$0	
Federal Income Tax	\$0	\$1,461	\$1,461	\$15,072	\$16,533	\$45.30	0.00	\$0	
	\$0	\$2,024	\$2,024	\$20,883	\$22,907				
						ALJ Allowance		0	
						Company Claim (1)		0	
						I&E Adjustment		0	

(1) Company Rebuttal

I&E TABLE VI

TABLE VI					
Columbia Gas of Pennsylvania, Inc.					
CASH WORKING CAPITAL -- O & M EXPENSE					
Docket No. R-2024-3046519					
Description	Company Pro forma FTY Expense	I&E	I&E Pro forma Expenses	Lag Days	Lag Dollars
Service Company	\$0	\$0	\$0	0.00	\$0
Chemicals	\$0	\$0	\$0	0.00	\$0
Group Insurance	\$0	\$0	\$0	0.00	\$0
Insurance, Other	\$0	\$0	\$0	0.00	\$0
Labor	\$0	\$0	\$0	0.00	\$0
Leased Equip./Rent	\$0	\$0	\$0	0.00	\$0
Leased Vehicles	\$0	\$0	\$0	0.00	\$0
Miscellaneous	\$0	\$0	\$0	0.00	\$0
Natural Gas	\$0	\$0	\$0	0.00	\$0
Power	\$0	\$0	\$0	0.00	\$0
Purchased Water	\$0	\$0	\$0	0.00	\$0
Telephone	\$0	\$0	\$0	0.00	\$0
Waste Disposal	\$0	\$0	\$0	0.00	\$0
Post Retirement Benefits	\$0	\$0	\$0	0.00	\$0
Pensions	\$0	\$0	\$0	0.00	\$0
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>#DIV/0!</u>	<u>\$0</u>
I&E Average Revenue Lag	0.0				
Less: I&E Avg. Expense Lag	#DIV/0!				
Net Difference	#DIV/0!	Days			
I&E Pro forma O&M Expense per Day	\$0				
I&E CWC for O&M	#DIV/0!				
Less: Company Claim (1)	\$0				
I&E Adjustment	<u>#DIV/0!</u>				
(1) Company Rebuttal					

Findings of Fact

1. Columbia Gas of Pennsylvania, Inc. (“Columbia Gas” or the “Company”) has its principal office in Canonsburg, Pennsylvania, and provides natural gas distribution service in portions of 26 counties in Pennsylvania, primarily in the Western half of the Commonwealth, as well as parts of Northwest, Southern and Central Pennsylvania. Columbia St. No. 1, p. 3.
2. Columbia delivers natural gas service to approximately 446,000 residential, commercial, and industrial customers. Columbia St. No. 1, p. 3.
3. Columbia Gas is a wholly owned subsidiary of NiSource. Columbia St. No. 1, p. 3.
4. On March 20, 2025, Columbia Gas filed Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 (“Supplement 392”) pursuant to 66 Pa. C.S. § 1308, seeking a general rate increase. Columbia Gas St. No. 1, p. 4.
5. Supplement 392 issued March 20, 2025, to be effective May 19, 2025, proposes changes to Columbia’s base distribution rates, and removes, revises, and adds various tariff provisions.
6. Columbia Gas’ base rate filing requested an overall revenue increase of approximately \$110.5 million per year. I&E St. No. 1, p. 2.
7. Columbia Gas has not met its burden of proof as Columbia failed to present substantial credible record evidence to support its request for a revenue increase of \$110.5 million.
8. The record evidence presented supports only a total revenue increase of \$78,643,542. I&E St. No. 1-SR, p. 4. *See also* Appendix A, Table I *infra*.
9. Columbia’s Future Test Year rate base is \$3,489,139,254. I&E St. No. 3. *See also* Columbia Ex. No. 108, p. 3.
10. The Company agreed to provide the Bureau of Investigation and Enforcement and the Office of Consumer Advocate with an update to Columbia Exhibit No. 108, Schedule 1 no later than April 1, 2026, under this docket number, which should include actual capital expenditures, plant additions, and retirements by month for the twelve months ending November 30, 2025. I&E St. No. 3-SR, p. 3.
11. Columbia has filed nine base rate cases in a span of twelve years requesting a cumulative total additional revenue increase of \$717.35 million. I&E St. No. 2, p. 6.

12. When compared to the other Pennsylvania jurisdictional natural gas distribution companies, Columbia has the highest average monthly bill for a residential hating customer using 73.7 Ccf/Month. I&E St. No. 2, p. 6.

13. Columbia's request for the amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility was not part of Columbia's original March 20th filing. I&E St. No. 3-SR, p. 4.

14. Columbia raised the issue of the requested amortization of a regulatory asset regarding the sale of the Blackhawk Storage Facility in its July 17, 2025 rebuttal testimony. I&E St. No. 3-SR, p. 4.

15. Columbia's average historic filing frequency for base rate cases is 16 months $((12 + 12 + 24) = 48 \div 3)$. I&E St. No. 1, p. 7.

16. I&E recommends that the Company should be afforded the opportunity to earn an overall rate of return of 8.10%. I&E St. No. 2-SR, pp. 53-54.

17. I&E's calculated cost of common equity using the Discounted Cash Flow method is 10.51%. I&E St. No. 2, p. 38.

18. I&E's recommended return on common equity of 10.51% is higher than the average return on equity of 9.73% of all gas utility rate cases decided/approved by state regulatory authorities in the first quarter of 2025. I&E St. No. 2-SR, p. 54.

19. Columbia elected to use the Fully Projected Future Test Year to determine its base rates and the first day of the FPFTY is January 1, 2026. I&E St. No. 2, p. 105. Columbia St. No. 4, p. 3.

20. If Columbia is permitted to charge new rates effective on December 18, 2025 instead of January 1, 2026, then at the full revenue increase request of \$110,496,797, the Company would recover a minimum unsupported and unreasonable additional revenue increase of \$4,238,233 $(\$110,496,797 \div 365) \times 14$ for that 14-day period from ratepayers. I&E St. No. 2, p. 107.

21. Columbia performed and provided three Allocated Cost of Service Studies. I&E St. No. 3, p. 36. Columbia St. No. 6, pp. 4-5.

22. I&E recommended the customer charges for rate classes RS, RDS, and RC2 stay at the current rate of \$17.25. I&E St. No. 3, p. 43. I&E St. No. 3-SR, pp. 38-40.

23. The proposed customer charges for SGS1, SGS2, and SDS/LGSS customers are consistent with the applicable customer cost analysis. I&E St. No. 3, p. 43.

24. Historical data shows that Columbia has recovered over \$74 million in revenue through the application of the Weather Normalization Adjustment from the Columbia rate payers. I&E St. No. 3-SR, p. 15.

25. The Act 129 mandate to develop an Energy Efficiency and Conservation Programs is not applicable to Pennsylvania natural gas distribution companies. I&E St. No. 2, pp. 92-93.

26. Columbia Gas would not be subject to statutory penalties if the stated goals in its Energy Efficiency Program are not met. I&E St. No. 2, p. 94.

27. Pennsylvania, in general, has an abundance of Marcellus Shale gas available to it. I&E St. No. 2, p. 94.

28. The current administrative costs associated with Columbia's Energy Efficiency Plan are approximately 45%. I&E St. No. 2, pp. 89-90, 93.

Conclusions of Law

1. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission. 66 Pa. C.S. § 1301.
2. No public utility shall ... make or grant any unreasonable preference to any person, corporation ... No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of service. 66 Pa. C.S. § 1304.
3. The burden of proving the justness and reasonableness of every element of the utility's rate increase rests solely upon the public utility. 66 Pa. C.S. § 315(a); *Lower Frederick Twp. v. Pa. Pub. Util. Comm.*, 409 A.2d 505 (Pa. Commw. Ct. 1980).
4. Columbia Gas, as the base rate filer, must satisfy its burden of proof by a preponderance of evidence. *Samuel J. Lansberry, Inc. v. Pennsylvania Public Utility Commission*, 578 A.2d 600 (Pa. Commw. 1990).
5. A preponderance of evidence is such evidence that is more convincing, by even the smallest amount, than that presented by another party. *Se-Ling Hosiery v. Margulies*, 70 A.2d 854 (Pa. 1950).
6. The burden of proof is comprised of two distinct burdens: the burden of production and the burden of persuasion. The burden of production tells the adjudicator which party must come forward with evidence to support a particular position. *In re: Loudenslager's Estate*, 430 Pa. 33, 240 A.2d 477 (1968). The burden of persuasion determines which party must produce sufficient evidence to convince a judge that a fact has been established, and it never leaves the party on whom it is originally cast. *Reidel v. County of Allegheny*, 633 A.2d 1325, 1329 n. 11 (Pa. Commw. 1993).
7. The Commission must ensure that any adjudication is supported by substantial evidence. "Substantial evidence" is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. *Norfolk & Western Ry. Co. v. Pennsylvania Public Utility Commission*, 413 A.2d 1037 (Pa. 1980).
8. While the burden of proof remains with the public utility throughout the rate proceeding, the Commission has stated that where a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. Pub. Util. Comm. v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Opinion and Order entered July 17, 2008).

9. The Commission must consider the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates in exchange for customers paying rates for service, which include the cost of utility plant in service and a rate of return. 66 Pa. C.S. § 523.

10. In exchange for the utility's provision of safe, adequate and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return for the utility's investors. *Pa. Pub. Util. Comm. v. Pennsylvania Gas & Water Co.*, 61 Pa. PUC 409, 415-16 (1986); 66 Pa. C.S. § 1501.

11. The Commission has the discretionary authority to deny a proposed rate increase, in whole or in part, if the Commission finds that the service rendered by the public utility is inadequate. 66 Pa. C.S. § 526(a); *PA PUC v. Columbia Gas of Pennsylvania Inc.*, Docket No. R-2020-3018835, Order entered February 19, 2021.

12. A Commission decision is adequate where, on each of the issues raised, the Commission was merely presented with a choice of actions, each fully developed in the record, and its choice on each issue amounted to an implicit acceptance of one party's thesis and rejection of the other party's contention. *Popowsky, et al. v. Pa. Pub. Util. Comm.*, 550 Pa. 449, 706 A.2d 1197 (1997).

13. The standard formula for determining a utility's base rate revenue requirement is:

$$RR = E + D + T + (RB \times ROR)$$

RR: Revenue Requirement

E: Operating Expense

D: Depreciation Expense

T: Taxes

RB: Rate Base

ROR: Overall Rate of Return

14. A utility is entitled to recover its reasonably incurred expenses. *UGI Corp. v. Pa. Pub. Util. Comm'n*, 410 A.2d 923 (Pa. Commw. 1980). Expenses include such items as the cost of operations and maintenance (labor, fuel and administrative costs, e.g.), depreciation and taxes. *Pennsylvania Power Company v. Pa. Pub. Util. Comm.*, 561 A.2d 43, 47 (Pa. Commw. 1989).

15. The public utility requesting a rate increase and seeking to recover expenses has the burden of showing that the rate requested, including all claimed expenses, is just and reasonable. 66 Pa. C.S. § 315(a); *See also Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

16. To the extent that expenses are not reasonably incurred, imprudently incurred, or abnormally overstated during the test year, they should be disallowed and found not recoverable through rates. *Cup v. Pa. P.U.C.*, 556 A.2d 470 (Pa. Commw. 1989).

17. It is the historical filings, not the actual intentions of the utility, which will guide the determination of the normalization period. *Pa. Pub. Util. Comm. v. City of Lancaster*, R-2010-2179103, et al. (Opinion and Order entered July 14, 2011), 2011 Pa. PUC LEXIS 1685; *Pa. Pub. Utility Comm. v. Metropolitan Edison Company*, R-2006-00061366, et al. (Opinion and Order entered January 4, 2007), 2007 Pa. PUC LEXIS 5.

18. The rate of return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management...to raise the money necessary for the proper discharge of public duties. *Bluefield Waterworks & Improvement Co. v. Public Service Comm. of West Virginia*, 262 U.S. 679 (1923).

19. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Company v. Pa. Pub. Util. Comm.*, 955 A.2d 456, 461 (Pa. Commw. 2008); *City of Lancaster v. Pa. Pub. Util. Comm.*, 769 A.2d 567, 571-72 (Pa. Commw. 2001). The question of reasonableness of rates and the difference between rates in their respective classes is an administrative question for the Commission to decide. *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm.*, 516 A.2d 426 (Pa. Commw. 1986); *Park Towne v. Pa. Pub. Util. Comm.*, 43 A.2d 610 (1981).

20. The basic factor in allocating revenue is to have the rates reflect the cost of service. *Lloyd v. Pa. Pub. Util. Comm.*, 904 A.2d 1010, 1020 (Pa. Commw. 2006).

21. In order to implement an alternative ratemaking mechanism, the proposing utility must provide substantial evidence that the specific mechanism proposed by the utility would result in just and reasonable rates. *Pa. PUC v. PECO Energy Company - Gas* (“PECO WNA Order”), Docket No. R-2024-3046932, p. 14 (Order Entered December 12, 2024). *See also* 66 Pa.C.S. §§ 315(a), 1330.

22. To determine “just and reasonable alternative distribution ratemaking mechanisms and rate designs that promote the purpose” of the Commission’s policy and the policy laid out in Section 1330, the Commission, in a Policy Statement, developed 14 factors to be considered. *Pa. PUC v. PECO Energy Company - Gas* (“PECO WNA

Order”), Docket No. R-2024-3046932, p. 15 (Order Entered December 12, 2024). *See* 52 Pa. Code § 69.3302(a).

23. “It is a primary concern of the Commission that alternative ratemaking is, in some way, rooted in the cost of service.” *Pa. PUC v. PECO Energy Company - Gas* (“PECO WNA Order”), Docket No. R-2024-3046932, p. 16 (Order Entered December 12, 2024).

24. As is stated at 52 Pa. Code § 69.3301, “An alternative rate design methodology should reflect the sound application of cost-of-service principles, establish a rate structure that is just and reasonable, and consider customer impacts.” *Pa. PUC v. PECO Energy Company - Gas* (“PECO WNA Order”), Docket No. R-2024-3046932, pp. 16-17 (Order Entered December 12, 2024), *quoting* 52 Pa. Code §§ 69.3301, 69.3302(a).

25. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 292 U.S. 679, 692-93 (1923).

26. The Commission shall base its determination of the appropriate cost of equity on the results of the DCF method and shall use the CAPM results as a comparison thereto. The use of the DCF model has historically been our preferred methodology, the Commission should find no reason to deviate from the use of this method in the instant case. *PA PUC v. Columbia Gas of Pennsylvania Inc.*, Docket No. R-2020-3018835, Order entered February 19, 2021.

27. “Our decision on this issue is consistent with prior decisions in which we have determined that it was not appropriate to consider proposals relating to a public utility’s energy burdens, CAP, and other universal service program issues within the context of a base rate proceeding, finding that such proposals are more properly considered in a public utility’s Universal Service and Energy Conservation Plan (USECP) proceeding.” *PA Public Utility Commission et al. v. Aqua Pennsylvania, Inc.*, (2022 Aqua Order), Docket No. R-2021-3027386 (Order Entered May 16, 2022).

28. “[A] LIURP budget can only be revised through a USECP proceeding initiated pursuant to the periodic USECP review process or in response to a petition to amend a USECP earlier than the periodic USECP review process.” Notice of Proposed

Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, (2023 LIURP Rulemaking Order), Docket No. L-2016-2557886, p. 36 (Order Entered May 18, 2023).

29. “As LIURP is a ratepayer-funded program, considerations impacting its budget determination should be open to scrutiny and comment. USECP proceedings allow all interested parties to provide comments, raise questions, and review information justifying the proposed change to the LIURP budget in an on-the-record proceeding.” Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, (2023 LIURP Rulemaking Order), Docket No. L-2016-2557886, p. 37 (Order Entered May 18, 2023).

30. “Iteration” is an accepted ratemaking process that must be applied to the final calculation of rates as all adjustments are finalized.

31. “Scale back” of rates is an accepted rate making process that is applied to the final rate structure after the Commission approves the Company’s new total revenue requirement.

32. Columbia Gas did not meet its burden of proof.

Ordering Paragraphs

1. That I&E's proposed total revenue increase for Columbia Gas of \$78,643,542 is approved.
2. That \$356,242,461 (\$3,845,381,715 - \$3,489,139,254) of rate base additions are associated with Columbia's FPFTY.
3. That a rate case expense allowance of \$731,372 is approved and normalized over 16-months.
4. That an allowance of \$7,754,135 for other employee benefits expense is approved.
5. That an allowance for other rents and leases equal to the supported HTY actual expense of \$475,203 is approved.
6. That the \$4,528,579 claim for NiSource Corporate Services Company allocated stock awards expense is disallowed in its entirety.
7. That an allowance of \$326,469 for interest on customer deposits is approved.
8. That the Company shall include a lead/lag study in its first base rate case to be filed on or after January 1, 2026.
9. That the Company's proposal to move EAT labor cost recovery from base rates to the USP rider is rejected in its entirety.
10. That the Company's capital structure is accepted.
11. That the Company's claimed costs of long-term and short-term debt are approved.
12. That the Discounted Cash Flow (DCF) methodology is the primary method used to determine the cost of common equity for regulated utilities in Pennsylvania.
13. That I&E's recommended cost of common equity of 10.51% is accepted.
14. That I&E's recommended overall rate of return of 8.10% is accepted.
15. That any additional consideration or adjustments for the Company's claimed risk profile in determining the cost of equity for Columbia are rejected in their entirety.

16. That the “low end” DCF result, removed by Columbia witness Mr. Rea, is added back in to the Company’s calculations for purposes of Commission review of the cost of common equity.

17. That the Company’s proposed request for a leverage adjustment is denied in its entirety.

18. That the proposed flotation cost adder should be rejected in its entirety.

19. That the Commission shall continue its historic practice of recognizing the 10-year Treasury Note as the superior measure for the risk-free rate.

20. That the Commission rejects Columbia’s use of a 7.00% market risk premium instead of the prospective risk premium of 6.83% in their CAPM analysis.

21. That the Company’s proposal to use a CAPM size adjustment of 61-basis points (0.61%) be disallowed in its entirety.

22. The Commission reject in their entirety Columbia’s calculated ECAPM results of 11.18% without the flotation cost adjustment and 11.21% with the flotation cost adjustment.

23. That the Company’s request for management performance points to be added to the overall rate of return is denied in its entirety.

24. That the Company’s request for an inflated growth rate is denied in its entirety.

25. That Columbia’s new rates become effective January 1, 2026 (the first day of the FPFTY) instead of the proposed December 18, 2025.

26. That the Company use the peak and average methodology to allocate any potential revenue increases among Columbia customer classes; and, that the Company continuing to show a separate customer class for flex rate customers.

27. That the Company’s customer cost analysis that does not include the cost of mains shall be utilized in this proceeding; and, the Company’s customer cost analysis that includes the cost of mains shall not be considered.

28. That the customer charges for rate classes RS, RDS, and RC2 shall stay at the current rate of \$17.25.

29. That the proposed customer charges for SGS1, SGS2, and SDS/LGSS customers are approved as the proposed charges are consistent with the applicable customer cost analysis.

30. That “scale back” of rates shall be proportionately applied to the new rates.
31. That Columbia’s Weather Normalization Adjustment pilot program be allowed to expire and no permanent WNA be put in place.
32. That the Company’s proposal to implement a Revenue Normalization Adjustment be denied in its entirety and thrown into the dustbin of history.
33. That the Commission reject the Company’s proposed annual budgeted expense claim of \$300,000 for the SAP program to be recovered from ratepayers’ bills using the USP rider.
34. That no increase in the budgeted LIURP amount be approved in this base rate proceeding.
35. That no increase to the Company’s contribution to its Hardship Fund be approved in this base rate proceeding.
36. That the Company’s proposal for its Phase II EEP be denied in its entirety.
37. If Phase II is approved, then there shall be a maximum annual cap on the plan’s total administration costs (exclusive of the incentives cost) at 20% of the annual total EEP cost with any excess administration costs to be refunded to customers through the rider.
38. That Columbia’s proposed Economic Development Distribution Service (EDDS) rate class be disallowed in its entirety.
39. That the Company implement a pilot program utilizing SRMD methane detectors in a region where Columbia has risky pipe for the installation of 500 to 1000 SRMDs.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2025-3053499
 :
 Columbia Gas of Pennsylvania, Inc. :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Main Brief** dated August 26, 2025, in the manner and upon the persons listed below.

Served via Electronic Mail Only

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