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File #: 203798

August 26, 2025

VIA ELECTRONIC FILING

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

Re: Pennsylvania Public Utility Commission, *et al.* v. Columbia Gas of Pennsylvania, Inc.
Docket Nos. R-2025-3053499, *et al.*

Dear Secretary Homsher:

Enclosed for filing, please find the Main Brief and associated appendices on behalf of Columbia Gas of Pennsylvania, Inc., ("Columbia Gas"), for the above-referenced proceeding.

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Michael W. Hassell

Michael W. Hassell

MWH/dmc
Attachment

cc: The Honorable Chad Allensworth (*via email; w/attachment*)
The Honorable Jeffrey A. Watson (*via email; w/attachment*)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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Dated: August 26, 2025

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2025-3053499
Office of Small Business Advocate	:	C-2025-3054550
Office of Consumer Advocate	:	C-2025-3054484
The Pennsylvania University	:	C-2025-3054780
Terri Walker	:	C-2025-3054662
Linda Slick	:	C-2025-3054552
Linda Allison	:	C-2025-3054434
Alexandra Garlitz	:	C-2025-3055233
Daniel and Stacy Chronister	:	C-2025-3056194
	:	
v.	:	
	:	
Columbia Gas of Pennsylvania, Inc	:	

MAIN BRIEF OF COLUMBIA GAS OF PENNSYLVANIA, INC.

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I. INTRODUCTION

A. COLUMBIA GAS OF PENNSYLVANIA, INC.

Columbia Gas of Pennsylvania, Inc. ("Columbia" or the "Company") is a "public utility" and "natural gas distribution company" ("NGDC") as those terms are defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S. §§ 102 and 2202. Columbia provides natural gas sales, transportation, and/or supplier of last resort services to approximately 446,000 retail customers in portions of 26 counties of Pennsylvania, primarily in the western half of the state, but also including parts of Northwest, Southern and Central Pennsylvania.

In this proceeding, Columbia requests Pennsylvania Public Utility Commission ("Commission") approval of a base rate increase, with an effective date of rates on or before December 19, 2025.[1] The requested increase is designed to produce an increase in annual revenues of approximately $110.5 Million based upon data for a fully projected future test year ("FPFTY") ending December 31, 2026.[2] Consistent with prior cases, the primary driver for the requested rate increase is Columbia's ongoing and significant investment to modernize its distribution system through the replacement of pipe and related appurtenances that are reaching the end of their useful lives. Columbia seeks Commission approval to increase its base rates to recover the revenue requirement associated with the

[1] On April 24, 2025, the Commission issued an Order suspending Columbia's Supplement No. 392 by operation of law until December 19, 2025. On April 28, 2025, Columbia filed Supplement No. 399 pursuant to the Commission's April 24, 2025, Suspension Order. Supplement No. 399 suspended the proposed rates contained in Tariff Supplement No. 392 until December 19, 2025.

[2] *See* Columbia St. No. 1, p. 7; Columbia St. No. 2, p. 32.

capital Columbia has invested, and will continue to invest, it in its facilities as part of its continued focus to prioritize spending to address identified risks on the Company's system, including the accelerated pipeline replacement programs, as well as Columbia's ongoing operations and maintenance expenditures. Approval of the Company's request is necessary for Columbia to continue to provide safe and reliable natural gas service at the lowest reasonable price to its customers, while providing the Company with a reasonable opportunity to recover its costs and to earn a fair rate of return. Further, approval of this request will demonstrate to the investment community that the Commission continues to support the need for intensified focus on pipeline safety matters as well as the need for reasonable and predictable earnings.

For the reasons explained below and in its filing, Columbia's proposed distribution rate increase is just and reasonable, and should be approved by the Commission. The Company's proposed Findings of Fact, Conclusions of Law, and Ordering Paragraphs are attached hereto as **Appendices A through C**, respectively. Attached as **Appendix D** are the Company's Rate Case Tables.

B. HISTORY OF THE PROCEEDINGS

On March 20, 2025, Columbia filed Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 at Docket No. R-2025-3053499, with an effective date of May 19, 2025. Columbia proposed to increase overall rates by approximately $110.5 Million per year, based upon data for a FPFTY ending December 31, 2026. The filing was made in compliance with the Commission's regulations, and contains all supporting data and testimony required to be submitted in conjunction with a tariff change seeking a general rate increase.

On April 24, 2025, the Commission issued an Order suspending Columbia's Supplement No. 392 by operation of law until December 19, 2025.[3]

On March 24, 2025, the Commission's Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance. The Office of Small Business Advocate ("OSBA"), the Office of Consumer Advocate ("OCA"), and The Pennsylvania State University ("PSU") filed Formal Complaints on April 8, 2025, April 11, 2025, and April 24, 2025, respectively. The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") and the Pennsylvania Weatherization Providers Task Force ("PWPTF") filed Petitions to Intervene on April 11, 2025, and May 5, 2025, respectively. Formal Complaints were also filed by Terri Walker, Linda Slick, Linda Allison, Alexandra Garlitz, and Daniel and Stacy Chronister.

On April 24, 2025, the Office of Administrative Law Judge ("OALJ") issued a Prehearing Conference Order and Prehearing Conference Notice, scheduling a prehearing conference for May 7, 2025. The case was assigned to Administrative Law Judges Jeffrey A. Watson and Chad Allensworth (collectively, the "ALJs").

On May 7, 2025, the prehearing conference was held as scheduled.

On May 9, 2025, the ALJs issued a Prehearing Order, which memorialized the matters discussed by the parties during the prehearing conference on May 7, 2025, and which established the litigation schedule.

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[3] On April 28, 2025, Columbia filed Supplement No. 399 pursuant to the Commission's April 24, 2025 Suspension Order. Supplement No. 399 suspended the proposed rates contained in Tariff Supplement No. 392 until December 19, 2025.

Public input hearings were held in Washington, Pennsylvania on June 3, 2025, telephonically on June 4, 2025, and in York, Pennsylvania on June 11, 2025.

In accordance with the procedural schedule, other parties' direct testimony was served on June 18, 2025. Written rebuttal testimony was served on July 17, 2025. Written surrebuttal testimony was served on July 31, 2025. Written rejoinder testimony was served on August 5, 2025.

On August 6 and 7, 2025, hearings were held for the cross examination of certain witnesses for Columbia, I&E, OCA, and CAUSE-PA and the admission of the testimony of those witnesses subject to cross examination into the record. All parties agreed to the admission of the remaining testimony and evidence into the record by stipulation.

C. LEGAL STANDARDS

Under the Public Utility Code, a public utility's rates must be just and reasonable and cannot result in unreasonable rate discrimination.[4] A public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request.[5] "It is well-established that the evidence adduced by a utility to meet this burden must be substantial."[6]

However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other

[4] 66 Pa.C.S. §§ 315(a), 1301 and 1304.
[5] 66 Pa.C.S. § 315(a); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 (Order entered Aug. 5, 2004) ("*Aqua 2004 Order*").
[6] *Lower Frederick Twp. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

party has questioned. As the Commonwealth Court has explained, while it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.[7]

Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment.[8] In addition, tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified.[9]

Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof. For example, in *Pa. PUC v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan.11, 2007), a party offered proposals to have the companies incur expenses not included in their filings. The ALJ held that, as the proponent of a Commission order with respect to its proposals, the party bears the burden of proof as to proposals that are not included in

[7] *Allegheny Center Assocs. v. Pa. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).
[8] *See, e.g., Pa. PUC v. PECO*, Docket No. R-891364, *et al.*, 1990 Pa. PUC LEXIS 155 (Order dated May 16, 1990); *Pa. PUC v. Breezewood Telephone Company*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Order dated Jan. 31, 1991).
[9] *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).

the companies' filings. The Commission agreed and adopted the ALJ's conclusion that Section 315(a) of the Public Utility Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose.[10]

II. SUMMARY OF ARGUMENT

Columbia has filed for a rate increase of approximately $110.5 Million. Primary drivers of the rate case include continued, accelerated plant investment to replace cast iron, bare steel and first-generation plastic pipe, investments in new technology to serve customers and increasing expenses. Other parties' positions on the rate increase are unjustified and will adversely affect Columbia's ability to undertake needed plant replacements and provide safe and adequate service to customers. In particular, OCA's proposal for a net **decrease** in rates of more than $36 Million is unsupported, and its proposed rate of return, if adopted, would send a negative signal to investors that Pennsylvania is no longer supportive of reasonable rate regulation. In addition, OCA's proposal to change long-established depreciation procedures will adversely affect Columbia's ability to fund part of its main replacement program through internally generated funds, and is nothing but a ploy to reduce current rates while guaranteeing increased rate base, and resulting rates, in the future.

Columbia also has included several proposals designed to improve rate stability. Rate stability is important to provide Columbia with a reasonable opportunity to recover

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[10] *Pa. PUC v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan.11, 2007), at *111-12.

the rate increase authorized by the Commission. One proposal is an increase to Columbia's customer charge. While others assert that Columbia's residential customer charge is higher than those of other Pennsylvania gas utilities, this is caused by the fact that Columbia's customer charges have increased greater than other gas companies due to Columbia's greater investment in replacement of services and meters. Columbia's residential customer charge is supported by its customer cost studies, and no party has provided a valid basis for disregarding the results of those studies in setting a customer charge. Second, Columbia proposes to make permanent its Weather Normalization Adjustment ("WNA") mechanism. Columbia's WNA has operated as designed for over a decade, and should be made permanent. Other parties' proposals to eliminate or modify the WNA are driven by the fact that temperatures have been warmer than normal for several consecutive years. However, whether this is due to a permanent warming trend, or is part of a cyclical pattern that may change in the future, the fact that Columbia has recovered more revenues than it has provided credits is proof only that the WNA is operating as intended to help Columbia have a reasonable opportunity to earn its authorized return. Third, Columbia has proposed a Revenue Normalization Adjustment ("RNA") mechanism. The RNA, which is an alternative ratemaking mechanism authorized by law, is designed to "break the link" between usage and revenues, which will further encourage Columbia to support conservation efforts.

Columbia has also proposed to expand its current Energy Efficiency Program. This program has already shown itself to be effective in reducing usage and carbon emissions, and should be expanded.

Columbia continues to offer expansive and effective programs to assist low-income and payment troubled customers. Columbia has proposed further assistance efforts in this proceeding, which should be adopted.

III. OVERALL POSITION ON RATE INCREASE

Columbia's request for rate relief totaling $110.44 Million is based upon data for a FPFTY ending December 31, 2026. The driver of the increase continues to be the substantial capital investment needed to replace at-risk, bare steel, ineffectually coated steel and first-generation plastic pipe (also known as Adyl-A or pre-1982 plastic pipe). Columbia's budget to replace facilities provides for approximately $312.7 Million to be invested in 2025 and $343.7 Million to be invested in 2026 for plant replacement.[11] Since 2007, Columbia has removed over 1,490 miles of at-risk pipe.[12] Columbia is aware of the impact that rate increases have on its customers, and Columbia undertakes substantial efforts to control both its capital costs and its operations and maintenance ("O&M") costs.[13] With respect to O&M costs, it is relevant to observe that Columbia's FPFTY O&M expenses are projected to be over $3 Million less than its normalized historic test year ("HTY") expenses.[14]

Despite the unrebutted evidence of Columbia's substantial additional investments in infrastructure replacement and prevailing market conditions that make it more expensive for Columbia to make these investments, OCA and I&E proposed inappropriate

[11] Columbia St. No. 7, p. 4.
[12] Columbia St. No. 7, p. 10.
[13] Columbia St. No. 7, p. 19.
[14] Columbia Ex. 104, pp. 3-4.

adjustments to the Company's requested increase in revenues. OCA has proposed a revenue decrease of more than $36 Million.[15] I&E's proposed increase is $78.6 Million.[16] Several of the important issues are as follows:

RATE OF RETURN. The largest single driver of these revenue requirement positions is Rate of Return. The most important, and generally the most controversial and difficult issue in a base rate proceeding, is determining rate of return. This issue is of particular importance in this proceeding. Columbia, like most other major utilities in Pennsylvania, is in the midst of major infrastructure improvements, which are critically important to maintain safe and reliable service to customers. To successfully and timely execute its infrastructure improvement program, Columbia must have reasonable access to capital markets. Supportive regulation, and particularly a compensatory cost of common equity, is critical for Columbia to continue to attract capital investment.

The Company has proposed a cost rate for common equity of 11.35%, which is based upon an evaluation of multiple cost of equity models. The cost rate for common equity in this case should be set at a rate that is meaningfully above the current distribution system improvement charge ("DSIC") rate established by the Commission, which is 10.25%.[17]

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[15] OCA Ex. DM-SR-1.
[16] I&E St. 1-SR, p. 4.
[17] *Report on Quarterly Earnings for Year Ended March 31, 2025*, Docket No. M-2025-3055266 (Order entered July 24, 2025), Attachment G. It is noted that the DSIC rate of 10.25% was established with a calculated DCF of 10.77%. *Id*.

I&E's recommended return on common equity is 10.51%.[18] While not grossly unreasonable, this recommendation reflects I&E's sole reliance on its Discounted Cash Flow ("DCF") methodology. The use of a single methodology to derive a rate of return on common equity recommendation ignores the flaws inherent in each method.

OCA has presented several unreasonable proposals that would be most detrimental to supportive regulation. First, OCA has proposed the adoption of a hypothetical capital structure, which is a substantial reduction from the actual capital structure proposed by Columbia.[19] Columbia's capital structure is squarely within the range of capital structures of the barometer groups offered in this case. Clear precedent holds that a hypothetical capital structure should not be used unless the actual structure is atypical. OCA's hypothetical capital structure should be rejected.

Second, OCA has presented a clearly unreasonable 8.9% rate of return on common equity.[20] OCA supports this recommendation with a completely improper DCF calculation, which relies upon an unreasonably low growth rate component. This extremely low growth rate is influenced by OCA witness Garrett's stated belief that a regulated utility's growth rate should be less than the U.S. economic growth rate. From this position, Mr. Garrett asserts that Columbia's growth rate should not exceed 3.7%.[21]

OCA and I&E also refuse to include any component for management performance in the cost of equity recommendation without sufficient justification. The Commission has

[18] I&E St. 2, p. 11.
[19] OCA St. No. 3, p. 53.
[20] OCA St. No. 3, p. 57.
[21] OCA St. No. 3, p. 27.

granted this adjustment in various rate cases as explained later in this brief. Columbia has submitted substantial evidence supporting the addition of an increment for management performance in this case.[22]

RATE BASE. OCA proposes a $14.5 Million adjustment to rate base, completely ignoring the unrebutted record evidence that Columbia consistently meets and exceeds its plant addition budget in order to stay on track with its main replacement program.[23]

DEPRECIATION EXPENSE. OCA proposes a nearly $46 Million reduction to Columbia's depreciation expense. OCA proposes a change to the method used consistently for over 40 years in Pennsylvania to compute depreciation. OCA's only justification for this unprecedented change is that some other states use a different depreciation method. However, this is no basis to change what is a more accurate method of computing depreciation expense.[24] OCA's proposal only shifts recovery of depreciation from current customers to future customers. Such a shift is doubly adverse, as not only will it increase future depreciation expense, but it also will increase rate base, and resulting return, to be borne by future customers.

OTHER EXPENSES. OCA and I&E propose a variety of expense adjustments. For example, OCA proposes a nearly $1.7 Million adjustment to labor expense using a vacancy factor, even though Columbia calculated its pro forma labor expense after accounting for vacancies by using an actual employee headcount. OCA and I&E also

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[22] See Section IX D 3 of this brief.
[23] See Section IV A of this brief.
[24] Tr. 345.

propose to disallow varying amounts of incentive compensation, even though Columbia conclusively demonstrated that its incentive plans include components that require customer benefits through improved service. OCA also proposes unfairly to use different methodologies to compute adjustments, enabling it to propose expense reductions both when a cost category shows a recent downward trend in expense, and when a cost category shows a recent upward trend in expense. Various other expense adjustments are unjustified and should be rejected.

REVENUE STABILITY. As important as rate relief is, it is also important that Columbia be provided a reasonable opportunity to recover that increase. There are three areas of particular importance. First, Columbia's residential customer charge should be increased to properly reflect customer costs. Columbia has demonstrated that its customer costs far exceed the current residential customer charge. Correcting this deficiency is important to provide customers with proper price signals about the cost to serve, and to avoid intra-class shifts of cost recovery between higher usage and lower usage customers. In that regard, Columbia demonstrated that low-income customers tend to be high usage customers. A properly designed customer charge will reduce the average bill for low-income customers.

Second, the Company's WNA should be approved to operate on a permanent basis. Columbia's WNA, which has operated as a pilot since 2013, is structured to operate the same as other WNAs that have been approved by the Commission. This includes the use of a 3% deadband. The WNA has provided net credits and net charges to customers, depending upon whether temperatures are colder than normal or warmer than normal. Over the term of the pilot, customers have received credits about 40% of the time.[25]Although in recent years the WNA has provided more revenues to Columbia than credits to customers, this has been due to an extended stretch of warmer-than-normal years. The concept of weather normalization, which has been used by the Commission in establishing base rate revenues for decades and is reflected in the WNA design, assumes that, over time, temperatures will revert to the historic mean. If that assumption is no longer valid, then base rate usage will need to be recomputed to reflect substantially lower usage going forward than the norm. In no event should Columbia's rates be structured to deprive it of a reasonable opportunity to recover its authorized revenues by ignoring the unpredictability of weather.

Third, the Company's RNA should be adopted as a pilot program. The RNA accounts for other factors that cause actual usage to vary from projected usage reflected in the design of rates. The RNA breaks the link between utility revenues and volumes, thereby removing financial disincentives for Columbia to promote energy efficiency.

BILL IMPACTS. At the Company's proposed revenue requirement, a typical Residential sales customer using 70 therms of gas per month will see an increase in their monthly bill from $138.52 at current rates to $154.29, or by 11.38%. A Small C&I customer using 150 therms of gas per month will see an increase in their monthly bill from $240.61 to $269.45, or by 11.99%. The class average bill impacts of the Company's proposed rate increase are shown on Exhibit No. 103, Schedule 8, page 1, column 7.

[25] Columbia St. No. 17-R, pp. 11-12.

Graphs of the bill impacts for Residential and C&I customers are provided in Exhibit No. 111, Schedule 5, pages 1-9.

For reasons explained below, Columbia's requested revenue increase, its proposed revenue allocation and rate design, and its proposed alternative ratemaking mechanisms should be adopted.

IV. RATE BASE

The Company's updated claimed rate base reflects the projected balance as of the end of the FPFTY of $3,839.638,127.[26] The balance reflects Plant in Service, Depreciation Reserve, Working Capital, Deferred Income Taxes, Customer Deposits and Customer Advances projected as of December 31, 2026. The updated balance also reflects the removal of Blackhawk Storage Facility ("Blackhawk") net plant, accumulated deferred income taxes and gas in storage, resulting from the sale of Blackhawk earlier this year.[27]

OCA proposes to reduce plant in service for the FPFTY by $14,507,711 to remove inflationary assumptions used by Columbia to develop its budgeted plant additions for the future test year ("FTY") and FPFTY.[28] OCA's adjustment is without merit, will hamper the Company's ongoing at-risk pipe replacement program and should be rejected.

OCA further proposes to reduce Columbia's depreciation reserve by $46,038,899. The adjustment reflects two items: 1) a reserve offset of $236,476 associated with OCA's budgeted plant addition adjustment, and 2) a reduction of $45,802,423 associated with

[26] Columbia Ex. JV-1R, p. 2.
[27] See Section VII N of this brief for an explanation of the sale of Blackhawk, and the resulting ratemaking adjustments.
[28] OCA St. No. 2, pp. 7-9.

OCA's proposed change to the long-established method of computing depreciation expense in Pennsylvania.[29] The errors in OCA's proposed change to depreciation method are explained in Section VI of this brief.

OCA further proposes to reduce Columbia's projected 13-month balances for Materials and Supplies and Prepayments by a total amount of $319,457.[30] These adjustments unjustifiably limit these balances to updated HTY balances, contradicting the purpose of a FPFTY.

In addition, OCA has proposed to incorporate a Consolidated Tax Adjustment ("CTA") of $2,263,821 as a reduction to rate base.[31] OCA's proposed CTA is contrary to law and Commission precedent and must be rejected.

Finally, OCA proposes to disallow certain capitalized employee benefit costs. The errors in these disallowances are explained in Section VII C of this brief, with respect to the Expense portion of the proposed disallowance of these costs.

A. PLANT IN SERVICE FTY AND FPFTY PLANT ADDITIONS

Columbia's FTY and FPFTY plant additions are derived from the Company's forecasted capital budget.[32] Detailed plant additions and retirements, by month, are provided in Columbia Ex. 108, Sch. 1. The Company's Age and Condition Budget Class reflects Columbia's projected expenditures for mains, services, and meter replacements.[33]

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[29] OCA St. No. 2, pp. 9-10.
[30] OCA St. No. 2, pp. 11-12.
[31] OCA St. No. 2, p. 48.
[32] Columbia St. No. 7, p. 4.
[33] Columbia St. No. 7, p. 5.

Columbia's budget projects Age and Condition FTY plant additions of $312,583,000 and FPFTY plant additions of $343,538,800.[34] These budget amounts are comparable to, although somewhat less than, the HTY Age and Condition spend of $364.6 Million.

In developing its Age and Condition budgets, Columbia took into account the ongoing upward pressure on costs for replacement projects. The average cost of main replacements when Columbia began its accelerated main replacement project in 2007 was $81.25 per foot, whereas the cost was $335 per foot in 2024.[35] Several factors drive this increase. First, the location of projects has a significant impact on cost.[36] Second, Federal and municipal restoration requirements, including increased paving and Americans with Disabilities Act ("ADA") sidewalk requirements, have added to cost.[37] Third, ongoing increases in contractor costs cause increases in the cost of a project. As Columbia witness Brumley, explained:

> Contractor cost is another key component of increased costs. Contractor cost increases are driven by competition for resources as more natural gas distribution companies in Pennsylvania and across the country undertake main replacement programs, increase training and qualification requirements, and compete for the availability of construction work with other businesses inside and outside of the industry.[38]

Mr. Brumley identified that, in developing its budgets, Columbia anticipated increases of 4%

[34] Columbia St. No. 7, p. 4.
[35] Columbia St. No. 7, p. 17.
[36] Columbia St. No. 7, p. 17. Urban area replacements generally have a higher cost than in rural areas.
[37] Columbia St. No. 7, p. 18.
[38] Columbia St. No. 7, p. 18.

to unit costs for plant replacements in 2025 and 5% in 2026.[39]

OCA witness Mugrace calculated an adjustment that would lower Columbia's projected capital expenditures for 2025 and 2026 by $14,507,711. This adjustment was derived using a ratio of the Company's actual 2024 contractor costs to total Age and Condition expenditures and applying that ratio to projected 2025 and 2026 Age and Condition capital expenditures to estimate projected contractor costs. The 4% and 5% were then applied to his projected contractor costs for the years 2025 and 2026 to derive the total disallowance of $14,507,711.[40]

OCA's proposed adjustment ignores reality, as well as Columbia's ongoing successful efforts to spend its accelerated mains replacement budgets in the interest of safety.

Increasing unit costs are real. Columbia demonstrated that unit costs have seen an average increase of 7% over the past five years.[41] If Columbia is going to complete accelerated pipeline replacements in a timely manner, it must realistically budget to replace sufficient pipe each year and execute on that budget.

Columbia has a track record of meeting its capital budget and more. As shown in the following table from Mr. Brumley's rebuttal,[42] Columbia has actually spent, on average, about $20 Million more per year over the past three years than it has budgeted:

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[39] OCA St. No. 2, p. 7.
[40] OCA St. No. 2, p. 8.
[41] Columbia St. No. 7-R, p. 3; Columbia Ex. RB-2R.
[42] Columbia St. No. 7-R, p. 5.

Table No. 1
Age & Condition, Replacement & Betterment
Budget vs. Actual ($M)

	2022	2023	2024
Budget	$313,102	$356,317	$350,813
Actual	$324,387	$370,956	$384,655
Variance	$11,285	$14,639	$33,843

Columbia successfully executes on its budget because it maintains a high degree of flexibility in project selection. If a project must be delayed, or comes in under budget, Columbia turns to its project list to undertake other projects:

> Each year, Columbia develops a listing of planned projects as part of its Annual Asset Optimization Plan filing. Proposed projects are dynamic and subject to modification based on emerging conditions. The roster of projects is supplemented throughout the year to reflect continued assessment of conditions and spending. If a project cannot proceed as planned (for example, if permits have been delayed), the Company maintains a flexible roster so that other projects will be scheduled. Further, actual project costs can come in both over and under budget. Underspending on one project will be used for projects that are over budget. If total spending is coming in under budget, the Company can schedule additional projects to replace additional pipe that needs to be replaced. As shown above, the Company has sufficient inventory of remaining pipe to be replaced.[43]

OCA's adjustment to projected plant additions is without merit and should be rejected.

[43] Columbia St. No. 7-R, pp. 5-6.

B. DEPRECIATION RESERVE

The Company's depreciation reserve as of the end of the FPFTY was calculated by Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"). The depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in Columbia's last base rate proceeding.[44] The book reserve was projected generally using the straight-line remaining life method, with the Equal Life Group ("ELG") procedure.[45] Importantly, the Company's current claim for accrued depreciation in this proceeding is made on the same basis as it has been for over forty years.[46]

The only proposed adjustments to Columbia's Accrued Depreciation Reserve are with respect to the OCA's proposed $14.5 Million plant additions adjustment and the OCA's proposal to change the Company's depreciation method from the ELG procedure to the Average Service Life ("ASL") procedure. OCA's proposed adjustment to Columbia's plant additions is improper, as explained in Section IV A of this brief, and therefore, the related $236,476 adjustment to the Company's depreciation reserve should be rejected. Further, as explained in Section VI of this brief, OCA's proposed adjustment to the Company's annual depreciation expense by adopting the ASL procedure should be rejected, and thus the Company's depreciation reserve should similarly not be recomputed. Moreover, as later explained, OCA witness Garrett calculates an adjustment to depreciation

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[44] Columbia St. No. 5, p. 5.
[45] Columbia St. No. 5, pp. 4-5; Columbia Ex. 109, Attachment A, pp. 41-46.
[46] Columbia St. No. 5, p. 5.

expense, using the ASL procedure, of $45.8 Million. OCA witness Mugrace simply takes this adjustment and uses it to compute his depreciation reserve adjustment.[47] The OCA's approach is an incorrect depreciation procedure and is inconsistent with the Commission's long-standing approach to depreciation. As Mr. Spanos explained, the proper procedure in Pennsylvania is to calculate accrual rates for each test year, and to use those accrual rates, applied to plant in service during that test year, to determine the book reserve for each test year.[48] As Mr. Spanos explained, Mr. Mugrace's approach results in mistaken depreciation reserves, and depreciation calculations:

> Although OCA Witness Garrett has calculated depreciation expense and rates as of each test period, he does not reflect or use the results of each test year calculation to develop the reserve for each subsequent depreciation calculation. He has completely skipped portions of the process calculating depreciation for each test period with reserve levels developed from the ELG procedure and applies his proposed ALG alternative procedure to calculate depreciation expense and annual depreciation accrual rates as of December 31, 2026.[49]

For these reasons, and the reasons more fully explained in Section VI of this brief, OCA's depreciation reserve adjustment is improper and should be rejected.

C. ADDITIONS TO RATE BASE

Columbia includes three additions to rate base. The first is Materials and Supplies that Columbia purchases in advance to use to provide service.[50] The second is Prepayments

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[47] OCA St. No. 2, p. 10; Columbia St. No. 5-R, p. 26.
[48] Columbia St. No. 5-R, p. 25.
[49] Columbia St. No. 5-R, p. 26.
[50] Columbia Ex. 108, Sch. 5.

for leases, insurance, regulatory commission fees and permits.[51] The third is Gas Stored Underground, which is gas principally purchased in non-winter months to meet customer demand in Winter months.[52] The Company did not make a Cash Working Capital claim in this case.[53] The only party to challenge the Company's Additions to Rate Base is OCA.

1. Materials and Supplies

Columbia's rate base includes an addition of $948,060 for materials and supplies.[54] This amount is the 13-month average of historical monthly balances in Account 154, Plant Materials, adjusted by applying the Gross Domestic Product ("GDP") deflator for the FTY and FPFTY.[55]

OCA proposes a $56,977 reduction to the Company's materials and supplies claim. The adjustment reflects OCA's position that the experienced 13-month average balance for Materials and Supplies should be used.[56]

OCA's adjustment is improper and should be rejected. Columbia is continually replacing items in its materials and supplies inventory. No party truly disputes that the cost of items purchased today exceed the cost of items purchased previously. If inflation is not considered, the FPFTY balance of materials and supplies will be understated, thereby adversely affecting Columbia's ability to earn a fair return.[57]

[51] Columbia Ex. 108, Sch. 6.
[52] Columbia Ex. 108, Sch. 7.
[53] Columbia Ex. 108, p. 3.
[54] Columbia Ex. 108, Sch. 5.
[55] Columbia St. No. 11, pp. 6-7.
[56] OCA St. No. 2, p. 11.
[57] Columbia St. No. 4-R, p. 12.

Decisions of this Commission have accepted general price adjustment factors.[58] Notably, in *PSW 2002* the Commission affirmed an administrative law judge's rejection of the same arguments advanced by the OCA in this proceeding. In that proceeding, the OCA argued that the general price level adjustment should be rejected in its entirety because it was "not known and measurable."[59]

OCA's adjustment to materials and supplies inventory is inappropriate and should not be adopted.

2. Prepayments

Columbia's rate base also includes an addition of $5,577,551 for various prepayments.[60] This amount is the 13-month average of historical monthly balances for

[58] *See, e.g.*, *Pa. PUC v. Philadelphia Suburban Water Company*, Docket Nos. R-00016750, 2002 Pa. PUC LEXIS 55, at *53-55 (Order entered July 8, 2002) ("*PSW 2002*") (accepting Philadelphia's Suburban's proposed general inflation adjustment, as modified and revised, and explaining the Commission has "consistently accepted inflation adjustments where supported by historic data demonstrating that the utility has experienced cost increases that exceed the claimed inflation increases."); *Pa. PUC v. United Water Pennsylvania, Inc.*, Docket Nos. R-00973947, *et al.*, 1998 Pa. PUC LEXIS 6, at *29-32 (Order entered Jan. 30, 1998) ("*UPWA 1998*") (accepting utility's proposed "2.2% Gross Domestic Product (GDP) inflation factor to those operating expenses which it did not otherwise adjust" and acknowledging this factor was a "relatively conservative one."); *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket Nos. R-891468, et al., 1990 Pa. PUC LEXIS 162, at *37-44 (Order dated Sept. 20, 1990) ("*CPA 1990*"); *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-880916, et al., 1988 Pa. PUC LEXIS, at *53-56 (Order dated Oct. 21, 1988) ("*PAWC 1988*") (accepting utility's proposed 2.6% general price escalation factor (*i.e.*, a composite of the CPI, PPI, and GNP) to all historic test year expenses not separately adjusted to derive future test year expenses).
[59] *PSW 2002*, at *48; *see also* OCA St. 2 at 11.
[60] Columbia Ex. 108, Sch. 6.

the individual categories of prepayments, adjusted by applying the GDP deflator for the FTY and FPFTY.[61]

OCA proposes a $262,481 reduction to the Company's prepayments claim. The adjustment reflects OCA's position that the experienced 13-month average balance for prepayments should be used.[62]

OCA's adjustment is improper for the same reasons that its proposed adjustment to materials and supplies inventory is improper and should be rejected.

3. Gas Stored Underground

Columbia's updated claim for Gas Stored Underground is $48,893,536.[63] This amount reflects the removal of gas in storage at Blackhawk. No parties challenged the Company's claim for an addition to rate base for gas stored underground. Therefore, the Company's claim should be approved without modification.

D. DEDUCTIONS FROM RATE BASE

1. Customer Deposits

Columbia reflects customer deposits as a deduction from rate base. Customer deposits are considered a source of cost-free capital.[64] Columbia deducts an amount of $4,813,210 based upon an HTY 13-month average balance.[65] No party has opposed the Company's claim, and it should be accepted.

[61] Columbia St. No. 11, p. 7.
[62] OCA St. No. 2, p. 11.
[63] Columbia Ex. JV-1R, p. 12.
[64] Columbia St. No. 4, p. 28. Interest paid to customers on customer deposits are reflected as an expense for ratemaking purposes.
[65] Columbia St. No. 11, p. 10; Columbia Ex. 108, Sch. 9.

2. Accumulated Deferred Income Taxes

Accumulated deferred income taxes ("ADIT") generally are a reduction to rate base. The total ADIT set forth in the Company's rate base calculation, as adjusted for the removal of Blackhawk, is $502,797,835.[66]

In direct testimony, OCA witness Mugrace proposed to add back $13.1 Million, to reflect offsetting effects of his proposed adjustments to plant in service and depreciation.[67] Columbia witness Harding identified several mathematical errors in Mr. Mugrace's calculations.[68] Ms. Harding emphasized that the Company did not agree with either the plant in service adjustment or the depreciation adjustment that produce this ADIT adjustment.[69] In surrebuttal, Mr. Mugrace revised his ADIT adjustment to ($8,696,047).[70]

For the reasons stated above of this Brief, the Company's ADIT position should be adopted, and OCA's proposed adjustments should be rejected.

3. Consolidated Tax Adjustment

In 2016, the General Assembly enacted Act 40 of 2016, Pub. L. 332 ("Act 40"), which added Section 1301.1 to the Public Utility Code. The purpose of Act 40 was to eliminate the so-called "consolidated tax savings adjustment" ("CTA") from Pennsylvania ratemaking.[71] Prior to Act 40, decisions of the Commonwealth Court required the Commission to adjust rates to reflect "savings" achieved from a utility's participation in its

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[66] Columbia Ex. JV-1R, p. 12.
[67] OCA St. No. 2, pp. 13-14.
[68] Columbia St. No. 10-R, pp. 3-4.
[69] Columbia St. No. 10-R, pp. 3-4.
[70] OCA St. No. 2SR, p. 8.
[71] Columbia St. No. 10-R, p. 4.

parent company's consolidated tax return.[72] Act 40 prohibits CTA adjustments. Act 40 requires utilities to compute a hypothetical CTA, which would apply in the absence of Act 40, and to certify that 50% of the differential shall be used to support reliability or infrastructure related to the rate-base eligible capital investment as determined by the Commission and 50% shall be used for general corporate purposes.[73]

OCA witness Mugrace contends that the Company has not adequately demonstrated its proposed use of the additional income generated from not making a CTA for general corporate purposes and that 50% of the hypothetical CTA, or $2.26 Million, should therefore be deducted from rate base as "non-investor-supplied funding for utility working capital."[74] Mr. Mugrace further contended that Columbia "has not specifically identified or specifically demonstrated how the differential is to be used."[75] Mr. Mugrace's proposed adjustment is fundamentally flawed, disregards the clear language of the statute and should be rejected. Act 40 eliminated the CTA, and the Company has fully complied with the Act's use of funds requirements. Mr. Mugrace's adjustment is nothing more than a blatant attempt to continue the CTA, although in a different form. This transparent effort to thwart the plain language of the statute and clear legislative intent must be rejected.

Section 1301.1(a) specifies how the Commission is to compute income tax expense for ratemaking purposes in base rate cases. This section makes clear that tax reductions

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[72] *See, e.g., PUC, et al., v. PPL Gas Utilities Corporation,* Docket Nos. R-0061398 et al., 2007 Pa. PUC LEXIS 779 at *128-133 (Order entered Feb. 8, 2007) (litigating consolidated tax savings adjustment).
[73] 66 Pa. C.S. § 1301.1(b).
[74] OCA St. No. 2, p. 48.
[75] OCA St. No. 2SR, p. 9.

achieved by other affiliated companies in a consolidated income tax return may not be used to reduce a utility's tax expense or rate base. Section 1301.1(b) describes how incremental utility operating income produced by the operation of Section 1301.1(a) should be used by affected utilities until the sunset of Section 1301.1(b) on December 31, 2025. Simply stated, subsection (a) deals with ratemaking, while subsection (b) deals with the use of utility operating income generated by the ratemaking change made by subsection (a).

The legislature, recognizing that subsection (a) would increase utility operating income and, therefore, provide additional internally-generated funds that could be reinvested in critical infrastructure, added subsection (b), which directs how a portion of that income should be invested. Specifically, subsection (b)(1) imposes an obligation (until December 31, 2025) on affected utilities to reinvest a portion (50%) of that incremental utility operating income in vital infrastructure and reliability, while subsection (b)(2) makes clear there are no corresponding restrictions on the balance of the "differential," which may be used for "general corporate purposes."

Columbia witness Harding fully explained the Company's compliance with this provision in both her Direct and Rebuttal Testimony. In Direct Testimony, Ms. Harding explained that the Company's *pro forma* capital additions for reliability or infrastructure projects in the FTY is $316.8 Million and for the FPFTY is $329.3 Million, which is greater than $2.26 Million, which is 50% of the amount of what would have been the CTA under prior ratemaking principles, and that the Company's general corporate purpose expense will also exceed 50% of the tax benefit resulting from elimination of the CTA.[76]

Mr. Mugrace's proposal to continue the CTA in another form has been considered, and definitively rejected, by the Commission. In *Pa. PUC v. UGI Utilities, Inc. – Electric Division ("UGI Electric")*[77] OCA argued that both the rate base and the general corporate purposes portions of the CTA should be accounted for in determining rates.[78] The Commission rejected OCA's arguments, stating:

> Based on our review of the language of Act 40, the Recommended Decision, and the Parties' positions, we agree with the ALJs that the language of the statute is clear and unambiguous. When the language of a statute is clear and unambiguous, an administrative agency must give effect to the unambiguously expressed intent of the legislature. 1 Pa. C.S. § 1921; *Bethenergy Mines v. Department of Environmental Protection*, 676 A.2d 711, 715 (Pa. Cmwlth. 1996). Section 1301.1(a) specifies how income tax expense is computed for ratemaking purposes in base rate cases, while Section 1301.1(b) specifies how utility operating income generated by the operation of Section 1301.1(a) must be used by the affected public utilities until December 31, 2025. Based on a plain reading of the statute, Section 1301.1(b) requires that 50% of the Act 40 savings be used for reliability or infrastructure purposes, and the other 50% of the Act 40 savings be used for general corporate purposes. The statute does not require public utilities to provide specific information concerning how the amounts would be used.
>
> We find that UGI presented evidence to show that it has complied with Act 40's requirements. UGI's witness Anzaldo testified that the Company's *pro forma* capital additions for reliability or infrastructure projects in the FTY are \$10.950 million and for the FPFTY are \$11.770 million, which is

[76] Columbia St. No. 10, p. 11. *See also* Columbia St. No. 10-R, p. 5.
[77] Docket No. R-2017-2640058 (Order entered October 25, 2018).
[78] *Id.*, Order at 149.

> greater than 50% of the amount of what would have been the CTA under prior ratemaking principles, and that the Company's general corporate purpose expense will also exceed 50% of the tax benefit resulting from the elimination of the CTA. UGI St. 2 at 25; UGI St. 2-R at 13. Accordingly, we concur with the ALJs' recommendation and will approve UGI's retention of the $75,400 Act 40 savings for UGI's stated purposes. For these reasons, we shall deny the OCA's Exception on this issue and adopt the ALJs' recommendation.[79]

As the Commission's Order makes clear, it is improper to use the CTA as a rate base reduction. In addition, as clearly stated in the foregoing quote, Mr. Mugrace's contention that Columbia must specifically identify or specifically demonstrate[] how the differential is to be used is without merit.

OCA's proposed CTA adjustment must fail for a further reason. Section 1301.1 (c)(1) provides: "Subsection (b) shall no longer apply after December 31, 2025." Columbia's claim is based upon a FPFTY ending December 31, 2026. Therefore, by the clear terms of the statute, the revenue use provisions are not applicable to Columbia's FPFTY.

For these reasons, Mr. Mugrace's adjustment should be rejected.

V. <u>**REVENUES**</u>

Columbia's FPFTY pro forma revenues at present rates, inclusive of purchased gas cost revenues, riders, late payment fees, Gas Procurement Charge revenues, Merchant Function Charge revenues and miscellaneous revenues, are $916,958,770, as detailed in Columbia Ex. 103, p. 15, and associated exhibits, as sponsored by Columbia witness

[79] *Id.*, Order at 152.

Battig.[80] No party proposed any adjustment to Columbia's FPFTY revenues at present rates. Columbia's projection of pro forma residential and commercial customer usage, used to develop pro forma revenues, reflects an assumption of temperatures using a normal weather definition of 20-year average heating degree days ("HDD") ending December 31, 2024.[81] If pro forma usage were developed using a 10-year normal weather definition, it would reduce pro forma revenues at present rates and increase the revenue deficiency by approximately $19 Million.[82]

VI. DEPRECIATION EXPENSE

Columbia's updated FPFTY depreciation expense claim, reflecting the removal of Blackhawk and including the amortization of net salvage, is $154,650,832.[83] The calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission.[84]

OCA proposes two adjustments to depreciation expense: 1) the disallowance of $236,476 associated with Mr. Mugrace's proposed $14.5 Million adjustment to Columbia's plant additions, and 2) OCA's proposed $45,802,423 reduction resulting from OCA's proposal to recompute annual depreciation accruals using the ASL procedure.[85] Columbia's opposition to the proposed $14.5 Million adjustment to plant additions is

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[80] *See also* Columbia Ex. JV-1R, p. 2
[81] Columbia St. No. 2-R, p.2.
[82] Columbia St. No. 2-R, pp. 5-6.
[83] Columbia Ex. JV-1R, p. 7.
[84] Columbia St. No. 5, pp. 4-5.
[85] OCA St. No. 3, p. 60. The ASL procedure is also known as the Average Life Group ("ALG") procedure. Columbia St. No. 5-R, p. 5.

explained in Section IV A of this brief. As explained in the following section of this brief, OCA's proposal to change long-standing precedent regarding the use of the ELG procedure in Pennsylvania is inappropriate and will shift to future customers costs that should be charged to current customers. That change will create higher, and continually increasing, rate base in the future and will result in increased rates to customers in about 10 years compared to the continued use of the ELG procedure. Further, the ELG procedure provides a more precise calculation of depreciation expense, and OCA has offered no justification for a change other than to produce a short-lived reduction to rates. OCA's proposal to adopt the ASL procedure should be rejected.

A. DETERMINATION OF ANNUAL DEPRECIATION ACCRUALS

The unrecovered original cost of property (original cost less accrued depreciation) must be recovered over the life of the property as part of the cost of providing service. The Company uses the straight line, remaining life depreciation method, with the ELG procedure, to allocate the unrecovered original cost to the annual revenue requirement to be borne by current and future customers.[86]

In determining the service lives of Columbia's various assets, and the resulting depreciation rates, Columbia engages the services of Gannett Fleming and its President, Mr. John Spanos. Mr. Spanos has over 39 years of depreciation experience and has presented expert testimony before approximately 47 regulatory commissions.[87] To develop service lives, Gannett Fleming performed a service life study to establish the estimated

[86] Columbia St. No. 5, p. 4.
[87] Columbia St. No. 5, p. 2.

service lives of the Company's property. Mr. Spanos described the procedure used to perform the service life studies:

> The service life studies consisted of assembling and compiling historical data from the records related to the gas utility plant of the Company; statistically analyzing such data to obtain historical trends of survivor characteristics; obtaining supplementary information from management and operating personnel concerning Company practices and plans as they relate to plant operations; and interpreting the above data to form judgments of service life characteristics.
>
> Iowa type survivor curves were used to describe the estimated survivor characteristics of the mass property groups. Individual service lives were used for major individual units of plant, such as reservoirs and buildings housing offices and shops. The life span concept was recognized by coordinating the lives of associated plant installed in subsequent years with the probable retirement date defined by the life estimated for the major unit.[88]

No party opposes the use of the straight line remaining life method. However, OCA proposes to switch from the ELG procedure to the ASL procedure.

B. DESCRIPTION OF ELG AND ALS PROCEDURES

Columbia witness Spanos explained the difference between the ELG and the ASL procedures:

> For the ELG procedure, a group of property (e.g., a vintage within a property account) is subdivided into groups having equal service lives. The size of these "equal life groups" is based on the estimated survivor characteristics of the account. Depreciation can then be calculated for each equal life group based on the straight line method, meaning that an equal amount of the group's service value is recorded as depreciation expense in each year of service. The total depreciation for an account is the summation of the calculated depreciation for each equal life group. Based on the survivor curve estimate for

[88] Columbia St. No. 5, p. 6.

> an account, the ELG procedure mathematically estimates the life for each unit in the account, and then depreciates each unit over its expected life. The procedure is also known as the Unit Summation Procedure.
>
> * * *
>
> While the ELG procedure calculates depreciation for each equal life group, the ASL (or "ALG") procedure depreciates every asset within an account over the average life of the entire account. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches recovery with consumption of assets by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives) as opposed to depreciating all assets over the average life for the group.[89]

The ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use. Columbia witness Spanos provided a simple example of the merits of the ELG procedure.[90] Assume there are two assets within a group, each costing $1,000. Further assume that Unit A will be in service for 5 years and Unit B will be in service for 15 years.[91] Under the ELG procedure, this means there are two equal life groups. The annual depreciation rate for Unit A is 20% (1/5), producing an annual accrual of $200, and the annual depreciation rate for Unit B is 6.67% (1/15), producing an annual accrual of $66.67. Thus the annual accruals for the first five years would be $266.67. At the end of year 5, Unit A is retired.

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[89] Columbia St. No, 5-R. pp. 4-5.
[90] Columbia St. No, 5-R. pp. 6-8.
[91]To simplify the example, there is no salvage or cost of removal considered. In Pennsylvania, net salvage/cost of removal is amortized over a five-year period after an asset is retired. Columbia St No. 5, p. 13.

Under asset accounting procedures, when Unit A is retired, its original cost of $1,000 is removed from plant in service, and the accumulated depreciation reserve is likewise reduced by $1,000. Beginning in Year 6, the original cost of Unit B of $1,000 continues in plant in service, and there remains an amount of $333.33 in the depreciation reserve ($66.67 x 5). Thus with 5 years of Unit 2's 15 year life consumed, accumulated depreciation is exactly one-third of the original cost. Annual depreciation expense for Unit 2 will continue at $66.67.. Further, net rate base beginning in Year 6 will be $666.67, and will decline each year thereafter.[92]

In contrast, using the same assumptions and employing the ASL procedure, the average service life of the units is 10 years (([5+15]/2). For the first five years, the annual depreciation amount is $200 ($2,000 x 10%), or $1,000 after 5 years. When Unit A is retired after Year 5, $1,000 is removed from both plant in service and the accumulated depreciation reserve. At the start of Year 6, Unit B remains in service with an accumulated depreciation reserve balance of $0. Therefore, for the next 10 years, $100 ($1,000 x 10%) of annual depreciation expense must be recovered under the ASL procedure, even though Unit B is 1/3 of the way through its service life.[93] Moreover, net rate base as of the beginning of Year 6 ($1,000) will be above the net rate base under the ELG procedure ($666.67).[94] As Mr. Spanos summarized, the foregoing examples demonstrate that the ELG procedure better matches the cost recovery of both units with their service lives:

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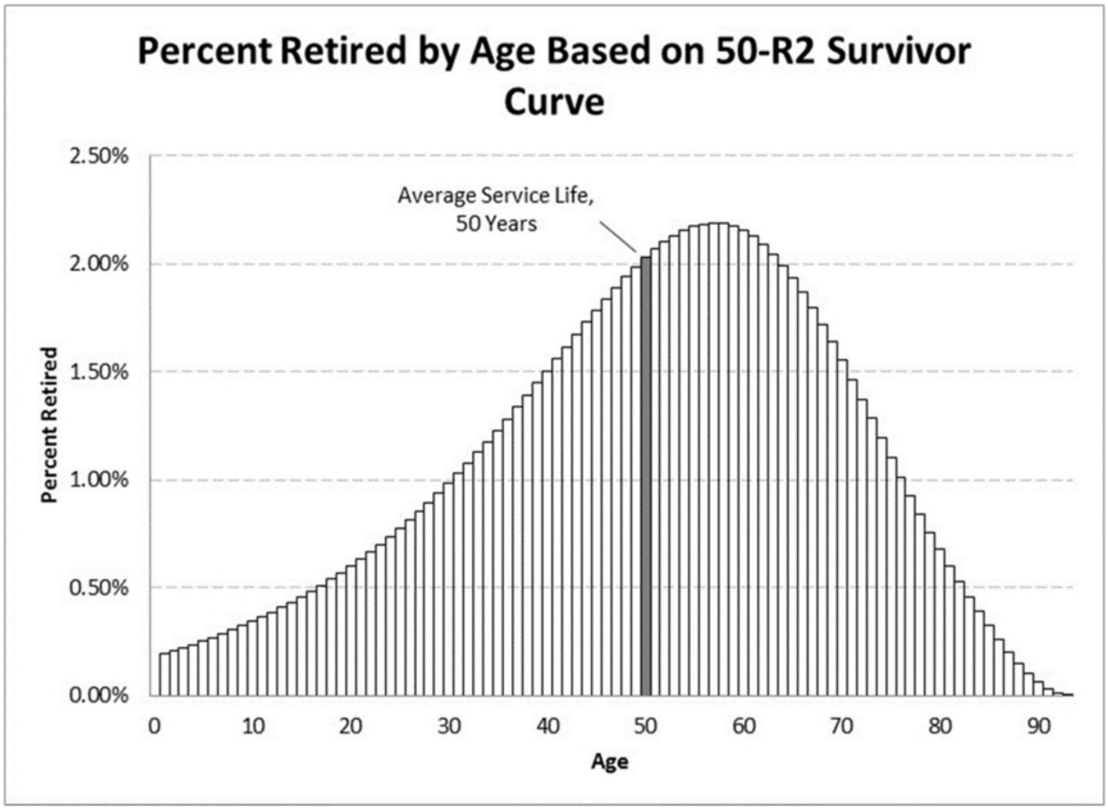
[92] Columbia St. No. 5-R, p. 7.
[93] Columbia St. No. 5-R, pp. 6-7.
[94] Columbia St. No. 5-R, p. 8.

> The end of year 5 provides the best illustration of the difference between the two procedures. Under the ELG procedure, Unit A is fully recovered when retired at the end of year 5; Unit B is one-third through its service life and has had one-third of its cost recovered. This contrasts with the ASL procedure, in which accumulated depreciation is $0 at the end of year 5, even though the only unit remaining in service has consumed one-third of its service life. Clearly, the ELG procedure provides a better match regarding the consumption of the service value for the two units.[95]

The same principles apply to large property groups with many units of property. The survivor curve developed for each property account is used to divide an account into equal life groups. Under the ELG procedure, the survivor curve determines the percentages of the property account that is in each equal life group, which allows for the calculation of the annual accrual for the entire property group.[96] In contrast, under the ASL procedure, the depreciation expense for all property in the account is calculated based on the average service life of the entire group.[97]. In so doing, the ASL procedure fails to take into account the reality of dispersion of retirements in a large group.

In actual utility operations, only a small percentage of a plant account will be retired at the average service life. To demonstrate this, Mr. Spanos provided a chart of the frequency curve for the 50-R2 Iowa survivor curve. The frequency curve shows the percentage of property in this account that will be retired at each age, based on the estimated survivor curve. This percentage is also the size of each equal life group:[98]

[95] Columbia St. No. 5-R, p. 8.
[96] Columbia St. No. 5-R, p. 9.
[97] Columbia St. No. 5-R, pp. 9-10.
[98] Columbia St. No. 5-R, p. 11.



As this shows, only a small percentage, approximately 2%, of the assets will have a 50 year service life. The remainder of the assets have lives ranging from 1 to 93 years. The ELG procedure allocates depreciation expense in a manner that approximates the actual life of each equal life group. In contrast, the ASL depreciates all assets as if they have the same life, even though that will be wrong nearly 98% of the time.[99]

[99] Columbia St. No, 5-R, pp. 10-11.

C. OCA'S ARGUMENTS TO SWITCH FROM THE ELG TO THE ASL PROCEDURE ARE WITHOUT MERIT.

OCA offers various arguments in support of its proposal to change from the use of the ELG procedure to the use of the ASL procedure. These arguments are without merit.

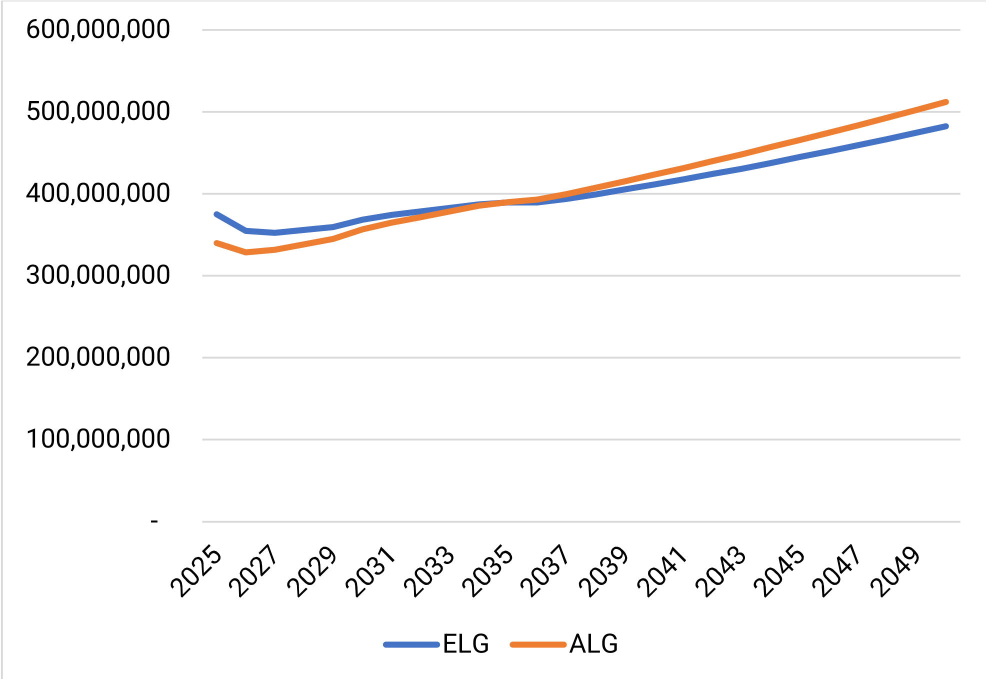
OCA witness Garrett contends that the ELG procedure causes current customers to pay more than future customers.[100] This argument is true only by comparing ELG and ASL depreciation rates at a spot in time and is harmful to customers in the longer term. As Mr. Spanos explained:

> The longstanding use of ELG depreciation rates for Pennsylvania utilities has resulted in a lower rate base than if ASL had been used. Customers today pay lower customer rates than if ASL had been used during the years since ELG's adoption. As a result, it has been in customers' interest not only to use ELG but also to use it consistently.
>
> Over time ASL will result in higher customer rates than ELG. It is correct to assume that if the Company were to switch from ELG to ASL there would be a *short*-term benefit to current customers. However, this is not because ASL is in customers' best interest in the long term, but only because current customers would benefit from both lower ASL depreciation rates <u>and</u> from the lower rate base that exists due to the longstanding use of ELG.
>
> OCA Witness Garrett's proposal is, therefore, not a recommendation that is in the long-term interest of lower customer rates. Instead, OCA Witness Garrett's proposal provides a short-term subsidy only to current customers who benefit from ELG depreciation rates that were paid by a previous generation of customers. The costs of a higher rate base will be paid for by future customers who will have to pay higher overall customer rates. Adopting ALG would serve as an intergenerational subsidy to current customers at the expense of other generations of customers.[101]

[100] OCA St. No. 3SR, p. 13.
[101] Columbia St. No. 5-R, p. 17.

What OCA's short-term focus fails to recognize is that depreciation rates and rate base are inversely linked. A change to a lower depreciation rate, through the adoption of ASL in this case, produces a short-term reduction to rates. However, the lower depreciation rate creates a higher rate base, as the depreciation reserve is depressed in comparison to the continued use of the ELG procedure.[102] Over a relatively short period of time, customers' rates will be greater than if the ELG procedure continues to be used, as the increasing rate base, multiplied by a pre-tax return of 10% or more, will quickly exceed the 2% to 3% depreciation rate resulting from the ELG procedure. To illustrate this point, Mr. Spanos prepared a roughly 25-year forecast of plant and depreciation reserve balances for Columbia under the two scenarios of maintaining the currently approved ELG procedure or changing to the ASL procedure. This forecast demonstrates that within approximately 10 years, the change to the ASL procedure results in higher rates than continuation of the ELG procedure, with the gap widening over time thereafter:[103]

[102] Columbia St. No. 5-RJ, p. 6.
[103] Columbia St. No. 5-R, pp. 17-18; Columbia Ex. JJS-1R.



OCA witness Garrett further argues that ELG results in intergenerational inequity for customers.[104] Mr. Garrett's unsupported argument is incorrect, as Mr. Spanos explained:

> **Q. DOES THE CONTINUED USE OF THE ELG PROCEDURE PRODUCE INTERGENERATIONAL INEQUITY?**
>
> A. No, quite the opposite. The very nature of the ELG procedure more precisely calculates depreciation expense for assets with like lives within a depreciable group and sums that expense to develop an annual depreciation accrual rate applicable to the depreciable group. As a result, it more appropriately matches the recovery of the asset's cost to the period of time over which it is providing service to rate payers.
>
> In contrast, there is a stronger argument that the ALG procedure results in intergenerational inequity. Because depreciation expense on shorter-lived assets occurs over the average service life, recovery for these assets is deferred. ELG produces a more equitable recovery by recovering these costs over the actual, shorter, service lives.[105]

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[104] OCA St. No. 3SR, p. 14.
[105] Columbia St. No. 5-R, pp. 21-22.

OCA witness Garrett also contends, without factual support, that in order for a utility to properly apply ELG, it would need to revise depreciation rates every year. In response, Mr. Spanos explained that this was incorrect. Moreover, in Pennsylvania utilities are required to conduct annual depreciation updates.[106]

In support of its argument for a change in depreciation method, OCA asserts that most other jurisdictions use the ASL procedure.[107] However, Mr. Spanos explained that other jurisdictions do use the ELG procedure and others are moving to adopt ELG.[108] Further, other jurisdictions have other differences in depreciation methods from Pennsylvania, which makes it impossible to compare results.[109] Some of these important differences include the use of whole life vs. remaining life depreciation, and recovery of net salvage prospectively over the life of the property rather than the Pennsylvania procedure that defers net salvage recovery until after retirement.[110] These differences can have a meaningful impact upon the actual composite depreciation rates charged. For example, when asked to compare the depreciation methods used by Columbia and other gas utilities, Mr. Spanos explained that even with the use of ELG, Columbia has a composite depreciation rate of 2.56%, within an industry range of 2.5% to 3.2%.[111]

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[106] Columbia St. No. 5-R, p. 30.
[107] OCA St. No. 3, pp 61-64.
[108] Columbia St. No. 5-R, pp. 12-13; Tr. 349-51.
[109] Tr. 330-39.
[110] Columbia St. No. 5, p.13; Tr. 338.
[111] Tr. 346.

Moreover, the relevant standard should not be whether other jurisdictions use different depreciation methods. Ratemaking differences among jurisdictions are not unusual, and this Commission has never determined that it is bound by approaches used in other jurisdictions.[112] What is relevant is that ELG is the predominant method used in Pennsylvania for gas, electric and water utilities, and has been used consistently for over 40 years.[113]

In a related argument, OCA cites to decisions from the Indiana Utilities Regulatory Commission ("IURC") and the Kentucky Public Service Commission ("Kentucky PSC") rejecting the use of the ELG method for Duke Energy.[114] However, important facts distinguish the IURC and Kentucky PSC decisions. As Mr. Spanos explained, the IURC referenced "a changed landscape" and "a higher than average investment cycle" in support of its decision.[115] Columbia is continuing to operate in the same investment landscape that it has for many years, and will continue to operate into the future as it maintains its ongoing investments in mains replacement.[116] Further, Duke Energy has substantial generation assets, which is not the case for Columbia.[117]

Finally, OCA appears to claim that Mr. Spanos is inconsistent by supporting the use of ASL in other jurisdictions. However, Mr. Spanos explained that the depreciation procedures he uses in other jurisdictions conform to the practices and procedures

[112] *See UGI Electric* at 25.
[113] Columbia St. No. 5-R, p. 13.
[114] OCA St. No. 3, pp. 62-63.
[115] Columbia St. No. 5-R, p. 28.
[116] Columbia St. No. 5-R, pp. 28-29.
[117] Columbia St. No. 5-R, p. 29.

established in those other jurisdictions.[118] This does not alter Mr. Spanos' conclusion that ELG is the most accurate procedure and should continue to be used in Pennsylvania.[119]

D. CONCLUSION WITH REGARD TO DEPRECIATION EXPENSE

The use of the straight-line, remaining life depreciation method, with the ELG procedure, has been a common and long-accepted depreciation process in Pennsylvania. OCA has not offered evidence to justify a change to the ASL procedure. The Company's depreciation expense claim should be accepted.

VII. O&M AND A&G EXPENSES

Columbia's pro forma expense claim reflects an annualized and normalized level of expenses for the FPFTY ended December 31, 2026. In accordance with the Commission's *UGI Electric* decision[120] and traditional ratemaking procedures, these expenses are annualized to test year end.

The basis for Columbia's forecasted O&M expense is the Company's most recent O&M budget for the Twelve Months Ended December 31, 2026, as adjusted for ratemaking purposes.[121] The budget is developed collaboratively by three groups:

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[118] Columbia St. No. 5-R, p. 30; Tr. 341-43.
[119] Tr. 345.
[120] *UGI Electric* at 23.
[121] Columbia budgets by cost element, rather than by FERC account. Budgeting by cost element recognizes, for example, that Columbia's labor expense may change by account from year to year as different maintenance needs arise. Certain O&M expense claims for ratemaking purposes, such as rate case expense, uncollectible accounts expenses, universal service costs and interest on customer deposits, are not based upon budget cost elements. Columbia St. No. 2, pp. 32-33.

(1) Operations Planning: This group develops the Field Operations budget at the cost element level. The budget incorporates expected cost increases, such as merit and supplier increases, as well as savings from continuous improvement initiatives. The budget is compared to prior year spending to ensure it is reasonable and aligns with current expectations.

(2) State Financial Planning and Analysis ("State FP&A"): State FP&A reviews the Field Operations budget to ensure it is accurately entered into the system, develops the O&M budget for the Gas Utility Segment departments, and verifies that the budget is appropriately allocated by department, cost element, and month.

(3) Corporate Financial Planning & Analysis ("Corporate FP&A"): Corporate FP&A budgets the Company's NiSource Corporate Services Company ("NCSC")[122] allocations, corporate O&M functions, and overhead expenses charged outside the Gas Utility Segment.[123]

The budgeting process includes multiple reviews with business partners and Company Leadership to refine and finalize the budget. The final budget is approved by the Company President and the Senior Vice President of FP&A after comparisons to prior

[122] NCSC is an affiliate of Columbia and is a service company that provides centralized services to Columbia and other operating affiliates. Rendering services on a consolidated basis enables Columbia and other NiSource affiliates to realize benefits of specialized personnel, while sharing costs. Columbia St. No. 4, pp. 17-18.
[123] Columbia St. No. 18, p. 4.

budgets and actual expenses.[124] Budget amounts are then adjusted to normalize and annualize the budget for ratemaking purposes.[125]

Certain expenses have been challenged by I&E and OCA, and those challenged expenses are explained in this section of Columbia's brief.

A. LABOR EXPENSE

Columbia's FPFTY Labor expense is $38,671,131.[126] This amount reflects the removal of ($99,544) associated with the sale of Blackhawk.[127] This amount is a slight increase, of approximately 3%, over the Company's normalized HTY labor expense of $37,521,285.[128]

OCA has proposed a $1,698,622 adjustment to Columbia's FPFTY Labor expense, based upon a claimed 4.3812% vacancy ratio. OCA's adjustment is improper, as it fails to recognize that Columbia already took vacancies into account in projecting its FPFTY labor expense. OCA's adjustment should be rejected.

OCA developed its claimed vacancy rate from information provided by Columbia in response to discovery, which has been submitted for the record as Columbia Hearing Exhibit 1.[129] In that discovery response, Columbia provided both its actual number of employees, and the authorized number of employees, by month for the three years through

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124 Columbia St. No. 18, p. 5.
125 Columbia St. No. 4, p. 31.
126 Columbia Ex. JV-1R, p. 6.
127 *Id*.
128 Columbia Ex. 104, Sch. 1, p. 3.
129 Tr. 532, 542.

the end of the HTY.[130] A vacancy is the difference between authorized employees and actual employees.[131] Mr. Mugrace took a three year average of vacancies, multiplied by the Company's 50.57% labor expense ratio, to develop a three year average vacancy of 31 employees. Mr. Mugrace then divided 31 by the projected number of employees for the FPFTY to develop a ratio of 4.3812%, which he then applied to the Company's FPFTY labor expense to derive his adjustment.

The error in Mr. Mugrace's adjustment is that he is applying a vacancy rate to a FPFTY claim that already is adjusted to reflect vacancies. This is because Columbia's labor expense claim is based upon actual filled positions as of the end of the HTY, and not upon authorized positions.[132] The fallacy of OCA's adjustment is easily demonstrated. At the end of the HTY, Columbia had 715 actual employees. Its authorized employees were 787, with 72 vacancies.[133] Mr. Mugrace's calculation uses those vacancies (multiplied by the expense to total labor ratio) to reduce that actual employee count by over 30 more employees. OCA's adjustment applies a vacancy rate to an already vacancy-adjusted labor base, effectively producing a double-count of vacancies.[134] OCA's Labor expense adjustment is improper.

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[130] Columbia Hearing Ex. 1, Attach. A and B.
[131] Tr. 534.
[132] Columbia St. No. 18-R, p. 5.
[133] Columbia Hearing Ex. 1, Attach. A and B.
[134] Columbia St. No. 18-R, p. 6.

B. OTHER EMPLOYEE BENEFITS

Columbia's Other Employee Benefits expense for the FPFTY is $8,915,459.[135] Other Employee Benefits reflect the costs of employee health and dental insurance, 401(k) plan, and long-term disability. OCA proposes an adjustment of $390,741 to Other Employee Benefits, associated with its proposed vacancy adjustment.[136] I&E proposes an adjustment of $1,161,324 to Other Employee Benefits, resulting from its proposed use of a 20% benefits-to-expense ratio.[137] In direct testimony, OCA also proposed adjustments to Other Employee Benefits and capitalized costs for profit sharing.[138] However, after Columbia explained that profit sharing is an important element of the Company's 401(k) plan, Mr. Mugrace withdrew his profit sharing adjustments.[139]

OCA's adjustment depends entirely upon its improper labor expense adjustment and should be rejected for the reasons explained in the preceding section of this brief.

I&E also proposed an adjustment to Other Employee Benefits. I&E's adjustment is based upon a three-year average ratio of benefits expense to payroll expense.[140] The use of an historic three-year average is an inappropriate approach to projecting health and medical costs. The ratio used understates future costs because healthcare costs are rising at a faster rate than payroll costs. This can be seen from the data used by I&E:

[135] Columbia Ex. JV-1R, p. 6; Columbia Ex. 104, Sch. 1, p. 4.
[136] OCA St. No. 2, pp. 23-24.
[137] I&E St. No. 1, p. 14.
[138] OCA St. No. 2, p. 23.
[139] Columbia St. No. 2-R, pp. 10-11; OCA St. No. 2-SR, p. 14.
[140] I&E St. No. 1, p. 14.

Year	Benefits Expense	Ratio of Benefits Expense to Payroll Expense
2022	$6,603,495	17.77%
2023	$8,036,006	20.92%
HTY 2024	$8,109,063	21.29%
	Three-year average	19.99%

The foregoing demonstrates a clear trend of rising healthcare costs. The ratio grew by 3.53% over two years. If this growth rate were applied to the HTY ratio, the ratio of benefits expense to payroll would exceed 24.5%, a ratio that is greater than the 23% for the FPFTY that is reflected in the Company's FPFTY claim.

Further proof of the unreasonableness of I&E's adjustment can be seen by a comparison of HTY actual expense to I&E's adjusted amount. I&E recommends an allowance of $7,754,135, which is substantially below the Company's actual HTY expense of $8,109,063.[141] I&E has offered no evidence that healthcare costs are declining over time, either in terms of total dollars or ratio of benefits to payroll.

Columbia did not rely upon a ratio of historic expense to payroll to develop its Other Employee Benefits expense. Instead, Columbia relied upon the advice of actuarial experts to project its expense. These experts developed a model to project costs that reflected the Company's labor base of 715 filled positions, projected increases to medical costs and

[141] I&E St. No. 1, p. 14.

Company-specific data (such as claims experience, enrollment, plan design, and demographics).[142] For these reasons, I&E's adjustment should be rejected.

C. CASH-BASED INCENTIVE COMPENSATION

Columbia includes $2,568,807 in FPFTY expense for cash-based, short-term incentive ("STI") awards.[143] OCA has proposed to disallow $1,798,165, or 70%, of this amount on the basis that one of the triggers to receive an award is that the Company must achieve a financial metric based upon earnings per share.[144] OCA argues that customers should not pay for incentive compensation that, in its view, promotes shareholders' interests.[145]

OCA's witness disregards the law and misstates the facts in reaching an erroneous recommendation. Public utilities are entitled to recover all reasonable expenses, including incentive compensation, incurred to provide service to customers. In *Butler Township v. Pa. PUC*,[146] the Commission sought to disallow a portion of rate case expense, on the basis that shareholders benefited from rate increases. The Commonwealth Court concluded:

> The general rule is that a public utility is entitled to recover in rates those expenses reasonably necessary to provide service to its customers and to earn a fair rate of return on the investment and plant used and useful in providing service. *Western Pennsylvania Water Co. v. Pennsylvania Public Utility Commission*, 54 Pa. Cmwlth. Ct. 187, 422 A.2d 906 (1980). Operating expenses include prudently incurred rate case expenses. *Driscoll v. Edison Light and Power Company*, 307 U.S. 104 (1939); *West Ohio Gas Company v. Public Utility*

[142] Columbia St. No. 20-R, p. 4.
[143] Columbia Ex. 104, Sch. 1, p. 4.
[144] OCA St. No. 2, pp. 19-21.
[145] OCA St. No. 2, p. 21.
[146] 473 A.2d 219 (Pa. Cmwlth. Ct. 1984).

> *Commission of Ohio*, 294 U.S. 63 (1935). Obviously, the refusal to allow the recovery of a proper expense diminishes to the same extent the utility's return on investment. There is no evidence in the record that the … expenses claimed here were unreasonable, imprudently incurred or excessive in amount.[147]

Columbia is entitled to recover in rates all expenses reasonably necessary to provide service to customers. OCA has not claimed that the total STI expenses were unreasonable, imprudent or excessive. OCA simply seeks to disallow a portion of the expenses on the basis that shareholders benefit from achievement of financial goals that are one of the triggers to payment of the awards.

The Commission has reviewed and approved incentive compensation programs in numerous prior rate cases.[148] In these cases, and others, the Commission has established a bright line test for incentive compensation expense. If the incentive compensation programs of the utility are reasonable and provide a benefit to ratepayers, then they may be recovered in their entirety.[149] The Commission has reaffirmed this standard in several

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[147] 473 A.2d at 221; *see also T.W. Phillips Gas and Oil Co. v. Pa. PUC, 81 Pa. Cmwlth. 205, 474 A.2d 355 (1984).*

[148] *See e.g., Pa. PUC v. PPL Electric Utilities Corp.,* Docket No. R-2012-2290597, 2012 Pa. PUC LEXIS 1757 (Recommended Decision dated Oct. 19, 2012) ("*PPL Electric 2012 RD*"); *Pa. PUC v. PPL Electric Utilities Corp.*, Docket No. R-2012-2290597, at p. 26 (Order entered Dec. 28, 2012) ("*PPL Electric 2012*"); *Aqua 2008*, at *20-26; *Pa. PUC v. Duquesne Light Co.*, 63 Pa. P.U.C. 337, 1987 Pa. PUC LEXIS 342 (Order dated March 10, 1987); *Pa. PUC v. PPL Gas Utilities Corporation,* Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 (Order entered Feb. 8, 2007); *Pa. PUC v. Philadelphia Gas Works,* Docket No. R-2008-2073938, 2008 Pa. PUC LEXIS 32 (Order dated Dec. 19, 2008).

[149] *See, e.g., PPL Electric 2012,* p. 26.

recent cases.[150] In *UGI Electric,* the Commission rejected a proposal to disallow incentive compensation that included, in part, a financial metric, stating:

> We find that [UGI] has provided substantial evidence of record to demonstrate that the incentive compensation program as a whole includes both financial and operating metrics and goals which benefit customers. For example, the Company has presented testimony that safety, reliability and customer service are all metrics utilized in the cash incentive program for eligible employees. *See* UGI St. 4-RJ at 9-10. Additionally, UGI has shown that the eligible employees have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers. *See e.g.,* UGI St. 1 at 1-2; and UGI St. 3 at 1. Moreover, we acknowledge that the incentive compensation appears necessary to attract and retain employees in a competitive market who serve key roles in ensuring safe and reliable service to customers. UGI St. 4-R at 12.
>
> Where, as here, the incentive program as a whole establishes that the employees' eligibility to receive the benefit is based on performance duties and metrics directly related to the provision of service, the fact that the program includes a financial metric does not disqualify it from allowance as an expense for inclusion in the rate base. We find that because UGI's incentive compensation plan is reasonable, prudently incurred, and is not excessive in amount, UGI is permitted full recovery of this expense.[151]

Here, Columbia has demonstrated that its STI awards plans include both financial and operating metrics and goals. These operating metrics include safety, customer satisfaction, quality of service and operational excellence.[152] OCA concedes the existence

[150] *See UGI Electric* at 73-74; *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027385 (Order entered May 16, 2022), at 100 ("*Aqua 2022*").
[151] *UGI Electric*, pp. 73-74.
[152] GAS-RR-027 Attachment B.

of operating metrics and goals by accepting 30% of the STI award costs.[153] The Company further explained that providing STI awards is an important component to retaining and attracting talented individuals, which is critical to maintaining high quality of service, efficiency and safety.[154] OCA's proposal to disallow a substantial portion of STI awards expense is unwarranted and must be rejected.

D. INCENTIVE COMPENSATION - STOCK REWARDS

OCA and I&E also have proposed to disallow stock awards, which are long-term incentive ("LTI") compensation. OCA proposes to disallow $754,446 in stock awards included as a Columbia expense in the FPFTY, and an additional $225,510 in capitalized costs.[155] Additionally, OCA proposes to disallow $4,012,229 in stock award expense allocated to Columbia from NCSC and $493,890 in capitalized stock awards allocated from NCSC.[156] I&E also proposes to disallow 100% of NCSC allocated stock awards expense.[157] OCA argues that the awards "are typically geared toward the achievement of financial performance, earnings growth and aligning with the goals of the Company's shareholders" and thus do not provide a benefit to customers.[158] I&E similarly argues that NCSC allocated stock awards should not be allowed because they are linked to financial goals and targets. I&E further claims that stock awards are limited to employees in

[153] OCA St. No. 2, p. 21.
[154] Columbia St. No. 20-R, p. 7.
[155] OCA St. No. 2, p. 22.
[156] OCA St. No. 2, p. 22.
[157] I&E St. No. 1, p. 18.
[158] OCA St. No. 2, pp. 36.

leadership positions.[159] I&E witness Bedasa specifically acknowledged that he is not "suggesting that the Company change its compensation structure" but just recommends that customers not fund this specific benefit.[160]

OCA's and I&E's witnesses misstate the facts regarding the grant of stock rewards. Stock rewards are not based solely on financial metrics such as earnings or stock price. Rather, the Company now includes important customer value goals in determining the level of stock awards to be granted. These goals include operational excellence, safety, employee engagement and environmental measures.[161] Importantly, the environmental goal is to reduce fugitive and vented methane gas emissions by 46% or greater compared to 2005 levels. Thus, the provision of stock rewards benefits customers, as well as shareholders.

The Commission has recently confirmed that its standard for allowing full recovery of incentive compensation expenses, explained in the prior section of this brief, is equally applicable to incentive compensation in the form of stock awards. In *UGI Electric* and *Aqua 2022*, the challenged incentive compensation expense was stock awards. As the Commission observed in *Aqua 2022*:

> The OCA averred that Aqua's stock-based compensation program provides Aqua and Essential Utilities executives with compensation based on the performance of the Company's or parent company's stock price. According to the OCA, absent a clear tie to ratepayer benefit or operational effectiveness, it is unreasonable to burden ratepayers with the costs of the stock compensation program. OCA M.B. at 37.

[159] I&E St. No. 1, p. 18.
[160] I&E St. No. 1, p. 18.
[161] Columbia St. No. 20-R, pp. 5-6; Columbia Ex. WH-3R, p. 5.

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> We find that Aqua has provided evidence linking the stock-based incentive compensation program with benefits to customers and improved operational efficiency. Aqua's witness Mr. Packer explained that with the implementation of the Incentive Compensation Plan in 1990, a portion of an employee's total cash compensation was placed "at risk" pending the achievement of key performance objectives. The employee's progress toward these performance objectives was used to determine the employee's resulting percentage of a target bonus. Aqua St. 1-R at 15.

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> We agree with the ALJ that the stock-based compensation benefits ratepayers. We find that the stock-based compensation is linked to performance objectives that benefit consumers, including controlling costs and compliance initiatives. Accordingly, the OCA Exception No. 5 is denied.[162]

The Company has shown that there are meaningful customer benefits that flow from its incentive compensation program in general, and its stock awards program in particular. OCA's and I&E's proposed adjustments to stock rewards should be rejected.

E. INFLATION/DEFLATION ADJUSTMENTS

Columbia's pro forma FPFTY expenses reflect inflationary/deflationary adjustments to seven cost elements identified by OCA, as follows:

- Outside Services – ($7,354)
- Corporate Insurance - $131,774
- Injuries and Damages - $51,257
- Employee Expenses – ($11,362)
- Company Memberships – ($6,788)

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[162] *Aqua 2022* at 98-101.

- Utilities and Company Use Gas – ($28,758)
- Advertising – ($11,366)[163]

Columbia used the Gross Domestic Product Implicit Price Deflator to derive annual inflation rates of 2.93% for the FTY and 3.05% for the FPFTY. Columbia applied the inflation rates to the identified cost elements. For those cost elements where the adjustment proposed by Columbia is negative, the inflation adjustment was applied to identified expenses that were being removed from the Company's pro forma expense claim, thereby increasing the amount being removed. For example, Columbia identified and removed from Outside Services ($121,175) in lobbying costs incurred in the HTY. Columbia increased the amount removed to ($128,529) or by ($7,354), for the FPFTY.[164]

Columbia's limited inflation/deflation adjustments are reasonable and should be accepted. Inflation is a well-known fact that affects costs. Applying inflation/deflation adjustments, similar to the application of merit or contractual wage increases to Company labor, to derive pro forma FPFTY amounts is consistent with future cost expectations.

For these reasons, and as more fully explained in Section IV C 1 of this brief, OCA's proposed inflationary/deflationary adjustments should be denied.

F. RATE CASE EXPENSE

Columbia's claim for rate case expense is $1,321,000, normalized over a one-year period.[165]

[163] Columbia Ex. 104, Sch. 2, pp. 4, 7, 8, 9, 10, 11, 15, Columbia St. No. 4-R, p. 11.
[164] Columbia Ex. 104, Sch. 2, p. 4.
[165] Columbia Ex. 104, Sch. 2, p. 16.

I&E argues that rate case expense should be normalized over a 16-month period, based upon the filing interval of Columbia's last four base rate cases.[166] OCA proposes a 14-month normalization period, based upon the Company's filing of 6 base rate cases since 2018.[167] Both proposals should be rejected.

Columbia has used a twelve-month normalization period because Columbia anticipates the need to file annual rate cases for the foreseeable future.[168] This need for annual rate relief will be driven by the capital requirements of Columbia's main replacement program. The Company's capital expenditures for the years 2025-2029 are expected to total over $2.23 Billion.[169] This driver of annual rate filings does not even consider other non-DSIC eligible capital spending, and other increases in O&M spending due to safety initiatives[170] and normal wage and inflation increases.

While the Commission often looks to the history of rate filings to determine normalization of rate case expense, there are exceptions. In *PPL Electric 2012*, PPL Electric sought a two-year normalization of rate case expense, while I&E and OCA proposed a three-year period, based on recent rate case experience.[171] The ALJ accepted the I&E and OCA adjustment, but the Commission reversed.[172] The Commission acknowledged PPL Electric's three-year filing history but also noted its major capital

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[166] I&E St. No. 1, p. 7.
[167] OCA St. No. 2SR, pp. 23-24.
[168] Columbia St. No. 4-R, p. 14.
[169]Columbia St. No. 1-R, p. 2.
[170] Col *See, e.g.*, Columbia St. No. 14, pp. 11-12.
[171] *PPL Electric 2012*, pp. 44-45.
[172] *Id.*, pp. 45-46, 47-48.

improvement program to address aging infrastructure.[173] For these reasons, the PUC approved PPL Electric's two-year normalization of rate case expense. The same logic applies here. History can provide guidance on anticipated future conditions, but it should not be the sole basis for determining revenue requirement, as this would defeat the purpose of using a FPFTY in setting rates. Therefore, Columbia's 12-month normalization period for rate case expense should be approved.

I&E also proposes an over 26% reduction to Columbia's claimed rate case expense, to $975,162, based upon the Company's spending in its last litigated case in 2020.[174] Basing an adjustment on only a single historical experience is inappropriate and not reflective of the various novel and important issues being litigated in this case. These include a change to the long-established method of depreciation, challenges to the continued use of a WNA, and opposition to energy efficiency programs. In addition, in-person hearings were held in this case, which did not occur in 2020.[175] I&E's adjustment to rate case expense is inappropriate and should be denied.

G. OUTSIDE SERVICES

Columbia's FPFTY claim for Outside Services is $18,013,909.[176] OCA witness Mugrace proposes a $1,444,261 reduction to Columbia's FPFTY Outside Services expense.[177] OCA derives its adjustment by computing an average percentage reduction in

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[173] *Id.*, pp. 47-48.
[174] I&E St. No. 1, p. 6.
[175] *See Columbia 2021*.
[176] Columbia Ex. 104, Sch. 1, p. 4.
[177] This adjustment is separate from the inflation-related adjustment explained in Section VI E of this brief.

outside services expense for the periods 2021 through 2024, and applying that percentage (8.57%) to the Company's HTY Outside Services expense.[178] OCA's adjustment, if adopted, would reduce Outside Services expense to a level that is over $200,000 less than the Company's normalized HTY Outside Services expense.[179] OCA's adjustment should be rejected.

OCA's proposed adjustment improperly assumes that Columbia can continue to reduce Outside Services costs, which would deny Columbia the financial resources to undertake important safety initiatives that are reflected in the FPFTY budget. Columbia already has undertaken rigorous cost containment efforts in prior years to produce savings by identifying process efficiencies, better aligning resources and reassessing vendor contracts.[180] It is unreasonable to take those efforts and assume further cost reductions can be obtained in the future.

In addition, Outside Services expense cannot be viewed in isolation from other cost categories. As explained by Columbia witness Leal:

> A portion of Outside Services represents a critical balance between internal and external labor resources. The Company strategically supplements its internal workforce with external service providers to meet workload demands, address resource constraints, and access specialized expertise. This hybrid resourcing model ensures that Columbia can respond effectively to customer needs, meet compliance obligations, and deliver safe and reliable service, particularly when internal resources are fully deployed or specific technical capabilities are needed.[181]

[178] OCA St. No. 2, pp. 25-26.
[179] $16.85 million HTY vs. $16,57 million OCA proposed. OCA Ex. DM-14.
[180] Columbia St. No. 18-R, p. 12.
[181] Columbia St. No. 18-R, pp. 11-12.

Historic levels of underspending vs. budget in outside services can be offset by overspending in other categories. For example, Mr. Leal demonstrated that some of the underspending in outside services during the HTY was redirected to cover increases in internal labor and materials and supplies.[182] The budget process takes into account these shifting uses, and it is unfair to isolate and reduce one cost element while not recognizing offsetting increases to other cost elements. Mr. Leal demonstrated the selective unfairness of OCA's approach to adjust downward a single cost element based upon historic average changes:

> For example, the three-year historical average for the Materials and Supplies category is $7,179,108 (based on $7,173,526 in 2022, $6,675,962 in 2023, and $7,687,836 in 2024, per Exhibit No. 4, Schedule No. 1, Pg 2), which exceeds the Company's FPFTY forecast of $6,080,827, per Exhibit No. 104, Schedule No. 1, p. 4. Yet, no upward adjustment was proposed. This highlights the selective and incomplete nature of Mr. Mugrace's approach. Averaging historical spending without understanding these underlying drivers or the unique cost expectations of the FPFTY results in an artificially low and unsupported projection.[183]

It is simply not appropriate to conclude, in an era of ever-increasing focus on safety, that Columbia's Outside Services expense should be adjusted downward, to a level below the HTY. OCA's adjustment should be rejected.

[182] Columbia St. No. 18-R, p. 11; Columbia Ex. JL-5R.
[183] Columbia St. No. 18-R, p. 13.

H. EMPLOYEE EXPENSES

Columbia's original claim for FPFTY Employee Expenses was $1,275,033.[184] Included in this amount is a pro forma adjustment of $198,554 to remove non-recoverable employee expenses.[185]

A breakdown of the components of the Company's claim is as follows:[186]

Table JL-1R

Line No.	Cost Category	FPFTY Twelve Months Ended December 31, 2026	Correction	Revised FPFTY Twelve Months Ended December 31, 2026
		(1)	(2)	(3) = (1)+(2)
1	Discretionary Bonus	$ -		$ -
2	Employee Expenses - Other	637,383	(417,305)	220,078
3	Business Expenses	776,053		776,053
4	Clothing Allowance	110	417,305	417,415
5	Employee Dues & Memberships	11,875		11,875
6	Meals / Entertainment (50)	48,166		48,166
7	**Budgeted Employee Expenses**	**$ 1,473,587**		**$ 1,473,587**
8	Less: Rate Making Adjustment - Non Recoverable EE	$ (198,554)		$ (198,554)
9	**Normalized Employee Expenses**	**$ 1,275,033**		**$ 1,275,033**

OCA initially proposed two adjustments to Employee Expenses.[187] First, OCA proposed to remove 50%, or $24,083, from Meals and Entertainment. OCA argued that entertainment related costs should not be recoverable, and arbitrarily assumed that 50% of Meals and Entertainment cost was for entertainment.[188] Second, OCA proposed to remove $438,829 from Employee Expenses – Other, representing the difference between the

[184] Columbia Ex. 104, Sch. 1, p. 4; Columbia St. No. 18-R, p. 18.
[185] Columbia Ex. 104, Sch. 1, p. 4; Columbia St. No. 18-R, p. 18.
[186] Columbia St. No. 18-R, p. 18.
[187] This is exclusive of the inflation-related adjustment explained in Section VII E of this brief.
[188] OCA St. No. 2, p. 29.

original claimed expense of $637,383 less the non-recoverable employee expenses removed by the Company.[189] OCA argued that Employee Expenses – Other are designated as team engagement and team building expenses that should not be charged to customers.[190]

In rebuttal, Columbia examined the projection of costs included in the budget for Employee Expenses – Other and determined that $417,305 of budgeted costs for Clothing Allowance was inadvertently included.[191] Columbia updated its breakdown of Employee Expenses to reflect the correct categorization, as shown in Table JL-1R, above.

Columbia then reviewed its claim in light of OCA's adjustments. Columbia agreed with OCA witness Mugrace that all amounts reflected in Employee Expenses – Other should be removed from the claim.[192] Columbia identified that $187,628 of its total non-recoverable expense adjustment of $198,554 was for Employee Expenses – Other. Therefore, Columbia reflected a further adjustment of $32,450 to remove all remaining Employee Expense – Other costs.[193] This adjustment is reflected in the Company's final claimed revenue allowance in the case.[194] Columbia believes this should resolve OCA's original $438,829 adjustment.

Columbia disagrees with Mr. Mugrace's further Meals and Entertainment adjustment. Rather than arbitrarily assume that 50% of this cost category was entertainment expense, Columbia identified that $10,926 of non-recoverable entertainment

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[189] $637,383 - $198,554.
[190] OCA St. No. 2, p. 29.
[191] Columbia St. No. 18-R, p. 17.
[192] Columbia St. No. 4-R, p. 17.
[193] Columbia St. No. 4-R, p. 17.
[194] Columbia Ex. JV-1R, p. 6.

costs were incurred, based upon a review of actual HTY expenses.[195] This amount is already part of the original $198,554 that Columbia removed as non-recoverable expense. No further adjustment is appropriate.

I. COMPANY MEMBERSHIPS

Columbia is a member of certain organizations which assist it in operating efficiently and maintaining awareness of regulatory trends and issues. Columbia claims an amount of $682,796 for Company Memberships. This amount includes an adjustment to remove lobbying expenses from the claim.[196] OCA proposes to disallow $260,661.[197] OCA contends that the only dues that should be allowed are American Gas Association dues of $407,424. OCA would disallow all chamber of commerce dues and utility industry association dues, in particular Energy Association of Pennsylvania ("Energy Association") dues.[198] OCA cites to Section 1316.1 to assert that membership fees paid to fraternal, social or sports clubs may not be recovered in rates.[199]

The OCA's proposed disallowance of utility industry association dues and chamber of commerce dues is unreasonable. First, neither chambers of commerce or utility industry associations, such as the Energy Association, can be considered "fraternal, social or sports

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[195] Columbia St. No. 4-R, p. 17.
[196] Columbia Ex. 104, Sch. 2, p. 15.
[197] OCA Ex. DM-20. This is exclusive of the inflation-related adjustment explained in Section VII E of this brief.
[198] A full list of memberships paid by Columbia is provided in GAS-RR-32 Attachment A. Virtually all of the disallowed amounts are Chamber of Commerce or Energy Association dues.
[199] OCA St. No. 2, pp. 30-31.

clubs or organizations."[200] Columbia records all fraternal, social or sports clubs or organization expenses to a below-the-line account.[201]

Second, membership in utility industry associations provide opportunities for Columbia to participate in peer networking, roundtables, and committees where utilities can share best practices, troubleshoot challenges, and collaborate on innovations. Associations also provide tools for benchmarking, safety tracking and security. Industry associations can also aid utilities in emergency response coordination and mutual aid programs during natural disasters or major outages.[202] The Commission is well aware of the insights that the Energy Association provides on important issues.

Third, memberships in chambers allow Columbia to make strategic connections with other members and the communities at-large in which it serves. Columbia serves in communities across Pennsylvania, each of which has its own areas of focus and concern. By being a member of these various chambers, Columbia is able to engage with local communities and their customers in matters concerning local economic development, improvements in economic prosperity and provide educational resources such as utility energy programs. Chambers also provide Columbia with opportunities to identify workforce availability and to recruit its future utility workers. The partnership of chambers and their members is vital to economic growth and stability in the areas in which they serve. By being a part of chambers, Columbia is able to be well-informed of, and provide

[200] 66 Pa. C. S. § 1316.1.
[201] Columbia St. No. 18-R, p. 19.
[202] Columbia St. No. 18-R, p. 20.

opportunities to develop economic growth, which benefits Columbia's existing customers through jobs and an expanding customer base. Being a member of chambers is also helpful in Columbia's ongoing infrastructure replacement program. It provides Columbia an opportunity to reach out to communities in advance of main replacement projects to identify and address potential disruptions. Columbia's Commission-approved Long Term Infrastructure Improvement Plan ("LTIIP") specifically identifies meeting with municipal trade groups and township business owners as part of its outreach and coordination activities.[203] Further explanations of the benefits provided by the specific industry organizations and chambers in which Columbia is a member are provided in Columbia Ex. JV-5R.

OCA's proposed disallowance of membership dues in industry organizations and chambers should be rejected.

J. MATERIALS AND SUPPLIES EXPENSE

Columbia's FPFTY expense for Materials and Supplies is $6,080,827.[204] OCA proposes a $558,615 adjustment to this expense.[205] OCA's adjustment is improper.

OCA developed its proposed adjustment based upon a review of Subaccount 2020 – Facilities, Maintenance Repair and Materials. OCA identified a substantial increase in this subaccount, and proposes to use a three-year historic average of expense for this subaccount.[206]

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[203] Columbia St. No. 18-R, pp. 20-21.
[204] Columbia Ex. 104, Sch. 2, p. 4.
[205] OCA St. No. 2, p. 33.
[206] *Id*.

In rebuttal, Columbia witness Vassalotti explained that the large increase in this expense was due to an accounting change that occurred in 2024. An expense that was previously recorded as an Outside Services expense was recorded to Subaccount 2020 in 2024. This geography mapping change is not a basis to disallow the expense. No party has challenged the reasonableness of the expense, and a change to its accounting should not be used to support a disallowance.

Columbia further notes the unfairness of OCA's methodology for computing this adjustment, particularly in light of its adjustment to Outside Services. For Outside Services, where the expense showed a declining trend (due in part to the change in accounting), OCA used a three-year average percentage of declining expense. However, for Materials and Supplies, which showed an inclining trend, OCA used a three-year average of the expense. In so doing, OCA manufactures expense reductions for both cost elements. OCA's adjustment is unfair and should be rejected.

K. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Columbia FPFTY NCSC costs include an amount of $136,102 in Supplemental Executive Retirement Plan ("SERP") costs. OCA proposes to disallow SERP costs, claiming that the costs do not benefit customers.[207]

The SERP provides supplemental retirement benefits to certain employees. As such, it is part of the total compensation and benefits plan provided by NiSource. It is part of the total rewards philosophy that provides an appropriate mixture of compensation,

[207] OCA St. No. 2, p. 337.

benefits and retirement income that is competitive with both utility and general industry employers. The mixture of benefits, including SERP as a component, is necessary to attract and retain quality employees responsible for providing safe, reliable and cost-effective service to Columbia's customers.[208] OCA's proposed disallowance of allocated SERP costs should be denied.

L. WORKPLACE CONNECTIONS

OCA proposes to disallow $130,450 in cost for three employees who work in the NiSource Workforce Connections team.[209] OCA witness Mugrace contends that costs "which seek to promote the fair treatment and full participation of all people who have been subject to discrimination" do not benefit customers.[210]

Mr. Mugrace's position is wrong and contrary to Commission policy. Workplace Connections benefits customers by attracting talent and retaining talent through inclusion, and by improving the connections that Columbia's employees have among themselves and the communities where Columbia serves. The Workplace Connections team represents a commitment to four key pillars:

- Talent engagement – Attracting top talent and creating development opportunities for all employees.
- Communities and partnerships – Maximizing the value of partnerships to do even more good in all of the communities Columbia serves.

[208] Columbia St. No. 20-R, pp. 3, 11.
[209] OCA St. No. 2, p. 38-39; OCA Ex. DM-9.
[210] *Id*.

- People experience – Enhancing workplace culture by creating more opportunities for collaboration, connection, and recognition for employees through Employee Resource Groups and other initiatives.
- Insights and impact – Holding the Company accountable by using data-driven insights to track progress toward goals and adjust approaches as needed.[211]

Columbia serves in increasingly diverse communities with an ever-changing and diverse workforce. Today's workforce includes multiple generations of employees, and it is common knowledge that these different generations have different experiences, styles of work and expectations of employment.[212] Workplace Connections enables a more effective workforce, which is clearly a benefit to customers.

The Commission recognizes the importance of supporting a diverse workplace, for the benefit of utility customers. The Commission's *Statement of Policy on Diversity at Major Jurisdictional Utility Companies*[213] recognizes diversity as an important business objective:

> From a business perspective, diversity should be associated with a public utility's business objectives and strategies. Diversity is an economic reality that public utilities should include in their corporate strategies now and in the future. The Commission encourages major jurisdictional utilities and major telecommunications utilities operating in this Commonwealth to incorporate diversity in their business

[211] Columbia St. No. 20-R, pp. 13-14.
[212] Tr. 541.
[213] 52 Pa. Code §§ 69.801-69.809.

> strategy in connection with the procurement of goods and services.[214]

The Commission further offered guidelines for utilities to implement diversity programs. These efforts may include:

> (1) The articulation of a corporate policy by the senior executives of the major jurisdictional utility and the major telecommunications utility committing it to improving its level of diversity in the workplace and within its procurement process.
>
> (2) The development and implementation of a corporatewide diversity program with specified goals and objectives for each year.
>
> (3) The appointment of utility managers to be responsible for the success of the program.
>
> (4) The training of managers regarding implementing diversity initiatives in the areas of employment and contracting for goods and services.
>
> (5) The location of qualified minority/women/persons with disabilities/LGBTQ/veteran-owned business contractors and mentoring, partnering and training qualified women/minority/persons with disabilities/LGBTQ/veteran-owned businesses contractors to serve the needs of the major jurisdictional utility and the major telecommunications utility.

Workplace Connections helps Columbia comply with these guidelines. OCA's proposed disallowance of Workplace Connections costs should be rejected.

M. RECOVERY OF ENERGY ASSISTANCE TEAM COSTS

Columbia has proposed to recover the costs of its current Energy Assistance Team ("EAT") through its Rider USP – Universal Service Program. Columbia's proposal to shift recovery of EAT costs into its Rider USP is explained in Section XIII C of this brief.

[214] 52 Pa. Code § 69.801.

Because EAT costs are currently recovered through base rates, Columbia proposed that, if EAT costs are recovered through Rider USP, then its base rate revenue requirement should be reduced accordingly. Columbia calculated the EAT labor and benefits costs, and associated payroll taxes, to be $225,136.

OCA has opposed the shift in recovery of EAT costs from base rates to Rider USP. However, OCA witness Mugrace also has proposed to disallow recovery of EAT costs from base rates.[215]

Mr. Mugrace's adjustment is unsupported. No party has claimed that EAT costs are unreasonable or otherwise should not be recoverable. The only issue presented is whether recovery should be through Rider USP or should continue in base rates.

Under cross-examination, Mr. Mugrace first claimed to rely upon the testimony of OCA witness Mr. Colton to justify disallowance of the EAT costs from base rate recovery:

> Q. And am I correct that in this proceeding Columbia has proposed to remove recovery of those EAT costs from base rate recovery to recovery through Columbia's universal service plan rider?
> A. That was recommended by Mr. Roger Colton. Remember I used to adjust my rider under the USP rate.
> Q. Well, maybe we have a misunderstanding here. I believe in reading your testimony - are you including - are you including - there's a disallowance of recovery of $220,000 from rider USP. Are you allowing - including that for recovery, that amount in base rates?
> A. I don't think I addressed that in my testimony. All I did was recommend the adjustment of $220,000 in the rider USP as recommended by Roger Colton.
> Q. So he recommends that it be recovered in base rates. Correct?

[215] OCA St. No. 2, p. 41.

> A. He said that's - he removed the $220,000 as part of the base rates. So you don't have an expense category.[216]

However, under subsequent cross-examination, Mr. Mugrace acknowledged that he had not even read the testimony of Mr. Colton:

> Q. I apologize. I'm having difficulty understanding your position. Are you including the 200 - recovery of $220,000 in base rates and removing it from rider USP or have you just removed it from rider USP and not included it back in base rates?
> A. Based on my testimony, I removed it from base rates, $220,000. I did not address how the recovery would be in the rider USP category. That's not my testimony. I just removed 220 from the base rate.
> Q. So as a result of your presentation, Columbia is not recovered covering the $220,000 in this case.
> A. Well, he's requesting $220,000 to include in his case for the EAT program costs. According to Mr. Colton, he's recommending removal of that in his case.
> Q. Is he recommending removal of that cost or is he recommending that it continue to be recovered in base rates?
> A. I didn't say that in my testimony.
> Q. I asked you about Mr. Colton.
> A. I didn't read Mr. Colton's testimony.[217]

If Mr. Mugrace had read the testimony of Mr. Colton, he would have determined that Mr. Colton did not propose to disallow recovery of EAT costs in base rates, but just opposed Columbia's proposal to shift recovery to Rider USP:

> The Commission has previously held with respect to internal administrative costs of universal service programs in particular that the utility bears the burden to prove that those costs are appropriately to be recovered through the reconcilable surcharges. I conclude that that demonstration has not been

[216] Tr. 535-36.
[217] Tr. 536-37.

> made by Columbia and the Company's proposed adjustment should be denied.[218]

Mr. Colton reiterated his position in surrebuttal:

> . . . for all the reasons explained in my Direct Testimony, as well as for the reasons I discuss in response to witness Paloney's rebuttal testimony, the proposal by Columbia Gas to transfer the recovery of internal administration costs from base rates to the USP Rider should be denied.[219]

OCA's proposal to disallow any recovery of $220,000 of EAT costs is unsupported and must be denied.

N. BLACKHAWK

Blackhawk is a gas storage field that, until recently, was owned by Columbia. For many years, Blackhawk served as a peaking asset to provide gas on cold days. As part of its 2016 Purchased Gas Cost proceeding, Columbia stated its intention to retire Blackhawk.[220] The planned retirement was due to the age of Blackhawk and pipeline facilities on the property, as well as increased regulatory requirements.[221] Since that time, Columbia has slowly been withdrawing gas from the storage field.

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[218] OCA St. No. 5, p. 115.
[219] OCA St. No. 5SR, pp. 25-26.
[220] Columbia St. No. 1-R, p. 23.
[221] *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,* ("*Application Order*") Docket No. A-2025-3053161 (Order entered April 24, 2025), Order at p. 3.

Late in 2024, Columbia negotiated an arms-length sale of Blackhawk[222] with an unaffiliated third party, and on January 29, 2025, filed an application for a certificate of public convenience to transfer the property. Consideration for the sale was $214,000.[223]

While the application was pending before the Commission, Columbia filed this rate case. Because at the time of filing the base rate case Columbia did not know whether its application would be approved and whether the sale would be consummated, Columbia included in this case operating expenses, plant in service, accrued depreciation, accumulated deferred income taxes and gas in storage associated with Blackhawk. In direct testimony, Columbia noted the pending status of the application and stated that if the sale is approved prior to the close of the record in this case, Columbia would update its filing to remove Blackhawk.[224]

On April 24, 2025, the Commission approved the application.[225] The sale subsequently closed on June 20, 2025, after the due date for other parties' direct testimony. Consistent with its commitment in direct testimony, Columbia updated its claim in rebuttal to reflect the sale of Blackhawk.[226] Included in the updated claim was a proposed five-year amortization of a net loss of $5,031,739 on the transaction plus the cost of a feasibility

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[222] Columbia undertook a request for proposal process in which it sought offers from 22 prospective purchasers. Only two entities chose to bid, and Columbia selected the best offer. Columbia St. No. 1-RJ, p. 3.
[223] *Application Order*, Order at p. 3.
[224] Columbia St. No. 11, p. 5, n. 1.
[225] *Application Order*, Order at pp. 5-6.
[226] Columbia St. No. 4-R, p. 4; Columbia Ex JV-1R, pp. 6 (expenses), 7 (depreciation accrual), 9 (taxes other than income), 10 (income taxes) and 12 (rate base).

study of $389,005 that was undertaken prior to sales negotiations.[227] The loss is primarily associated with the book value of the remaining gas in storage that was transferred as part of the transaction.[228]

OCA did not oppose the Blackhawk updates.[229] However, I&E opposed several portions of Columbia's claim. First, I&E witness Bedasa proposed that the O&M expense removal be increased to $470,000, from the $229,783 identified by the Company. I&E derived this amount from a statement in the Commission's *Application Order* where the Commission identified costs averaging approximately $470,000 over the past five years.[230] However, these average past costs are not a basis for adjusting removed expenses upward from the amounts actually included in the FPFTY.

I&E's second challenge was to the proposed amortization. I&E offered several arguments. First, I&E contended that the Company should have requested deferral and amortization of the loss when it submitted its application.[231] However, as Columbia President and Chief Operating Officer Mark Kempic explained, an application proceeding is not a proper forum to seek approval of ratemaking treatment of resulting proceeds from a sale.[232]

Second, I&E argues that the Commission's *Application Order* indicated that:

> Columbia Gas anticipates that, in a base rate proceeding *filed after Commission approval of the sale* [emphasis added] and

[227] Columbia St. No. 4-R, pp. 9-10.
[228] *Id*.
[229] OCA St. No. 2SR, p. 3.
[230] *Application Order*, Order at p. 4.
[231] I&E St. No. 1-SR, p. 18.
[232] Columbia St. No. 1-RJ, p. 2.

> the closing of the transaction, the company's claimed cost of service will reflect both the divestiture of the Blackhawk Storage Field, reduced operations, and maintenance costs associated with that asset.[233]

However, this is not language contained in the Commission's ordering paragraphs; it is language contained in the Company's application, that was made at a time when Columbia could not know for certain when the transaction would be approved or closed, or when the next rate case would be filed.[234] Moreover, if this language is to govern, then none of the Blackhawk adjustments should be made in this case, and everything should be deferred to the next rate case. However, Columbia does not see a reason to delay the ratemaking aspects of this transaction to a future case. Further, based upon precedent, Columbia has sought to present its claimed amortization at the earliest possible time to avoid contentions that its claim was too late.[235]

I&E further argues that amortization of the loss should be disallowed because "the Company purchased the affected assets at an inflated price years ago, or the Company sold Blackhawk for much less than it could have."[236] I&E's witness is engaging in sheer speculation. There is no evidence that the Company acquired Blackhawk at an inflated price. In fact, as Columbia explained, the loss principally related to purchased gas, which has been subjected to review in numerous purchased gas cost proceedings.[237] Further, as

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[233] I&E St. No. 3-SR, p. 5.
[234] Columbia St. No. 1-RJ, p. 2.
[235] *See Columbia Gas of Pennsylvania, Inc. v. Pa. PUC,* 613 A.2d 74, 78 (Pa. Cmwlth Ct. 1990).
[236] I&E St. No. 3-SR, p. 6.
[237] Columbia St. No. 1-RJ, p. 3; Columbia St. No. 4-R, pp. 9-10.

explained previously, Columbia undertook a request for proposal process in which it sought offers from 22 prospective purchasers. Only two entities chose to bid, and Columbia selected the best offer.

I&E also questioned the prudency of the feasibility study that Columbia undertook, arguing that the cost of the study exceeded the ultimate purchase price.[238] However, prudency is determined at the time an act is undertaken, not through an after the fact comparison.[239] At the time Columbia undertook the feasibility study, it had no idea what a sale price might be. Further, the purpose of the study was to examine if the property could be put to a higher or better use that would benefit customers.[240]

I&E's arguments in opposition to amortization of the loss fail to recognize the prudence of Columbia's decision to sell Blackhawk, even at a loss. Operating and maintaining Blackhawk would be far more expensive to customers than amortizing the loss. In addition to avoiding ongoing O&M costs of approximately $232,000 per year, new Pipeline and Hazardous Material Safety Administration requirements would add an additional $2 Million in costs. Alternatively, if Columbia simply retired the facility, it would incur $5-$8 Million in retirement costs to plug wells and otherwise remove facilities.[241]

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[238] I&E St. No. 3-SR, p. 6.
[239] *See, e.g.*, *Affiliated Interest Agreement Between Metropolitan Edison Co., Pa. Electric Co. and Jersey Central Power and Light Co.*, Docket Nos. G-900240, *et al.*, 1992 Pa. PUC LEXIS 87 (Order dated April 2, 1992), at *127-128 ("In determining whether a judgment was prudently made, only those facts available at the time the judgment was exercised can be considered. Hindsight review is impermissible.") (emphasis in the original).
[240] Columbia St. No. 1-RJ, p. 4.
[241] Columbia St. No. 1-R, p. 24.

I&E's proposal to disallow amortization on the loss from the Blackhawk sale should be rejected.

VIII. TAXES

A. TAXES OTHER THAN INCOME TAXES

Columbia's FPFTY Taxes Other Than Income Taxes, as adjusted for Blackhawk removal is $4,493,642.[242] The only proposed adjustments to Taxes Other Than Income Taxes are to payroll taxes associated with proposed labor and incentive compensation adjustments proposed by OCA. As the adjustments to labor and incentive compensation should be denied, as explained in Sections VII A and C of this brief, the proposed payroll tax adjustments also should be denied.

B. INCOME TAXES

No party has proposed disallowance of Income Tax expense, other than as related to their respective other adjustments to rate base, expenses and return.[243]

IX. RATE OF RETURN

A. INTRODUCTION

As explained in prior sections of this brief, Columbia is in the middle of a long-term program to modernize its distribution system and to replace at risk pipe across Pennsylvania.[244] The Company's capital expenditures for the years 2025-2029 are expected to total over $2.23 Billion, or over 62% of its net utility plant in service at

[242] Columbia Ex. JV-1R, p. 8.
[243] In rebuttal testimony, Columbia witness Harding questioned certain calculations of the income tax expense adjustment presented by OCA witness Mugrace. In surrebuttal, Mr. Mugrace accepted the formulaic corrections.
[244] Columbia St. No. 1, p. 7.

November 30, 2024.[245] Other gas, electric and water utilities are similarly in the midst of major infrastructure replacement programs. In order for Columbia, and other utilities, to continue to be able to raise the capital necessary to finance these investments, it is critical that the Commission demonstrate that Pennsylvania remains a constructive and supportive regulatory environment, through a fair rate of return. As the Commission observed in *PPL Electric 2012*:

> Furthermore, we note that the setting of the proper return on equity is even more critical in this proceeding as our Pennsylvania jurisdictional utilities implement plans to accelerate the greatly needed replacement of aging infrastructure. Attracting capital to Pennsylvania at reasonable rates to accomplish this infrastructure replacement has never been more important to PPL, its customers and the Commonwealth of Pennsylvania.[246]

The positions of I&E and OCA are insufficient to support ongoing infrastructure investment. I&E's 10.51% return on equity ("ROE") recommendation, while substantially more reasonable than OCA's recommendation, is deficient for several reasons, including its selection of a proxy group, its lack of leverage and flotation cost adjustments, and its failure to include an adjustment for management performance. OCA's recommendation is extreme and totally outside any reasonable rate of return on invested capital. OCA proposes the use of a hypothetical capital structure, contrary to established precedent, and an unjustifiably low ROE of 8.90% based on the results from a variety of unreasonable

[245] Columbia St. No. 1-R, p. 2.
[246] *PPL Electric 2012* at p. 81.

methodologies.[247] If such a result were adopted, the investment community would be very concerned and begin to question continued investment in Pennsylvania utilities. As Columbia's witness, Mr. Rea, explained:

> If the Commission were to authorize an ROE at the level proposed by Mr. Garrett, the decision would be met with great concern, if not outright shock, by the financial community.
>
> * * *
>
> It is important to recognize that equity investors derive their return expectations for individual utility stocks on the basis of authorized ROEs of similarly situated utilities in the same regulatory jurisdiction and also nationwide. Accordingly, if Mr. Garrett's cost of equity recommendations were adopted, this would send a clear message to the investment community that the Commission was departing from its historical practice of facilitating a constructive regulatory environment from the perspective of capital providers. This in turn would create a strong disincentive for investors to commit new investment capital to regulated utility companies in Pennsylvania, since significantly higher returns could be found in other utility stocks bearing similar risk profiles in other jurisdictions. Under such circumstances, Pennsylvania's utilities would find it increasingly difficult to compete for investor capital with these other utilities. This could then jeopardize the utility's ability to make critical infrastructure investments required for safety and reliability purposes, or to do so without a significant impact on its costs, which are ultimately borne by ratepayers. Columbia is firmly committed to maintaining a safe, dependable gas distribution system, but it would not be in a position to effectively compete for investor capital, particularly as it relates to discretionary investments (whether it be external capital or capital allocated by NiSource among its six operating utility companies), if the cost of equity recommendations of Mr. Garrett were adopted.

[247] OCA's recommended ROE of 8.90% is computed at its proposed hypothetical capital structure. At the Company's actual capital structure, OCA would further reduce its recommendation to 8.70%. OCA St. No. 3, pp. 3, 55.

> Moreover, if Mr. Garrett's cost of equity recommendations were adopted, this would send a clear message to the financial community that the regulatory climate in Pennsylvania was no longer fully supportive of maintaining financially sound utilities in the Commonwealth. Ultimately, these adverse consequences would negatively impact the Company's customers, since Columbia must maintain its financial viability in order to finance the infrastructure investments that are essential to providing safe, adequate and reliable gas distribution services to its customers. Indeed, Columbia's customers have a vested interest in the ongoing financial viability of the Company, and for this reason, the interests of the Company's customers and its shareholders are not mutually exclusive. Clearly, both stakeholders benefit from the maintenance of the financially sound utility.[248]

As explained in detail below, Columbia's proposed use of its actual capital structure is proper and in accordance with precedent. Columbia's proposed return on common equity of 11.35%, inclusive of a 25-basis point adjustment for management effectiveness, is fully supported by the record and should be adopted.

1. Rate of Return Standards

A public utility, whose facilities and assets have been dedicated to the service of the public, is entitled to an opportunity to earn a fair rate of return on its investment. The standards to be used by the Commission in determining what return rate is fair are well-established, having been set forth by the United States Supreme Court in *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia ("Bluefield")*[249] over 100 years ago: Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and

[248] Columbia St. No. 8-R, pp. 10-11.
[249] 262 U.S. 679, 690 (1923).

their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.

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.[250] These principles have been adopted and applied by the appellate courts of Pennsylvania in numerous cases.[251]

The return allowed to investors must be commensurate with the risk assumed, as the Supreme Court has stated in three landmark opinions. *Bluefield* requires that the rate of return reflect:

> . . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally being made at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . ..[252]

Twenty-one years after *Bluefield*, the Supreme Court reiterated that standard in *Federal Power Commission v. Hope Natural Gas Co.*,[253] as follows:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should

[250] 262 U.S. 679, 693.
[251] *See, e.g., Riverton Consolidated Water Co. v. Pa. PUC*, 186 Pa. Super. 1, 140 A.2d 114 (1958); *City of Pittsburgh v. Pa. PUC*, 182 Pa. Super. 376, 126 A.2d 777 (1956); *Lower Paxton Twp. v. Pa. PUC*, 13 Pa. Cmwlth. 135, 317 A.2d 917 (1974).
[252] *Supra* at 692.
[253] 320 U.S. 591, 603 (1944).

> be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Later, in reaffirming *Hope*, the Supreme Court, in *Duquesne Light Co. v. Barasch*[254] observed that "[o]ne of the elements always relevant to setting the rate under *Hope* is the return investors expect given the risk of the enterprise."

The determination of a fair rate of return thus requires the review of many factors, including: (1) the earnings that are necessary to assure confidence in the financial integrity of the company and to provide a reasonable credit profile to permit access to capital markets on reasonable terms, and (2) the amount of the investment, the size and nature of the utility and, its business and financial risks, in comparison to other enterprises.[255] Moreover, the Commission's findings must be based upon substantial and competent evidence on the record before it, not upon speculation or hypothesis.[256]

2. Rate of return components

In determining the overall rate of return, the Commission uses the weighted average cost of capital method. This method determines the percentages of long-term debt, short-term debt and common equity in the Company's capital structure. It then determines the cost rate of capital for each component and weighs it by multiplying the percentages of

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[254] 488 U.S. 299, 109 S. Ct. 609, 102 L. Ed. 2d 646, 661 (1989).

[255] *Pa. PUC v. Pennsylvania Gas and Water Co. - Water Division*, 19 Pa. Cmwlth. 214, 233, 341 A.2d 239 (1975); *Lower Paxton Twp., supra*.

[256] *Ohio Bell Telephone Co. v. Pub. Util. Comm. of Ohio*, 301 U.S. 292 (1937); *United States Steel Corp. v. Pa. PUC*, 37 Pa. Cmwlth. 195, 390 A.2d 849 (1978); *Octoraro Water Co. v. Pa. PUC*, 38 Pa. Cmwlth. 83, 391 A.2d 1129 (1978).

each class of capital by the applicable cost rate. Columbia's proposed cost of capital is as follows:

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	54.40%	11.35%	6.17%
Total			8.55%[257]

No party has challenged the Company's claimed cost rates for long-term debt or short-term debt.[258] The issues of dispute involve Columbia's capital structure ratio and cost rate of common equity.

B. CAPITAL STRUCTURE RATIOS

The only party to challenge Columbia's capital structure is OCA. I&E adopted the Company's capital structure.[259] OCA proposes a hypothetical capital structure of 2.32% short-term debt, 47.68% long-term debt and 50% equity.[260] OCA's use of a hypothetical capital structure is unreasonable and contrary to precedent, and should be rejected.

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[257] Columbia Ex. VVR-4, p. 1.

[258] OCA's Rate of Return recommendation table shows a cost rate for long-term debt of 5.2%, although this appears to be a result of rounding to a single decimal point. OCA St. No. 3, p. 58, Figure 14.

[259] I&E St. No. 2, p. 12.

[260] OCA retains the Company's capital structure rate and cost rate for short term debt, but shifts 4.4% of Columbia's capital from equity to long-term debt, while retaining the Company's long term debt cost rate. OCA Ex. DJG-16. This amounts to a hypothetical shift of over $171.9 Million in capital from common equity to long-term debt. Columbia Ex. VVR-5 ($3,906,890,949 x 4.4%).

1. Columbia's Capital Structure

Columbia's capital structure of 54.4% common equity, 43.28% long-term debt and 2.32% short-term debt is its projected actual capital structure as of December 31, 2026, the end of the FPFTY.[261] The Company's FPFTY capital structure is based upon its actual capital structure at November 30, 2024, updated for changes during the FTY and FPFTY.[262] The changes are to finance the Company's FTY and FPFTY net rate base additions of approximately $685 Million.[263] The Company's FPFTY capital structure ratios are consistent with the actual ratios for the Company at the end of the HTY.[264]

In support of Columbia's capital structure, Columbia witness Mr. Rea explained that Columbia's common equity ratio is within the range of actual common equity ratios of his proxy group of gas companies (the "Gas LDC Group") used in this proceeding.[265] Furthermore, Columbia's FPFTY common equity ratio, computed on a permanent capitalization basis (i.e., excluding spot-in-time short term debt) is well within the range of forecasted common equity ratios of the Gas LDC Group, computed on a permanent capital basis.[266] I&E's proxy group has a range of experienced five-year average common equity ratios from 35.96% to 60.16%.[267] OCA's witness, Mr. Garrett, uses a proxy group that is the same as Mr. Rea's Gas LDC Group, and Mr. Garrett acknowledged that two of those

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[261] Columbia St. No. 8, p. 43.
[262] Columbia Ex. VVR-5, p. 1.
[263] Columbia Ex. 108, p. 3.
[264] Columbia Ex. VVR-5, p. 1.
[265] Columbia St. No. 8, p. 44.
[266] Columbia St. No. 8, p. 44-45
[267] I&E St. No. 2, p. 23.

proxy group companies have debt ratios that are less than the debt ratio claimed by Columbia, as reported by *Value Line Investment Survey* (*"*Value Line*")*.[268] Clearly, Columbia's common equity ratio cannot be deemed atypical.

2. OCA's Hypothetical Capital Structure is Unjustified and Should be Rejected.

a. Applicable Legal Standards

The Commission has determined that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered.[269] In determining whether the claimed capital structure is atypical, the Commission has looked to see whether the capital structure used by the utility is outside the range of that employed by the barometer group of companies considered in the rate of return analysis. If a utility's capital structure is within a reasonable range of similar risk barometer group companies, the utility's capital structure should be used and not a hypothetical capital structure. For example, in *ALLTEL*, the Commission stated as follows:

> The ALJ recommended use of the Company's stand-alone capital structure since it met the following characteristics of an appropriate capital structure: (1) It was within a reasonable range of similar risk barometer group companies. (2) It reflected the Company's actual capital structure and projected near term capital structure. (3) It is consistent with the Company's apparent capital structure goal. (R.D., p. 28).
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> We concur with the recommendation of the ALJ, particularly for the reason that the Company's actual capital structure falls within a range employed by similar risk barometer group

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[268] Tr. 523; OCA Ex. DJG-13.

[269] *See, Pa. PUC v. City of Lancaster – Water*, 1999 Pa. PUC Lexis 37 at *17; *Pa. PUC v. City of Bethlehem*, 84 Pa. P.U.C. 275, 304 (1995); *Carnegie National Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981).

> companies, described by Mr. Shiavo as commensurate with capital ratios employed by other independent telephone operating companies.[270]

This analysis was reaffirmed by the Commission in *PPL Electric 2012*. In that case, PPL Electric proposed to use its actual capital structure. Both I&E and OCA proposed to use a hypothetical capital structure. I&E argued in favor of a hypothetical capital structure based upon a calculated industry average. OCA proposed a hypothetical capital structure that was based on an average of PPL Electric's capital structure for a recent five-year period. OCA further supported its proposal by reference to the average common equity ratio of the barometer group sponsored by the Company.[271] The Commission rejected I&E's and OCA's contentions and adopted the Company's proposed capital structure, concluding:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure. *See, Pa. PUC v. City of Lancaster – Water,* 1999 Pa. PUC Lexis 37 at *17; *Carnegie Natural Gas Co. v. Pa. PUC,* 433 A.2d 938, 940 (Pa. Cmwlth. 1981). With regard to these factors, we are persuaded by the arguments of PPL that its actual capital structure is not atypical, is with a range of reasonableness, and, pursuant to precedent, provides no basis to employ a hypothetical capital structure. Also, we are further swayed by PPL's assertion that it requires an equity ratio near the high end of the historic range employed by the barometer group companies to support its expanded infrastructure replacement program and its credit rating.[272]

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[270] *Pa. PUC v. ALLTEL Pa., Inc.,* Docket No. R-942710 et al., 59 Pa. PUC 447, 491, 1985 Pa. PUC LEXIS 53, *106 - *107, (Order entered May 24, 1985), ("*ALLTEL*").
[271] *PPL Electric 2012,* at pp. 63-65.
[272] *2012 PPL Electric,* at p. 68.

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The Commission has reaffirmed its prior decisions on capital structure in three recent decisions. In *Columbia 2021*, the Commission rejected an OCA proposal to adopt a hypothetical capital structure of 50% common equity and 50% debt, stating "we find no reason to deviate from the established Commission precedent, or to impose OCA's hypothetical capital structure on the Company."[273] The Commission adopted similar conclusions in *Aqua 2022 and PAWC 2024*.[274]

b. OCA Has Failed to Demonstrate that Columbia's Proposed Capital Structure is Atypical

OCA has offered no evidence to support a conclusion that Columbia's proposed capital structure is atypical, requiring the use of a hypothetical capital structure. OCA's only evidence is that the Company's equity ratio exceeds the average of Mr. Garrett's proxy group and many non-regulated industries have higher average debt ratios than Columbia's actual debt ratio.[275] However, as the Commission has made clear in *Columbia 2021* and the numerous other cases cited above, the average proxy group capital structure is not the standard employed to determine if a Company's actual capital structure is atypical. Rather, the standard is whether the Company's actual capital structure is atypical, as measured by the barometer group range.

The data of record, cited above, demonstrates that various gas utilities employ a higher level of common equity than Columbia. However, OCA would have the

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[273] *Columbia 2021* at p. 118.
[274] *See also Aqua 2022* at pp. 138-41; *Pa. PUC v. Pennsylvania-American Water Company*, ("PAWC 2024") Docket No R-2023-3043189 (Order entered July 22, 2024), Order at pp. 157-60.
[275] OCA St. No 3, pp. 50-52.

Commission reject this evidence of typical capital structures and employ a process that would direct the use of hypothetical structure any time an actual capital structure varies from the proxy group average. Such a standard would effectively mean that the Commission would adopt hypothetical capital structure ratios in virtually every rate case, contrary to long-established precedent. OCA would further ignore the fact, as noted by the Commission in *PPL Electric 2012*, that the need to support an extensive infrastructure replacement program further justifies an equity ratio above the "average."

OCA has not, and cannot, show that Columbia's capital structure is outside the norm for comparable gas companies. Having failed to do so, OCA impermissibly attempts to interfere in the management discretion of Columbia to determine the capital structure the Company believes is necessary.[276] OCA has failed to demonstrate that Columbia's actual capital structure is atypical and, therefore, the use of a hypothetical capital structure is inappropriate.

3. Conclusion as to Capital Structure

Columbia is acting prudently to replace aging plant to maintain reliable service and is maintaining a financial profile that will enable it to obtain the necessary financing to do so. That financial profile is within the range of capital structure ratios of the proxy groups presented in this proceeding. OCA's hypothetical capital structure must be rejected.

C. DEBT COST RATE

[276] *Aqua 2022*, pp. 138-39.

Columbia's FPFTY long-term debt cost rate is 5.22%. Columbia's FPFTY short-term debt cost rate is 5.00%.[277] No party has challenged these debt cost rates, and they should be adopted in the context of Columbia's actual FPFTY capital structure ratios for debt.

Columbia notes that OCA proposes to adopt the Company's long-term debt cost rate in the context of its hypothetical capital structure. This creates a mismatch, because the hypothetical long-term debt ratio includes nearly $172 Million more in debt than the actual debt outstanding for Columbia.[278] OCA did not attempt to price this additional long-term debt in its proposed hypothetical capital structure. This is a further reason why OCA's proposed hypothetical capital structure should not be adopted.

D. RETURN ON COMMON EQUITY

The record in this proceeding contains extensive testimony concerning the cost rate for common equity capital.[279] In these statements, witnesses for the Company, I&E, and OCA apply various theoretical models using various inputs to estimate the cost of equity. The appropriate components of these models and the selection of inputs to these models is a matter of the judgment of each witness. It is important in reviewing these judgments that the realities of the marketplace and the concerns of investors, who determine the cost of equity capital by purchasing common stock of utilities, be considered. These judgments also should be examined in the context of other recent determinations by the Commission

[277] Columbia Ex. VVR-4, p.1.
[278] *See* Footnote 260, *supra*.
[279] Columbia St. Nos. 8, 8-R, I&E St. Nos. 2 and 2-SR; OCA St. Nos. 3 and 3SR.

regarding the cost of common equity, to measure the reasonableness of the recommendations.

1. Columbia's Cost Rate for Common Equity Capital

Columbia witness Rea summarized his approach to determining the cost rate for common equity and the results of his analysis in his direct testimony, as follows:[280]

> I developed my cost of equity recommendation after carefully evaluating 15 individual cost-of-equity estimates, which were derived from applying the various analytical models to the market and financial data of the proxy group companies. Using a variety of analytical models in conjunction with multiple comparable-risk proxy groups ensures that a diversity of investor perspectives is incorporated into my evaluation and provides a solid foundation upon which the analyst can apply his/her informed judgment in making a cost of equity recommendation. Initially, cost of equity estimates were derived for the respective proxy groups by applying a total of five different analytical models/methods to the market and/or financial data of the proxy group companies (my evaluation included two additional variants of the traditional CAPM model). This resulted in a total of 15 individual estimates of the cost of equity among the three proxy groups, as summarized in Table VVR-1 below.

Table VVR-1
Indicated Cost of Equity for the Proxy Groups

Method/Model	Gas LDC Group	Comb. Utility Group	Non-Reg. Group
DCF	10.97%	10.57%	11.27%
Traditional CAPM	11.05%	11.12%	11.05%
CAPM (w/size adj.)	11.66%	11.58%	10.99%
ECAPM	11.21%	11.26%	11.21%
Risk Premium	11.23%	11.23%	11.38%

[280] Columbia St. No. 8, pp. 7-8.

Mr. Rea further analyzed the above results shown in Table VVR-1 to develop measures of central tendency for each of the analytical methods employed:[281]

Table VVR-2 Cost of Equity Estimates for CPA Measures of Central Tendency for the Core Proxy Group – Gas LDC Group	
Median DCF Result	10.97%
Average DCF Result	10.97%
Median CAPM Result	11.21%
Average CAPM Result	11.31%
Median RPM Result	11.23%
Average RPM Result	11.23%

Table VVR-3 Cost of Equity Estimates for CPA Measures of Central Tendency for All Three Proxy Groups	
Median DCF Result	10.97%
Average DCF Result	10.94%
Median CAPM Result	11.21%
Average CAPM Result	11.24%
Median RPM Result	11.23%
Average RPM Result	11.28%

Mr. Rea summarized his conclusions from the foregoing data:

> Based upon these measures of central tendency, I have concluded that Columbia's cost of equity is presently in the range of 10.85 - 11.35 percent, and that point estimate in the

[281] Columbia St. No. 8, p. 9.

middle of this range, or 11.10 percent, fairly reflects the Company's cost of equity in the current market environment. In making this determination, I relied predominately on my quantitative results for the Gas LDC Group, as shown in Table VVR-2 above, which constitutes my core proxy group in this proceeding. At the same time, the composite results for all three of the proxy groups that I evaluated, as shown in Table VVR-3 above, produces estimates of the cost of equity that are very similar to the results for the Gas LDC Group on a standalone basis. These results further validate the benefits of evaluating complementary proxy groups in corroborating the results produced for the Gas LDC Group.

Additionally, as noted earlier, the Company has proposed a 0.25 percent upward adjustment to my point estimate of the cost of equity in recognition of the Company's strong record of management effectiveness as discussed in the Direct Testimony of Columbia witness Paloney. After incorporating this proposed adjustment, it is my recommendation that the Commission should adopt a cost of equity of 11.35 percent in the determination of a fair rate of return for the Company in this proceeding.[282]

a. Barometer Group

As indicated above, Mr. Rea used a barometer group of six gas companies as his core proxy group, which will be referred to as the "Gas LDC Group." Mr. Rea applied the following selection criteria in making this determination: (i) Value Line Industry Classification as a Natural Gas Utility; (ii) Value Line Safety Rank of "1," "2" or "3"; (iii) S&P corporate credit rating no lower than BBB-, or Moody's long-term issuer rating of no lower than Baa3; (iv) operating income from the company's regulated gas distribution operations equals or exceeds 60 percent of the company's consolidated operating income; (v) company must currently pay dividends and must not have discontinued or reduced its

[282] Columbia St. No. 8, pp. 9-10.

dividend during the previous five years (2019-2023); and (vi) company is not, and has not recently been, an acquisition target.[283] The six companies used by Mr. Rea are:

Atmos Energy Corp.
NiSource Inc.
Northwest Natural Gas Co.
ONE Gas, Inc.
Southwest Gas Holdings, Inc.
Spire, Inc.[284]

OCA witness Garrett used the same proxy group as Mr. Rea.[285]

I&E witness Patel excluded one company, Southwest Gas Holdings, Inc., and added two companies, Chesapeake Utilities Corp. and New Jersey Resources Corp., to Mr. Rea's Gas LDC Group to create his barometer group.[286] In this proceeding, the selection of companies to include in the proxy group as between Mr. Patel and Mr. Rea, standing alone, does not have a material impact upon the DCF results. As explained by Mr. Rea, if Mr. Patel had used Mr. Rea's Gas LDC Group rather than his gas proxy group, Mr. Patel's DCF estimate of Columbia's cost of equity would be approximately 11 basis points higher.[287]

Nevertheless, Mr. Rea did not agree with the two additions, and one deletion, to his Gas LDC Group. Mr. Rea excluded Chesapeake Utilities because it has not been assigned long-term credit ratings by either S&P or Moody's and derives less than 35 percent of its consolidated net income from its gas distribution operations. The lack of long-term credit

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[283] Columbia St. No. 8, p. 19
[284] Columbia St. No. 8, pp. 19-20.
[285] OCA St. No. 3, p. 12.
[286] I&E St. No. 2, p. 14.
[287] Columbia St. No. 8-R, pp. 15-16.

ratings makes it very difficult to conduct a proper risk assessment of Chesapeake Utilities relative to Columbia and the other proxy group companies.[288] Similarly, New Jersey Resources derives only 45 percent of its consolidated operating income from gas distribution operations, while the remainder of its operating income is derived from the company's Clean Energy, Energy Services and Storage and Transportation business segments.[289] This also makes the Company inappropriate to include in a barometer group.

Mr. Patel's exclusion of Southwest Gas Holdings from his gas proxy group also is improper. Mr. Patel excluded this company because it did not meet his criteria that 50 percent or more of the company's revenue be generated from regulated gas utility operations. Mr. Patel asserts that this is an appropriate screening criterion "because revenues represent the percentage of cash flow a company receives from each business line related to providing a good or service."[290] However, Mr. Rea explained that percentage of revenues is not an appropriate screen to eliminate Southwest Gas Holdings from the proxy group:

> In my judgment, Mr. Patel erred by not including Southwest Gas in his proxy group, since operating income, rather than revenues, is more closely correlated to the net cash flows a company receives from each line of business. Notably, in the process of developing the Gas LDC Group, I determined that Southwest Gas derives approximately 85 percent of its consolidated operating income from the company's regulated gas utility operations. [291]

[288] Columbia St. No. 8-R, p. 14.
[289] Columbia St. No. 8-R, p. 14.
[290] I&E St. No. 2, pp. 15-16.
[291] Columbia St. No. 8-R, pp. 14-15.

Mr. Rea also developed two other separate comparable-risk proxy groups to provide a further measure of the appropriate ROE for Columbia. Mr. Rea explained the reasoning for, and the development of, his additional proxy groups as follows:

> [T]he use of multiple comparable-risk proxy groups ensures a higher level of confidence in the reliability of the analytical results when estimating a utility's cost of equity. The importance of evaluating complementary proxy groups has become particularly evident in recent years, as recent merger and acquisition activity in the regulated utility space has reduced the number of gas utility holding companies to select from in deriving a gas utility proxy group. Therefore, to ensure a robust sample size that will obviate any potential distortions caused by observation errors in the various financial model inputs, I have also evaluated a proxy group of ten combination gas and electric utility companies, and a proxy group of nine non-rate-regulated companies (i.e., the Combination Utility Group and the Non-Regulated Group, respectively). Both of these proxy groups have risk profiles which are similar to the Gas LDC Group. Considering that Columbia is not publicly-traded, the analysis of comparative risk metrics discussed earlier was necessary to establish the relative risk relationship between the Company and the Gas LDC Group. In order to facilitate a comparison of the risk profiles of the Combination Utility Group and the Non-Regulated Group to Columbia, this was accomplished indirectly through a comparative risk assessment of the three proxy groups, as based upon published risk indicators.[292]

To develop his combination gas and electric utility group, Mr. Rea developed risk characteristic criteria similar to that used to derive his Gas LDC Group - (i) Value Line Industry Classification as an electric utility; (ii) Value Line Safety Rank of "1", "2" or "3;" (iii) S&P corporate credit rating no lower than "BBB-", and Moody's senior secured debt rating no lower than "Baa3"; (iv) company must have been engaged in *both* the natural gas

[292] Columbia St. No. 8, pp. 27-28.

distribution and electric distribution businesses for at least the past five years; (v) company must *not* currently operate nuclear power generation facilities, be a significant independent power producer, or have major gas transmission and storage operations; (vi) company must currently pay dividends and must not have discontinued or reduced their dividend payments during the previous five years (2019 to 2023); and (vii) company must not have recently been an acquisition target.[293] The selected Combination Utility Group has a very similar investment risk profile to the Gas LDC Group.[294]

Mr. Rea also presented separate ROE analyses for a Non-Regulated Group. This group was developed in accordance with the Supreme Court's *Bluefield* decision, which held that utility returns must be commensurate with "investments in <u>other</u> business undertakings which are attended by corresponding risks and uncertainties."[295] The selected Non-Regulated Group has a slightly lower risk profile compared to the Gas LDC Group.[296]

b. DCF

Mr. Rea's DCF analysis consists of a current cash yield (dividend), future income in the form of growing dividends and price appreciation (growth), flotation cost and a leverage adjustment. For the Gas LDC Group, the indicated DCF Estimate is 10.97%. For the Combination Utility Group, the indicated DCF Estimate is 10.57%, and for the Non-Regulated Group, the indicated DCF Estimate is 11.27%.[297]

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[293] Columbia St. No. 8, p. 30.
[294] Columbia St. No. 8, p. 32.
[295] Columbia St. No. 8, p. 33 (emphasis supplied).
[296] Columbia St. No. 8, p. 36-37.
[297] Columbia St. No. 8, pp. 58-61.

i. Dividend Yield

Mr. Rea derived the dividend yield for his three proxy groups by dividing the projected dividends for each group, derived from Value Line and dividing the projected dividends by the composite average of the 30-day, 60-day and 90-day average historic stock prices.[298] The resulting dividend yield for the Gas LDC Group is 3.7%, for the Combination Utility Group is 3.8% and for the Non-Regulated Group is 2.2%.[299] Mr. Rea's dividend yield for the Gas LDC Group is equivalent to that of I&E based upon an average of spot and 52-week average prices (3.63%) and somewhat above the dividend yield of OCA based solely upon a 30-day average stock price (3.5%).[300]

ii. Growth Rate

Mr. Rea's growth rate reflects his expert analysis, following a review of both historic and projected growth rates in earnings per share, dividends per share, and book value per share. However, the DCF is an expectational model. Investors do not purchase based on past earnings. As Mr. Rea explained:

> [W]hile historical growth trends clearly provide a valuable point of reference, the analyst must guard against placing too much emphasis upon them, as they may no longer reflect the current growth expectations of investors. Indeed, the growth expectations of investors today may be very different from average growth rates realized in the past due to structural changes within the utility industry, changes in operating costs and expected profitability, and/or changes in general economic conditions. Also, it is often argued that historical growth trends

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[298] Columbia St. No. 8, Appendix A, pp. 1-2. Mr. Rea explained that he uses a weighted average approach to prices to place greater emphasis on recent stock price, while mitigating potential effects of short-term price fluctuations.
[299] Columbia Ex. VVR-7, p. 3; Columbia Ex. VVR-8, p. 3; Columbia Ex. VVR-9, p. 3.
[300] I&E St. No. 2, p. 40, OCA Ex. DJG-3.

> are already factored into forward-looking growth projections, including analyst earnings forecasts, and that care should therefore be taken to ensure that historical data is not inadvertently double-counted.[301]

In addition to considering historic growth rates, Mr. Rea placed substantial weight upon projected earnings growth rates. Projected earnings growth rates are among the factors most heavily referenced by stock analysts, whereas dividend per share growth rates are at the bottom of the list of factors relied upon by investment analysts.[302] Mr. Rea relied upon three separate sources of projected earnings growth: S&P Global Market Intelligence, Zacks, and Value Line.[303] In reviewing the DCF results from these three separate projected growth forecasts, Mr. Rea applied a low-end and high-end screen to remove outlier results. Mr. Rea applied principles used by the Federal Energy Regulatory Commission ("FERC") to set low-end and high-end outlier thresholds of 7.00% and 2x the median result of the entire proxy group.[304] From this data, Mr. Rea determined the average unadjusted DCF estimates for the Gas LDC Group as follows:[305]

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[301] Columbia St. No. 8, Appendix A, p. 4; Columbia Ex. VVR-7, p. 1.
[302] Columbia St. No. 8-R, p. 35.
[303] Columbia St. No. 8, Appendix A, p. 5.
[304] Columbia St. No. 8, Appendix B, pp. 2-5.
[305] Columbia St. No. 8, p.58, Table VVR-7; Columbia Ex. VVR-7, p. 1.

Average DCF Estimates - Gas LDC Group	
Calculation Method	**Cost of Equity**
Earnings Forecast	
S&P Global	10.70%
Zacks	10.10%
Value Line	10.50%
Historical Earnings Growth Rate	10.00%
Unadjusted DCF Estimate	10.30%

Thus, before applying the leverage adjustment and flotation adjustment, Mr. Rea's DCF calculation for the Gas LDC Group produces a result of 10.30% (3.70% + 6.60%).

Mr. Rea used the same basic process to determine growth rates for his Combination Utility Group and his Non-Regulated Group. The resulting growth rate, when added to the dividend rates of these respective proxy groups, produced the following results:[306]

Average DCF Estimates – Combination Utility Group	
Calculation Method	**Cost of Equity**
Earnings Forecast	
S&P Global	10.00%
Zacks	10.10%
Value Line	9.50%
Historical Earnings Growth Rate	9.50%
Unadjusted DCF Estimate	9.90%

[306] Columbia St. No. 8, p.59, Table VVR-8; Columbia Ex. VVR-8, p. 1; Columbia St. No. 8, p.61, Table VVR-9; Columbia Ex. VVR-9, p. 1.

Average DCF Estimates – Non-Regulated Group	
Calculation Method	**Cost of Equity**
Earnings Forecast	
S&P Global	10.60%
Zacks	9.80%
Value Line	11.60%
Historical Earnings Growth Rate	10.20%
Unadjusted DCF Estimate	10.60%

iii. Leverage Adjustment

Mr. Rea explained that the leverage adjustment to DCF results is required when the average market value equity capitalization of the proxy companies is materially different from the book value equity capitalization.[307] Mr. Rea explained the reason for a leverage adjustment:

> Equity investors are predominately concerned with a firm's market value capital structure, since it reflects the current value of their investment and therefore provides the basis for assessing a company's financial risk profile. To the extent that a book value based capital structure will be utilized in the rate-setting process, equity investors will expect an additional return premium to be compensated for the additional financial risk inherent within a book value capital structure. Multiple academic studies have demonstrated that a strong positive correlation exists between the amount of leverage in a firm's capital structure and its cost of equity capital . . .
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> Therefore, if market-based DCF estimates of the cost of equity are applied to a utility's book value capital structure in determining the utility's weighted average cost of capital, a leverage adjustment is required to recognize the increase in

[307] Columbia St. No. 8, p. 57 and Appendix C, p. 1.

> financial risk resulting from the use of the book value capital structure, rather than the market-value capital structure.
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> ***
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> Absent this leverage adjustment, the DCF results will be incorrectly specified, since they will reflect the lower level of financial risk associated with a market value based capital structure, rather than the higher risk associated with the book value capital structure, to which the DCF results will be applied.[308]
>
> .

Based upon the financial theorems of Nobel laureates Modigliani and Miller, Mr. Rea calculated a leverage adjustment of 0.64% to be added to the DCF results of his three proxy groups.[309] The Commonwealth Court has held that the decision of whether to adopt a leverage adjustment is within the Commission's discretion. In *PA American*, the Commonwealth Court stated:

> As to economic theory, the PUC explains the reasons the common equity costs rate adjustment is appropriate. First, the formula used to estimate cost rate is market based, but Utility's stock is not publicly traded and is listed at a much lower book value. Under these circumstances the formula can understate the cost of capital.
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> • • •
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> Similarly, Utility highlights the testimony of its expert, who opined that "the capital structure ratios measured at the utility's book value show more financial leverage, and hence higher risk, than the capitalization measured at its market values." R.R. at 987a.
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> • • •
>
> The present issue involves the application of a market value cost to a book value amount of common stock. The PUC made

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308 Columbia St. No. 8, Appendix C, pp. 1-2.
309 Columbia St. No. 8, Appendix C, pp. 3-4.

> its adjustment to the common equity cost rate in recognition of the "financial risk" arising from the different valuation methods.
>
> No witness stated that 0.6% was an appropriate adjustment. However, as Utility's expert opined that an adjustment of about 0.8% was appropriate, the record supports an adjustment larger than that approved. Further, case law supports an adjustment. E.g., West Penn Power Co. Also, the amount of the adjustment is exactly the same in this case as in the last rate proceeding involving Utility. R.R. at 900a. That prior order was not appealed. Under these circumstances, there was no abuse of discretion in making the identical adjustment.[310]

Furthermore, the Commission has accepted the leverage adjustment in a number of cases.[311]

Parties to this proceeding incorrectly argue that the Commission has fundamentally rejected leverage adjustments in several cases. First, in *Aqua 2008*, the Commission declined to use a leverage adjustment in arriving at the DCF cost of equity because the unadjusted DCF results presented by Aqua adequately captured the perceived risk associated with Aqua's market-to-book ratio. The Commission explained:

> Based upon our analysis and review of the record, the Recommended Decision, and the Exceptions and Replies thereto, we reject the ALJ's recommendation to add a 65 basis point risk adjustment. The award of such an adjustment is not precedential but discretionary with the Commission. In fact, in *Met Ed/Penelec* (*Pa. P.U.C. v. Metropolitan Edison Co./Pennsylvania Electric Co.* Order of Jan. 11, 2007, at R-

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[310] *Popowsky v. Pa. PUC*, 868 A.2d 606, 612-13 (Pa. Cmwlth. 2004) ("*PA American*").

[311] *See, e.g.*, *PUC v. Pa. American Water Co.*, Docket No. R-0001639 (Order dated Jan. 10, 2012) (approving 60 basis point adjustment); *PUC v. PPL Gas Utilities Corp.*, Docket No. R-00061398 (Order dated Feb. 8, 2007) (approving 70 basis point adjustment); *Aqua 2004 Order*, at *85-87 (adopting 60 basis point adjustment); *PUC v. PPL Electric Utilities Corp.*, Docket No. R-00049255 (Order dated Dec. 6, 2004) (approving 45 basis point adjustment).

> 000161366 and R-00061367), we specifically approved the removal of any risk adders from the cost of equity calculations. *Met Ed/Penelec* at 136.
>
> In the cases cited by Aqua in support of its leverage adjustment, it is obvious that the DCF results in those cases were not as high as the unadjusted DCF result we have in this proceeding, since the final cost of equity in those cases was no higher than 10.6% with the leverage adjustment. The unadjusted DCF results presented by the Parties in this case are generally higher than the DCF recommendations from the earlier cases cited by Aqua. When viewed in the context of the other methodologies, we conclude that there is no need to have an upwards adjustment to compensate for any perceived risk related to Aqua's market-to-book ratio. Accordingly, we reject the ALJ's recommendation to allow a 65- basis point leverage adjustment.[312]

Importantly, while the Commission declined to adopt Aqua's proposed leverage adjustment, it ultimately approved an 11.0% cost of common equity, which was also inclusive of a 22-basis point adjustment for managerial performance.[313]

Second, in *PUC v. City of Lancaster Bureau of Water*,[314] the Commission declined to adopt a leverage adjustment. However, this order does not foreclose the adoption of a leverage adjustment. Rather, the Commission simply exercised its discretion in that proceeding not to adopt a leverage adjustment, citing the *Aqua 2008* case that it was unnecessary to adopt the leverage adjustment in that proceeding.[315] This is consistent with the Commission's actions in other proceedings where it has reviewed the entire record and either chose to adopt or chose not to adopt a leverage adjustment based upon the specific

[312] *Aqua 2008*, pp. 38-39.
[313] *Aqua 2008*, pp. 53-54.
[314] Docket Nos. R-2010-2179103, *et al*. (Order dated July 14, 2011).
[315] *Id.*, p. 79.

circumstances of each case. As explained above, it is especially appropriate to adopt the leverage adjustment in this proceeding to account for the mismatch between market and book values of the Company's capitalization. Further, as noted previously, the Commonwealth Court in *PA American* specifically affirmed the Commission's authority to include the leverage adjustment in the DCF analysis.

Moreover, the *City of Lancaster* decision is clearly distinguishable. The City is not an investor-owned utility, such as Columbia. In its Order, the Commission specifically recognized that the City did not have the same financial risk profile as an investor-owned utility, stating as follows:

> We note that the City's debt cost rate in this proceeding is at 4.66%, which reflects the City's ability to tax. This illustrates that the City's taxing power lowers the City's financial risk when compared to an investor-owned utility. Since Lancaster's status as a municipally owned utility provides it with the opportunity to obtain debt at this low cost rate as a result of the City's ability to tax, this low cost debt should not be shifted to higher cost equity at the expense of the City's customers. As a result, we do not find that the City has to be treated like an investor owned utility for ratemaking purposes.[316]

It is clear from the Order that this lower risk profile impacted the Commission's decision in that proceeding.

Finally, OCA and I&E may attempt to rely upon *PPL Electric 2012, UGI Electric*, and *Columbia 2021* to further bolster their contention that Columbia's proposed leverage adjustment be disallowed. However, it is important to recognize that the Commission did

[316] *City of Lancaster*, p. 54 (emphasis added).

not approve the requested leverage adjustment in *PPL Electric* 2012 because the Commission approved a cost of common equity at the higher end of the ranges proposed by the parties.[317] and the Commission granted a management performance increment in *UGI Electric*.[318] Clearly, the Commission elected not to approve the leverage adjustment because the approved cost of common equity adequately recognized the risks associated with investment. *Columbia 2021* is clearly distinguishable. As Mr. Rea explained, Columbia elected in that case, in the midst of the COVID-19 pandemic, to accept the cost rate for common equity proposed by I&E and thus did not argue the leverage adjustment in Exceptions to the Commission.[319]

The current inputs to the DCF presented in this case and current circumstances support a renewed consideration of a leverage adjustment to the DCF results and/or consideration of the results of other equity cost rate models. The unadjusted DCF results demonstrate the DCF continues to understate the cost of equity in light of current market risks. The Commission should conclude that there is a need to have an adjustment to the DCF to account for the risks not reflected in the DCF results.

iv. Flotation Cost Adjustment

Mr. Rea explained the reason for a flotation cost adjustment to the ROE, as follows:

> When common equity is employed to finance a utility's rate base, it is either derived from new stock sales or from the retention of undistributed earnings. In cases where a utility or its parent company "floats" a new equity issuance, significant issuance or flotation costs are involved, including underwriting

[317] *See PPL Electric 2012*, p. 82.
[318] Columbia St. No. 8-R, p. 44.
[319] Columbia St. No. 8-R, p. 44.

> discounts, legal fees, accounting fees and printing costs. After subtracting these out-of-pocket costs from the transaction's gross proceeds, the company is left with net proceeds which are materially lower than the amount invested by the company's equity investors. Considering that only net proceeds can be invested into a company's rate base, the amount invested by equity investors which funds flotation-related costs will never earn a fair return for those investors. As such, if a flotation cost adjustment is not made to the "bare-bones" cost of equity determined by the various market-based models, the company's equity investors will not earn a fair return on their entire investment, thereby understating the company's legitimate revenue requirement. This is contrary to established regulatory practices for debt issuance costs, which are typically capitalized at the time of issuance and amortized over the life of the outstanding debt, therefore being fully recoverable through the cost of service ratemaking process.[320]

To determine the flotation cost adjustment, Mr. Rea reviewed the equity issuance costs (underwriting and placement fees) incurred by Columbia's parent, NiSource Inc., over the past twenty-plus years, and concluded that 1.75% of the proceeds from equity issuances are used to pay issuance costs. Because Columbia has not paid dividends to its parent for a number of years and instead has reinvested its net earnings into plant replacements, only about 15% of Columbia's equity growth in recent years has come from contributed equity from NiSource. Weighting of the 1.75% flotation cost by 15% produces a flotation cost factor of 0.2625%, or approximately three (3) basis points.

[320] Columbia St. No. 8, Appendix D, p. 1.

v. DCF Conclusion

Mr. Rea's indicated DCF estimates for his three proxy groups are as follows:[321]

Table VVR-7 Average DCF Estimates - Gas LDC Group	
Calculation Method	**Cost of Equity**
Earnings Forecast	
S&P Global	10.70%
Zacks	10.10%
Value Line	10.50%
Historical Earnings Growth Rate	10.00%
Unadjusted DCF Estimate	10.30%
Flotation Cost (3 basis points)	x 1.002625
Subtotal	10.33%
Plus: Financial Leverage Risk Adjustment for Market Value vs. Book Value Capital Structure	0.64%
Indicated DCF Estimate	10.97%

[321] Columbia St. No. 8, pp. 58-61.

Table VVR-8 Average DCF Estimates – Combination Utility Group	
Calculation Method	**Cost of Equity**
Earnings Forecast	
S&P Global	10.00%
Zacks	10.10%
Value Line	9.50%
Historical Earnings Growth Rate	9.50%
Unadjusted DCF Estimate	9.90%
Flotation Cost (3 basis points)	x 1.002625
Subtotal	9.93%
Plus: Financial Leverage Risk Adjustment for Market Value vs. Book Value Capital Structure	0.64%
Indicated DCF Estimate	10.57%

Table VVR-9 Average DCF Estimates – Non-Regulated Group	
Calculation Method	**Cost of Equity**
Earnings Forecast S&P Global Zacks Value Line	 10.60% 9.80% 11.60%
Historical Earnings Growth Rate	10.20%
Unadjusted DCF Estimate	10.60%
Flotation Cost (3 basis points)	x 1.002625
Subtotal	10.63%
Plus: Financial Leverage Risk Adjustment for Market Value vs. Book Value Capital Structure	0.64%
Indicated DCF Estimate	11.27%

c. CAPM

Columbia witness Mr. Rea also prepared a capital asset pricing model ("CAPM") analysis to estimate the cost of common equity for his three proxy groups. The CAPM analysis determines a "risk-free" interest rate based on U.S. Treasury obligations and an equity risk premium that is proportional to the systematic risk of a stock, as measured by beta, which are summed to produce the cost rate of equity.[322] Mr. Rea presented three CAPM estimates: a traditional CAPM, a traditional CAPM with size adjustment, and an Empirical CAPM ("ECAPM").[323]

[322] Columbia St. No. 8, pp. 62-63.
[323] Columbia St. No 8, p. 5.

For all three models, Mr. Rea determined the risk free (Rf) rate to be 4.65% based on current and forecasted yields on long-term Treasury bonds. Specifically, Mr. Rea relied upon a recent average of the implied forward rate for the 30-year Treasury bond over the 2025-2029 forecast period, which is 4.81 percent, and the Q4, 2024 actual average yield for the 30-year Treasury bond, which is 4.50 percent.[324] Mr. Rea recommended the use of longer-term Treasury bonds because they closely parallel the investment characteristics of common stock, as both are long-term capital and because, like common stock, they reflect long-term inflation expectations of investors and are subject to less volatility than shorter-term Treasury securities.[325]

For the market premium (Rm-Rf) component of the CAPM analysis for all three models, Mr. Rea calculated a 7.00% premium, based upon an average derived from long-term historical data (7.17% premium) and forecasted market returns (6.83% premium).[326] To derive the prospective market returns, Mr. Rea undertook a forward-looking DCF analysis for both the S&P Index and the <u>Value Line</u> 1,700 stock universe.[327]

For the beta measure of systematic risk, Mr. Rea used the published betas from <u>Value Line</u> for all three proxy groups. The average betas used were 0.91 for the Gas LDC Group, 0.92 for the Combination Utility Group and 0.91 for the Non-Regulated Group.[328]

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[324] Columbia St. No. 8, p. 68.
[325] Columbia St. No. 8, p. 67.
[326] Columbia St. No. 8, pp. 69-70.
[327] Columbia St. No. 8, pp. 65-66.
[328] Columbia St. No. 8, p. 70.

Based upon the foregoing, the Traditional CAPM result for the Gas LDC Group, inclusive of the flotation cost adjustment, is 11.05%, computed as follows:

$K = R_F + \beta(R_{M\,-}\, R_F) +$ flotation

11.05% = 4.65% + 0.91(7.00%) + 0.03

The Traditional CAPM results for the Combination Utility Group and the Non-Regulated Group are 11.12% and 11.05%, respectively.[329]

The Traditional CAPM with size adjustment model adjusts the Traditional CAPM results based upon the size of the companies in the proxy group. Academic studies have shown that small capitalization stocks have historically earned returns that are materially higher than the returns predicted by the CAPM.330 The 2023 SBBI Yearbook explains the size phenomenon as follows:

> One of the most remarkable discoveries of modern finance is the finding of a relationship between company size and return, generally referred to as the "size effect". The size effect is based on the empirical observation that companies of smaller size tend to have higher returns than do larger companies.
> ….
> The company size phenomenon is remarkable in several ways. First, the greater risk of small-cap stocks does not, in the context of the capital asset pricing model, fully account for their higher returns over the long term. In the capital asset pricing model (CAPM) only systematic, or beta risk, is rewarded; small-cap stock returns have exceeded those implied by their betas.
> ….
> The increased risk faced by investors in small stocks is quite real.[331]

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[329] Columbia St. No. 8, p. 74.
[330] *See* Michael Annin, "*Equity and the Small-Stock Effect*," Public Utilities Fortnightly, October 15, 1995, 42-43; and Eugene F. Fama and Kenneth R. French, "*The Cross-Section of Expected Stock Returns*," The Journal of Finance, 48 (June 1992), at 427-465.
[331] Columbia St. No. 8, p. 71.

To correct for the inherent deficiencies of the CAPM relative to smaller capitalization stocks, the *Kroll Cost of Capital Navigator* reports size premiums, which can be used to more accurately estimate the return expectations of investors relative to small and mid-capitalization stocks. Based upon an average market capitalization of $9.1 Billion, the Gas LDC Group would be classified as a Decile 3 portfolio and assigned a size premium of 0.61 percent. Based on an average market capitalization of $19.4 Billion, the Combination Utility Group would be classified as a Decile 2 portfolio and assigned an average size premium of 0.46 percent. Finally, based upon an average market capitalization of $136.1 Billion, the Non-Regulated Group would be classified as a large-cap, Decile 1 Portfolio, and assigned a size premium of negative -0.06 percent.[332]

Other parties have opposed the addition of a size adjustment in the CAPM, questioning whether there is a difference in capital costs among utilities based upon size.[333] However, size is clearly an important investment criterion. As Mr. Rea explained, recent FERC orders specifically prescribe an adjustment to the CAPM due to size.[334] Mr. Rea further rebutted claims that studies have questioned the size adjustment for utilities:

> [W]hile Mr. Garrett argues that the small size premium has disappeared, he bases this conclusion on a study that is 23 years old,[335] while a more recent study maintains that the size premium continues to be alive and well. In a more recent research paper titled "The Size Effect Continues to be Relevant When Estimating the Cost of Capital," Roger Grabowski, who serves as Senior Advisor and Managing Director of Kroll LLC

[332] Columbia St. No. 8, pp. 71-72.
[333] I&E St. No. 2, pp. 75-77; OCA St. 3, pp. 41-44.
[334] Columbia St. No. 8-R, p. 63.
[335] Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns* (Princeton University Press, 2002), at 131.

> and is a widely recognized expert on business valuation, comes to the following conclusions:
>
> > Academic and empirical evidence indicate that the pure textbook CAPM is an imperfect indicator of expected returns.
> >
> > ….
> >
> > Size premia help the valuation professional correct the pure CAPM for the risks of smaller companies not captured by beta. In this paper, I demonstrate that the methodology followed by Duff & Phelps (now Kroll) to calculate size premia is robust and yields a consistent stable premium to be used for pricing long term project as it should be for a good measure of cost of capital.[336]

I&E's witness similarly contended, incorrectly, that the effect of size on the cost of equity only applies to non-regulated entities.[337] A size adjustment is appropriate and should be included in the CAPM results.

Based upon the foregoing, the Traditional CAPM with size adjustment result for the Gas LDC Group is 11.02%, computed as follows:

$K = R_F + \beta(R_{M\,-}\,R_F) + \text{size} + \text{flotation}$

$11.66\% = 4.65\% + 0.91(7.00\%) + 0.61 + 0.03$

The Traditional CAPM with size adjustment results for the Combination Utility Group and the Non-Regulated Group are 11.58% and 10.99%, respectively.[338]

Finally, Mr. Rea undertook an ECAPM analysis. Mr. Rea explained that extensive empirical evidence has demonstrated that the risk-return relationship between beta and

[336] Columbia St. No. 8-R, pp. 61-62.
[337] Columbia St. No 8-R, pp. 74-75.
[338] Columbia St. No. 8, p. 74.

stock returns is flatter than what is predicted by a traditional CAPM.[339] The ECAPM adjusts for this by placing a 25% weighting on overall market risk premium and a 75% weighting on the company-specific, beta-adjusted risk premium.[340] The ECAPM result for the Gas LDC Group is 11.21%, for the Combination Utility Group is 11.26% and for the Non-Regulated Group is 11.21%.[341]

d. Risk Premium.

Columbia witness Rea also performed a risk premium ("RPM") analysis to determine the cost of common equity. The RPM is based upon the fundamental principle that an equity investor in a given company has a greater risk than a bond holder in the same company because interest on bonds is paid before any return is received by the equity investor, and the bond holder receives a return of its capital before an equity investor receives any return of capital in the event of bankruptcy or the dissolution of the subject company.[342] Mr. Rea further explained that various authoritative guides on estimating utility cost of capital recognize the RPM as a leading method.[343]

The RPM determines the cost of equity by summing the expected public utility bond yield and the return on equity over bond returns (*i.e.* the "equity premium"). Mr. Rea determined the RPM cost of common equity by estimating the prospective long-term bond yields (C_D) for each of the proxy groups based upon their average credit ratings and then

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339 Columbia St. No. 8, p. 72.
340 Columbia St. No. 8, p. 73.
341 Columbia St. No. 8, p. 74.
342 Columbia St. No. 8, p. 75
343 Columbia St. No. 8-R, p. 78.

estimating the appropriate equity risk premium (P_R) for each of the three groups.[344]

Mr. Rea established the 6.06% bond yield for the Gas LDC Group by first evaluating forecasted bond yields for AAA rated corporate bonds and then making a credit spread adjustment to account for the Gas LDC Group's lower average long-term credit ratings of BBB+ from S&P and Baa1 from Moody's.[345]

The risk premium used by Mr. Rea reflects both historical and projected risk premiums over long-term corporate bonds.[346] Mr. Rea developed his historical risk premium of 5.89% from an analysis of results for the 98-year period between 1926-2023 as reported by the *Kroll Cost of Capital Navigator*. Mr. Rea explained that the arbitrary use of shorter time periods would subject the risk premium analysis to greater potential volatility from short-term market trends and/or aberrations, which would not reflect long-term expectations of investors. Further, use of the longest available historical data will incorporate a greater number of business and interest rate cycles into the analysis, further enhancing its predictive value.[347] For purposes of computing projected risk premiums, Mr. Rea used the same data that he used for his CPM analysis. From this data, he derived a prospective equity risk premium of 6.07%.[348] The average of the historical and projected risk premiums is 5.98%, which when adjusted by the Gas LDC Group beta value produces an indicated risk premium of 5.44%.[349] Mr. Rea further undertook a risk premium analysis

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[344] Columbia St. No. 8, p. 76.
[345] Columbia St. No. 8, pp. 77-78.
[346] Columbia St. No. 8, p. 79.
[347] Columbia St. No. 8, p. 80.
[348] Columbia St. No. 8, p. 82.
[349] Columbia St. No. 8, p. 82.

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of holding period returns for the S&P 500 Utilities Index, which yielded a risk premium of 4.85%.[350] The result is an average risk premium for the Gas LDC Group of 5.15% (5.44%+4.85%)[351]

The RPM approach result for the Gas LDC Group is 11.23% (6.06% bond yield +5.15% risk premium + 0.03% flotation cost).[352] The RPM approach results for the Combination Utility Group and the Non-Regulated Group are 11.23% and 11.38%, respectively.[353]

e. Cost of Equity Should Include an Increment for Management Performance

Columbia has demonstrated strong performance in the area of management effectiveness, which should be recognized by the Commission through a 25-basis point addition to the cost of common equity. This will be explained further in Section IX.D.3 of this brief.

2. Opposing Parties Common Equity Cost Rate Recommendations Must be Rejected.

a. I&E's Return on Common Equity Recommendation is Understated

I&E witness Mr. Patel based his 10.51% rate of return on common equity recommendation solely on the results of his DCF method. He prepared a CAPM analysis, but only as a "comparison" to his DCF result.[354]

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[350] Columbia St. No. 8, pp. 83-84.
[351] Columbia St. No. 8, p. 84.
[352] Columbia St. No. 8, p. 84.
[353] Columbia St. No. 8, p. 85.
[354] I&E St. No. 2, p. 30.

The use of a single methodology to derive a cost of common equity recommendation is fundamentally flawed. All cost of equity methods contain unrealistic and restrictive assumptions. The use of more than one method will incorporate a broader array of investor perspectives into the ROE estimation process, which improves reliability.[355] Although Mr. Patel cites multiple times to the work of David Parcell in *The Cost of Capital - A Practitioners Guide,*[356] he seems to disregard Mr. Parcell's observation that the use of a single model is insufficient:

> Investor expectations differ and it is apparent that all investors do not rely upon the same information and models in making investment decisions. Consequently, no single model and model variant can be demonstrated to capture all investor expectations. Furthermore, no single model is so inherently precise that it can be relied on solely to the exclusion of other theoretically sound models.
> ….
> Each model has its own way of examining investor behavior, its own premises and its own set of simplifications of reality.
> ….
> Investors clearly do not subscribe to any singular method, nor does the stock price reflect the application of any one single method by investors.[357]

Mr. Rea concluded that Mr. Patel's DCF evaluation was largely consistent with investor expectations in the current market, but understated the cost of equity due to: 1) Mr. Patel's proxy group selections; 2) Mr. Patel's failure to include a leverage adjustment; and 3) Mr. Patel's failure to include a flotation cost adjustment.[358]

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[355] Columbia St. No. 8-R, p. 65.
[356] David C. Parcell, *"The Cost of Capital – A Practitioner's Guide," 2020 Edition.*
[357] *Id*. at 86.
[358] Columbia St. No. 8-R, p. 40.

Mr. Patel performed two CAPM analyses, but did not rely upon their results. Mr. Patel's primary CAPM analysis produced a result of 10.51%, which is identical to his DCF result.[359] This CAPM result, while generally reasonable in this case, still is understated.

The primary flaw in Mr. Patel's principal CAPM analysis is it incorrectly relies upon the yield of 10-year Treasury notes instead of long-term bonds, which produces a systematic understatement of the risk-free rate. As Mr. Rea explained:

> Mr. Patel maintains that the downside of referencing longer-maturity Treasury yields is that they have substantial maturity risk associated with market risk (i.e., interest rate risk) and also the risk of unexpected inflation. However, at the same time, he also recognizes that longer-term Treasury bonds normally offer higher yields to compensate investors for these particular risks, which parallels the higher expected returns associated with common stock investments. Therefore, considering that the 30-year U.S. Treasury bond yield has recently been trading in the range of 4.80 percent to 4.90 percent, while Mr. Patel has referenced a risk-free rate of return of just 4.13 percent, this clearly suggests that his risk-rate of return assumption is understated by approximately 67-77 basis points. By substituting a more theoretically sound risk-free rate of return assumption of 4.85 percent into Mr. Patel's CAPM analysis at the top of Schedule 12 to his Direct Testimony, I determined that the "Forecasted Return" version of his CAPM analysis would produce a CAPM-based cost of equity estimate of 10.66 percent rather than 10.51 percent.[360]

Second Mr. Patel's CAPM analysis is understated by failing to reflect a size adjustment. A size adjustment should be included for reasons explained in Section IX.D.1.c of this brief.

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[359] I&E St. No. 2, p. 44.
[360] Columbia St. No. 8-R, pp. 67-68.

Mr. Patel also offered an alternative CAPM that used Kroll's equity risk premium ("ERP") of 5.50%.[361] This is a substantially lower risk premium than that traditionally presented, and relied upon, by the Commission that uses historic and projected risk premiums. Mr. Rea explained two fundamental flaws in giving any weight to the "Krall ERP:"

> First, the 5.50 percent estimate of the ERP is grossly inconsistent with Mr. Patel's own estimate of the ERP, which is 7.98 percent as reflected in the "Forecasted Return" version of his CAPM analysis. Second, as I discussed earlier in my response to Mr. Garrett's CAPM analysis, Kroll does not provide any specific explanation as to how the company derives its market risk premium estimates. For example, if Kroll evaluated the long-run historical market risk premium in deriving its recommendation, it raises the question of whether the historical values that Kroll referenced are based on the arithmetic mean or the geometric mean. This alone is a critically important question, as the finance literature has demonstrated that the geometric average is an inappropriate basis for purposes of estimating the forward-looking market return and risk premium expectations of investors. As I noted earlier, in the absence of this information, an analyst has no way of evaluating the validity of the underlying assumptions that are incorporated into Kroll's recommended market risk premium, and for this reason, I recommend that the Commission reject it.[362]

For the reasons explained above, I&E's return on common equity recommendation is understated.

[361] I&E St. No. 2, p. 44.
[362] Columbia St. No. 8-R, pp. 68-69 (footnote omitted).

b. OCA's Recommended Cost of Equity is Flawed and Should be Rejected.

OCA witness Garrett recommends a cost rate for common equity of 8.90%, and only in the context of OCA's proposed hypothetical capital structure.[363] If the Company's actual capital structure is used, Mr. Garrett would reduce his recommended ROE to an even more unreasonable 8.70%. There are numerous serious flaws in Mr. Garrett's analysis, which produce an erroneous result that should not be relied upon.

Mr. Garrett prepared two separate DCF calculations – one using a "maximum sustainable growth rate" and the other using selective analyst dividend per share growth rates, which produce results of 7.3% and 7.5%, respectively. These results barely exceed the current average bond yields for "Baa" rated long-term utility bonds of 6.29%.[364] This, in and of itself, demonstrates the absolute unreasonableness of Mr. Garrett's DCF approach. An equity risk premium of little more than 100 basis points would not compensate investors for the significantly higher risk associated with investment in common stock relative to fixed-income securities.[365]

Mr. Garrett's position on the growth rate for utilities for his sustainable growth DCF is based upon his stated belief that a regulated utility will grow at a rate that is less than the U.S. economic growth rate.[366] From this position, he concludes that the terminal growth

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[363] OCA St. No. 3, pp. 3, 55.
[364] Columbia St. No. 8-R, p. 33.
[365] Columbia St. No. 8-R, pp. 33-34.
[366] OCA St. 3, p. 26.

rate should not exceed 3.7%, which is the long-term forecast for nominal U.S. GDP growth as presented by the Congressional Budget Office.[367]

Mr. Rea explained the numerous flaws with this approach to deriving a DCF growth rate, which require the rejection of Mr. Garrett's DCF calculation:

> I disagree with Mr. Garrett's approach for several reasons. First, the U.S. nominal GDP growth rate, which measures the growth rate of the monetary value of finished goods and services produced in the U.S., has not been demonstrated to have a significant influence on stock valuations or the investment decisions of equity investors. As such, [it] is not an appropriate growth rate measure to reference in the constant growth DCF model. Notably, Mr. Garrett has not presented any empirical studies or other evidence which demonstrate that GDP growth rate projections have a significant influence on either stock valuations or the growth expectations of equity investors.
>
> Second, Mr. Garrett's 3.70 percent growth rate assumption, which he applied to every company in the Gas LDC Group, does not reflect the anticipated company-specific growth rates for each of the proxy group companies. By applying the very same growth rate to each of the companies comprising the Gas LDC Group, Mr. Garrett has entirely ignored the individual growth prospects for each of the respective proxy group companies, which, in accordance with classical valuation theory, has a direct bearing on each individual company's stock price. In other words, despite the fact that each individual utility's expected earnings growth rate has a direct impact on the utility's prevailing stock price, Mr. Garrett has nevertheless ignored these utility-specific growth rates, which are, by definition, embedded into the prevailing stock price that he has referenced in his DCF analyses. For this reason in particular, the input variables that Mr. Garrett relied upon in conducting his "sustainable growth" DCF analysis are clearly mis-specified.[368]

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[367] OCA St. 3, pp. 26-27.
[368] Columbia St. No. 8-R, pp. 29-30.

Mr. Rea further contrasted the long-term nominal growth to inflation, and explained why it is unreasonable to believe that investors would accept such a low growth rate:

> Furthermore, the Congressional Budget Office's (the "CBO") macroeconomic forecasts reflected in Exhibit DJG-5 to Mr. Garrett's Direct Testimony, show a long-term nominal GDP growth rate of 3.70 percent and a long-term inflation rate of 2.10 percent. Therefore, the real growth rate reflected in Mr. Garrett's cost of equity results under the DCF method reflects an underlying real GDP growth rate of 1.60 percent. In my judgment, it is simply not reasonable or logical to conclude that utility stock investors would accept the higher level of risk associated with equity investments in exchange for a growth return component that is only modestly higher than the expected rate of inflation. Indeed, under these circumstances, it would be more likely that investors would prefer the risk-return tradeoff proposition of investing in the company's fixed income securities rather than its common stock.[369]

Mr. Rea also demonstrated that the planned average rate base growth for the Gas LDC Group for the next five years is 8.95%. Mr. Rea explained that a utility's rate base growth is closely correlated with a utility's earning growth. Thus, Mr. Garrett's sustainable growth rate is 525 basis points below expectations that may be derived from rate base growth.[370]

The Commission recently has rejected the "sustainable growth" method presented by Mr. Garrett. In *Aqua 2022*, Mr. Garrett also argued that U.S. GDP should be a limiting factor for the long-term growth rate input of the DCF model.[371] The Commission stated:

> Like Aqua, we find the OCA's Quarterly Approximation DCF methodology to be unconventional and that it includes flaws

[369] Columbia St. No. 8-R, pp. 30-31.
[370] Columbia St. No. 8-R, pp. 32-33.
[371] *Aqua 2022*, p. 152.

> with both its dividend yield and growth rate calculations. Aqua M.B. 126-128. Additionally, we find the OCA's Quarterly Approximation DCF methodology to be inconsistent with the DCF methodology affirmed in both *Columbia Gas* and *PECO Gas.* Therefore, we find the ALJ did not err by rejecting the OCA's Quarterly Approximation DCF methodology.[372]

Mr. Garrett's alternative DCF calculation relies upon dividend per share ("DPS") growth rates from selected analysts. This calculation, which produces a ROE of 7.5%, provides an equity premium of only about 120 basis points over current yields on long-term utility bonds, which again is far deficient to support investment in higher risk stocks. Mr. Rea identified several reasons for these unjustifiably low results. First, Mr. Garrett relied upon DPS growth rates, rather than the Earnings Per Share ("EPS") growth rates used by Columbia's and I&E's experts.[373] DPS growth rates are subject to the control of the company and thus are not a reliable indicator of growth over the term of projections. As a result, investors do not rely upon DPS forecasts, but instead use analysts' EPS forecasts:

> ….forecasts of EPS from security analysts are the best available information on forecast growth rates for the DCF model.
>
> ….
>
> In the constant growth version of the DCF model, the growth rates of dividends, earnings, and the stock price are all expected to be equal and constant….<u>In any case, EPS growth is the fundamental parameter because dividends are ultimately paid from earnings, so dividends cannot grow in the long term at a rate that exceeds EPS growth</u>. Dividends can grow at a slower rate if the company is reinvesting a larger portion of its

[372] *Aqua 2022,* p. 154.
[373] Columbia St. No. 8, p. 57; I&E St. No. 2, p. 40.

> earnings, but this sets the stage for an increased rate of dividend growth in the future (emphasis added).[374]

Columbia offers a good example of why DPS growth is an inappropriate measure. For 10 years, Columbia has made no dividend payments, as it has reinvested its earnings in infrastructure replacement.[375] However, a 0% growth rate derived from DPS growth would not be appropriate to use in a DCF analysis.

The second, and related, flaw in Mr. Garrett's DPS growth rate approach is the 0.5% DPS growth rate included for Northwest Natural Holding Company and the 2.0% DPS growth rate included for ONE Gas, Inc. When added to Mr. Garrett's dividend yields, these growth rates produce cost of equity estimates of 5.2% for Northwest Natural Holding Company and 5.6% for ONE Gas, Inc. These estimates are 70-110 basis points lower than recent yields on long-term utility bonds, thereby reflecting <u>negative</u> equity risk premiums.[376]

Mr. Garrett's CAPM analysis produces results so low as to be demonstrably unjustified. The primary weakness in Mr. Garrett's analysis is his total reliance on surveys, publications and implied ERPs. The 5.1% estimated risk premium derived from these sources is 207 basis points lower than the 98-year historical average equity risk premium.[377] The shortcomings in using survey-based techniques to determine a market equity risk premium has been summarized as follows:

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[374] Bente Villadsen, Michael J. Vilbert, Dan Harris and A. Lawrence Kolbe, <u>Risk and Return for Regulated Industries</u>, Academic Press, Elsevier, Inc. (2017), at 99.
[375] Columbia St. No. 1-R, p. 17.
[376] Columbia St. No. 1-R, p. 37.
[377] Columbia St. No. 1-R, p. 48.

> Surveys of academics and investment professionals, for example the Graham and Harvey survey or the Fernandez annual surveys or the Welch (2000, 2001) surveys, provide another technique of estimating the MRP. This technique is subject to the well-known shortcomings of survey techniques. *There are several reasons to place little weight on survey results relative to the results from other approaches.* First, return definitions and risk premium definitions differ widely. Second, survey responses are subject to bias. Surveys may tell more about hoped-for expected returns rather than objective required returns. Third, subjective assumptions about long-term market behavior may well place undue weight on recent events and immediate prospects (emphasis added).[378]

OCA's CAPM analysis should be disregarded.

3. Increment for Management Effectiveness

Columbia has demonstrated strong performance in the area of management effectiveness, which should be recognized by the Commission through a 25-basis point addition to the cost of common equity.

Under the Public Utility Code, the Commission is required to consider management effectiveness in setting rates. Section 523 of the Public Utility Code provides:

> The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate. Any adjustment made under this section shall be made on the basis of specific findings upon evidence of record, which findings shall be set forth explicitly, together with their underlying rationale, in the final order of the commission.[379]

[378] Roger A. Morin, *Modern Regulatory Finance*, PUR Books, LLC (2021) at 186.
[379] 66 Pa.C.S. § 523(a) (emphasis added).

In addition, the Commission has, where appropriate, included an incremental upward adjustment to the cost of common equity to reflect management effectiveness.[380] In *UGI Electric*, the Commission recognized improved customer satisfaction, workforce safety and service reliability as relevant factors in assessing management performance.

Nothing in Section 523 requires a finding that a utility must outperform all other utilities in the Commonwealth or that a utility's programs not be funded by customers before it is eligible for an increment to the rate of return for management performance.

a. Evidence of Columbia's Management Effectiveness

Columbia has presented substantial evidence as to its management performance, which should be recognized through an increment to the cost of equity.

Columbia has a strong focus on safety. Columbia began its program to replace priority pipe in 2007, long before the establishment of LTIIPs and DSIC mechanisms.[381] Since the beginning of the Company's program to accelerate the replacement of priority pipe, Columbia has retired over 7.8 million feet (1,490 miles) of cast iron, bare steel pipe, pre-1971 ineffectively coated steel pipe and pre-1982 plastic pipe.[382] These replacement efforts have resulted in a substantial downward trend of grade 2 leaks found on Columbia's distribution system.[383] Columbia also established its Safety Management System ("SMS"),

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[380] *See, e.g.*, *Aqua 2022*, p. 168; *UGI Electric*, p. 119; *PPL Electric 2012*, pp. 98-99; *Aqua 2008*, at *63; *Pa. PUC v. West Penn Power Co.*, Docket Nos. R-00942986, et al., 1994 Pa. PUC LEXIS 144, *147 (Order dated Dec. 29, 1994).
[381] Columbia St. No. 1, p. 17.
[382] Columbia St. No. 7, p. 10.
[383] Columbia St. No. 7, p. 14.

pursuant to American Petroleum Institute ("API") Recommended Practice ("RP") 1173.[384] SMS is another step toward improved safety, as Columbia explained:

> SMS enhances Columbia's risk prioritization and modeling, and strengthens and formalizes our continuous improvement processes, which helps us provide the safest possible service at the best cost to the customer. These enhancements will continue to improve the integration of all pipeline safety initiatives across the Company's organization. Through SMS we are increasing our rigor, and continuously learning and improving so we can identify risks and take actions to keep our employees, contractors, customers and communities safe. SMS uses the following building blocks: (1) culture - as all employees and contractors are empowered to report risks; (2) process safety - layers of protection for safe work with a focus on enhanced consistent standards and processes; and (3) asset management - accountability to effectively evaluate, prioritize, and mitigate identified risks.[385]

Columbia's safety efforts are not limited to accelerated pipeline replacement. Columbia's Quality Management organization is responsible for systematically reviewing operations, documentation and processes to assure that work is completed, and tools and equipment were used, in a safe and compliant manner. The Company is developing and deploying a digital "Work Methods" to show its employees required steps and to incorporate important process safety safeguards and layers of protection through active verification and checks. Columbia has implemented an incident and near miss reporting tool to identify and examine incidents, and near misses, to identify and share lessons learned and to determine causes and corrective action.[386]

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[384] Columbia St. No. 1, p. 18.
[385] Columbia St. No. 1, p. 20.
[386] Columbia St. No. 9, pp. 35-36.

Columbia is committed to delivering the highest level of customer service to its low-income customers using an all-inclusive approach. Identified low-income customers are screened and referred to one or more of Columbia's many assistance programs. These programs include:

- Customer Assistance Program ("CAP") – providing a reduced asked to pay amount
- Low-Income Usage Reduction Program ("LIURP") – insulating homes and installing high-efficiency furnaces
- Emergency Repair Program ("ERP") – assisting customers with incomes below 200% of the Federal Poverty Income Guidelines ("FPIG") to make emergency repairs or replacement of unsafe or faulty heating and hot water equipment
- Hardship Funds – matching customer donations dollar-for-dollar to provide grants to help payment trouble customers with their gas bills
- Customer Assistance Referral and Evaluation Services ("CARES") – case management assistance for customers with special needs and short-term payment troubles
- Low-Income Home Energy Assistance Program ("LIHEAP") – government grants to assist payment of heating bills
- CRISIS – a component of LIHEAP to provide grants in the event of heating emergencies[387]

To manage the various programs, and to coordinate with outside agencies and vendors, Columbia has a dedicated Energy Assistance Team ("EAT") to provide a single point of contact. Columbia has a Spanish speaking CARES representative, Spanish speaking CAP intake personnel and Spanish speaking customer service representative, along with access to a multilingual interpreter service to assist customers. Victims of domestic violence also have a dedicated CARES representative trained to handle such

[387] Columbia St. No. 9, pp. 4-8.

cases with confidentiality and compassion. Columbia also has a full-time staff member who conducts community outreach.[388]

In addition, Columbia employs a full-time Quality Assurance Coordinator for its internally managed LIURP program, which contributes to the Company's average 20% reduction in gas usage per completed job. To place this into perspective, in the last five reporting years, the highest gas industry average was a 16.6% reduction.[389] Columbia is also the only company in Pennsylvania to use an individualized measure of projected savings to guide auditors and crews on the maximum spend for each home. This provides the opportunity to achieve the best savings.[390] Columbia also has developed a Health and Safety Pilot for CAP customers, with the aim of identifying and addressing barriers to weatherization through reduced weatherization deferrals.[391] The Company also has focused on increasing LIURP participation for customers who reside in rental properties. This is a challenge, as landlord consent is needed for these properties. Columbia has increased its number of introductory letters to landlords and has worked with its Universal Service Advisory Council ("USAC") to improve the wording in its letters.[392]

Columbia has designed its CAP payment program to benefit customers. The CAP has no maximum annual credit and encourages energy efficiency measures to control CAP payments and program costs. The Commission's 2023 Universal Service Programs and

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[388] Columbia St. No. 9, pp. 7-9.
[389] Columbia St. No. 9, pp. 9-10.
[390] Columbia St. No. 9, p. 10.
[391] Columbia St. No. 9, pp. 10-11.
[392] Columbia St. No. 9, pp. 11-12.

Collections Report for 2023 lists Columbia as having the highest CAP credit per CAP customer of all gas utilities. [393]

Columbia is aware that the cost to deliver its Universal Service Programs is recovered from non-CAP customers, and thus the Company strives to control its administrative costs. To undertake increased outreach, Columbia has relied on improved automation, cross-training of Universal Service employees and rebalancing of duties to become more efficient. The success of these efforts can be seen in the Commission's Universal Service Programs and Collections Report, which indicates Columbia's costs are the second lowest per active CAP customer.[394]

Columbia has also performed well relative to its peers from a Commission management audit perspective. The Commission's auditors use a ranking system from "Meets Expected Performance Level" to "Major Improvement Necessary". Columbia achieved the second highest "Meets Expected Performance Level" percentage of all companies and was one of five companies to not receive any ranking of "Significant Improvement Necessary."[395]

Columbia also performed well in the Commission's most recent Utility Consumer Report and Evaluation ("UCARE"). Columbia is among the best in most categories for the gas industry, which includes consumer complaint rates, justified consumer complaint rates, Payment Arrangement Request ("PAR") rates and Commission Infraction Rates.[396]

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[393] Columbia St. No. 9, p. 12.
[394] Columbia St. No. 9, pp. 17-18.
[395] Columbia St. No. 9, pp. 40-41.
[396] Columbia St. No. 9, pp. 19-23.

Particularly notable is Columbia's Justified Consumer Complaint Rate of 3.4%, compared to the gas industry average of 11.6%.[397]

Columbia's recent Quality of Service Performance Report further demonstrates Columbia's commitment to quality service to customers. Overall, call center performance, avoidance of deferred billings, on time meter reading and dispute reporting demonstrate quality customer service.[398] Particularly notable are the improvements to call center performance. Calls answered within 30 seconds improved to 82.65% in 2024, reflecting an increase of 11.7% from 72.93% in 2023. The overall call abandonment rate improved to 2.25%, a reduction of 60% from 5.65% in 2023. The Busy-Out Rate remains at 0%, which is consistent with Columbia's performance year over year. Columbia remains focused on maintaining service levels of 80% for calls answered within 30-seconds, increased customer service representative ("CSR") retention, employee engagement and development.[399]

In addition to the foregoing reports, Columbia uses three outside contractors to survey customers regarding their satisfaction with Columbia's service. These survey results show high customer satisfaction with both customer service representatives and field service employees.[400]. In particular, customer overall satisfaction with Field Service representatives exceeded 98%. Columbia's "First Contact Resolution Rate" was 87.8%.[401]

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[397] Columbia St. No. 9, p. 20.
[398] Columbia St. No. 9, pp. 23-28.
[399] Columbia St. No. 9, p. 23.
[400] Columbia St. No. 9, pp. 28-31.
[401] Columbia St. No. 9, pp. 28-29.

This statistic demonstrates the success that Columbia's call center has had in in satisfying customers the first time they contact the Company. Customer satisfaction scores from the most recent J.D. Power survey show Columbia achieved an overall Customer Satisfaction Index score of 736 in the annual J.D. Power Gas Residential survey. In 2024, Columbia moved into the East Large category from the East Midsize category in previous years. The Company outperformed the Large Eastern utility average of 730 by 6 points. In addition, Columbia scored at or above the large eastern utility averages in Safety & Reliability, Billing & Payment, and Customer Care.[402]

Columbia has been successful in implementing Chapter 14 regulations. Columbia has reduced its gross residential write-off ratio from 4.07% in 2005 to 2.00% in 2023. Net residential write-offs went from 2.79% in 2005 to 1.37% in 2023.[403]

Columbia continues to examine ways to improve the customer experience, with online information and payment options responsive to the needs of new generations of customers. These include improved messaging services, expanded paperless billing and additional payment processes. The Columbia Gas Mobile App allows customers to perform a variety of self-service transactions. In 2024, more than 1.09 million transactions were completed across the NiSource footprint by Columbia Gas customers in the app.[404] The Company also rolled out a new chatbot feature in 2022 that enables customers to obtain

[402] Columbia St. No. 9, pp. 31-32.
[403] Columbia St. No. 9, p. 32.
[404] Columbia St. No. 9, p. 33.

basic information online. Columbia customers completed over 37,000 chat sessions in 2024.[405]

Columbia and its employees are dedicated to investing in the communities they serve. Shareholder contributions to the NiSource Charitable Foundation help to create strong and sustainable communities. In addition, Columbia donated more than $633,000 to 118 non-profit organizations in its service area in 2024.[406] Some examples of the organizations that have received assistance include:

- American Red Cross
- Local Food Banks
- United Way campaigns
- Dollar Energy Fund
- Dollars for Doers program
- Energy Innovation Center[407]

The foregoing clearly demonstrates Columbia's efforts to improve operations to strengthen reliability, enhance customer satisfaction, respond to customer needs and reinforce safety. For these reasons, the cost of common equity should include an increment for management performance.

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[405] Columbia St. No. 9, pp. 25-26.
[406] Columbia St. No. 9, p. 36-39.
[407] Columbia St. No. 9, pp. 37-38.

b. Other Parties' Arguments Against Any Allowance For Management Effectiveness Should Be Rejected.

Several parties oppose any allowance for management effectiveness. Such arguments are without merit and should be rejected.

I&E has a basic opposition to any recognition in the rate of return for management effectiveness. Mr. Patel asserts that many of the matters identified by Columbia fall within the categories of safe and reliable service that is required of all utilities.[408] I&E also points to the *Aqua 2022* case, where Aqua was granted a 25-basis point recognition for management performance. I&E asserts that Aqua was granted the additional basis points due to efforts to assist troubled water companies and addressing health and safety concerns.[409] However, the Commission has never stated that water utilities alone may be granted management performance recognition. Further, as noted previously, in *UGI Electric*, the Commission recognized improved customer satisfaction, workforce safety and service reliability as relevant factors in assessing management performance.

Several witnesses seek to disparage Columbia's management effectiveness by pointing to instances in which Columbia's efforts may not have been top in class. However, the Commission has never employed a standard that limits recognition to only companies with leading performance in every possible measure. Indeed, such a standard would effectively write Section 523 of the Public Utility Code out of existence, as no utility could be expected to be perfect in every conceivable measure.

[408] I&E St. No. 2, p. 81
[409] I&E St. No. 2, p. 82.

Various claims of suboptimal performance do not present a full or accurate description. For example, OCA witness Alexander references Columbia's call center performance in prior years.[410] However, as explained previously, Columbia undertook an investigation of its call center performance, which resulted in substantial improvement of its performance metrics.[411]

For these reasons, other parties' contentions that Columbia should receive no recognition for management effectiveness in the rate of return are incorrect and should be rejected.

X. RATE STRUCTURE AND RATE DESIGN

Columbia's proposed allocation of the $110.5 Million increase in annual operating revenues is provided in Exhibit KLJ-1RJ. Columbia's proposed revenue allocation fairly considers the results of the allocated cost of service ("ACOS") studies in determining customer classes' total revenue responsibility, while also taking into account other important principles such as gradualism and value of service. In designing rates to recover the proposed revenue increase, Columbia's primary objective was to create an efficient rate design that produces an accurate basis for customers' decisions and affords Columbia the opportunity to recover the cost of providing service.

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[410] OCA St. No. 6, p. 11.
[411] *See* p. 128, *supra*.

A. COST OF SERVICE STUDY

1. Allocated Cost of Service Principles

Columbia's proposed allocation of revenue among the rate classes is primarily driven by the cost to serve each class. As indicated by the Commonwealth Court in *Lloyd*, cost of service is the "polestar" of utility rates.[412] While other factors, such as gradualism, may be considered, these factors are not permitted to trump cost of service as the primary basis for allocating the revenue increase.[413] Consistent with the Commonwealth Court's directive in *Lloyd*, a proposed revenue allocation will only be found to be reasonable where it moves distribution rates for each class closer to the full cost of providing service.[414]

Even prior to *Lloyd*, Pennsylvania appellate courts recognized the importance of properly allocating a proposed revenue increase among a utility's rate classes. In *Philadelphia Suburban Water Company v. PUC*, the court stated that:[415]

> in order for a rate differential to survive a challenge brought under Section 1304 of the Public Utility Code [bar against rate discrimination], the utility must show that the differential [different rates among the classes] can be justified by the difference in costs required to deliver service to each class. The rate cannot be illegally high for one class and illegally low for another.

Indeed, any significant departure from the results of a cost of service study requires the proponent to fully justify the deviation.

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[412] *Lloyd v. Pa. PUC*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007) ("*Lloyd*").
[413] *Id.*, at 1020-21.
[414] *Pa. Publ. Util. Comm'n, et al. v. PPL Electric Utilities Corporation*, Docket Nos. R-00049255, et al., 2007 Pa. PUC LEXIS 55 (Order on Remand entered July 25, 2007).
[415] 808 A.2d 1044, 1060 (Pa Cmwlth. 2002).

Although cost of service studies may appear to have great precision, the Commission has repeatedly recognized that the cost of service study is a guide to designing rates and is only one factor, albeit an important one, to be considered in the rate setting process.[416] Cost allocation studies require a considerable amount of judgment and are described as more of an accounting/engineering art rather than science.[417]

In addition to the goal of moving rates toward the cost of service, Columbia considered the rate design principles of efficiency, simplicity, continuity, fairness and earnings stability in setting rates. An efficient and stable rate design produces an accurate basis for consumers' decisions and affords the Company the opportunity to recover the cost of service. A fair rate design considers the results of the ACOS studies in determining customer classes' total revenue responsibility.[418]

2. Allocated Cost of Service Studies

Columbia prepared three ACOS studies in support of its proposed rates: the Customer-Demand Study (Columbia Exhibit No. 111, Schedule 1), the Peak & Average

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[416] *See, e.g., Aqua 2008,* 2008 Pa. PUC LEXIS 50; *Pa. PUC v. West Penn Power Co.,* Docket Nos. R-901609, et al., 1990 Pa. PUC LEXIS 142, 73 Pa. PUC 454, 119 P.U.R.4th 110 (Order dated Dec. 13, 1990); *Pa. PUC v. Pennsylvania Power & Light Co.,* 55 PUR 4th 185, 249 (Order dated Aug. 19, 1983).

[417] *Application of Metropolitan Edison Co.,* R-00974008 (Order dated June 30, 1998); *Pa. PUC v. Pennsylvania Power & Light Co.,* 55 PUR 4th 185 (Order dated Aug. 19, 1983).

[418] Columbia St. No. 6, p. 16.

Study (Exhibit No. 111, Schedule 2) and the Average Study (Exhibit No. 111, Schedule 3). The ACOS studies are based on the FPFTY ending December 31, 2026.[419]

Columbia has presented the results of three ACOS studies in order to demonstrate the range of generally accepted cost allocations. As explained previously, cost allocation is not an exact science, and multiple principles can drive cost incurrence. The Customer-Demand and Peak & Average studies provide the outside limits of possible allocations of mains to the various classes of service.[420] Since the cost of mains represents the majority of plant costs, mains allocation has a critical effect on the assignment of costs of service to the customer classes.[421] The Customer-Demand study allocates mains costs based on the number of customers ("Customer") and the Company's peak day design ("Demand"). In the Peak & Average study, mains costs are allocated 50% based on the Company's peak design day ("Peak") and 50% based on the Company's throughput ("Average"). The Average Study is a combination of the Customer-Demand and Peak & Average studies and gives equal weight to both methods.[422] The three factors, number of customers, peak demand and average use, are generally accepted as drivers of mains costs. The cost of a main is substantially defined by its size, which is based upon the length of a main and its diameter. Peak demand determines the diameter of a main, and the number of customers will drive its length. The Customer-Demand study produces results that are generally more favorable to the Industrial class, while the Peak & Average Study produces results that are

[419] Columbia St. No. 6, p. 4.
[420] Columbia St. No. 6, p. 4.
[421] Columbia St. No. 6, p. 9.
[422] Columbia St. No. 6, p. 5.

generally more favorable to the Residential class. Columbia recognizes that no one ACOS study is the "right" study and submits that the results of these two studies provide a reasonable range of returns for use as a guide in establishing appropriate rates. The Company primarily used the Peak & Average Study to guide the revenue allocation and rate design process.[423]

In Columbia's 2020 rate case, the Commission stated, "we find that the Peak & Average allocation methodology is the most appropriate allocation methodology to use in this proceeding because it is based on the premise of load-based investment."[424] Consistent with the Commission's Order in the 2020 rate case and with the methodology used since the Company's 2021 rate case, the Company continues to utilize the Peak & Average Study as the primary study to serve as a guide to allocate the proposed revenue increases in this case.[425]

The demand component by class used by the Company was provided by NCSC's Energy Supply and Optimization Department and represents expected requirements under design day conditions. The calculation reflects design day total requirements, and thus assumes suppliers will make deliveries necessary to meet customer requirements.[426] Customers served under rate schedules MLS and MLDS were excluded from the allocations of mains under all studies because these customers are served directly from or

[423] Columbia St. No. 6, p. 17.
[424] *Pa. PUC et al. v. Columbia Gas of Pa.*, Docket No. R-2020-3018835, p. 218 (Order entered Feb. 19, 2021).
[425] Columbia St. No. 6, p. 17.
[426] Columbia St. No. 6, p. 8.

in close proximity to an interstate pipeline. MLS and MLDS customers are directly assigned the cost of mains used to serve the class.[427]

OSBA witness Ewen generally relies on the method employed by the Company in its Peak & Average study.[428] I&E witness Sakaya and OCA witness Mierzwa agree with the Company's use of the Peak & Average study consistent with the Commission's ruling in the Company's 2020 rate case and rely on the Company's Peak & Average Study.[429]

Penn State witness Crist rejects the Company's studies, claiming that the Company's allocated increase to the LDS/LGSS class is excessive even under the Customer-Demand study.[430] Mr. Crist contends that the Company's Peak & Average method does not apply cost causation accurately and violates cost causation principles because it allocates the costs of gas mains based in large part on the average demand or annual throughput.[431] Mr. Crist also claims that the Company's Customer-Demand study was rejected by the Commission in the Company's 2020 rate case due to "errors" identified by the OCA related to the separation of mains by operating pressure in that case.[432] Mr. Crist states that the Company should use the Customer-Demand study to allocate revenue in this case because, unlike the 2020 rate case study, it does not separate gas mains investment by operating pressure.[433] As such, Mr. Crist recommends that a modified

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[427] Columbia St. No. 6, p. 9.
[428] OSBA St. No. 1, p. 12.
[429] I&E St. No. 3, p. 38; OCA St. 4, p. 8.
[430] PSU St. No. 1, p. 19.
[431] PSU St. No. 1, p. 17.
[432] PSU St. No. 1, pp. 11-12.
[433] PSU St. No. 1, p. 14.

Customer-Demand study should be the basis of the allocation of proposed revenue increases in this case.[434] Mr. Crist proposed to modify the Company's Customer-Demand study to make it more favorable to large customers by attempting to directly assign mains to the LDS/LGSS class.[435] As explained by Company witness Johnson, Mr. Crist's methodology is flawed for several reasons, including that it ignores upstream mains footage that LDS/LGSS customers share with other classes.[436]

Columbia has consistently advocated in its prior rate cases for the use of the Peak & Average study in the determination of allocating revenue requirement to the rate classes. However, Columbia has never advocated for the Peak & Average study as the sole basis of revenue requirement allocation. Various factors, including gradualism, value of service and alternative cost studies, are appropriately considered in revenue requirement allocation.[437] While using the Customer-Demand study as a reference point is appropriate, Mr. Crist's recommendation to modify the Customer-Demand study and use it to guide the proposed revenue increase in this case should not be accepted.[438]

3. Customer Charge Studies

In addition to the ACOS studies, Columbia prepared a cost analysis supporting the minimum or system charges for all rate schedules.[439] The cost analysis contains two

[434] PSU St. No. 1, pp. 12, 20.
[435] PSU St. No. 1-SR, p.4.
[436] Columbia St. No. 6-R, p. 6.
[437] Columbia St. No. 6-R, p. 7.
[438] Columbia St. No. 6-R, p. 8.
[439] Columbia St. No. 6, p. 3.

studies.[440] The first study is the Company's traditional customer charge study based on the Customer-Demand study and includes the customer portion of mains costs. The second study was conducted for comparison purposes and excludes the customer component of mains.

It is appropriate to include a customer component of mains in the Minimum System Customer Charge study because of the way the distribution system is designed. The customer component of mains represents a minimum fixed cost investment to attach a customer to the distribution system, and therefore, has a direct relationship to the number of customers served by the Company. At a minimum, fixed costs that have a direct relationship to the number of customers served by the Company should, therefore, be recovered equally from all customers within a rate class. This is exactly what the customer charge is designed to do.[441]

Columbia recognizes that the Commission has, in various cases, rejected the use of a customer component of mains in defining customer costs, and this is why Columbia prepared its alternative customer cost study that excluded mains.[442]

None of the other parties in this proceeding prepared a customer charge study.

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[440] Columbia Exhibit No. 111, Schedule 2, pp. 14-30.
[441] Columbia St. No. 6, pp. 14-15.
[442] Columbia St. No. 6, p. 14.

B. REVENUE ALLOCATION

1. Proposed Revenue Allocation and Alternatives

a. Columbia's Proposed Revenue Allocation

Columbia allocated the proposed revenue requirement to the rate schedules using the FPFTY non-gas revenues for each customer group being allocated a portion of the increase. In order to develop allocation percentages, rate schedules were assigned to groups. All Residential rate schedules (Residential Sales Service ("RSS") and Residential Distribution Service ("RDS" or "Choice")) were grouped together. The following Commercial and Industrial ("C&I") customers using less than 6,440 therms annually were combined: Small General Service-1 ("SGS-1"), Small Commercial Distribution-1 ("SCD-1") and Small General Distribution Service-1 ("SGDS-1"). The other customer groups include Small General Service-2 ("SGS-2"), Small Commercial Distribution-2 ("SCD-2") and Small General Distribution Service-2 ("SGDS-2") (those with annual usage between 6,440 and 64,400 therms); Small Distribution Service ("SDS") and Large General Sales Service ("LGSS") (commercial and industrial customers using between 64,400 and 540,000 therms annually); Large Distribution Service ("LDS") and LGSS (commercial and industrial customers using greater than 540,000 therms annually); Main Line Distribution

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Service ("MLDS"); and Negotiated Contract Service plus flex rate customers ("NCS" or "Flex").[443]

The table below summarizes Columbia's revenue allocation proposal.

Columbia's Final Revenue Allocation Proposal of Revenue Requirement (in thousands)						
RS/RDS	SGS/DS-1	SGS/DS-2	SDS/LGSS	LDS/LGSS	MLDS	Flex
$73,877	$10,659	$12,072	$7,556	$6,335	$0	$0
66.86%	9.65%	10.93%	6.84%	5.73%	0.0%	0.0%

The foregoing allocation reflects Columbia's proposed rate increase of $110.5 Million. To the extent the allowed increase is less than that proposed by Columbia, Columbia proposes to use its revenue allocation and rate design to scale back rates proportionally.[444]

As discussed above, the Company selected the Peak & Average ACOS study to guide the revenue allocation and rate design process, while using all three ACOS studies to evaluate the reasonableness of the proposed revenue allocation.[445] Columbia made certain adjustments to the revenue allocation based upon the initial results of the Peak & Average ACOS study. The results of the ACOS study indicated that five rate classes –

[443] Columbia St. No. 6, p. 7.
[444] Columbia St. No. 6-R, p. 12.
[445] Columbia St. No. 6, p. 4.

RS/RDS, SGS-1/SGDS-1, SGS-2/SGDS-2, SDS/LGSS and MLDS – are overcontributing compared to the rate of return earned on rate base and two rate classes –LDS/LGSS and Flex – are under contributing based upon the P&A methodology.[446] The following table shows the unitized return results for the classes at present rates:

Unitized Return at Present Rates						
RS/RDS	SGS/ DS-1	SGS/DS-2	SDS/ LGSS	LDS/ LGSS	MLDS	Flex
10.060%	9.440%	9.409%	9.477%	4.061%	246.46%	-3.443%
1.177	1.104	1.100	1.108	0.475	28.826	(0.403)

Columbia's proposed revenue allocation moves the unitized returns for the classes towards parity (unitized returns of 1.00) with no class yet at parity. Columbia also proposed to limit the rate increases for each class to no more than 1.5 times the total system average increase of 16.73%.[447]

Columbia's proposed revenue allocation represents a fair allocation of the proposed revenue increase among the customer classes considering the range of outcomes produced by the ACOS studies and should be accepted.

[446] Columbia Ex. No. 111, Sch. 3, p. 3.
[447] Columbia St. No. 6, p. 19.

b. Other Parties' Revenue Allocation Proposals

The other parties' revenue allocation proposals are set forth in the table below:[448]

Table KLJ-1RJ

Customer Class	Columbia	I&E	OCA	OSBA	PSU
RS/RDS	66.86%	66.86%	59.26%	64.74%	66.86%
SGSS1/SCD1/SGDS 1	9.65%	9.65%	11.16%	8.90%	10.55%
SGSS2/SCD2/SGDS 2	10.93%	10.93%	12.75%	10.35%	11.83%
SDS/LGSS	6.84%	6.84%	8.02%	7.20%	7.74%
LDS/LGSS	5.73%	5.73%	8.81%	8.81%	3.02%
MDS/NSS	0.00%	0.00%	0.00%	0.00%	0.00%
FLEX	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%

As demonstrated above, I&E agrees with the Company's revenue allocation proposal. OCA and OSBA recommend increasing the LDS/LGSS class to 2.0 times system average in order to reduce the allocation to their respective classes.[449] PSU's allocation is based upon its flawed modifications to the Customer-Demand study, and PSU recommends higher increases to the SGSS1, SSGS2 and SDS classes in order to reduce the allocation to the LDS class.

The Company's revenue allocation proposal, which has been accepted by I&E, is a reasonable proposal that moves all classes closer to unity under the Peak & Average ACOS study. The other parties' allocation proposals are simply designed to reduce allocations to their respective classes. The Company's proposal, as determined acceptable by I&E, should be adopted.

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[448] Columbia St. No. 6-RJ, p. 2.
[449] Columbia St. No. 6-RJ, p. 2.

C. RATE DESIGN/TARIFF STRUCTURE

Columbia's rate design proposal in this case is designed to recover the Company's total cost of service. In designing its proposed rates, the Company pursued three objectives to establish the amount of revenue to be recovered through the customer charge. First, the Company designed rates to be just and reasonable and minimize cross-class subsidies. Second, the Company considered customer impacts of its proposed rate design. Third, the Company proposed to recover fixed costs through the customer charge at least proportional to the percentage recovery of fixed costs in current rates. As noted by Columbia witness Johnson, the proportion of fixed costs recovered through the residential customer charge has eroded since the Company's 2012 base rate case. Therefore, the proposed rate design for residential customers proposes to correct this erosion and recover a higher proportion of fixed costs through the customer charge.[450]

1. Residential Rate Design

Columbia's current Residential rate structure includes a customer charge, a volumetric charge, a WNA and a proposed RNA. As explained below, Columbia is proposing to increase the Residential customer charge and recover the remaining revenue allocated to the Residential customer class through the volumetric (distribution) charge. The WNA and RNA are discussed in Sections XI A and B below.

[450] Columbia St. No. 6, p. 21.

a. **Columbia's Proposed Increase to the Residential Customer Charge Should be Approved**

Columbia proposes to increase the Residential customer charge from $16.75 to $31.97. The remaining Residential revenue increase was assigned to the volumetric charge for a resulting rate of $10.4458 per Dth.[451]

As explained above, Columbia performed two customer charge calculations, one including mains and the other excluding mains.[452] The monthly Residential customer cost excluding mains is $29.43.[453] The monthly Residential customer cost including a mains component is $77.16.[454] Based on these customer charge calculations, Columbia proposes a Residential customer charge of $31.97. The proposed customer charge is slightly above the monthly customer-based cost excluding mains and well below the full Residential customer fixed costs of service including mains. Nevertheless, the proposed increase represents a meaningful movement toward appropriate full fixed cost recovery.

The Commission has recognized that it is appropriate to set a customer charge that ensures the recovery of those fixed costs that are "clearly more customer-related than usage-related, while still allowing some revenue to be recovered through usage-based charges."[455] In particular, the Commission noted that an increase to the customer charge

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[451] Columbia St. No. 6, p. 21.
[452] Columbia St. No. 6, p. 22.
[453] Columbia Ex. No. 111, Sch. 2, p. 16.
[454] Columbia Ex. No. 111, Sch. 2, p. 25.
[455] *Pa. PUC v. PPL Electric Utilities Corporation,* Docket No. R-2012-2290597, 2012 Pa. *PPL Electric 2012* (rejecting I&E's and OCA's position of "no increase" to the customer charge because it was not based on a proper cost analysis) citing *Pa. Publ. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, 236 P.U.R.4th 218 (August 5, 2004).

is reasonable when usage-based charges still comprise a greater portion of the total bill so that customers will still have a clear opportunity to reduce their total bills through conservation. Even when mains costs, which are fixed costs, are excluded, Columbia's proposed customer charge is slightly above the customer-based cost, and the majority of an average Residential customer's bill will be comprised of volumetric charges.[456]

b. The Company's Proposed Customer Charge Better Aligns With Cost Causation Than The Other Parties' Proposals.

As noted above, developing rates that reflect cost of service is a "polestar" of ratemaking. Developing cost of service rates does not just apply to revenue allocation but also applies to designing the rates themselves.[457]

It is undisputed in this proceeding that nearly all of the Company's distribution system costs are fixed and do not vary with usage.[458] Company witness Taylor explained that the cost of the delivery system does not decrease when customers consume less gas during warmer weather. Mr. Taylor further stated that "…rates should be designed in a way that reflects the fixed-cost nature of the system in that fixed-costs should be recovered through fixed charges, just as is done for most other household costs…"[459] At the hearing, I&E witness Sakaya could not identify any distribution system costs that varied with

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[456] Columbia St. No. 3-R, p. 14.
[457] See *PPL Electric 2012*.
[458] Columbia St. No. 17, p. 6.
[459] Columbia St. No. 17, p. 6, lines 13-15.

usage.[460] Mr. Sakaya also agreed that all of Company's major cost categories are fixed and do not vary with usage, including mains, services, level of employees and billing costs.[461]

CAUSE-PA witness Cicero argued that rate design should not align charges with cost-causation.[462] This position reflects a fundamental misunderstanding of rate design and cost of service principles and should not be considered. As explained by Mr. Taylor, rates should be designed in a way the reflects the fixed-cost nature of the distribution system. The current approach of a low fixed customer charge in comparison to total fixed costs is contrary to sound cost of service rate design principles and is the primary reason why the Company's cost-recovery is so volatile and weather dependent. The Company's current residential customer charge is $17.25 per month, while the Company's total fixed costs per residential customer are $77.16 per month.[463] Even the Company's proposed customer charge of $31.97 does not nearly come close to recovering the Company's fixed costs. However, it will allow the Company to recover more fixed costs on a fixed basis and reduce volatility that results from the mismatch that occurs when the vast majority of fixed costs are recovered through volumetric rates.

c. Higher Fixed Monthly Charges (With Correspondingly Lower Volumetric Charges) Benefit Low Income Customers.

Recovering fixed distribution system costs through higher fixed customer charges and correspondingly lower volumetric rates provides multiple benefits for the majority of

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460 Tr. 432.
461 Tr. 432-435.
462 CAUSE-PA St. No. 2-SR, p. 6.
463 Columbia St. No. 17, pp. 9-10.

Columbia's low-income customers. The first benefit will be lower annual rates. Columbia's low-income customers have higher average usage than other residential customers. On average, Columbia's low-income customers used 17% more gas than other residential customers in 2023-2024.[464] A higher customer charge with correspondingly lower volumetric charges benefits higher usage customers. Under the Company's customer charge proposal, the average low-income customer would save $24 per year on his/her annual distribution bill as compared to the other parties' proposals to maintain the current customer charge of $17.25 per month. If all distribution costs were recovered through a fixed charge, the average low-income customer would save $139 per year.[465]

A higher customer charge also stabilizes distribution rates for low-income customers by charging less for distribution service in the winter months and moving that recovery to the summer months. CAUSE-PA witness Cicero noted his concerns about low-income customers having higher energy burdens in the winter and the benefits of having more stable bills.[466] Higher fixed customer charges provide both of these benefits for higher than average users. Higher customer charges reduce the higher energy burden in winter months and spreads more of the annual recovery of the Company's fixed costs to the summer months when the commodity (gas) portion of the customer's bills are lowest. This also helps to stabilize distribution costs by spreading them throughout the year.

Recovering distribution system costs through higher fixed charges also assists with

[464] Columbia St. No. 17, p. 18.
[465] Columbia St. No. 17, p. 13.
[466] Tr. 481-482; CAUSE-PA St. No. 2, p. 65.

household budgeting. Mr. Taylor explained that the majority of household expenses are fixed costs, including mortgage or rent payments, insurance payments, internet and cable payments, phone bills and others.[467] Higher distribution charges provide more certainty for household budgeting purposes. Recovering fixed costs in volumetric charges places regressive burdens on low-income households who have to make decisions to reduce their gas usage that impact their quality of life and increases the burden on some vulnerable households during the coldest months, forcing some households to make tough decisions.[468]

d. The Benefits Of Higher Fixed Charges Outweigh Any Perceived Detriments.

I&E, OCA and CAUSE-PA all propose no increase to Columbia's current residential customer charge of $17.25 per month.[469] None of these parties prepared a customer cost study, and their proposals are not based on any customer cost study. At the hearing, I&E witness Sakaya admitted that he was proposing a customer charge that was not based on the cost of service.[470] Further, these parties fail to recognize that the benefits explained above outweigh any perceived detriments of the Company's proposal.

One of the parties' primary criticisms of raising the residential customer charge relates to the impact on low-income customers.[471] The parties fail to acknowledge that increasing the residential customer charge will: reduce overall bills for the majority of

[467] Columbia St. No. 17, pp. 19-20.
[468] Columbia St. No. 19, p. 24.
[469] I&E St. No. 3, p. 43; OCA St. No. 4, p. 16; CAUSE-PA St. No. 2, p. 41.
[470] Tr. 445.
[471] See CAUSE-PA St. No. 2, p. 36.

Columbia's low-income customers, reduce higher winter energy burdens, stabilize distribution bills and assist with household budgeting.

Another criticism of higher fixed charges is that they will discourage conservation.[472] This criticism is flawed for several reasons. As to low-income customers, CAUSE-PA agrees that low-income customers, while higher users, are largely not able to conserve due to the costs of making their homes more efficient or buying more efficient furnaces and appliances.[473] An overall reduction in bills for high-usage low-income customers through higher customer charges and lower volumetric rates is a greater benefit than distribution bill conservation savings because these customers are not able to effectively reduce their usage. In addition, all customers still experience savings by conserving through the volumetric portion of distribution charges and through the gas commodity charge, which is entirely volumetric. Further, Columbia is not proposing to decrease the current level of volumetric distribution charges.

The other parties also fail to recognize sound cost of service ratemaking principles by proposing to deny any increases to the Company's fixed residential customer charge. Notably, none of these parties, including OCA and I&E, prepared customer charge studies in this case. The parties' proposals to maintain the current customer charge are not based on any cost analysis whatsoever. The only customer charge analyses presented in this case are the Company's analyses which support a customer charge in the range of $27.69 -

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[472] See CAUSE-PA St. No. 2, p. 33.
[473] Tr. 478.

$77.16.[474] Sound ratemaking principles dictate that rates must be designed to recover costs.[475] The other parties' proposals to simply maintain the customer charge at its current level constitute a policy preference for higher volumetric rates that distort price signals and promote under-recovery of costs.[476]

As support for their position on the residential customer charge, several of the parties argue that Columbia's customer charge should not increase because it is the highest customer charge of the Pennsylvania NGDCs.[477] The parties fail to recognize several important factors when making this argument. Columbia was one of if not the first major NGDC in Pennsylvania to begin an accelerated replacement plan, approximately 18 years ago.[478] Part of Columbia's accelerated replacement plan includes replacements of meters and services.[479] As a result, Columbia's customer costs are higher than those of other NGDCs. In addition, Columbia's rates must be set based upon Columbia's costs – not the costs of other NGDCs. As noted above, Columbia's customer charge studies fully support Columbia's proposed customer charge, and it should be approved.

2. Small C&I Customer Rate Design

For Small General Service customers using less than or equal to 6,440 therms annually, the customer charge studies produce a range of customer costs from $33.13

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[474] Columbia St. No. 6-RJ, pp. 5-6.
[475] Columbia St. No. 17-RJ, pp. 8-9.
[476] Columbia St. No. 17-RJ, p. 9.
[477] OCA St. No. 4, p. 15; CAUSE-PA St. No. 2, p. 32.
[478] Columbia St. No. 1, p. 17.
[479] Columbia St. No. 7, p. 4.

(excluding mains) to $87.76 (including mains).[480] Columbia's current customer charge for these customers is $33.00 per month. Columbia proposed to increase the current customer charge proportionally to the overall base rate increase for this customer class resulting in a proposed customer charge of $39.00.[481] The proposed customer charge of $39.00 per month for these customers is just above the bottom of the range of costs.

For Small General Service customers using between 6,440 and 64,400 therms annually, the Company's customer charge studies produce a range of customer costs from $66.12 (excluding mains) to $204.92 (including mains).[482] Columbia's current customer charge for these customers is $63.00 per month. Columbia proposed to increase the current customer charge proportionally to the overall base rate increase for this customer class resulting in a proposed customer charge of $75.00.[483] The proposed customer charge of $75.00 per month for these customers is near the bottom of the range of costs.

I&E does not oppose the Company's proposed customer charges for small C&I customers.

OSBA witness Ewen recommends that the customer charges for these classes be no higher than the customer charge study that does not include the cost of mains.[484] As a result, Mr. Ewen proposes that the monthly customer charge for the SGS1 class remain at $33.00 and that the monthly customer charge for the SGS2 class be no higher than $66.12.

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[480] Columbia Ex. No. 111, Sch. 2, pp. 16, 25.
[481] Columbia St. No. 6, p. 22.
[482] Columbia Ex. No. 111, Sch. 2, pp. 16, 25.
[483] Columbia St. No. 6, p. 23.
[484] OSBA St. No. 1, p. 16.

The Company disagrees with Mr. Ewen's proposals. As explained above, it is appropriate to include a customer component of mains in the minimum system charge study because mains costs are fixed and do not vary with usage. The Company's proposals reflect minimal consideration of the cost of mains for small C&I customer charges.

Columbia's proposed customer charges for these classes fall within the range of the two customer charge studies and are well below the minimum system charges shown in the customer charge study including mains.[485] Columbia's proposed customer charges for Small C&I customers are reasonable and should be approved.

3. Large C&I Customer Rate Design

The proposed SDS/LGSS customer charge for customers whose usage is between 64,400 therms and 110,000 therms is $358.00. The current SDS/LGSS customer charge is $304.32. The proposed SDS/LGSS monthly customer charge for customers whose usage is between 110,000 therms and 540,000 therms is $1,623.00. The current SDS/LGS customer charge is $1,308.38.

The table below shows the proposed and current monthly customer charges for the LDS/LGSS rate class:[486]

[485] Columbia Ex. No. 111, Sch. 2, p. 16.
[486] *See* Columbia Ex. No.111, Sch. 6.

Annual Usage Levels	Current Cust. Charge	Proposed Cust. Charge
> 540,000 to ≤ 1,074,000 Therms	$3,502.84	$4,252.00
> 1,074,000 to ≤ 3,400,000 Therms	$5,448.36	$6,614.00
> 3,400,000 to ≤ 7,500,000 Therms	$10,506.98	$12,754.00
> 7,500,000 Therms	$15,565.61	$18,895.00

None of the parties opposed the Company's proposed customer charges for the Large C&I class. Columbia's proposed monthly customer charges for the Large C&I class are reasonable and should be approved.

4. Gas Procurement Charge Rider

Columbia proposes a Gas Procurement Charge ("GPC") of $0.00113 per therm. Columbia Exhibit No. KLJ-6 shows the calculation of the proposed GPC. No party challenged the Company's proposed GPC, and it should be approved.

5. Flex Rates.

Columbia responds to OSBA's proposal regarding Flex Rates in Section XVII C, below.

D. SUMMARY AND ALTERNATIVES

Columbia's revenue allocation proposal is based upon its P&A study, which is supported by I&E. OCA supports the Company's P&A study but proposes a more aggressive approach reduce costs for residential customers and increase costs for large customers, as compared to the Company's and I&E's approach. Similarly, OSBA proposes a more aggressive approach to reduce costs for small business customers and increase costs for large customers. PSU seeks to reduce costs for large customers by relying on a modified customer-demand ACOS. Columbia's revenue allocation proposal, as agreed to by I&E is reasonable and should be approved.

As to rate design, Columbia is the only party in this proceeding that presented a customer charge study. The other parties' proposals to maintain the Company's current residential customer charge are not based upon cost of service principles and do not provide for sufficient recovery of the Company's fixed costs. As explained herein, the Company's customer charge proposals should be adopted.

XI. ALTERNATIVE RATEMAKING

A. COLUMBIA'S PROPOSAL TO MAKE THE WEATHER NORMALIZATION ADJUSTMENT A PERMANENT PROGRAM SHOULD BE APPROVED

1. Summary of Columbia's WNA

Columbia has had Rider WNA as a pilot program for over 10 years. Columbia's WNA adjusts residential customer bills in the heating months – November through May, to reflect the normalized weather-related HDD that are used to develop rates in each rate case. If HDDs are more than 3% colder than normal, customers receive a reduction in their bills to better reflect the normalized level of HDDs that were used to develop base rates in this proceeding. If HDDs are more than 3% warmer than normal, customers receive an increase in their bill to better reflect the normalized HDDs that were used to develop rates in this proceeding.[487] The purpose of the WNA is to levelize revenues for both customers and the Company to better reflect the level of revenues that are authorized for recovery in this proceeding. The WNA adjusts residential customers' monthly commodity charges

[487] Columbia St. No. 17-R, p. 7.

based on the actual temperatures experienced during the month. Under the existing WNA, the Company and customers are protected, in part, from usage variations due to weather. The WNA adjusts only the temperature sensitive portion of customers' bills to reflect normal weather levels. By distinguishing between base load and temperature sensitive load, each customer bill is calculated to mitigate the undesirable impacts of warmer than normal or colder than normal weather.[488]

Columbia's WNA is similar to the Commission-approved WNAs of the other investor owned NGDCs in Pennsylvania, including the WNAs of Peoples Gas Company LLC ("Peoples"), UGI Utilities, Inc. – Gas Division ("UGI Gas"), and National Fuel Gas Distribution Corporation ("National Fuel"). All of the WNAs for these NGDCs adjust customer bills based on variations in HDDs that are experienced as compared to the HDDs that are used to develop base rates with a 3% deadband.[489]

In this proceeding, Columbia is requesting Commission approval to make its existing WNA a permanent program as opposed to a pilot program with a limited term.[490] The Commission recently approved a permanent WNA for Peoples in its recent base rate proceeding despite the opposition of OCA.[491]

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[488] Columbia St. No. 17-R, p. 7.
[489] *PA PUC v. Peoples Natural Gas Company,* Docket Nos. R-2023-3044549, *et al.*, (Order entered September 12, 2024), p. 93 ("*Peoples WNA Order*"); *PA PUC v. UGI Utils., Inc. – Gas Division,* Docket Nos. R-2021-3030218 *et al.* (Order entered September 15, 2022); *PA PUC v. National Fuel Gas Distribution Corporation,* Docket Nos. R-2022-3035730, *et al.* (Order entered June 15, 2023).
[490] Columbia St. No. 17, p. 26.
[491] *See Peoples WNA Order*.

2. The WNA Is Authorized By Statute.

The WNA is a form of alternative ratemaking that is expressly authorized by statute in Pennsylvania. Section 1330(b) of the Public Utility Code allows the Commission to approve alternative ratemaking mechanisms, including decoupling mechanisms.[492] The statute defines a decoupling mechanism, in part, as:

> (1) A rate mechanism that reconciles authorized distribution rates or revenues for difference between the projected sales used to set rates and actual sales, which may include, but not be limited to, adjustments resulting from fluctuations in the market of customers served and other adjustments deemed appropriate by the commission.

The Commission has classified a WNA as a limited decoupling mechanism.[493]

In addition, the Commission has issued a Policy Statement setting forth certain rate considerations that it evaluates when determining whether an alternative ratemaking mechanism is just and reasonable.[494] Columbia has responded to these rate considerations in the Direct Testimony of Mr. Taylor.[495]

3. The WNA Is In The Public Interest And Should Be Approved As A Permanent Tariff Provision.

Given the substantial recovery of the Company's fixed costs in volumetric distribution changes and the variation in annual heating requirements due to weather, a WNA is necessary for an NGDC to have a reasonable chance to recover its revenues as set

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[492] 66 Pa. C.S. § 1330(b)(1)(i).
[493] *See* Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, Tentative Order entered March 2, 2017, p. 7.
[494] 52 Pa. Code § 69.3307.
[495] Columbia St. No. 17, pp. 29-34.

in a base rate proceeding. As noted in this proceeding, if Columbia did not have the WNA in place, it would have lost approximately $74 Million since the inception of the WNA due to warmer than normal weather, and would not have been able to recoup those losses without a WNA. In addition to substantial recovery of costs in volumetric distribution charges, the recent trend of warming weather increases the risk of recovery. The other parties all admit that weather has been trending much warmer than normal. CAUSE-PA admitted that the HDD trend has been abnormal.[496] I&E witness Sakaya proposes to change the weather normalization period from 20-years to 10-years in future proceedings in order to better capture recent warming trends.[497] Winter weather has been abnormally getting warmer, and the Company should not be required to bear the abnormal risk of warming weather.

Moreover, the WNA does not just benefit the Company. Pro forma usage for ratemaking purposes is normalized under the assumption that over time, temperatures will revert to historic norms. The WNA also levelizes costs for customers and decreases their bills in colder than normal months.[498] When weather is significantly colder than normal, customers' bills also can be significantly higher than normal due to substantially increased usage. The WNA reduces these higher-than-normal bills for customers when they need it the most.

[496] Tr. 473.
[497] I&E St. No. 3, p. 18. Columbia has estimated that a 10-year weather normalization period would increase the revenue deficiency in this case by approximately $19 million. See Section V of this brief.
[498] Columbia St. No. 17-R, pp. 11-12.

The WNA has become a standard ratemaking mechanism that allows NGDCs to mitigate ever-increasing weather-related risk due to global warming.[499] As explained by Mr. Rea, most of the NGDCs in his proxy group have WNA mechanisms in order to mitigate weather-related impacts on revenue.[500] As noted above, it is unreasonable for NGDCs to bear abnormal risks.

4. The Other Parties' Objections To The WNA Should Be Rejected.

a. Columbia's WNA Is Similar to Peoples' WNA – Not PECO's Proposed WNA.

Several parties in this proceeding cite to the Commission's recent decision for PECO Gas which denied its request for a WNA.[501] Importantly, however, the Commission recently approved a WNA for Peoples in a litigated proceeding despite OCA's objections.[502] Columbia's WNA is similar to Peoples' approved WNA – not PECO's proposed WNA, and therefore, the Commission's PECO decision is not applicable.

As noted by the Commission in the *PECO WNA Order*, PECO proposed a 1% deadband, relied on 30-years of weather data and had limited reporting requirements.[503] The Commission also noted that Philadelphia Gas Works ("PGW") had billing issues with

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[499] *See Peoples WNA Order*; *Pa. PUC v. UGI Utils., Inc. – Gas Division*, Docket Nos. R-2021-3030218, *et al.* (Opinion and Order entered Sept. 15, 2022); *Pa. PUC v. National Fuel Gas Distribution Company*, Docket No. R-2022-3035730, *et al.* (Order Entered June 15, 2023); *Pa. PUC v. Phila. Gas Works*, Docket No. R-00017034 (Order entered Aug. 8, 2002).
[500] Columbia St. No. 8-R, pp. 16-18.
[501] *See, e.g.*, I&E St. No. 3, p. 17.
[502] *Peoples WNA Order.*
[503] *PA PUC v. PECO Energy Company – Gas Division,* Docket Nos. R-2024-3046932 *et al*. (Order entered Dec. 12, 2024), p. 100 (*"PECO WNA Order"*).

the month of May and that PECO was located in a similar service area as PGW. Further, the Commission noted that PECO was both a gas and electric utility and could benefit from changing weather.[504] None of these factors apply here. Columbia has a 3% deadband, uses 20-years of weather data and has comprehensive reporting requirements that have been in place for many years. Columbia is not located near PECO's or PGW's service territories and has not had May billing issues like PGW. Columbia's service territory is closer to Peoples', UGI Gas's and National Fuel's service territory. Columbia also does not provide electric service. In addition, Columbia has had very few formal complaints related to the WNA.[505]

Columbia's WNA is not similar to PECO's WNA, and the *PECO WNA Order* is not applicable especially given the Commission's recent decision approving a permanent WNA for Peoples.[506]

b. The WNA Is Not Structurally Biased Or Asymmetric.

I&E, OCA, and CAUSE-PA argue that the WNA mechanism is biased and asymmetric because the Company has received more credits from customers over the life of the WNA than customers have received.[507] These arguments misconstrue the operation of the WNA mechanism and are short-sighted.

Under the WNA, weather-related risk is shared symmetrically between the Company and customers. The WNA mechanism works both ways. If weather is more than

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[504] *Id.* at 96.
[505] Tr. 376-377.
[506] *See Peoples WNA Order*.
[507] I&E St. No. 3, p. 15; OCA St. 1, p. 55; CAUSE-PA St. 2, p. 27.

3% colder in a winter month than the normalized HDDs that are used to develop rates, customers receive a credit on their bills. If weather is more than 3% warmer in a given month than the normalized HDDs that are used to develop rates, customers receive a charge on their bills. The fact that the WNA operates symmetrically in this manner is undisputed.[508]

The parties' arguments that the WNA is structurally biased or asymmetric all relate to the fact that weather has been warmer than usual – or as CAUSE-PA witness Cicero agreed – has been abnormal. I&E witness Sakaya argues that the Company has received approximately $74 Million more than it has paid customers under the WNA since the WNA's inception in 2013 and that this has been a "windfall" for the Company.[509] What Mr. Sakaya and the other parties fail to recognize is that this $74 Million in revenues are revenues that were approved by the Commission for recovery in prior rate proceedings but were not recovered in base rates due to abnormal weather conditions that are outside of the Company's control. These revenues are not a windfall to the Company – they were previously approved for recovery. It also must be noted that these are not the full revenues that were authorized for recovery because they do not include the revenues that Columbia

[508] OCA witness Deupree states that the Company's use of a 20-year average may overstate HDDs in a given year due to recent warming trends. OCA St. No. 1, p. 53. Mr. Deupree fails to acknowledge that the 20-year average HDDs are not only used in the WNA but are used to develop rates in the case. The HDDs must match for the WNA mechanism to work properly. If the HDDs are too high in the WNA, then they are also too high in the base rate calculation. If HDDs are reduced in the WNA, they must also be reduced for developing rates.

[509] I&E St. No. 3-SR, p. 15.

lost due to the deadband. Moreover, if the Company did not have the WNA, it would not have been able to recover these revenues that were previously authorized for recovery.

The WNA mechanism is not structurally biased or asymmetric, and the only reason that the Company has received more revenues under the WNA than customers have received credits is because of abnormal weather conditions that are outside of the Company's control. It is unreasonable to make the Company solely bear the risk of these abnormal weather conditions when abnormal cold weather would result in the inverse, savings to customers of additional charges for increased heating load.

c. The WNA Does Not Undermine Conservation Efforts.

OCA and CAUSE-PA argue that the WNA should not be approved because it discourages conservation.[510] Columbia witness Taylor demonstrated that these assertions were incorrect.[511] Mr. Taylor provided an example showing that a residential customer using 45 therms in April 2025 would have received a bill of $56.40 after applying the WNA. If that same customer had used 10% less gas, or 40.5 therms, their bill would have been $50.14 with the WNA, which results in a savings of $6.27.[512] This example demonstrates that the WNA does not discourage conservation.

d. The WNA Does Not Constitute "Take Or Pay" Pricing.

Several of the parties in this proceeding argue that the WNA should be denied because it constitutes "take or pay" pricing.[513] These arguments misunderstand "take or

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[510] *See, e.g.*, OCA Ex. MWD-1, p. 3.
[511] Columbia St. No. 17-R, p. 6.
[512] Columbia St. No. 17-R, p. 6.
[513] *See* Columbia St. No. 17-R, p. 8.

pay" pricing. They also fail to acknowledge that the Company's distribution system costs are fixed and must be paid for by customers regardless of the volumes of gas that are consumed, yet a substantial among of these costs are targeted for recovery in volumetric distribution charges.

In his rebuttal testimony, Mr. Taylor explained why the WNA mechanism does not constitute "take or pay" pricing. Mr. Taylor stated:[514]

> "Take and pay" typically refers to commodity products —particularly in upstream gas supply agreements—where a purchaser agrees to pay for a minimum quantity of gas whether or not it is actually taken. These types of contracts are commonly used between gas producers and marketers or between shippers and pipelines to manage commodity supply risk and infrastructure utilization risk. The WNA, by contrast, is not a commodity procurement mechanism and does not require customers to pay for gas they did not use. Rather, it is a narrowly tailored rate adjustment tool designed to address short-term weather-related fluctuations that cause revenues to diverge significantly from cost-of-service levels approved by the Commission. One of the most obvious ways that the WNA differs from a "take-or-pay" clause is that it provides credits to customers where usage is increased due to colder than normal temperatures. The WNA addresses the recovery of costs associated with the utility's investment in distribution infrastructure that is critical for the safe and reliable delivery of gas services to its customers. Unlike commodity products, the infrastructure needed to ensure safe and reliable service does not change with changes in customer usage. Further, the WNA is narrowly designed to ensure neither customers nor the utility are harmed from deviations in revenue recovery and costs paid associated with fluctuations in weather sensitive usage. These adjustments are limited to weather deviates greater than ±3% from normal that occur only during the heating season (the months of November through May).

[514] Columbia St. No. 17-R, p. 8, lines 2-22.

The parties fail to recognize that the distribution costs are fixed and must be recovered regardless of the volumes that customers use.[515] Customers want a distribution system that is built to deliver gas during peak winter periods.[516] They must pay for this system irrespective of the gas volumes that are used. The WNA is necessary for the Company to recover its costs due to the fact that much of its fixed costs are recovered through volumetric rates and volumetric cost recovery is directly impacted by abnormal weather. Having customers pay for the fixed distribution system costs through the WNA is not take or pay, because customers are not paying for a distribution system that only delivers gas in warmer than normal months. Customers are taking service from a distribution system that is designed to deliver gas to them in peak winter conditions and must pay for this system even when peak conditions do not exist.

e. The WNA Does Not Adversely Affect Low Income Customers.

Several of the parties argue that the WNA adversely affects low-income customers. I&E witness Sakaya argues that the WNA adversely affects low-income customers because they cannot afford energy efficiency measures.[517] OCA witness Colton argues that low-income customers will be adversely affected because they try to consume less during colder periods.[518]

[515] Columbia St. No. 17, p. 6.
[516] Columbia St. No. 17, p. 6.
[517] I&E St. No. 3, p. 13.
[518] OCA St. No. 5, p. 96.

Mr. Taylor addressed these issues in his testimony. As to Mr. Sakaya's concerns about low-income customers not being able to afford energy efficiency measures, Mr. Taylor explained that this is not an issue because the WNA is calculated on an individual customer basis.[519] As such, the WNA does not shift recovery from customers who install efficiency measures to customers who do not install efficiency measures. As to Mr. Colton's concerns about low-income customers using less in the winter months, Mr. Taylor explained that low-income customer usage is strongly correlated with weather, particularly during heating months.[520] Excluding low-income customers from the WNA could lead to greater bill volatility for them. In addition, the WNA mitigates bill impacts when they are the highest during months that are colder than normal.

The WNA treats all customers the same based upon their individual usage patterns. It does not adversely affect low-income customers, and in fact, reduces higher winter bills that occur when weather is colder than normal, exactly in the months where low income customers may have the most difficulty in paying their bills.

[519] Columbia St. No. 17-RJ, p. 4.
[520] Columbia St. No. 17-R, p. 18.

f. Budget Billing Does Not Accomplish The WNA's Goals.

OCA witnesses Alexander and Colton argue that the Company should simply enroll more customers on budget billing as opposed to adopting a WNA.[521] This recommendation should be summarily dismissed.

Budget billing is not the same and does not accomplish the same goals as a WNA. The WNA mechanism stabilizes the effects of weather impacts on revenue. Budget billing spreads a customer's annual bill over a 12-month period. Budget billing does not recover revenues that are lost due to warmer than normal weather and does not credit customers for higher bills resulting from colder than normal weather.[522]

The purposes of the WNA and budget billing are not the same. OCA's suggestion that the Company should encourage budget billing as opposed to adopting the WNA is not reasonable or relevant.

g. The WNA Mechanism Contains Customer Protections.

I&E witness Sakaya argued that the WNA does not provide any customer protections.[523] This statement is not correct for several reasons. First, Columbia's WNA mechanism has a 3% deadband, and Mr. Sakaya agreed at the hearing that this is, in fact, a customer protection.[524] Second, the WNA mechanism only adjusts for HDD variations as compared to the HDDs that are used to develop rates in base rate proceedings. This protects customers from paying for more than would be collected under normal weather conditions,

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[521] *See* OCA St. 5, pp. 96-97.
[522] Columbia St. No. 17-R, pp. 10-11.
[523] I&E St. No. 3, p. 13.
[524] Tr. 435.

minus the deadband.[525] Other consumer protections include the fact that the WNA is calculated individually for each customer so that each individual customer benefits from their conservation measures and the fact that Columbia has extensive WNA reporting requirements. Thus, contrary to I&E's assertions, the WNA mechanism contains customer protections.

h. The Company Assists Customers To Help Them Understand the WNA And How the WNA Impacts Their Bills.

Several parties argue that the WNA should be discontinued because it is difficult for customers to understand and difficult for them to calculate their WNA bill impacts.[526] Further, parties assert that Columbia's WNA educational materials are deficient.[527] The fact that the WNA may be difficult to understand without assistance or that it is difficult to calculate the WNA bill adjustment without assistance are not sufficient or reasonable reasons to deny the WNA.

As an initial matter, most if not all utility rates are complex and difficult to understand. NGDC rates consist of base distribution rates, various riders, and automatic adjustment mechanisms including for purchased gas costs.[528] The fact that utility rates are often difficult to understand does not mean that they should be discontinued. For example, at the hearing, CAUSE-PA witness Cicero agreed that the Universal Service Charge Rider ("Rider USP") is difficult to understand and that customers could not calculate their Rider

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[525] Columbia St. No. 17-R, p. 7.
[526] *See e.g.*, CAUSE-PA St. No. 2, p. 61.
[527] *See e.g.* OCA St. 6, pp. 23-25.
[528] *See* Columbia Ex. 14, Sch. 2.

USP Charges.[529] However, no party is suggesting that the Rider USP be discontinued because it is difficult to understand or that customers cannot calculate the Rider USP portion of their bill.

Importantly, when customers call about their WNA charge or any aspect of their bill, a Columbia customer care representative explains it to them and helps them to understand it. Notably, no party in this proceeding has made any allegation that Columbia has had excessive customer complaints related to the WNA. The reason for this is because Columbia has had so few.[530] This fact alone demonstrates the unreasonableness of the other parties' arguments regarding the WNA being difficult to understand or that the Company's WNA educational materials are insufficient.

i. Revenue Loss Due To Abnormal Weather Conditions Is Not Regulatory Lag.

OCA witness Deupree argues that regulatory lag is desirable when setting utility rates and that the WNA is designed to address regulatory lag. Mr. Deupree also argues that if the Company loses revenues due to weather, it can simply file another rate case.[531] This argument distorts the effects of revenue loss related to weather and the need for the WNA to address abnormal weather variations.

If Columbia did not have a WNA and weather turns out to be warmer than projected, Columbia will lose revenues that are authorized for recovery in this case.[532] Columbia's

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529 Tr. 484.
530 Tr. 377.
531 OCA St. No. 1, p. 8.
532 *See* Columbia St. No. 17, p. 29.

recovery will not be lagged or delayed – it will be lost. Columbia will not be able to recover these revenues when it files another case because rates in Pennsylvania are set using a forward-looking approach, not using a historical test year. OCA's arguments regarding regulatory lag are not accurate and should not be considered.

5. The Other Parties' Alternative WNA Conditions Should Be Denied.

I&E and CAUSE-PA propose several alternative conditions if the WNA is approved. These proposals should be denied. Columbia's current WNA is working properly and should not be modified.

a. The Commission Should Not Adopt A 5% Deadband.

I&E argues that if the Commission approves the WNA, it should impose a 5% deadband as opposed to a 3% deadband. I&E's proposal to increase the deadband percentage should not be adopted.

I&E's proposal to adopt a 5% deadband is inconsistent with the deadbands that have been approved by the Commission for all other NGDCs. The other investor-owned NGDCs with WNA mechanisms all have 3% deadbands.[533] Adopting a 5% deadband simply puts more weather related volumetric cost recovery risk onto the Company without any reason for treating Columbia differently from other investor-owned NGDCs with WNAs in the Commonwealth.

[533] *See* Section XI(A)(1) above.

b. The HDDs Used For the WNA Must Match The HDDs Used To Determine Revenues.

I&E suggests that the Company use a 10-year average to determine HDD.[534] At the hearing, Mr. Sakaya agreed that the HDD used for the WNA needed to match the HDD used to develop rates.[535]

The Company agreed to evaluate the best historical period to use to develop HDD for both the WNA and its revenue requirement in its next case.[536]

c. The Company Should Not Be Required To Remove Any Months From The WNA Calculation.

CAUSE-PA argued that the Company should remove the months of November, April and May from the WNA calculation if the WNA is approved.[537] I&E argued that the Company should remove the month of May.[538] These proposals should not be adopted.

Mr. Taylor explained that the proposals to remove these months from the WNA calculation are arbitrary and ignore weather patterns in Pennsylvania.[539] Mr. Taylor further provided evidence of the significant weather variation that occurs in the months of November, April and May. He noted that removing these months would directly affect usage and revenue recovery, leading to the volatility that the WNA is designed to address.[540]

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[534] I&E St. No. 3, p. 21.
[535] Tr. 451.
[536] Columbia St. No. 2-R, p. 4.
[537] CAUSE-PA St. No. 2, p. 64.
[538] I&E St. No. 3, p. 21.
[539] Columbia St. No. 17-R, p. 16.
[540] Columbia St. No. 17-R, p. 17.

d. Confirmed Low-Income Customers Should Not Be Excluded From the WNA

CAUSE-PA argues that confirmed low-income customers should be excluded from the WNA.[541] This proposal should be rejected. First, as explained above, the WNA serves to reduce higher bills during peak winter conditions and reduce winter energy burdens. In addition, confirmed low-income customers are not a separate customer class and the Public Utility Code specifically prohibits discrimination in rates.[542]

6. Conclusion As To WNA.

Columbia's WNA is necessary to mitigate the effects of abnormal weather on the recovery of its authorized revenues. The mechanism is designed to benefit both customers and the Company from rate volatility due to weather. The mechanism is symmetrical and is not designed to benefit the Company over customers or vice versa. The only reason that the WNA has produced more revenue for the Company since its inception than credits to customers has been due to abnormal weather conditions that are outside of the Company's control. The Company should not be required to solely bear the risk of abnormal weather conditions, and the Company's WNA should be approved as a permanent tariff program.

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[541] CAUSE-PA St. No. 2, p. 64.
[542] 66 Pa. C.S. § 1304.

B. COLUMBIA'S PROPOSAL TO IMPLEMENT THE REVENUE NORMALIZATION ADJUSTMENT SHOULD BE APPROVED

1. Summary of Columbia's Proposed RNA.

In this proceeding, Columbia proposes to implement Rider RNA. Company witness Taylor described the RNA mechanism as follows:[543]

> The Company's proposed RNA mechanism establishes a benchmark revenue per customer based on the annual authorized revenue requirement approved by the Commission and adjusts future customer bills to recover shortfalls or refund excess revenues compared to the benchmark. The proposed RNA excludes weather related factors that have been previously adjusted through the WNA for the residential class, as those are accounted for in the WNA mechanism. The proposed RNA will be determined and adjusted on an annual basis to ensure the Company accurately recovers its approved revenue target without exceeding or falling short. It is designed as a fully reconciling mechanism, meaning any over- or under-recoveries will be accounted for and incorporated into the next RNA adjustment period.

Mr. Taylor further explained how the RNA formula would work. He explained that the Company would develop a Benchmark Base Revenue Per Customer ("BRPC") that would consist of the Commission authorized revenues for the FPFTY divided by the number of customers determined in the case for each rate schedule.[544] At the end of each year, the Company will compare the BRPC with the Actual Base Revenues Per Customer ("ARPC") and calculate the over or under-collection that resulted for each. Any over-collections will be credited to the customers in those rate schedules through an RNA surcredit. Any under-collections will be credited to the Company through a surcharge. The RNA rate will be calculated following the end of the calendar year and billed over a

[543] Columbia St. No. 17, p. 43, lines 7-16.
[544] Columbia St. No. 17, pp. 43-44.

12-month period, beginning in April of the same year the calculation is performed. Any over or under recoveries from the prior RNA period will be rolled into the next RNA period. The intent of the RNA is to collect the exact amount of revenues per customer allowed in base rates.[545] Both refunds and recoveries will be subject to a 6% interest rate.[546]

2. The RNA Is Authorized By Statute.

Act 58 of 2018 amended the Public Utility Code by providing the Commission with express statutory authority to approve alternative rate mechanisms, such as revenue decoupling, in a utility's base rate proceeding. The RNA is a "decoupling mechanism" as defined by Section 1330 of the Code.[547]

> **"Decoupling mechanism."** As follows:
>
> > **(1) A rate mechanism that reconciles authorized distribution rates or revenues for differences between the projected sales used to set rates and actual sales, which may Include, but not be limited to, adjustments resulting from fluctuations in the number of customers served and other adjustments deemed appropriate by the commission.**

The Commission, recognizing that there are considerable shifts in the rate-setting environments for utilities, issued a Policy Statement inviting utilities within the context of a base rate proceeding to propose ratemaking mechanisms and rate designs that further the policy objective of promoting the efficient use of energy.[548] The Commission's Policy

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[545] Columbia St. No. 17, p. 44.
[546] Columbia St. No. 17, p. 45.
[547] 66 Pa. C.S. §§ 1330(b)(1).
[548] *Fixed Utility Distribution Rates Policy Statement, Final Policy Statement Order*, Docket No. M-2015-2518883 (Order entered July 18, 2019).

Statement sets forth fourteen factors that the Commission will consider when evaluating alternative ratemaking proposals. Columbia has considered each of the factors listed in the Policy Statement that are applicable to the Company's proposal to implement the RNA. These factors are explained in the Direct Testimony of Columbia witness Taylor.[549]

3. The RNA Is In The Public Interest And Should Be Approved.

The RNA promotes revenue stabilization because it relies on distribution revenue per customer, not usage per customer. Once the Company's revenue requirement is set through a base rate proceeding, a benchmark revenue per residential customer is established. Because the link between level of throughput and base revenue recoveries is broken, reduced throughput will not lead to revenue and earnings erosion due to under-recovery.[550] In this way, the RNA aligns the Company's and its customers' interests as they pertain to energy efficiency and conservation initiatives. The RNA addresses the Company's need to recover its fixed distribution system costs that do not vary with usage, while at the same time removing a major disincentive for the Company to promote conservation and efficiency.

As explained by Mr. Taylor, the RNA is needed in addition to the WNA because both serve distinct purposes, and the RNA is needed to ensure full revenue stabilization that the WNA does not achieve. The WNA only adjusts for weather related revenue variations, while the RNA addresses non-weather-related revenue fluctuations, along with weather-related revenue fluctuations not captured by the WNA. The RNA will allow

[549] *See* Columbia St. No. 17, pp. 48-52.
[550] Columbia St. No. 17, pp. 49-50.

Columbia to recover its approved revenue requirement while ensuring customers do not pay more than their cost to serve.[551]

Benefits of the RNA are listed below:[552]

- The RNA ensures recovery of fixed costs in line with cost-of service, preventing over- or under-collection and better aligning distribution revenues with cost causation principles.

- The RNA stabilizes recovery of fixed distribution costs, ensuring Columbia can invest in infrastructure to meet peak and long-term capacity needs while reducing under-recovery risk during low-usage periods.

- The RNA calculates revenue targets by customer class and assigns adjustments individually within each class, preventing both inter-class and intra-class cost shifting.

- The RNA provides customer protections including no over-recovery of authorized revenue, regulatory oversight and customer transparency.

Mr. Taylor further explained that decoupling mechanisms such at the RNA are common throughout the U.S., with at least 50 natural gas utilities in 21 states having full or partial decoupling mechanisms.[553]

4. The Other Parties Objections To The RNA Should Be Rejected.

The other parties in this proceeding oppose implementation of the RNA. Notably none of the parties attempted to quantify their alleged harms. In addition, their criticisms can be alleged about any revenue decoupling mechanism. Nonetheless, many utilities have revenue decoupling mechanisms because they allow for the recovery of fixed costs while at the same time encouraging the utility to promote energy conservation and efficiency

[551] Columbia St. No. 17, p. 46.
[552] Columbia St. No. 17, pp. 48-52.
[553] Columbia St. No. 17, p. 53.

measures which are advocated for by these parties. The Company believes that these important policy goals far outweigh the parties' unquantified criticisms. For the reasons explained below, other parties' arguments against the RNA should be denied.

Several of the parties argue that the RNA guarantees rate recovery without providing customer protections.[554] As explained by Mr. Taylor, the RNA does not guarantee earnings but simply aligns actual revenues with authorized revenues.[555] This is due to the fact that the fixed customer charge recovers such a small percentage of fixed costs. Further, the RNA also offers important customer protections such as prevention of over-recovery.

The parties argue that the Company has not proved the need for greater rate stabilization.[556] These arguments are not correct. The Company has demonstrated in this proceeding that its distribution system costs are fixed, yet the majority of costs are recovered through volumetric charges.[557] Even with the WNA, the Company has under-recovered its authorized revenues by approximately $69 Million since 2019.[558] This is a significant level of revenues that could be used to assist the Company's infrastructure replacement program.

OCA witness Deupree argues that the RNA removes incentives for the Company to control costs.[559] Contrary to Mr. Deupree's assertions, the RNA does not affect the

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[554] CAUSE-PA St. No. 2, p. 69; OCA St. No. 1, p. 2.
[555] Columbia St. No. 17-R, p. 22.
[556] *See e.g.*, OCA St. No. 1, p. 27.
[557] *See* Columbia St. No. 17, p. 6; Columbia St. No 6-R, p. 14.
[558] Columbia St. No. 17, p. 38, Table 6.
[559] OCA St. No. 1, p. 20.

Company's obligation to manage its costs.[560] Columbia still has a strong incentive to control expenses and capital improvement costs and is also subject to audits for recommendations on how to control costs.

OCA argues that the RNA discourages energy efficiency and conservation.[561] This argument is not correct for several reasons. Customers are still incented to reduce their gas usage through the volumetric components of their bills, including gas commodity charges. When customers reduce usage, even under an RNA, their bills are lower. The RNA is designed to stabilize recovery of fixed distribution costs, not volumetric costs. In addition, breaking the link between sales and revenue removes the traditional "throughput incentive" under which utilities earn more by selling more energy. This incentivizes the Company to actively promote energy efficiency and conservation initiatives without facing a financial penalty for reduced sales.[562]

The other parties argue that the RNA can harm individual users under certain circumstances, such as if an individual's usage is constant and others are not constant.[563] These are minor concerns that the other parties have not even attempted to quantify. The Company believes that the overall policy goals of providing for the recovery of fixed costs while encouraging conservation of natural resources outweigh the parties' unquantified criticisms.

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[560] Columbia St. No. 17-R, p. 20.
[561] OCA Exhibit MWD-1, p. 1.
[562] Columbia St. No. 17-R, pp. 22-23.
[563] I&E St. No. 3, p. 26.

I&E witness Sakaya argues that the RNA is "single issue ratemaking."[564] This statement is not correct because, as explained above, the RNA is designed to allow the Company to recover its authorized revenues that are determined in this base rate proceeding – not a single category of costs.

OCA witness Deupree argues that the RNA undermines the credibility of the WNA.[565] This is not correct, as the WNA only provides limited revenue stability and does not provide for sufficient recovery of fixed distribution costs.[566]

Mr. Sakaya inappropriately attempts to analogize the RNA to a "take-or-pay" arrangement.[567] As discussed above, a "take-or-pay" arrangement may be applicable to the purchase of a commodity, such as gas. However, the same argument does not apply to distribution service. Columbia must have the same safe and reliable infrastructure in place to serve its customers, regardless of consumption.[568]

OCA witness Alexander also argues that the Company's educational materials for the RNA are insufficient.[569] Mr. Taylor addressed this issue in his Direct Testimony, stating that the Company will implement clear customer communications, including bill inserts and an online education portal. The Company will also train customer service representatives to address customer questions.[570]

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[564] I&E St. No. 3, p. 25.
[565] OCA St. No. 1, p. 56.
[566] Columbia St. No. 17-R, p. 23.
[567] I&E St. No. 3, p. 27.
[568] Columbia St. No. 17-R, p. 8.
[569] OCA St. No. 6, p. 25.
[570] Columbia St. No. 17, p. 52.

5. Conclusion As To The RNA

The Company has addressed the other parties' criticisms with respect to the RNA in this proceeding. The RNA is needed in addition to the WNA to allow the Company an opportunity to reduce revenue loss due to the mismatch between recovering fixed distribution costs through volumetric rates. Contrary to the arguments of the other parties, the RNA benefits Columbia and its customers by achieving greater revenue stability while removing a significant disincentive for NGDCs to encourage customers to experience the benefit of controlling their usage, conserve natural resources and save money on the commodity portion of their bills. Columbia's proposed RNA should be approved.

XII. CUSTOMER SERVICE/QUALITY OF SERVICE

A. CALL CENTER PERFORMANCE

OCA witness Alexander proposes that any approved rate increase in this proceeding include a requirement that Columbia maintain its 2024 call center performance levels throughout the FPFTY.[571] In Surrebuttal, Ms. Alexander clarified that her "recommendation does not call for any suggestion that the rate increase should not take effect if Columbia's future call center performance deteriorates below the 2024 performance level."[572] While the Company agrees that any approved rate increase should not be conditioned on meeting Ms. Alexander's suggested performance standards, the Commission should reject Ms. Alexander's recommended call center performance standards entirely.

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[571] OCA St. 6-R, p. 5.
[572] OCA St. 6SR, p. 5.

Ms. Alexander provides very little support for her suggested requirement, singling out historic performance from 2021 to 2023 in two areas, call abandonment rate and percentage of calls answered in 30 seconds.[573] However, Columbia's 2024 call center performance demonstrated marked improvements in these areas, with the Company answering 83% of calls within 30 seconds and achieving a 2.25% call abandonment rate.[574] The Company's internal performance standard for calls answered within 30 seconds is 80% and its internal performance standard for the call abandonment rate is 2.5%.[575] The Company was meeting the 80% target for calls answered within 30 seconds as of June 2025 and the 2.5% target abandonment rate as of the first quarter of 2025.[576] Ms. Alexander acknowledges this improvement by recommending that the Company maintain its current service levels. Ms. Alexander also agrees that Columbia has maintained those performance levels in 2025 to date.[577]

Further, Columbia witness Paloney described the measures the Company has taken since 2023 to achieve these improvements in call center performance. In 2023, the Company created a team to identify opportunities to improve call center performance, which developed and implemented several measures to enhance customer satisfaction,

[573] OCA St. 6, p. 12.
[574] OCA St. 6, pp. 11-12.
[575] Columbia St. No. 9-R, pp. 18-19. In her Direct Testimony, Ms. Alexander states that Columbia does not appear to have established a formal target for call abandonment rates. OCA St. 6, p. 12. In Rebuttal, the Company clarified that it does have an internal performance standard for the call abandonment rate, which is 2.5%. Columbia St. No. 9-R, pp. 18-19.
[576] Columbia St. No. 9-R, pp. 18-19.
[577] OCA St. 6SR, p. 7.

improve call center performance, and foster employee engagement. These measures included: (1) a new mentorship program for new CSRs; (2) a New Hire Engagement and Recognition program to improve retention of CSRs; (3) new CSR empathy training to improve customer satisfaction; and (4) new Real-Time Analyst positions to monitor call center performance in real time.[578] These long-lasting measures have already led to improved call center performance metrics, as demonstrated by the Company's performance in 2024 and 2025 to date. Ms. Alexander has presented no evidence to suggest that these changes will not continue to be effective moving forward or that the Company is at risk of reverting back to pre-2024 performance levels. The Commission should reject Ms. Alexander's recommended performance standards.

B. CUSTOMER COMPLAINT ROOT CAUSE ANALYSIS

OCA witness Alexander recommends that the Company be required to develop and implement a root cause analysis of customer disputes, including formal and informal complaints. Ms. Alexander states that the root cause analysis should be developed using input from interested stakeholders within 6 months of the adoption of a final order in this proceeding.[579] This recommendation should be rejected.

Ms. Alexander claims that the Company has no internal documentation that reflects an analysis of trends and issues, determines the root cause, or reflects documented changes to the complaint process.[580] The Company explained that it does track complaints by issue

[578] Columbia St. No. 9-R, pp. 17-18.
[579] OCA St. 6, pp. 16-17.
[580] OCA St. 6, p. 15.

and that its Regulatory Compliance department also holds regular meetings with the call center and other customer-facing teams to review complaint trends and address emerging concerns.[581] Columbia witness Paloney described that these collaborative discussions often lead to targeted refresher training or individualized coaching to reinforce proper procedures and improve customer interactions.[582] The Company maintains that its current approach, which is focused on identifying patterns and addressing systemic issues through regular reviews and targeted interventions, is a more efficient and effective method for improving customer experience than undergoing a formal root cause analysis.[583]

Further, Ms. Alexander has not demonstrated any need to develop and implement a root cause analysis for customer disputes, including formal and informal complaints. In fact, Ms. Alexander's own testimony demonstrates that the Company is outperforming other NGDCs in Bureau of Consumer Services ("BCS") reports concerning customer complaints and payment arrangement disputes that require BCS investigation.[584] Ms. Alexander testifies that the Company's "justified" complaint rate and its verified infraction[585] rate were the lowest of all other Pennsylvania NGDCs in 2023.[586] Her characterization that the Company is experiencing a "deterioration" related to justified payment arrangement cases is baseless, as the report she cites shows only a .03% increase

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[581] Columbia St. No. 9-R, p. 24.
[582] Columbia St. No. 9-R, p. 24.
[583] Columbia St. No. 9-R, p. 24.
[584] *See* OCA St. 6, pp. 14-15.
[585] Verified infractions in this context relate to findings that utilities have not complied with Chapter 56 of the Commission's regulations. OCA St. 6, p. 15.
[586] OCA St. 6, pp. 14-15.

in these cases between 2021 and 2023.[587] This minor increase over a 3-year period does not support Ms. Alexander's dramatic characterization.

While Ms. Alexander also claims that the Company has not conducted a call center audit for compliance with unidentified "Pennsylvania consumer protections," she does not offer any explanation as to how such an audit relates to customer disputes or justifies her recommendation for a root cause analysis.[588] She simply assumes that if the Company did not perform an audit of unidentified "Pennsylvania consumer protections," then it "lack[s] any proactive oversight" of its call center operations.[589] The Commission should disregard this unsupported opinion completely.

Ms. Alexander fails to show any need to develop and implement a root cause analysis for customer disputes. The Commission should reject her proposal.

C. USE OF AUTOMATED SCRIPTS AND BOTS

OCA witness Alexander recommends that the Company review its scripts for automated chat programs and IVR scripting to ensure compliance with consumer protection rights.[590] In Rebuttal, the Company agreed to conduct a thorough review of its workflow and scripting regarding consumer protections for these areas and to report its findings to its Universal Service Advisory Council ("USAC")within 6 months of the final order entered in this proceeding.[591]

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[587] *Id.*
[588] OCA St. 6, p. 16.
[589] OCA St. 6, p. 16.
[590] OCA St. 6, p. 22.
[591] Columbia St. No. 9-R, p. 27.

D. BILLING AND PAYMENT POLICIES

OCA witness Alexander also recommends that the Company evaluate and report on the effectiveness of its payment plans and related policies and identify potential reforms or enhancements that could improve the overall success rate of these arrangements.[592] This recommendation should be rejected.

Ms. Alexander's only support for this recommendation is the .03% increase in justified payment agreements between 2021 and 2023 discussed in Section XII B, above.[593] As previously discussed, that minor increase does not demonstrate any trend or uptick in justified payment agreements and certainly does not necessitate the comprehensive analysis and report on the effectiveness of the Company's payment agreement policies suggested.

Ms. Alexander does not allege that the Company is not adhering to the applicable provisions of the Public Utility Code, the Commission's orders or regulations, or the Company's Commission-approved tariff related to payment agreements.[594] The Company already strictly adheres to all collection procedures outlined in Chapter 56 of the Commission's regulations, including the payment arrangement provisions established pursuant to Chapter 14 of the Public Utility Code.[595] For these reasons, Ms. Alexander's proposal is unnecessary and should be rejected.

[592] OCA St. 6, p. 17.
[593] OCA St. 6SR, p. 11.
[594] *See* OCA St. 6, p. 17; OCA St. 6SR, p. 11.
[595] Columbia St. No. 9-R, p. 25.

E. FIELD TERMINATION TRAINING MATERIALS

OCA witness Alexander recommends that the Company be required to revise its training materials and provide additional training to ensure compliance with all applicable consumer protections and rights for residential customers facing service termination.[596] Here, Ms. Alexander raises concerns regarding the training and procedures followed by the Company's field technicians at the time of service termination.[597] Ms. Alexander's proposal should be rejected. The Company's current policies and training are fully compliant with all regulatory requirements, and it is unnecessary to require Columbia to revise its field termination training materials.[598]

Ms. Alexander overlooks the fact that the Company has multiple contacts with customers leading up to the moment of termination that inform customers of their rights, including the 10-day termination notice and 3-day personal contact attempts.[599] The written notice left at the premises after termination also informs customers of their rights.[600] The point of field contact is not the appropriate time to reiterate all consumer protections and rights, particularly given potential safety risks and privacy concerns for both the customer and the field technician. For example, discussing protections related to domestic violence in an uncontrolled environment could inadvertently cause harm.[601]

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[596] OCA St. 6, p. 19.
[597] OCA St. 6, p. 19.
[598] Columbia St. No. 9-R, p. 26.
[599] Columbia St. No. 9-R, p. 26.
[600] Columbia St. No. 9-R, p. 26.
[601] Columbia St. No. 9-R, p. 26.

Ms. Alexander argues in Surrebuttal that she intends only that field technicians be trained to recognize and respond to all potential customer rights that may be raised by the customer, not that they be required to reiterate all possible rights at the time of termination.[602] However, the Commission's regulations related to procedures immediately prior to termination lay out four conditions under which termination cannot occur: (1) "when evidence is presented which indicates that payment has been made"; (2) "a serious illness or medical condition exists"; (3) "a dispute or complaint is properly pending"; and (4) "if the employee is authorized to receive payment and payment in full is tendered in any reasonable manner."[603] As the Company explained, termination work orders are not generated for any account that is in dispute.[604] The other three conditions are directly addressed in the training materials quoted by Ms. Alexander.[605] As such, the Company's training materials properly address the conditions that would require its employees to withdraw termination under the Commission's regulations and further training for employees carrying out terminations is not necessary. Ms. Alexander's proposal should be rejected.

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[602] OCA St. 6SR, pp. 12-13.
[603] 52 Pa. Code § 56.94(1).
[604] Columbia St. No. 9-R, p. 26.
[605] *See* OCA St. 6, p. 18.

XIII. UNIVERSAL SERVICE PROGRAMS

A. COLUMBIA'S SPEECH ANALYTICS PILOT SHOULD BE APPROVED AS FILED

Pursuant to the settlement reached in the Company's last base rate case at Docket No. R-2024-3046519,[606] the Company is proposing a Speech Analytics Pilot Program that will use Speech Analytics Technology ("SAT") to review customer calls to identify customers that may be eligible for Columbia's Customer Assistance Program ("CAP") and were not referred to CAP during a customer service call. The Speech Analytics Pilot has two primary goals: (1) to verify that existing Company policies related to CAP referrals are being followed; and (2) to improve the rate of referrals to CAP by identifying key contacts, conversations, and words or phrases that would more quickly recognize a CAP-eligible customer and use those to adjust processes to make appropriate referrals to CAP as soon as possible.[607] SAT is a tool that uses artificial intelligence natural language processing to analyze customer conversations from live or recorded audio data.[608] In Phase I of the Speech Analytics Pilot, the Company will use SAT to screen recordings of calls related to payment arrangements, while in Phase II the Company will expand its call screening to recordings of a sample size of all call types, with the intention to expand

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[606] *See Columbia Gas of Pa. v. Pa. PUC, et al.*, Docket Nos. R-2024-3046519, *et al.*, at 21 (Order entered Nov. 21, 2024) ("Columbia will present a pilot program involving the use of speech analytics no later than the Company's next USECP review or base rate proceeding, whichever comes first. As discussed in the Direct Testimony of OCA witness Colton, the Company will include the USAC in the development of the speech analytics pilot. The Company may recover the costs thereof through its Universal Services Rider.").
[607] Columbia St. No. 16, p. 7.
[608] *Id.*, p. 8.

screening to all calls.[609] In both phases, the Company will look for specific, words, phrases, or themes, as recommended by the Company's USAC,[610] to identify customers that were not referred to CAP but may be eligible based on the conversation.[611] The Company will consult the USAC to provide feedback regarding the appropriate words and phrases the SAT will use in the Pilot. The Company will also share preliminary findings and ongoing results with its USAC.[612] The Company's estimated annual budget for the Speech Analytics Pilot is $300,000, which includes the prorated portion of the annual licensing fee for SAT, programming the SAT, analyzing results, and related training.[613] The Company proposes recovering costs related to the Speech Analytics Pilot through its Rider USP.[614] OCA, CAUSE-PA and I&E have each offered positions on the Speech Analytics Pilot.

OCA witness Colton recommends approval of the Company's Speech Analytics Pilot, with costs recoverable through Rider USP.[615]

CAUSE-PA witness Geller does not appear to oppose the Speech Analytics Pilot but raises certain concerns with the use of SAT generally and makes recommendations based on those concerns.[616] The Company has demonstrated that the proposed Speech Analytics Pilot will have safeguards in place to address Mr. Geller's concerns. For

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[609] *Id*.
[610] Columbia's USAC is made up of low-income customer advocates who provide feedback and input on the Company's Universal Service programs.
[611] Columbia St. No. 16, p. 8.
[612] *Id*., p. 10.
[613] *Id*., p. 9.
[614] *Id*.
[615] OCA St. 5, pp. 73-74.
[616] *See* CAUSE-PA St. 1, pp. 32-33.

example, Mr. Geller is concerned that artificial intelligence ("AI") tools like SAT "have the potential to infuse bias within the modeling, which could result in disproportionate outcomes based on factors such as race, ethnicity, gender, age, primary language, or education level."[617] However, the Company will not be using demographic data in its implementation of SAT and will instead focus on specific words and phrases to help identify eligible customers for enrollment in CAP. The Company will also evaluate its plan for any inherit bias prior to implementation and draw on the experience of its USAC to ensure that the SAT screens for the appropriate words and phrases to identify eligible customers.[618] Mr. Geller cautions that the Company should not rely solely on its USAC for this task and recommends seeking input from other organizations with expertise and experience in this area.[619] The Company clarified in Rebuttal that it will not rely solely on the USAC and that the NiSource Data Science Team will build the framework for the Speech Analytics Pilot.[620] This team collectively brings over 40 years of experience in Data Science and Natural Language Processing, with specific experience in the development of models on customer communications and phone transcripts.[621] Mr. Geller also recommends that the Company be prohibited from sharing data collected through the Speech Analytics Pilot with any third parties other than the contractors who help develop the SAT used.[622] Here, the Company already has existing, stringent guidelines in place

[617] CAUSE-PA St. 1, p. 32.
[618] Columbia St. No. 16-R, pp. 5-6.
[619] CAUSE-PA St. 1, p. 32.
[620] Columbia St. No. 16-R, p. 5.
[621] Columbia St. No. 16-R, pp. 5-6.
[622] CAUSE-PA St. 1, p. 33.

regarding sharing sensitive customer information to third parties and data security in general, and has clarified that no raw data collected through the Speech Analytics Pilot will be shared with third parties.[623] The Company has sufficient safeguards in place to address CAUSE-PA witness Geller's concerns regarding the Speech Analytics Pilot.

I&E witness Patel opposes rate recovery of the Company's annual expense claim of $300,000 for the Company's proposed Speech Analytics Pilot.[624] Although Mr. Patel claims he is not opposed to improving customer service using AI, he offers six reasons why he opposes the Pilot. First, Mr. Patel argues that the use of SAT is not mandated by any statute or regulation. Although Mr. Patel is correct that the use of SAT is not specifically mandated by statute or regulation, the Company committed to proposing this Speech Analytics Pilot as part of the settlement of its last base rate case. Moreover, the Commission encourages the use of pilots to improve Universal Service programs.[625] Second, Mr. Patel claims that the Company has not supported the $300,000 annual expense of the Pilot.[626] However, in Direct Testimony, Columbia identified that the SAT budget is to cover Columbia's prorated portion of the SAT licensing fee, programming the SAT, analyzing results and training.[627] Third, Mr. Patel argues that recovery of costs through the Rider USP will provide the Company with a guaranteed return without any metrics of success or corresponding benefits to customers.[628] Mr. Patel overlooks the fact that the

[623] Columbia St. No. 16-R, p. 6.
[624] I&E St. No. 2, p. 100.
[625] Columbia St. No. 16-R, p. 19.
[626] I&E St. No. 2, p. 101.
[627] Columbia St. No. 16, p. 9.
[628] I&E St. No. 2, p. 101.

Company will be able to gauge the success of the Speech Analytics Pilot through increased CAP enrollments and that the Company has committed to working with its USAC to develop reporting metrics and to provide regular updates to the USAC with the results. The success of the Speech Analytics Pilot will also be evaluated by a required third-party evaluation.[629] Fourth, Mr. Patel justifies his proposed disallowance in part on a mistaken belief that the SAT the Company proposes to employ through the Pilot is already in use.[630] However, the SAT for the Speech Analytics Pilot is not currently being used in Columbia's call centers and was purchased for use in the proposed Pilot.[631] Relatedly, Mr. Patel claims that the spending for the pilot is "imprudent" because it will be recovered from all customers but designed to target only a segment of customers for CAP enrollment.[632] Here, Mr. Patel fails to recognize that accelerating CAP enrollments through the Speech Analytics Pilot will benefit all Columbia customers by avoiding additional arrears accumulated prior to enrollment, preventing terminations, and increasing successful monthly payments.[633] Fifth, Mr. Patel argues there is no proven benchmark through other utilities' SAT experience to assure success of the Pilot.[634] As explained previously, Columbia will be developing metrics to assess the success of the Pilot in identifying more customers' eligibility for CAP. Moreover, the purpose of a Pilot is to test whether SAT will be a useful tool. Mr. Patel's claim that the Pilot should not go forward because it has

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[629] Columbia St. No. 16-R, p. 19.
[630] I&E St. No. 2, pp. 101-102.
[631] Columbia St. No. 16-R, pp. 19-20.
[632] I&E St. No. 2, pp. 101-102.
[633] Columbia St. No. 16-R, p. 20.
[634] I&E St. No. 2, p. 102.

not been demonstrated to be successful for other utilities is contrary to the whole purpose of a pilot program.[635] Finally, Mr. Patel argues that the SAT should be presented in the context of Columbia's next Universal Service and Energy Conservation Plan ("USECP") proceeding.[636] Waiting for the next USECP does not justify delaying the Pilot, particularly considering the proposal of the Pilot was conditioned on the next base rate case filed or the next USECP filed, whichever comes first. By acting now, the Company can test the effectiveness of the Pilot and realize the benefits in time for any process changes to be incorporated in the Company's next USECP.[637] Further, Columbia's next USECP filing is due in April 2030, and the Pilot should not be delayed until that filing is approved.[638] For these reasons, Mr. Patel's proposed disallowance should be rejected, and the Commission should approve the Company's Speech Analytics Pilot.

B. THE COMPANY'S CAP ARREARAGE PILOT PROGRAM SHOULD BE APPROVED AS FILED

The Company is proposing a two-year CAP Arrearage Pilot Program ("CAP Pilot") to help customers who were removed from CAP for non-payment return to the program. The Company proposes a $100,000 budget for this pilot, to be recovered through its Rider USP. Columbia estimates that the CAP Pilot will provide assistance to at least 153 customers and has budgeted for up to 270 customers to be served through the program based on average arrears.[639] Under the proposed CAP Pilot, the Company will issue grants

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[635] Columbia St. No. 16-R, p. 19.
[636] I&E St. No. 2, p. 102.
[637] Columbia St. No. 16-R, p. 21.
[638] Columbia St. No. 16-R, p. 7.
[639] Columbia St. No. 16., pp. 3, 5.

up to $650 for the payment of CAP arrears to facilitate re-entry into CAP. Customers will be approved for the grant by the current CAP administrator, Dollar Energy Fund ("DEF"), while the Company's Energy Assistance Team ("EAT") will be responsible for posting the grants to customer accounts. Once the grant is posted, the customer will be re-enrolled in CAP.[640] To be eligible for the CAP Pilot, customers must meet all existing CAP requirements as specified in the Company's USECP and must have outstanding CAP arrears. Customers will be eligible for only one grant through the CAP Pilot.[641] The $650 grant amount is in line with the maximum hardship fund grant awarded through the Company's Hardship Fund and the Company's records reveal that most CAP customers owe less than $650 in arrears.[642] Initial referrals to the CAP Pilot will be made by Company CSRs, and if additional funds remain after 3 months of the Pilot's initiation, the Company will provide reach out to potentially eligible customers in writing.[643] The Company will report on the progress of the proposed CAP Pilot through reports at USAC meetings, as well as through annual reports to its USAC.[644]

No party opposes the Company's proposed CAP Pilot. OCA witness Colton recommends that the Commission approve the Company's CAP Pilot as proposed.[645] CAUSE-PA witness Geller is "strongly supportive" of the CAP Pilot and also recommends its approval. However, Mr. Geller further recommends that the CAP Pilot term be extended

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640 *Id.*, p. 3.
641 *Id.*, p. 4.
642 *Id.*, p. 4.
643 *Id.*, pp. 5-6.
644 *Id.*, pp. 6-7.
645 OCA St. 5, p. 111.

to three years with a budget of $244,200, and that the Company conduct targeted outreach to all potentially eligible customers regarding the CAP Pilot, including in October prior to the winter heating season and in March before the winter moratorium ends.[646]

Mr. Geller's recommended expansion of the CAP Pilot should be rejected. The Company believes a 2-year pilot with a budget of $100,000 will provide enough data to analyze results and determine effectiveness of the CAP Pilot.[647] Mr. Geller justifies the extension of the program in part to align with the filing of the Company's next USECP, but the Company's next USECP is not due until 2030, which is more than three years away.[648] The Company's proposed outreach, including targeted referrals to the CAP Pilot in the initial months of the program followed by broader outreach to potentially eligible customers if funds remain, is a prudent way for the Company to gauge customer reception of the Pilot and ensure the Pilot is launched smoothly.[649] Further promotion of the CAP Pilot is not necessary at this time.

The Company determined the budget for the CAP Pilot by reviewing its records for removed CAP customers with incomes at or below 150% of the FPIG who owe both CAP and non-CAP arrears. The Company found that there were 150 qualified customers with applications on file and outstanding arrearages, who have average CAP arrears of $370. The $100,000 budget would allow the Company to process 270 similarly situated applicants, which the Company anticipates is within its internal team's capacity to manage

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[646] CAUSE-PA St. 1, pp. 35, 37.
[647] Columbia St. No. 16-R, p. 6.
[648] Columbia St. No. 16-R, pp. 6-7.
[649] Columbia St. No. 16, p. 6.

while providing a good sample size to evaluate the impact of the CAP Pilot.[650] If the Pilot is approved, the Company commits to reviewing the CAP Pilot data points to be collected with its USAC and filing annual results at the Company's most recent USECP docket.[651] Given the Company's commitment to ongoing evaluation of CAP Pilot data and its use of actual customer arrearage data to develop the budget for the program, the Commission should reject CAUSE-PA's recommendations to broaden the scope of the CAP Pilot and approve the CAP Pilot as filed.

C. THE COMPANY'S PROPOSAL TO RECOVER ENERGY ASSISTANCE TEAM COSTS THROUGH RIDER USP SHOULD BE APPROVED AS FILED

The Company proposes to recover EAT costs associated with the administration of Universal Services programs like CARES and CAP through its Rider USP.[652] Under the Company's proposal, approximately $220,000 in annual costs would be shifted from recovery under O&M expenses to the Rider USP. If approved, the Company would use existing processes to ensure the allocated EAT costs are only recovered through the Rider USP.[653] The Company is also proposing minor amendments to the Rider USP provisions in its tariff to account for this change.[654]

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[650] Columbia St. No. 16, p. 5.
[651] Columbia St. No. 16-R, p. 7.
[652] Columbia St. No. 16, p. 10.
[653] *Id.*, p. 14.
[654] *Id.*, p. 15. Specifically, the Company is proposing to add a sentence to the first paragraph under the calculation of the rate to state "and any other replacement or Commission- mandated Universal Service Program or low-income program that is implemented during the period that the rider is in effect." *Id.*

Currently, Universal Services costs associated with the EAT are recovered in base rates.[655] Columbia's EAT is responsible for the administration of all energy assistance activities, from outreach and processing grants to trouble shooting issues. The EAT administers CAP, LIHEAP, CRISIS, the Homeowner Assistance Fund, the Emergency Rental Assistance Program, hardship funds, and the Security Deposit Assistance Fund, and all EAT responsibilities are directly related to the administration of energy assistance programming.[656] All CAP external administration costs and all costs associated with the LIURP program are already recovered through Rider USP.[657]

The shift in funding is necessary because EAT is currently experiencing additional workload due to new outreach coordination, including the coordination of data sharing from the Department of Human Services ("DHS") and the streamlining of CAP applications, which requires additional staffing. Recovering these additional labor costs through Rider USP will permit the Company to appropriately staff for fluctuating demands only when the additional staffing is necessary.[658] For example, the Company has increased staffing of its EAT in recent years to three full-time employees, to meet increased demands of administering LIHEAP and CAP, as well as additional state assistance programs put in place during the COVID pandemic, such as the Homeowners Assistance Fund and the Emergency Rental Assistance Program.[659] The Company maintains that its internal labor

[655] Columbia St. No. 16, p. 10.
[656] *Id.*, p. 11.
[657] *Id.*, p. 12.
[658] *Id.*, p. 12.
[659] *Id.*, pp. 13-14.

costs related to the outreach and delivery of LIHEAP, CAP, and other energy assistance programs are more appropriately recovered through Rider USP and not base rates.

I&E and OCA oppose the Company's proposal to recover EAT costs through the Rider USP. CAUSE-PA does not directly oppose the proposal but raises concerns similar to those raised by OCA. I&E witness Patel argues that recovery of EAT costs through Rider USP is inappropriate because it will provide guaranteed recovery of EAT labor costs while "eliminat[ing]" the Commission's authority to review the reasonableness and prudency of those costs and allowing the Company to add or remove employees without scrutiny.[660] However, Columbia's Universal Service programs are already subject to a third-party evaluation every six years, where the costs and effectiveness of program measures are scrutinized. In addition, the Commission's Bureau of Audits conducts a review of the reasonableness and prudency of all rider-recovered expenses.[661] As such, Mr. Patel's claims that recovery through the Rider USP would hamper Commission review and oversight of the Company's expenditures or labor decisions for the EAT are unfounded.

OCA witness Colton argues that the Company should not recover costs incurred to administer certain federal and state programs like LIHEAP because they are not internal Company programs.[662] Mr. Colton also claims that the Company does not budget internal CAP administrative costs, so recovery through a rider is not an appropriate reconciliation

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[660] I&E St. No. 2, p. 105.
[661] Columbia St. No. 16-R, p. 15.
[662] OCA St. 5, pp. 113-14.

of budgeted costs against actual costs.[663] Mr. Colton further argues that CARES costs are not sufficiently related to assistance programs to warrant recovery through Rider USP.[664]

Mr. Colton's arguments should be rejected for several reasons.[665] The EAT costs result directly from the administration of Universal Services and energy assistance. Moreover, the number of employees that staff the EAT is identified and approved in the Company's USECP.[666] The role of the EAT has evolved in recent years to meet the growing demands of coordinating account review and grant approvals with state and local agencies, implementing program changes agreed to in prior rates cases that were proposed by low-income advocates, and participating in the DHS data sharing agreement.[667] Regarding budgets, the Company has established processes in place for the recovery of internal labor and expenses associated with the LIURP program through Rider USP. The Company has undergone multiple audits, all of which found no evidence of over-recovery related to internal administrative costs of LIURP. If approved, the Company would use these existing processes to ensure these EAT costs are only recovered through the Rider USP.[668] Mr. Colton's claims that CARES costs are not sufficiently related to assistance programs to warrant recovery are baseless. Though Mr. Colton may have criticisms about the effectiveness of the Company's CARES activities, the Company has thoroughly

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[663] OCA St. 5, p. 113.
[664] OCA St. 5, p. 113.
[665] The Company addresses OCA witness Mugrace's proposed disallowance of EAT funds altogether in Section VII M, *supra*.
[666] Columbia St. No. 16-R, p. 15.
[667] *See* Columbia St. No. 16, p. 13; Columbia St. No. 16-R, p. 15.
[668] Columbia St. No. 16, p. 14.

demonstrated that all of the EAT team responsibilities relate to the delivery of Universal Services and energy assistance to customers.[669]

Finally, CAUSE-PA witness Geller "caution[s]" that recovery through Rider USP should be limited to costs for staff that work exclusively on the Company's Universal Services programs and recommends limiting the proposed tariff language to specifically list the programs and costs that are recovered under Rider USP.[670] As explained above, the Company has demonstrated that all EAT responsibilities are directly related to delivering Universal Services. Further, the Company's proposed tariff language should be approved, as it specifies that cost recovery under the Rider USP is limited to Commission-mandated Universal Service Programs and low-income programs.[671] This language sufficiently limits the scope of recovery under Rider USP to Commission-mandated programs while also providing flexibility should the Commission's requirements change in the future. As such, the Company's proposal to recover EAT costs through the Rider USP should be approved.

D. CAUSE-PA'S PROPOSAL TO AUTOMATICALLY ENROLL LIHEAP GRANT RECIPIENTS INTO CAP SHOULD BE REJECTED

CAUSE-PA proposes that the Company automatically enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the DHS data sharing agreement.[672] In line with this recommendation, Mr. Geller asks the

[669] Columbia St. No. 16, p. 11.
[670] CAUSE-PA St. 1, p. 61.
[671] Columbia St. No. 16, p. 15.
[672] CAUSE-PA St. 1, p. 25.

Commission to require Columbia to file a petition to amend its USECP to implement the auto-enrollment.[673] Mr. Geller claims that the auto-enrollment process would "help to reduce administrative burdens for both the Company and the customer."[674] Columbia disagrees with Mr. Geller's auto-enrollment recommendation for several reasons.

First, auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA. For example, customers who have previously participated in CAP may not be eligible for enrollment due to an existing CAP balance, failure to cooperate with weatherization, or if the receipt of the LIHEAP grant causes a credit on the account.[675] As a result, the Company would need to manually review and follow-up on the accounts not eligible for CAP, which in turn would lead to a significant increase in time and resources of the Company's EAT.[676]

Second, customers who are automatically enrolled in CAP would not have the opportunity to review and agree to the responsibilities associated with CAP participation. These program responsibilities include providing proof of income to the Company on a regularly scheduled basis, notifying the Company of any changes in household size or income, agreeing to make bill payments every month, accepting changes to CAP approved by the Commission, and cooperating with weatherization.[677] The Commission recently rejected a Peoples Natural Gas Company petition ("Peoples Petition") seeking to

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[673] CAUSE-PA St. 1, p. 25.
[674] CAUSE-PA St. 1, p. 26.
[675] Columbia St. No. 16-R, p. 2.
[676] Columbia St. No. 16-R, p. 3.
[677] Columbia St. No. 16-R, p. 3.

automatically enroll customers into CAP using the shared DHS data in part because "customers who are auto-enrolled in CAP may not understand the program's requirements and restrictions."[678]

Third, the Company maintains that customers should be given the option to determine whether CAP participation aligns with their household's financial needs. The Company cannot decide for its customers whether CAP is financially beneficial for their households.[679] While Mr. Geller argues that customers who participate in data sharing are "explicitly indicating they want DHS to share information from their application "*to help enroll [their] household in a utility or energy assistance program*,"[680] CAP enrollment is distinct from other energy assistance programs, and interest in energy assistance generally does not guarantee that a customer wants be enrolled in an ongoing program with specific requirements like CAP. Moreover, the language quoted by Mr. Geller indicates a preference for "help" with enrollment and does not place customers on notice that enrollment could be automatic. The majority of energy assistance available to Columbia's low-income customers comes in the form of one-time grant payments based on eligibility in a moment in time. CAP, on the other hand, requires periodic confirmation of financial eligibility as well as commitment to specific program terms and services.[681] Customers

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[678] *See Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan*, Docket Nos. P-2024-3052324, *et al.*, (Order entered April 24, 2025), p. 20.
[679] Columbia St. No. 16-R, p. 2.
[680] CAUSE-PA St. 1SR, p. 25 (emphasis in original).
[681] *See* Columbia St. No. 16-R, pp. 2-3.

seeking relief through grants may not want to fully commit to CAP enrollment and Columbia is not in a position to make that choice for them.

In Surrebuttal, Mr. Geller proposes a number of amendments to his original proposal, including making the auto-enrollment opt-out, and only auto-enrolling "households which are clearly eligible for and will benefit from CAP."[682] However, Mr. Geller does not respond to the Company's testimony that auto-enrollment would increase program administration costs, including related to the manual follow-up required for customers that opt-out or by reviewing LIHEAP data to screen for CAP eligibility.[683]

The status of the Peoples Petition demonstrates that Mr. Geller's suggestions do not guarantee Commission approval of the petition he seeks, even with his proposed changes. A Petition for Reconsideration filed by CAUSE-PA remains pending at that docket, so there has been no final determination of the Peoples Petition. Notwithstanding, the Commission's Opinion and Order dated April 24, 2025, identifies a number of serious concerns with auto-enrollment, including stale income information from the DHS data, differing eligibility and program requirements between LIHEAP and CAP, the impact of enrollment on customers with natural gas suppliers, establishing the proper CAP payment amount and arrearage threshold, and educating auto-enrolled customers on the benefits, responsibilities, and restrictions that come with CAP and how to opt out.[684] At a minimum,

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[682] CAUSE-PA St. No. 1SR, p. 25.
[683] *See* CAUSE-PA St. No. 1SR, pp 24-27; Columbia St. No. 16-R, pp. 2-3.
[684] *See Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan*, Docket Nos. P-2024-3052324, et al., pp. 9-23 (Order entered April 24, 2025).

administration of any auto-enrollment program using DHS data will require significant program design, labor, and coordination to sufficiently address the Commission's well-reasoned concerns. As such, the Commission should not require the Company to seek approval to amend its USECP while the outcome of the Peoples Petition remains pending. For these reasons, the Commission should reject CAUSE-PA's automatic enrollment proposal.

E. THE OTHER PARTIES' PROPOSALS FOR ADDITIONAL CAP SCREENING SHOULD BE REJECTED

Both CAUSE-PA witness Geller and OCA witness Colton recommend a more thorough screening of applicants and customers when customers contact Columbia's call center to connect or transfer service.[685] Under these proposals, the Company would be required to screen all applicants for their income level at the time they establish or transfer service to identify whether they are low-income or may be eligible for energy assistance.[686] However, the majority of customers contacting Columbia to initiate or transfer service are not identified as low-income and approximately 82% of the Company's customer base does not meet low-income criteria.[687] Requiring financial information during these often initial interactions with customers may be perceived as intrusive, potentially leading to a negative first impression and diminished customer satisfaction.[688] Adopting these proposals will also increase the average call handle time and, therefore, could significantly impact current

[685] CAUSE-PA St. 1, pp. 30-31, OCA St. 5, p. 65.
[686] CAUSE-PA St. 1, pp. 30-31; OCA St. 5, p. 68.
[687] Columbia St. No. 16-SR, p. 4.
[688] Columbia St. No. 16-R, p. 4.

call center performance metrics. To maintain service standards while implementing the OCA and CAUSE-PA proposals, the Company would need to hire a minimum of three full-time employees and implement additional training materials and procedures.[689] For these reasons, the Company does not agree with this recommendation.

Relatedly, CAUSE-PA recommends that the Company begin to review CAP accounts on a monthly basis to ensure customers are receiving the lowest payment option.[690] However, Columbia's CAP account review process is automated, and accounts are already reviewed monthly to determine the lowest monthly payment option for each account.[691] As such, CAUSE-PA's recommended screening is already embedded in the Company's existing review process.

F. LIURP FUNDING

Columbia's LIURP provides high-usage low-income customers with needed weatherization services. Annual funding for the Company's LIURP is set at $5,425,000 for the years 2026 and 2027.[692] Both CAUSE-PA witness Geller and PWPTF witness Warabak recommend that the Company increase its LIURP funding. Mr. Geller recommends that the LIURP budget be increased by a percentage equal to any approved increase to residential rates approved in this proceeding.[693] Ms. Warabak recommends that

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[689] Columbia St. No. 16-R, p. 4.
[690] CAUSE-PA St. 1, p. 38.
[691] Columbia St. No. 16-R, pp. 7-8.
[692] I&E St. No. 1-R, p. 5.
[693] CAUSE-PA St. 1, p. 41.

the LIURP budget be increased by $1,500,000 so that an additional 100 jobs can be completed annually.[694]

The Company's current LIURP spending is sufficient. For covered NGDCs, the Commission's regulations require that a utility's LIURP budget shall be at least 0.2% of the utility's jurisdictional revenues.[695] The Company's current LIURP budget is slightly less than 1% of its jurisdictional revenues, or five times higher than the Commission's minimum standard.[696] The Commission's 2023 Universal Service Program and Collections Performance Reports also shows that Columbia customers are already paying on average $14.00 annually for the LIURP program as compared to the $9.00 average of all Pennsylvania natural gas customers.[697] Further, the Company's non-profit weatherization providers are currently behind in their production for 2025 and have reported they are unable to complete Columbia jobs due to the prioritization of other projects, while the Company is competing with other utilities for the availability of its for-profit weatherization providers.[698] Increasing the LIURP budget would only further stretch the resources of the Company's weatherization providers and lead to unspent funds and is unnecessary considering the program's current funding levels. For these reasons, the proposals to increase LIURP funding should be rejected.

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694 PWPTF St. 1, p. 7.
695 *See* 52 Pa. Code § 58.4(a).
696 Columbia St. No. 16-R, p. 8.
697 Columbia St. No. 16-R, p. 8.
698 Columbia St. No. 16-R, p. 10.

G. HEALTH & SAFETY PILOT FUNDING

CAUSE-PA also recommends that the Company's Health & Safety Pilot funds should be separated from the LIURP budget and rolled over if unspent.[699] Currently, the Company's Health & Safety Pilot has an annual budget of $600,000, and any unused funds are redirected to support other weatherization measures and heating system repairs.[700] LIURP funds are already subject to a rollover, so any remaining Health & Safety Pilot funds carry over for future use.[701] If this recommendation is adopted, funds that could otherwise be used to weatherize a home outside the Health & Safety Pilot may remain unspent simply because there is no immediate need for funding. No property has been denied Health & Safety funding due to lack of available funding to date, so the recommended separation and roll-over is unnecessary.[702] For these reasons, the Commission should reject CAUSE-PA's recommendation to separate Health & Safety Pilot funds from LIURP and roll over unspent funds.

H. HARDSHIP FUND

Columbia's Hardship Fund is a Company-sponsored fund that provides financial assistance through grants to low-income, payment troubled Residential customers. Columbia's Hardship Fund provides cash assistance to eligible customers to reduce arrears, reconnect service or stay a termination of service. PWPTF witness Warabak recommends that the Company increase its contribution to its Hardship Fund by a percentage equal to

[699] CAUSE-PA St. 1, pp. 44-45.
[700] Columbia St. No. 16-R, pp. 10-11.
[701] Columbia St. No. 16-R, p. 11.
[702] Columbia St. No. 16-R, p. 11.

any approved increase to residential rates approved in this proceeding and that Hardship Funds be distributed in accordance with the percentage of low-income customers in the counties served by the Company.[703]

The Company currently has more than $1,000,000 in Hardship Funds. The Company has established processes to direct eligible customers to its CAP, whenever possible. As a result, only those customers that are over income for CAP, decline participation in CAP or require financial assistance for CAP re-entry receive Hardship Funds. Since January 2025, the number of customers entering CAP has doubled compared to the enrollment levels during the first six months of each of the prior six years. Importantly, no customers have been denied Hardship Fund assistance due to a lack of funds in recent years.[704] As such, Ms. Warabak's recommended increase to the Hardship Funds is unnecessary because the program is already adequately funded and therefore, should be rejected.

If the Commission were to direct a shareholder contribution to the Hardship Fund, Columbia would have a right to seek recovery of those funds. Columbia is entitled to recover in rates all expenses reasonably necessary to provide service to its customers.[705] Directing the Company to undertake a "voluntary" contribution results in the contribution no longer being voluntary. The costs incurred as a direct result of complying with the Commission's directive to provide funding for a low-income customer program is a

[703] PWPTF St. 1, p. 7.
[704] Columbia St. No. 16-R, p. 22.
[705] *Butler Township v. Pa. PUC,* 473 A.2d 219, 221 (Pa. Cmwlth. 1984); *T.W. Phillips Gas and Oil Co. v. Pa. PUC,* 81 Pa. Cmwlth. 205, 474 A.2d 355 (Pa. Cmwlth. 1984).

prudently incurred expense and would have to be included in rates. PWPTF's proposal that the Commission order Columbia to increase a voluntary contribution should be rejected.

I. CALL SCRIPTING

In his Direct Testimony, OCA witness Colton identified an omission regarding the Company's policy to waive security deposits to low-income customers in its self-service workflow and scripting.[706] As a result, Mr. Colton recommends a thorough review of these channels to ensure that the availability of a low-income exemption is communicated to customers.[707] In response to Mr. Colton's concerns, in Rebuttal the Company committed to conducting a thorough review of its workflow and scripting and to implementing changes to ensure customers are aware of the low-income exemption for security deposits.[708] No additional review of the Company's call scripting related to security deposits is necessary.

XIV. ENERGY EFFICIENCY PROGRAM

The Company is proposing in this case its Phase II Three-Year Energy Efficiency Plan ("Phase II Plan" or "Plan").[709] The voluntary Phase II Plan is based on the successful implementation of the Company's Energy Efficiency Pilot Program ("EE Pilot"), and the updates in the Plan are based on energy efficiency efforts across other NGDC Energy

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[706] OCA St. 5, p. 78.
[707] *Id*.
[708] Columbia St. No. 16-R, p. 17.
[709] The Company's Phase II Plan was attached to the Direct Testimony of Columbia witness Nunley as Exhibit JAN-2.

Efficiency and Conservation ("EE&C") plans in Pennsylvania.[710] The Company is proposing to continue its two existing energy efficiency programs from the EE Pilot and launch a new, third energy efficiency program. The Phase II Plan will be implemented across three years starting in January of 2026. The Plan's three programs are designed to help the Company's residential and small commercial customers reduce their energy consumption, improve efficiency, and conserve resources. Overall, the Phase II Plan is projected to provide lifetime savings of 2.7 million dekatherms ("Dths") of natural gas at an implementation cost of $7.9 Million over three years.[711]

Importantly, while Columbia is not mandated to enact an EE&C plan under Act 129 of 2008 ("Act 129"), Columbia's voluntary Phase II Plan was developed using the guiding principles of the Commission's Act 129 *Phase IV Implementation Order*.[712] For example, the Phase II Plan employs the Total Resource Cost ("TRC") test laid out in the *Phase IV Implementation Order* to determine the cost-effectiveness of its plan measures and the Plan's budget is well under the 2% cap that Act 129 imposes on electric efficiency programs in Pennsylvania.[713] In addition, on December 23, 2009, the Commission issued a Secretarial Letter[714] encouraging smaller electric distribution companies ("EDCs") to file voluntary EE&C Plans that contain the following components: (1) a detailed plan and

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[710] *Id*., p. 23.
[711] Columbia St. No. 13, p. 8.
[712] *See Energy Efficiency and Conservation Program*, Docket No. M-2020-3015228 (Order entered June 18, 2020) ("*Phase IV Implementation Order*"), *clarified*, Docket No. M-2020-3015228 (Order entered March 12, 2020).
[713] *See* Ex. JAN-2, pp. 5, 9-10.
[714] *See Re: Voluntary Energy Efficiency and Conservation Program*, Docket No. M-2009-2142851 (Dec. 23, 2009) ("EE&C Secretarial Letter").

description of the measures to be offered; (2) sufficient supporting documentation and verified statements or testimony or both; (3) proposed energy consumption or peak demand reduction objectives or both, with proposed dates the objectives are to be met; (4) a budget showing total planned expenditures by program and customer class; (5) tariffs and a section 1307[715] cost recovery mechanism; and (6) a description of the method for monitoring and verifying plan results.[716] The Company's proposed Phase II Plan contains all of these components.[717] Thus, although not directly applicable to NGDCs, Columbia has used the Commission's *Phase IV Implementation Order* and EE&C Secretarial Letter as a guide for developing its proposed Phase II Plan.

For the reasons explained below, the Commission should approve the Phase II Plan as filed.

A. THE EE PILOT

The Company's EE Pilot was originally approved as part of the Company's 2022 Rate Case at Docket No. R-2022-3031211, with a budget of $4 Million for the years 2023 to 2025.[718] The EE Pilot has two programs: (1) the Residential Prescriptive ("RP") Program, which provides incentives for high-efficiency natural gas fired equipment; and (2) the Online Audit Kit ("OAK") Program, which provides customers with a customized online audit that then allows them to receive a space heating and/or water heating kit at no

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[715] 66 Pa.C.S. § 1307.
[716] EE&C Secretarial Letter at 1.
[717] *See generally* Ex. JAN-2.
[718] Columbia St. No. 13, p. 3.

cost.[719] In the Company's 2024 rate case, the EE Pilot was updated to shift funding between programs to support additional prescriptive rebate measures. The updated EE Pilot was approved, with the budget remaining $4 Million for the years 2023 to 2025.[720]

The EE Pilot programs have proven successful to date. The OAK Program quickly exceeded program goals, with 2,455 water savings kits and 1,339 space heating savings kits distributed in the first five months of program operation.[721] Preliminary 2024 data shows that in year two, participation in the RP Program exceeded the Company's projections.[722] The Company's Annual Report on 2023 program performance showed TRC net benefits of $1.8 Million in just five months of program operation for the participating residential Columbia Gas customers.[723] Given this positive preliminary data and the upward trend of customer participation in the EE Pilot programs, the Company decided to transition the existing EE Pilot program into the proposed three-year Phase II Plan, with the expectation of developing energy efficiency Phase updates on an ongoing basis.[724]

B. PHASE II PLAN

As noted above, the Company will continue both the OAK Program and the RP Program in the Phase II Plan. The Phase II Plan reflects two major changes in programming. First, the Company is proposing to expand the measure offerings in the RP

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[719] Columbia St. No. 13, pp. 3-4.
[720] Columbia St. No. 13, p. 3.
[721] Columbia St. No. 13, p. 4.
[722] Columbia St. No. 13, pp. 5-7.
[723] Columbia St. No. 13, p. 7.
[724] Columbia St. No. 13, p. 7.

Program, adding three new rebate offerings to provide customers with more natural gas saving opportunities. These additional rebate offerings include boiler reset controls, efficient fireplace inserts, and single packaged vertical units. Second, the Company is proposing the addition of a Small Commercial ("SC") Program. The SC Program will provide natural gas saving opportunities through equipment rebates to small commercial customers by providing rebates for installing energy efficient equipment for heating, water heating, steam process, commercial cooking and dishwashing, and controls, as well as rebates for making improvements to the building shell through insulation and air sealing.[725] The OAK Program will continue unchanged from the EE Pilot.[726]

1. Overall Benefits of the Phase II Plan

The total Phase II Plan portfolio is projected to cost $7.9 Million over three years, or an average of $2.6 Million per year.[727] At this level of investment, over the three years of the Phase II Plan, the Plan is projected to return a present value of TRC net benefits of $17.1 Million, in 2025 dollars, with a TRC benefit-cost ratio ("BCR") of 2.49.[728] In addition, the RP, OAK, and SC programs are each cost-effective on their own.[729] Together, the Phase II Plan programs are projected to save 160 thousand incremental annual Dths of natural gas and 2.7 million Dths over the lifetime of the measures installed.[730] The Phase II Plan is projected to save 7,629 MWh of electricity and 508 million gallons of water over

[725] Columbia St. No. 13, p. 8.
[726] Columbia St. No. 13, p. 9.
[727] Columbia St. No. 13, p. 9.
[728] Columbia St. No. 13, p. 9.
[729] Columbia St. No. 13, p. 16.
[730] Columbia St. No. 13, p. 12.

the lifetime of the measures installed. The emission reduction of over 164,575 short tons of CO2 is expected to occur from program activity, which is equivalent to removing over 6,286 cars from the road permanently.[731] The Plan is also projected to generate between 81 and 162 net additional new jobs over the lifetime of the efficiency measures installed.[732]

Not only will the Phase II Plan provide significant energy savings and economic benefits for customers described above, but it will also help customers increase the comfort of their homes and businesses, and reduce the emission of greenhouse gases. Reduced spending on energy also shifts spending to other parts of the economy which can have both an economic multiplier effect and help with regional job creation.[733]

2. RP Program Benefits

The RP Program aims to reduce lost opportunities for efficiency improvements during the turnover of natural gas space heating and water heating equipment. The existing Pilot RP program will continue into Phase II by providing incentives for furnaces, boilers, combination space and water heating boilers, tankless water heaters, WIFI-enabled thermostats, natural gas heat pumps, and insulation and air sealing.[734] The RP Program uses ENERGY STAR® criteria as a minimum efficiency level, when available. Phase II of the RP Program will provide customers additional opportunities to save natural gas by providing incentives for boiler reset controls, fireplace inserts, and single packaged vertical

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[731] Columbia St. No. 13, p. 12.
[732] Columbia St. No. 13, p. 13.
[733] Columbia St. No. 13, p. 9.
[734] Columbia St. No. 13, p. 17.

units.[735] The Company will continue to operate with the existing third-party implementor that is currently implementing the Pilot RP program.[736]

The RP Program is cost-effective and is projected to provide present value TRC net benefits of $8.6 Million with a BCR of 2.32. The RP Program is expected to cost $3.8 Million in nominal dollars over three years and save 1.72 million Dth of natural gas over the lifetime of measures installed. The RP Program is also projected to save 6,690 MWh of electricity and approximately 107 thousand tons of CO2 over the lifetime of the installed measures, which is equivalent to permanently removing over 4,074 cars from the road.[737]

3. OAK Program Benefits

In Phase II, the OAK Program will provide residential customers with a free online audit that will provide targeted information for customers on how to reduce their energy usage and bills. The OAK Program will also provide customers who complete the audit with free, targeted energy savings kits. The Company will utilize the same two third-party implementors currently under contract for the OAK Program.[738]

The OAK Program is cost-effective and is expected to cost $1.7 Million in nominal dollars over three years and save 431.5 thousand Dth of natural gas over the lifetime of measures installed. The OAK Program is projected to provide present value TRC net benefits of $7.3 Million with a BCR of 5.78. The OAK Program will also save 500.8 million gallons of water and approximately 25 thousand tons of CO2 over the lifetime of

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[735] Columbia St. No. 13, pp. 17-18.
[736] Columbia St. No. 13, p. 18.
[737] Columbia St. No. 13, p. 17.
[738] *Id.*, p. 20.

the installed measures, which is equivalent to permanently removing over 964 cars from the road.[739]

4. SC Program Benefits

The SC Program is designed to overcome market barriers to energy efficiency space heating, water heating, commercial cooking, and building shell upgrades by providing incentives to businesses that install high efficiency equipment and make improvements to their buildings. The SC Program provides incentives for commercial sized boilers, water heaters, fryers, griddles, dishwashers, process steam traps, single packaged vertical units, advanced rooftop unit controls, and insulation and air sealing. The program uses ENERGY STAR® criteria as a minimum efficiency level, when available.[740] The Company plans to operate with the existing third-party implementor currently implementing the RP program.[741] The Company also plans to utilize the existing RP and OAK evaluator to complete a full impact and process evaluation of the SC Program once program activity reaches levels of statistical significance.[742]

The SC Program is cost-effective and is expected to cost $1.5 Million in nominal dollars over three years and save 544 thousand Dth of natural gas over the lifetime of measures installed. The SC Program is projected to provide present value TRC net benefits of $2.1 Million with a BCR of 1.80.[743] The SC Program will also save 938.4 MWh of

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[739] Columbia St. No. 13, p. 19.
[740] *Id.*, pp. 20-21.
[741] *Id.*, p. 21.
[742] *Id.*, p. 21.
[743] *Id.*, p. 20.

electricity and approximately 32.7 thousand tons of CO_2 over the lifetime of the installed measures, which is equivalent to permanently removing over 1,248 cars from the road.[744]

C. THE COMMISSION SHOULD REJECT THE OTHER PARTIES' RECOMMENDATIONS AND APPROVE THE PHASE II PLAN AS FILED

I&E and CAUSE-PA recommend that the Company's proposed Plan be rejected. OCA supports approval of the Plan along with the adoption of certain recommendations. For the reasons explained below, the Commission should reject the other parties' recommendations and approve the Plan as filed.

1. OCA's Recommendations Regarding Smart Thermostats and Bonus Rebates Should Be Rejected

OCA witness Sherwood supports approval of the Company's proposed Phase II Plan, along with the adoption of certain recommendations.[745] Two of Ms. Sherwood's recommendations are already being implemented by the Company. Specifically, OCA witness Sherwood's recommendation to cover 80-90% of weatherization costs to qualified low-income customers is already covered by Columbia's Audits and Rebates ("A&R") Program.[746] The A&R Program covers up to $3,600 of weatherization work at no cost for customers up to 250% of the FPIG. The A&R Program can also be stacked with the proposed Phase II Plan, thereby providing eligible customers up to $4,800 of no-cost insulation and air-sealing measures.[747] OCA witness Sherwood's recommendation for

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[744] Columbia St. No. 13, pp. 20-21.
[745] OCA St. 7, p. 4.
[746] OCA St. 7, pp. 11-12.
[747] Columbia St. No. 13-R, p. 10.

Columbia to retain an independent third-party contractor to perform evaluations has already been completed because the Company retains Green Energy Economics Group, Inc. ("GEEG") to perform the portfolio's evaluations.[748] As the EE Plan developer, GEEG is well positioned to evaluate the plan and make future adjustments based on evaluation results while maintaining independence from the Company.[749]

In Rebuttal, the Company committed to address three of OCA witness Sherwood's recommendations in a Compliance Plan filing for an approved Phase II Plan. Specifically, Columbia agreed to: (1) use the most recent available market information to support the development of its portfolio in future filings; (2) file all evaluation, measurement, and verification ("EM&V") reports completed on the Phase II Plan programs at this docket; and (3) coordinate with EDC programs, when appropriate.[750]

However, Columbia does not agree to Ms. Sherwood's recommendation to only provide rebates for smart thermostats that are also eligible for potential EDC smart thermostat demand response programs.[751] Columbia's customers should be given the opportunity to purchase and receive rebates for all eligible smart thermostats and to choose a thermostat that best matches their preferences and is compatible with their HVAC equipment. Further, EDC Act 129 plans will not be filed until November 2025, and the programs will not be launched until June 2026. While the Commission has allowed EDCs to develop smart thermostat demand response programs as part of their Act 129 program

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[748] Columbia St. No. 13-R, p. 10.
[749] *Id.*
[750] *Id.*, p. 11.
[751] OCA St. 7, p. 11.

offerings if they choose, it is unclear if any EDCs will offer these programs or whether they will offer compatible thermostats.[752] Columbia also disagrees with Ms. Sherwood's recommendation to require Columbia to provide a bonus incentive to customers who install a new heating system along with air sealing and insulation.[753] Here, OCA's proposed bonus rebate does not take system sizing into account, *i.e.*, if the installed measures are not appropriately sized, installing both measures together would not necessarily lead to greater savings. In addition, the RP Program design already provides a rebate for a portion of the incremental cost of each measure. Customers that install heating systems and perform air sealing and insulation on their homes at the same time receive rebates for both measures.[754]

2. The Commission Should Reject CAUSE-PA's Arguments In Opposition To The Phase II Plan And Proposed Alternatives

a. The Company's Voluntary Phase II Plan Is Not Required to Have a Dedicated Low-Income Program

CAUSE-PA witness Geller opposes approval of Columbia's Phase II Plan. Mr. Geller claims that low-income customers not enrolled in CAP are paying for EE&C programs that benefit higher income customers but do not provide specific, proportionate low-income measures.[755] Mr. Geller also opposes the approval of a voluntary EE&C plan that does not offer dedicated low-income programming to all customers at or below 150% of the FPIG.[756]

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[752] Columbia St. No. 13-R, p. 12.
[753] OCA St. 7, p. 12.
[754] Columbia St. No. 13-R, pp. 12-13.
[755] CAUSE-PA St. 1, p. 52.
[756] CAUSE-PA St. 1, p. 49.

Here, Mr. Geller overlooks the fact that all customers who pay into the EE Rider, including low-income customers who are not enrolled in CAP, are able to participate in Columbia's EE&C programs. To date during the EE Pilot, 550 customers have been referred to Columbia's various dedicated low-income programs when they indicated income levels at or below 250% of the FPIG. This indicates that the programs do not only "benefit higher income households" but benefit participating customers of all income levels.[757]

Further, while Mr. Geller is correct that Act 129 requires EDCs to offer dedicated programming for customers at or below 150% of the FPIG, Act 129 is only applicable to Pennsylvania EDCs with over 100,000 customers.[758] As an NGDC with a voluntary EE&C plan, Columbia is not subject to this requirement. In addition, Columbia offers the A&R Program, which is a dedicated program for customers up to 250% of the FPIG who do not qualify for LIURP. These customers receive a free energy audit and up to $3,600 worth of energy efficiency improvements to their homes at no cost. Neither of the other natural gas EE&C plans cited by Mr. Geller in support of his argument offers a program as robust as Columbia's A&R program.[759]

b. CAUSE-PA's Alternative Proposals Should be Rejected

Alternatively, Mr. Geller proposes that if Plan is approved, either all confirmed low-income customers should be exempt from the EE Rider or Columbia should be directed to

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[757] Columbia St. No. 13-R, p. 14.
[758] *Id.*, p. 14.
[759] *Id.*, p. 15.

expand funding for its A&R Program and Emergency Repair Program ("ERP") and rollover any unused funds to the next year. Specifically, Mr. Geller recommends that the A&R Program and ERP budgets be increased by a percentage equivalent to the total cost increase between Phase I and Phase II of Columbia's Plan, or by $243,75015 and $292,500, respectively.[760]

CAUSE-PA witness Geller's first alternative proposal to exempt all confirmed low-income customers from Columbia's EE Rider would, in turn, remove their eligibility to participate in the Plan rebate offerings generally and receive financial assistance toward the purchase of high efficiency equipment. This could lead to negative outcomes, as without rebates those customers may install lower efficiency equipment at a lower upfront cost, leading to higher long-term energy costs for those customers who could have participated in the program.[761] As such, Mr. Geller's proposal to condition approval of the Phase II Plan on exemption of low-income customers from the EE Rider should be rejected.

Mr. Geller's second alternative proposal to increase A&R Program and ERP budgets and rollover unused funds is not warranted. First, Mr. Geller bases his proposed dramatic increases to these budgets on the total cost increase between Columbia's Phase I and Phase II EE Plans. However, a large percentage of the cost increase in the Phase II Plan is due to the addition of the Small Commercial Program. The cost increase as a result of the new SC Program will be paid through the EE Rider for the eligible small commercial

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[760] CAUSE-PA St. 1, p. 52.
[761] *Id*., p. 16.

rate classes and will have no impact on residential customers of any income level.[762] As such, Mr. Geller's proposed increases to the A&R Program and ERP budgets are not proportionate to the budget increases to the Phase II Plan's residential programs.

Second, the A&R Program and the ERP are already sufficiently funded. Since the A&R Program's inception in 2009, no household has been denied assistance due to a lack of funding. Allowing A&R program funds to roll over each year as Mr. Geller recommends risks creating a growing surplus of funds collected from ratepayers, which remain unspent over time.[763] The Company also just increased its ERP funding in 2024. In addition to LIURP, customers also pay an additional $5.00 annually for the ERP and the A&R Program.[764] Columbia ratepayers are already paying substantially more than other utility ratepayers for energy efficiency programs for low-income customers. Currently, any unspent funds from the programs are credited during the annual Rider USP reconciliation each February and reduce the total Rider USP collected in the following year.[765] The Company's customers should not bear additional costs for these already adequately funded programs and unused funds should be allowed to reduce the total Rider USP during reconciliation. For these reasons, the Commission should reject Mr. Geller's recommendations to deny the proposed Phase II Plan or, alternatively, condition its approval on budget increases or low-income customers' exemption from the EE Rider.

[762] *Id.*, p. 16.
[763] Columbia St. No. 16-R, p. 13.
[764] Columbia St. No. 16-R, p. 14.
[765] Columbia St. No. 16-R, p. 13.

3. The Commission Should Reject I&E's Arguments In Opposition To The Phase II Plan

I&E witness Patel also recommends that the Company's Phase II Plan be rejected. Mr. Patel justifies this recommendation by arguing that EE&C plans for NGDCs are not mandated by Act 129, that the Company's proposed programs are not necessary to provide safe and reliable service, and that EE&C plans may not be effective considering the tendency for natural gas appliances to become more efficient over time.[766] His arguments should be rejected for several reasons.

First, the absence of a statutory mandate, coupled with penalties for noncompliance, should not be the standard for determining whether a voluntary NGDC EE&C plan should be adopted. Performance penalties are not necessary for ensuring voluntary plans meet goals. The Commission has approved voluntary natural gas EE&C plans from Philadelphia Gas Works ("PGW"), UGI Gas, PECO, and Columbia through its EE Pilot. These existing NGDC energy efficiency portfolios have been in place for more than a decade without a statutory mandate or the threat of civil penalties. If penalties were established for missing stated goals in voluntary plans, NGDCs may stop offering EE&C plans altogether, since they provide no direct monetary benefit to the administrator and would place the utilities at risk of incurring civil penalties.[767]

Moreover, the standard that Mr. Patel relies upon, that an EE&C Plan must be necessary for the provision of safe and reliable service, does not align with the requirements

[766] I&E St. No. 2, pp. 93-94.
[767] Columbia St. No. 13-R, p. 3.

of Act 129 and has not been imposed on any other NGDC requesting approval of a voluntary EE&C plan. Indeed, this standard is not reflected in Act 129 or in the Commission's December 2009 Secretarial Letter issued at Docket No. M- 2009-2142851, which sets forth requirements for voluntary electric EE&C plans.[768] Because Mr. Patel's standard is not based on any statute, regulation, or policy of the Commission, it should be rejected.

Finally, while it is true that as technology advances, more efficient equipment becomes available in the market, this is true of all equipment, not just equipment powered by natural gas. Extending this logic to electric powered equipment would negate the need for any Act 129 mandated energy efficiency programs as that technology also becomes more efficient over time. Absent federal efficiency standards being increased to disallow the manufacture and sale of low efficiency equipment, lower efficiency equipment still exists in the market as an option with lower upfront costs to customers while operating at a higher lifetime cost by consuming more natural gas and requiring more maintenance. As evidenced by their success over the past 15 years in the Commonwealth and for multiple decades across the country, utility EE&C plans are a proven and effective way to help customers offset the higher upfront cost of high efficiency equipment, consume less natural gas over the life of their equipment purchase, and provide significant economic benefits to the Commonwealth as a whole.[769]

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[768] Columbia St. No. 13-R, pp. 3-4.
[769] Columbia St. No. 13-R, p. 4.

For these reasons, the other parties' arguments in opposition to the Company's proposed Phase II Plan should be rejected and the Commission should approve the Phase II Plan as filed.

XV. COMPETITIVE SUPPLY ISSUES

OCA witness Alexander and CAUSE-PA witness Geller recommend that the Commission require Columbia to send targeted communications to customers who are enrolled with a Natural Gas Supplier ("NGS") and paying rates that are higher than the Company's Price to Compare ("PTC"). Ms. Alexander recommends that the Company be required to send targeted educational messages to these shopping customers explaining how to compare NGS charges per therm to the PTC and "urg[ing]" them to compare rates on a monthly basis.[770] Mr. Geller recommends that the Commission require the Company to develop a targeted letter for low-income shoppers being charged rates higher than the PTC that is sent at least once every 6 months and includes clear instructions for applying to CAP.[771] These proposed communications to shopping customers should be rejected.

Columbia's current outreach and messaging to its shopping customers is already fully compliant with the Company's responsibilities under the Public Utility Code, the Natural Gas Choice and Competition Act ("Competition Act"), the Company's Commission-approved tariffs, and the Commission's orders issued in both Columbia's

[770] OCA St. 6, p. 21.

[771] CAUSE-PA St. 1, p. 60. Mr. Geller's proposal would also require the Company to "share a draft and solicit input from the parties to this proceeding and members of its USAC regarding the above communications and the Petition to amend its CAP application." *Id.*

restructuring proceeding and restructuring proceedings generally.[772] None of these authorities require an NGDC like Columbia to take responsibility for the impact on customers who pay NGS rates that are higher than the applicable PTC.[773] In addition, the Company regularly advises customers of the PTC to provide them with information to help make decisions regarding shopping.[774] The Company also provides customers the phone numbers and website addresses of each licensed NGS operating in its service territory and a calculator that allows customers to compare shopping costs based on their actual consumption and the NGS's actual quoted prices.[775] As such, Columbia's customers are already provided the information necessary to evaluate the offerings of NGSs.

The Company also maintains that the recommended messaging conflicts with the intent of the Competition Act. The Competition Act requires the Commission to "allow retail gas customers to choose among natural gas suppliers and natural gas distribution companies to the extent that they offer such natural gas supply services," and states that "<u>[r]etail gas customers shall be able to choose from these suppliers a variety of products, including, but not limited to, different supply and pricing options, and services that evolve as the competitive marketplace matures</u>."[776] No language in the Competition Act requires lower rates or costs for natural gas supplied by NGSs or places the responsibility for customers paying high NGS rates on NGDCs. The stated purpose of the Competition Act

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[772] Columbia St. No. 1-R, p. 21.
[773] Columbia St. No. 1-R, p. 21.
[774] Columbia St. No. 1-R, p. 22.
[775] Columbia St. No. 1-RJ, p. 9.
[776] 66 Pa. C.S. § 2203(2) (emphasis added).

is to encourage competition for natural gas supply in Pennsylvania. The targeted messaging contemplated by Ms. Alexander and Mr. Geller should be rejected because it could discourage customers from exercising their right to choose their natural gas supplier, which directly conflicts with the purpose of the Competition Act.[777]

Mr. Geller's recommendation to narrowly target only low-income customers that are paying supply rates that are higher than the PTC is unnecessarily discriminatory to those customers. Low-income customers should not be singled out and discouraged from exercising their right to choose a natural gas supplier. Columbia has many low-income customers who pay their bills regularly and on time, and the Company has no desire to interfere with its low-income customers' shopping choices.[778] To the extent low-income customers are paying "excessive" shopping rates, as Mr. Geller argues,[779] those rates are a result of NGS pricing and are not a function of Columbia's PTC or the information the Company supplies to its customers.[780]

Finally, the Company notes that no NGSs or industry groups representing NGSs have intervened in this proceeding. The communications proposed by Mr. Geller and Ms. Alexander could impact the NGSs operating in Columbia's service territory and those NGSs deserve the opportunity to review and respond to these recommendations. As such, it would be improper for the Commission to impose additional communication

[777] Columbia St. No. 1-R, p. 21.
[778] Columbia St. No. 1-R, p. 21.
[779] CAUSE-PA St. 1-SR, p. 36.
[780] Columbia St. No. 1-RJ, p. 9.

requirements related to competitive supply rates in this proceeding because supplier interests are not adequately represented.

For these reasons, the Commission should not require Columbia to send targeted messaging to customers paying supplier rates that are higher than the PTC.

XVI. TARIFF ISSUES (NOT BRIEFED ABOVE)

A. COLUMBIA'S PROPOSAL TO IMPLEMENT RATE EDDS SHOULD BE APPROVED

1. Summary of Columbia's Proposed Rate EDDS.

In this proceeding, Columbia proposes to implement Rate EDDS to allow it to serve extremely large load customers such as data centers.[781] Rate EDDS will treat these extremely large load customers as non-jurisdictional to protect jurisdictional customers from bearing the risks associated with serving these unique, large users. Columbia proposes to enter into individual, specialized contracts with these unique users that reflect their specific costs and service requirements. Columbia does not currently have an existing rate schedule that can accommodate data centers.[782]

In subsequent rate cases, any costs for serving Rate EDDS customers will be separated out in the cost of service study to ensure that jurisdictional customers are not bearing costs for Rate EDDS customers. This will protect all customers from the risk of EDDS customers leaving the system. It also protects jurisdictional customers from bearing

[781] Columbia St. No. 9, pp. 40-50.
[782] Columbia St. No. 9-R, p. 37.

costs associated with investment for Rate EDDS customers. Columbia witness Paloney describes how the cost allocation procedures will work in her Direct Testimony.[783]

2. Rate EDDS Is In The Public Interest And Should Be Approved.

Columbia does not currently have a rate schedule that can accommodate extremely large users such as data centers. Columbia has already had an inquiry from a potential customer that may qualify for the service.[784] Ms. Paloney explained as follows:[785]

> The time to create a rate schedule to serve these large-load customers is now, in advance of having to create a rate schedule that would require Commission approval while trying to negotiate contract terms with a customer. Further, tariff modifications outside of a rate proceeding have no statutory procedural timeline, which will have a significant impact on Columbia's ability to provide service to potential large-load customers.
>
> Customers taking service under this rate schedule prioritize timely service as a critical issue during contract negotiations, as they need to know that Columbia has a rate schedule that can fulfill their requirements in advance of beginning any negotiation for service. If an approved rate schedule does not exist, and no timeline can be provided in which to expect Commission consideration of a proposed large-load rate schedule, these customers will find a more progressive state to build, where existing tariff provisions do exist that support the level of service they are looking for.

As also explained by Ms. Paloney, Rate EDDS is consistent with Governor Shapiro's Ten-Year Strategic plan for economic growth in Pennsylvania. Approving Rate EDDS now will put the Company in a better position to be able to serve data centers and promote economic growth and development.

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[783] Columbia St. No. 9, pp. 45-47.
[784] Columbia St. No. 9-R, p. 35.
[785] Columbia St. No. 9-R, p. 35, lines 6-18.

There are unique challenges and risks to serving data centers, including the level of utility investment required to provide services and the risk of default. Making Rate EDDS non-jurisdictional protects jurisdictional customers from these unique and significant risks.

3. The Other Parties' Criticisms Of Rate EDDS Should Be Rejected.

Several of the other parties in this proceeding oppose Rate EDDS at this time. Their criticisms are flawed and should be denied.

Several of the parties argue it is premature for the Commission to approve Rate EDDS because Columbia does not have customers that are interested in the service.[786] Apparently, they would prefer to have Columbia wait to file for Rate EDDS until a customer signs up and run the risk of losing the economic growth to the community or even another state due to the inherent delays in seeking a new tariff. This is an unreasonable position that should not be accepted. Between the time of the filing and rebuttal testimony, the Company has received an inquiry from an interested potential customer.[787] The industry is moving very quickly,[788] and there is no time to delay. Columbia needs to have a rate schedule in place to be able to accommodate data centers and does not have one at this time.

CAUSE-PA witness Cicero argues that the Company should wait to have Rate EDDS until the Commission acts in its proceeding regarding Interconnection and Tariffs for Large Load Customers at Docket No. M-2025-3054271.[789] This argument fails because

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[786] *See, e.g.*, OCA St. No. 1, p. 59.
[787] Columbia St. No. 9-R, p. 35.
[788] Tr. 487-488.
[789] CAUSE-PA St. No. 2, p. 78.

this proceeding relates to issues regarding interconnection of electric customers to the electric grid.[790] There are significant differences in providing gas or electric service to data centers,[791] and it does not appear that the Commission is addressing gas service issues in the Interconnection Docket especially because NGDCs were not invited to participate.[792] CAUSE-PA's arguments to the contrary should not be accepted.

I&E witness Sakaya expressed concerns that the non-jurisdictional nature of the service would preclude Commission oversight resulting in costs being subsidized by jurisdictional customers.[793] This argument fails because the Commission and the parties will have oversight of the separation of costs in base rate proceedings. Costs for Rate EDDS will need to be separated out in a cost-of-service study regardless of whether the service is jurisdictional or non-jurisdictional. Making the service non-jurisdictional protects jurisdictional customers from the unique and significant risks associated with service data centers.

4. Summary Regarding Rate EDDS.

The Company does not currently have a rate schedule that can effectively accommodate a data center. This industry is moving very quickly, and the Company needs to be proactive in order to be able to serve these large customers. Having an approved rate schedule will encourage data center customers to locate in the Company's service territory as opposed to potentially locating in another state. Rate EDDS will provide the Company

[790] *See* Secretarial Letter issued April 12, 2025.
[791] Columbia St. No. 9-R, pp. 37-38.
[792] *See* Secretarial Letter issued April 12, 2025.
[793] I&E St. No. 3, pp. 33-34.

with the flexibility that it needs to be able to attract these types of customers. In addition, making Rate EDDS non-jurisdictional will protect jurisdictional customers from the risk of increased rates due to the substantial investment that likely will be required to serve these customers or due to potential default. The Company has demonstrated a substantial need for Rate EDDS and respectfully requests that it be approved.

B. ELIGIBLE CUSTOMER LIST

Columbia's tariff establishes procedures for the release of customer information through the Eligible Customer List ("ECL"). As relevant to this proceeding, Columbia's currently-effective Tariff Rule 4.54 provides as follows:

> Privacy of Customer Information. The Company may release private Customer information to third parties, such as NGSs participating in the Company's Choice program, only after informing each Customer via bill insert of its intent to release such information. The Company will notify customers of the option to limit or restrict their private information by:
>
> 4.5.4.1 Bill Insert. At least once each year, the Company will include an insert in every customer bill. In addition, each new customer will receive the bill insert in their initial bill.
>
> The bill insert notifies customers: 1) how the customer account and usage information will be used; 2) how to opt-out of the ECL; 3) what their opt-out choice means; and 4) that they may change preferences either by first class mail or via electronic or telephonic means.
>
> 4.5.4.2 Triennial Letter. Every three years the Company will mail a letter to the mailing address of every Choice-eligible customer that provides customers with the information contained in the bill insert above, and notifies customers who have previously limited or restricted their information that they must renew that request in order to retain a restricted status of their account information.

> 4.5.4.3 Customer Request to Restrict Information. Customers may restrict information according to one of the following two restriction options: 1) restrict the release of only the customer's historical usage data; or 2) restrict the release of all private customer information including name, billing address, service address, rate class, rate schedule, account number, meter reading cycle, shopping status, and historical usage.
>
> Each customer may notify the Company of their desire to restrict the release of private information by one of the following options: 1) fill in the necessary information on the form included on the back of the bill insert or included with the triennial letter, and return the form with the regular monthly payment or separately mail to the Company; 2) send a letter to the Company; 3) call the Customer Satisfaction Center at 1-888-460-4332; 4) use the Company's webpage that explains the ECL and options; or 5) e-mail the request to cpacustserv@nisource.com.
>
> Customers may request to restrict the release of information at any time and the Company shall then honor that request until the next triennial refresh, when the customer must reaffirm their election.[794]

By Order entered March 13, 2025, the Commission directed changes to its guidelines for ECLs.[795] The order made the following revisions:

- Electric and gas companies will re-solicit their residential and small commercial bases every five years, rather than three years, about their option regarding release of customer information.
- Once a customer has opted-out of the ECL, the election continues until the customer affirmatively elects to opt back in.

[794] Columbia Ex. 14, Sch. 2, Attachment A, p. 261 (Tariff Page 227a).
[795] *Guidelines for Eligible Customer Lists*, Docket No. M-2010-2183412 (Order entered March 13, 2025).

- EDCs and NGDCs may use electronic means to communicate with customers about the ECL and to receive responses from customers.
- That all communications regarding the ECL shall be content neutral.

In Rebuttal, Columbia submitted a revised Tariff Page 227a to bring its tariff into compliance with the Commission's Order. The revised page made the following changes:

- Updated timing of ECL from three to five years.
- Removed the need for customers to reaffirm their decision to opt-out if the customer previously opted-out.
- Renamed the solicitation to ECL Refresh from Triennial Letter.
- Allows electronic methods to communicate regarding the ECL.[796]

OCA witness Alexander and CAUSE-PA witness Geller each propose to remove the words "third party" from Section 4.5.4 of the tariff.[797] However, these words, which are contained in Columbia's existing Tariff Section 4.5.4, are included to comply with Commission regulations. Code Section 62.78 (a) provides:

> An NGDC or NGS may not release private customer information to a third party unless the customer has been notified of this intent and has been given a convenient method, consistent with subsection (b), of notifying the entity of the customer's desire to restrict the release of the private information.[798]

During cross-examination of Columbia witness Kempic, judicial notice was taken of a pending Affiliated Interest Agreement filing by Columbia to facilitate on-bill billing

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[796] Columbia St. No. 12-R, p. 3.
[797] Columbia OCA St. No. 6SR, p. 17; CAUSE-PA St. No. 1-SR, p. 34.
[798] 52 Pa. Code § 62.78(a).

of a non-regulated service offering by a third party.[799] Columbia disputes the relevance of this separate proceeding. Columbia notes that Section 56.13 of the Commission's regulations authorize bills to include non-basic charges[800] and Section 2205 (c) of the Public Utility Code authorizes natural gas distribution companies to provide billing services "on behalf of a natural gas supplier or other entity."[801]

OCA's and CAUSE-PA's proposed deletion of the words "third party" fails to meet the requirements of the Commission's regulations, which are specifically identified in the March 13, 2025 ECL Order, and therefore, the recommendations should be rejected.

XVII. MISCELLANEOUS ISSUES

A. EFFECTIVE DATE OF NEW RATES

On March 20, 2025, Columbia filed Supplement No. 392. Pursuant to Section 1308(d) of the Public Utility Code,[802] and by Order dated April 24, 2025, in this proceeding, Supplement No. 392 is suspended until December 19, 2025.

I&E proposes that the Commission direct Columbia to make new rates effective January 1, 2026, the first day of the FPFTY.[803] I&E's proposal is contrary to law.

Section 1308 sets strict rules for the effective date of rate increases. Initially, Section 1308(a) provides that "no public utility shall make any change in any existing and

[799] Tr. 409-412.
[800] 66 Pa. Code § 56.13.
[801] 66 Pa, C.S. § 2205 (c) (3).
[802] 66 Pa, C.S. § 1308(d).
[803] I&E St. No. 2, p. 106.

duly established rate, except after 60 days notice to the commission . . . ."[804] Section 1308(d), which is applicable to this general rate increase proceeding, further establishes:

> Whenever there is filed with the commission by any public utility . . . any tariff stating a new rate which constitutes a general rate increase, the commission shall promptly enter into an investigation and analysis of said tariff filing and may by order setting forth its reasons therefor, upon complaint or upon its own motion, upon reasonable notice, enter upon a hearing concerning the lawfulness of such rate, and the commission may, at any time by vote of a majority of the members of the commission serving in accordance with law, permit such tariff to become effective, except that absent such order *such tariff shall be suspended for a period not to exceed seven months from the time such rate would otherwise become effective*.[805]

In accordance with the foregoing, the effective date of new rates shall be no later than December 19, 2025 (60 days from March 20 to May 19, and 7 months from May 19 to December 19).

The Courts have concluded that the Commission does not have the authority to delay the effective date of rates under Section 1308(d). In *Bell Telephone Co. v. Pa. PUC ("Bell")*,[806] the Commission delayed the effective date of new rates beyond the end of the statutory suspension period until after compliance tariffs were approved. The Commonwealth Court rejected this attempt to extend the suspension period, stating:

> The parties' central dispute concerns the meaning of Section 1308(d). In our view the critical language of this provision is the following:
>
> > Before the expiration of such seven-month period, a majority of the members of the commission . . . shall

[804] 66 Pa. C.S. § 1308(a).
[805] 66 Pa. C.S. § 1308(d) (emphasis added).
[806] 452 A. 2d 86. (Pa. Cmwlth 1982), *aff'd*, 482 A.2d 1272 (Pa 1983).

> make a final decision and order . . . granting **[***11]** or denying, in whole or in part, the general rate increase requested. If, however, such an order has not been made at the expiration of such seven-month period, the proposed general rate increase shall go into effect . . . . **[*562]** The rate in force when the tariff stating the new rate was filed shall continue in force during the period of suspension. . . .

> From these statutory imperatives several corollaries are derived which underscore the impropriety of the Commission's order here challenged. The requested general rate increase may be suspended for no more than seven months after the sixty day initial period for Commission review. Before the close of the suspension period, to avoid the automatic implementation of the proposed increase, the Commission must issue a final order in the matter. The rates in force during the suspension period are those contained in the tariff last approved; but at the end of the suspension period, in the absence of a final order of the Commission, the proposed increase takes effect.

The Supreme Court of Pennsylvania affirmed the Commonwealth Court's decision, per curium.[807]

Columbia notes that its test years in this case comply with the law and the Commission's filing requirements. Columbia used a HTY that is a twelve-month period ended no more than 120 days prior to the filing.[808] Columbia used a FTY that is a twelve-month period beginning immediately after the end of the HTY. Columbia also used a FPFTY that is the twelve-months beginning January 1, 2026, which is the twelve-month period beginning with the first month that the new rates will be placed in effect *after*

[807] *See also National Fuel Gas Distribution Corp. v. Pa. PUC*, 464 A.2d 546 (Pa. Cmwlth 1983).

[808] 52 Pa. Code § 53.52(b)(2). Columbia used a HTY ended November 30, 2024, which is less than 120 days prior to the March 20, 2025, filing date.

application of the full suspension period, as directed in Section 315 of the Public Utility Code.[809]

The effective date of new rates in this proceeding shall be December 19, 2025, in accordance with law. I&E's proposal to delay that effective date is illegal and must be rejected.

B. REPORTING REQUIREMENT

I&E recommends that Columbia provide a report by April 1 of 2026 and 2027 updating Columbia's Exhibit No. 108 for actual plant additions and retirements for the FTY and FPFTY.[810] Columbia does not oppose this recommendation, which has been included in prior Columbia rate case settlements.[811]

C. OSBA'S REQUEST FOR A COMPETITIVE ALTERNATIVE ANALYSIS EVERY TWO YEARS

OSBA witness Ewen recommends that Columbia conduct a competitive analysis for each flex customer every two years.[812] OSBA's request for such an analysis is unnecessary and should be rejected.

Columbia is authorized by its tariff to negotiate discounted rates for distribution service to respond to competition from alternative fuels.[813] Columbia undertakes an analysis of competitive conditions whenever it negotiates a new or renewal of a flex

[809] 66 Pa. C.S. § 1308(d).
[810] I&E St. No. 3, p. 3.
[811] Columbia St. No. 9-R, p. 44.
[812] OSBA St. No. 1, p. 10.
[813] Columbia Ex. 14, Sch 2, Attach. A, p. 93.

agreement.[814] Flex agreements are based on the unique circumstances of individual customers, with the economic analysis of whether the customer could bypass Columbia's system based upon known market conditions.[815] Recent flex rate agreements are generally for a term of around five years.[816]

Undertaking an analysis for flex customers every two years is unnecessary, costly and potentially counterproductive to maximizing the revenues that can be obtained from competitive customers. To conduct a valid competitive analysis, the Company would need the competitive customer to update their bypass options and costs, as Columbia has only limited information as to current options and costs.[817] Performing these analyses can be time-consuming and costly, involving both internal customer staff and outside consultants.[818] While circumstances may change over time, absent a specific provision to update the contract, the contractual rate will remain the same throughout the duration of the contract. Thus, the results of any analysis performed now would not impact Columbia's ability to change the terms of the previously-negotiated contract, and it is not likely that a customer would be willing to spend the resources to update the information.[819] Conversely, if the purpose of the analysis would be to shorten contract terms to every two years, this will lead to more competitive customers selecting the certainty of their bypass option rather

[814] OSBA St. No. 1, p. 10.
[815] Columbia St. No. 9-R, p. 42.
[816] *Id*.
[817] Columbia St. No. 9-R, p. 43.
[818] *Id*.
[819] *Id*.

than rate reviews every two years.[820] The resulting loss of Flex rate customer revenue will then shift cost recovery of fixed costs to remaining customers. OSBA's proposal should not be adopted.

D. LONG TERM BUSINESS PLANNING

OSBA witness Ewen questions the long-term viability of natural gas service in general, and Columbia's operations in particular. Mr. Ewen references the cost of Columbia's main replacement program and "growing societal and political concerns regarding the burning of fossil fuels," along with "concomitant increasing pressure for electrification" and potential "increased regulation of CO_2 emissions."[821] Based upon these generalized concerns, Mr. Ewen asserts that Columbia has not demonstrated that its capital spending is prudent, and that the Commission should advise Columbia "that future capital expenditures have not been shown to be part of a demonstrably prudent long term investment plan, and that they can be subjected to *ex post* prudence reviews should they become stranded."[822] Mr. Ewen further recommends that, at a minimum, the Commission should require Columbia to demonstrate that it has a long-term viable business as part of its next LTIIP filing.[823]

Mr. Ewen's contentions proceed from the faulty premise that natural gas service is becoming more expensive than other energy sources. Columbia's President, Mr. Kempic, demonstrated this is inaccurate. Even older, less efficient gas furnaces are less expensive

[820] *Id*.
[821] OSBA St. No. 1, p. 7.
[822] OSBA St. No. 1, p. 8.
[823] *Id*.

to operate than other heating alternatives, including a standard heat pump.[824] Further, claims that Columbia's main extension project will raise rates in the future falsely assume that other fuel alternatives will remain steady in price, while only gas service prices will rise. But Mr. Kempic further demonstrated that electric rates are also increasing, and at a higher pace than gas price increases.[825]

Mr. Ewen's recommendation ignores that the Commission already undertakes a reasoned review of the Company's long-term capital spending for mains replacement. As Mr. Kempic explained:

> On December 28, 2022, Columbia filed its Petition for Approval of its LTIIP with the Commission. In that LTIIP at Docket P-2022-3037388, Columbia provided detailed information about its capital spending and the amount of infrastructure replaced during the period before the Company accelerated its replacement program, through the period covered by LTIIP I at Docket P-2012-2338282, and the period covered by LTIIP II Docket P-2017-2602917 and its plans for the capital to be invested and the infrastructure to be replaced in the period of LTIIP III, which covers the years 2023 – 2027. LTIIP III contains a detailed analysis of the process Columbia adopted to optimize risk reduction, including Columbia's Safety Management System ("SMS") and its Distribution Integrity Management Program ("DIMP"). The Company provided a detailed analysis of the risks associated with first generation (pre-1982) plastic pipe and pre-1971 coated steel, inline pipe inspection, etc as part of LTIIP III. The Company provided detailed footages of both mains, services, and meters to be replaced, as well as the expected costs associated with each of the five years addressed by LTIIP III. The costs and the benefits associated with LTIIP III have already been subject to a public regulatory proceeding in advance of the Commission's approval of the LTIIP, so the costs should not

[824] Columbia St. No. 9-R, p. 10.

[825] Columbia St. No. 9-R, p. 11-12. As one example, last year's PJM capacity auction resulted in prices 800% higher than the prior year.

> be a surprise to any stakeholder. In addition, each rate case provides the Commission with the opportunity to perform a prudence review, so no separate *ex post* prudence review needs to be adopted.[826]

Natural gas distribution facilities are reaching the end of their useful lives, and replacement is needed if safe service is to continue. If the facilities are not replaced, customers served by those facilities will face substantial costs to replace all their gas-fired furnaces and appliances, assuming there is sufficient electric generation and capacity to serve that load.

The Commission has previously rejected attempts to mandate studies on the long-term continued operation of natural gas facilities. In *Pa PUC v. Philadelphia Gas Works (“PGW 2020”),*[827] The Commission was asked to direct PGW to study the long-term viability of continuing natural gas service. The Commission rejected the request:

> Unlike the circumstances presented in the cases cited by the Environmental Stakeholders, expense adjustments were not presented by the Environmental Stakeholders here. In fact, they failed to provide any evidence which would support an affirmative position in this rate case, such as a proposed adjustment to a specific expense or an adjustment to revenue projections. Rather than propose any specific adjustments in this case, the Environmental Stakeholders made the general assertion that PGW should be required to study <u>(and plan for)</u> climate change and climate regulation.
>
> There is no determination about the function of natural gas utilities thirty, forty, or fifty years from now. The ALJs do not make any such conclusive finding, nor would the evidence support such a finding, because the Environmental Stakeholders have not pointed to any rule or regulation that provides that PGW or any other natural gas company will be

826 Columbia St. No. 9-R, pp. 13-14.
827 Docket No. R-2020-3017206 (Opinion and Order entered Nov. 19, 2020).

forced to cease operations in the future. As noted earlier, former Commissioner Cawley testified on behalf of PGW: "[i]n my experience, the Pennsylvania Public Utility Commission does not engage in such speculation in establishing regulatory policy for the companies it regulates, especially when it would require conclusions (or guesses) about what environmental requirements will be in thirty years." PGW Exh. 12RJ at 2.

Commissioner Cawley further explained that the Commission would "act *ultra vires*" if it made rate case determinations based on the perceived effects of greenhouse gases or global warming and would "usurp the authority" of DEP. *Id.* Commission Cawley testified: "At the least, requiring the Commission to make ratemaking (or other) determinations in response to climate change would create the real possibility of disparate and potentially inconsistent regulation." *Id.*

PGW notes that, because the testimony of the Environmental Stakeholders did not tie its claims to any specific cost being charged to ratepayers in the test year, and only made hypothetical and speculative assertions, the ALJs found that the Commission did not have jurisdiction to consider the Environmental Stakeholders' testimony in this case or to consider PGW's climate change plan in its next case. But to nonetheless declare that the Commission generally has jurisdiction to hear about "environmental matters" in a rate case – not tied to a specific rate case claim or cost – extends the Commission's jurisdiction beyond the power the legislature granted to the Commission to establish just and reasonable rates and reasonable and adequate service.

We accept PGW's argument that it is unadvisable for the Commission to make new policy or establish new filing requirements via individual rate cases. We agree with PGW that it would be unfair to impose an undefined filing requirement upon it of the kind recommended by the ALJs in the absence of statutory, regulatory or other legal order or requirement that directs the creation and submission of information that is essentially a climate change plan.[828]

[828] *PGW 2020* at 93-94.

OSBA has not offered a basis to require Columbia, alone among all energy utilities in Pennsylvania, to demonstrate that it has a long-term viable business. OSBA's proposal should be rejected.

E. METHANE DETECTOR PILOT

I&E witness Pankiw recommends that the Company implement a pilot methane detector installation program for Smart Remote Methane Detector ("SRMD") devices in conjunction with its Advanced Metering Infrastructure ("AMI") installation.[829] Mr. Pankiw's recommendation builds on the Company's Direct Testimony noting that approximately 330,000 of the Company's Automated Meter Reading ("AMR") devices are expected to reach the end of their useful lives and that the Company is planning to install replacement AMI devices in 2026.[830] Mr. Pankiw supports the Company's use of AMI technology and seeks to leverage its deployment with the use of SRMD devices to improve safety throughout the Company's distribution system.[831]

While the Company is not currently in a position to commit to implementing a pilot program as outlined by I&E witness Pankiw, it is interested in evaluating the technologies associated with the integration of AMI and SRMDs for potential future deployment. Implementation of this pilot as described would require a comprehensive assessment of the

[829] *See* I&E St. No. 4, pp. 8-9.
[830] Columbia St. No. 7, pp. 7-9. AMR devices offer one-way communications between the meter and the reading device and allow for "drive-by" readings of customer meters. AMI devices offer two-way communications between the meter and the utility, interval reads that allow the utility and customers to view daily and hourly usage, and remote shutoff, among other advantages. For a full description of the benefits of AMI devices compared to AMR devices, see Columbia St. No. 7, pp. 7-9.
[831] I&E St. No. 4, p. 3.

Company's existing IT infrastructure to ensure compatibility and support in integrating AMI and SRMD technologies into current platforms along with the testing for the safe application of automated remote meter shut offs after notification from a compatible methane detection device.[832] In response to I&E's proposal, the Company investigated the use of SRMDs and found that the functionality for its deployment is not currently available. However, the Company is investigating SRMD solutions that can communicate over cellular networks and/or long-range wide area network ("LoRaWAN") protocols that may be compatible with the Company's planned AMI technology. Columbia plans to coordinate with the Gas Technology Institute ("GTI") and peer utilities to better understand experiences from those who have deployed SRMD solutions.[833] Because the proposed Methane Detector Pilot still requires significant investigation regarding IT infrastructure, the Company is not currently prepared to implement the proposed pilot program as part of this case.[834] As such, the Company committed in Rebuttal to conducting a thorough investigation into the technical and operational requirements necessary to support such integration and to providing the results of this assessment in its next base rate case filing.[835] For these reasons, the Commission should reject implementation of I&E's proposed Methane Detector Pilot at this time, and adopt Columbia's proposal to undertake an assessment of technical and operational requirements to integrate AMI and SRMD.

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[832] Columbia St. No. 7-R, pp. 6-7.
[833] Columbia St. No. 7-RJ, p. 2.
[834] Columbia St. No. 7-R, pp. 6-7.
[835] Columbia St. No. 7-R, pp. 6-7.

XVIII. CONCLUSION

For all of the foregoing reasons, Columbia Gas of Pennsylvania, Inc. respectfully requests that Administrative Law Judges Jeffrey A. Watson and Chad Allensworth and the Pennsylvania Public Utility Commission approve the rate increase and other proposals set forth in Supplement No. 392 to Tariff Gas – PA. P.U.C. No. 9.

Respectfully submitted,

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Date: August 26, 2025

APPENDIX A

APPENDIX A

PROPOSED FINDINGS OF FACT

1. Columbia Gas of Pennsylvania ("Columbia") filed for an approximately $110.5 Million total rate increase on March 20, 2025.

2. Columbia's request for rate relief totaling $110.44 Million is based upon data for a FPFTY ending December 31, 2026.[1]

3. The driver of the increase continues to be the substantial capital investment needed to replace at-risk, bare steel, ineffectually coated steel and first-generation plastic pipe. Columbia's budget to replace facilities provides for approximately $312.7 million to be invested in 2025 and $343.7 million to be invested in 2026 for plant replacement.[2]

4. Since 2007, Columbia has removed over 1,490 miles of at-risk pipe.[3]

5. Columbia is aware of the impact that rate increases have on its customers, and Columbia undertakes substantial efforts to control both its capital costs and its operations and maintenance ("O&M") costs.[4]

6. With respect to O&M costs, Columbia FPFTY O&M expenses are projected to be over $3 million less than its normalized HTY expenses.[5]

7. OCA has proposed a revenue decrease of more than $36 Million.[6]

8. I&E's proposed increase is $78.6 Million.[7]

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[1] *See* Columbia St. No. 1, p. 7; Columbia St. No. 2, p. 32.
[2] Columbia St. No. 7, p. 4.
[3] Columbia St. No. 7, p. 10.
[4] Columbia St. No. 7, p. 19.
[5] Columbia Ex. 104, pp. 3-4.
[6] OCA Ex. DM-SR-1.

9. The current distribution system improvement charge ("DSIC") rate established by the Commission for gas utilities is 10.25%.[8]

10. The average cost of main replacements when Columbia began its accelerated main replacement project in 2007 was $81.25 per foot, whereas the cost was $335 per foot in 2024.[9]

11. Unit costs for plant replacement have seen an average increase of 7% over the past five years.[10]

12. Columbia has spent, on average, about $20 Million more per year over the past three years than it has budgeted for plant replacements.[11]

13. Columbia's depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in Columbia's last base rate proceeding.[12]

14. The book reserve was projected generally using the straight-line remaining life method, with the Equal Life Group ("ELG") procedure.[13]

15. The Company's current claim for accrued depreciation in this proceeding is made on the same basis as it has been for over forty years.[14]

16. Columbia's rate base includes an addition of $948,060 for materials and supplies.[15]

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[7] I&E St. 1-SR, p. 4.
[8] *Report on Quarterly Earnings for Year Ended March 31, 2025*, Docket No. M-2025-3055266 (Order entered July 24, 2025), Attachment G.
[9] Columbia St. No. 7, p. 17.
[10] Columbia St. No. 7-R, p. 3; Columbia Ex. RB-2R.
[11] Columbia St. No. 7-R, p. 5.
[12] Columbia St. No. 5, p. 5.
[13] Columbia St. No. 5, pp. 4-5; Columbia Ex. 109, Attachment A, pp. 41-46.
[14] Columbia St. No. 5, p. 5.

17. Columbia's rate base includes an addition of $5,577,551 for various prepayments.[16]

18. Columbia's updated rate base claim for Gas Stored Underground is $48,893,536.[17]

19. Columbia deducts from rate base an amount of $4,813,210 for customer deposits based upon an HTY 13-month average balance.[18]

20. The Company's *pro forma* capital additions for reliability or infrastructure projects in the FTY is $316.8 Million and for the FPFTY is $329.3 Million, which is greater than $2.26 Million, which is 50% of the amount of what would have been the Consolidated Tax Adjustment ("CTA") under prior ratemaking principles, and the Company's general corporate purpose expense will also exceed 50% of the tax benefit resulting from elimination of the CTA.[19]

21. Columbia's FPFTY pro forma revenues at present rates, inclusive of purchased gas cost revenues, riders, late payment fees, Gas Procurement Charge revenues, Merchant Function Charge revenues and miscellaneous revenues, are $916,958,770.[20]

22. Columbia's projection of pro forma residential and commercial customer usage, used to develop pro forma revenues, reflects an assumption of temperatures using

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[15] Columbia Ex. 108, Sch. 5.
[16] Columbia Ex. 108, Sch. 6.
[17] Columbia Ex. JV-1R, p. 12.
[18] Columbia St. No. 11, p. 10; Columbia Ex. 108, Sch. 9.
[19] Columbia St. No. 10, p. 11. See also Columbia St. No. 10-R, p. 5.
[20] Columbia Ex. 103, p. 15.

a normal weather definition of 20-year average heating degree days ("HDD") ending December 31, 2024.[21]

23. If Columbia's pro forma usage were developed using a 10-year normal weather definition, it would reduce pro forma revenues at present rates and increase the revenue deficiency by approximately $19 Million.[22]

24. The Company uses the straight line, remaining life depreciation method, with the ELG procedure, to determine depreciation expense.[23]

25. ELG was adopted for Columbia in the 1980s and has been used for depreciation since this approval.[24]

26. The ELG procedure allocates depreciation expense in a manner that approximates the actual life of each equal life group.[25]

27. OCA's proposed Average Service Life ("ASL") procedure depreciates all assets as if they have the same life, even though that will be wrong most of the time.[26]

28. A change to a lower depreciation rate, through the adoption of ASL in this case, produces a short-term reduction to rates. However, the lower depreciation rate creates a higher rate base, as the depreciation reserve is depressed in comparison to the continued use of the ELG procedure.[27]

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[21] Columbia St. No. 2-R, p.2.
[22] Columbia St. No. 2-R, pp. 5-6.
[23] Columbia St. No. 5, p. 4.
[24] Columbia St. No. 5-R, p. 13.
[25] Columbia St. No. 5-R, pp. 9-11.
[26] Columbia St. No, 5-R, pp. 10-11.
[27] Columbia St. No. 5-RJ, p. 6.

29. Over a relatively short period of time, customers' rates will be greater than if the ELG procedure continues to be used, as the increasing rate base, multiplied by a pre-tax return of 10% or more, will quickly exceed the 2% to 3% depreciation rate resulting from the ELG procedure.[28]

30. Columbia's labor expense claim for the FPFTY is based upon 715 actual filled positions as of the end of the HTY, and not upon authorized positions.[29]

31. Columbia's incentive compensation plans include both financial and operating metrics and goals. These operating metrics include safety, customer satisfaction, quality of service and operational excellence.[30]

32. Columbia used the Gross Domestic Product Implicit Price Deflator to derive annual inflation rates of 2.93% for the FTY and 3.05% for the FPFTY. Columbia applied the inflation rates to limited categories of costs. In certain instances, Columbia applied the inflation adjustments to expenses being removed from the claim, thereby increasing the amount removed.[31]

33. Columbia has undertaken rigorous cost containment efforts in prior years to produce savings in Outside Services by identifying process efficiencies, better aligning resources and reassessing vendor contracts.[32]

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[28] Columbia St. No. 5-R, pp. 17-18; Columbia Ex. JJS-1R.
[29] Columbia St. No. 18-R, p. 5.
[30] GAS-RR-027 Attachment B.
[31] Columbia Ex. 104, Sch. 2, pp. 4, 7, 8, 9, 10, 11, 15, Columbia St. No. 4-R, p. 11.
[32] Columbia St. No. 18-R, p. 12.

34. Outside Services expenses can be linked to Company Labor and Materials and Supplies expenses, as Outside Services may be used to supplement internal company expenses.[33]

35. Membership in utility industry associations provide opportunities for Columbia to participate in peer networking, roundtables, and committees where utilities can share best practices, troubleshoot challenges, and collaborate on innovations. Associations also provide tools for benchmarking, safety tracking and security. Industry associations can also aid utilities in emergency response coordination and mutual aid programs during natural disasters or major outages.[34]

36. Membership in local chambers of commerce enables Columbia to engage with local communities and their customers in matters concerning local economic development, improvements in economic prosperity and provide educational resources such as utility energy programs. Membership in local chambers also provide Columbia with opportunities to identify workforce availability and to recruit its future utility workers. Membership provides Columbia an opportunity to reach out to communities in advance of main replacement projects to identify and address potential disruptions.[35]

37. Blackhawk is a gas storage field that, until recently, was owned by Columbia. For many years, Blackhawk served as a peaking asset to provide gas on cold

[33] Columbia St. No. 18-R, p. 11; Columbia Ex. JL-5R.
[34] Columbia St. No. 18-R, p. 20.
[35] Columbia St. No. 18-R, pp. 20-21.

days. As part of its 2016 Purchased Gas Cost proceeding, Columbia stated its intention to retire Blackhawk.[36]

38. Late in 2024, Columbia negotiated an arms-length sale of Blackhawk with an unaffiliated third party, and on January 29, 2025, filed an application for a certificate of public convenience to transfer the property. Consideration for the sale was $214,000.[37]

39. Columbia undertook a request for proposal process in which it sought offers from 22 prospective purchasers. Only two entities chose to bid, and Columbia selected the best offer.[38]

40. Because at the time of filing the base rate case Columbia did not know whether its application for approval to sell Blackhawk would be approved and whether the sale would be consummated, Columbia included in this case operating expenses, plant in service, accrued depreciation, accumulated deferred income taxes and gas in storage associated with Blackhawk.[39]

41. On April 24, 2025, the Commission approved the application for a certificate of public convenience to sell Blackhawk.[40]

42. The sale subsequently closed on June 20, 2025.[41]

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[36] Columbia St. No. 1-R, p. 23.
[37] *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*, ("*Application Order*") Docket No. A-2025-3053161, Order entered April 24, 2025, Order at p. 3.
[38] Columbia St. No. 1-RJ, p. 3.
[39] Columbia St. No. 11, p. 5, n. 1.
[40] *Application Order,* Order at pp. 5-6.

43. The sale of Blackhawk, even at a loss, produces savings for customers. In addition to avoiding ongoing O&M costs of approximately $232,000 per year, new Pipeline and Hazardous Material Safety Administration requirements would add an additional $2 Million in costs. Alternatively, if Columbia simply retired the facility, it would incur $5-$8 Million in retirement costs to plug wells and otherwise remove facilities.[42]

44. Columbia's capital structure of 54.4% common equity, 43.28% long-term debt and 2.32% short-term debt is its projected actual capital structure as of December 31, 2026, the end of the FPFTY.[43]

45. The Company's FPFTY capital structure ratios are consistent with the actual ratios for the Company at the end of the HTY.[44]

46. Columbia's common equity ratio is within the range of actual common equity ratios of all proxy groups of gas companies used in this proceeding.[45]

47. Columbia's FPFTY long-term debt cost rate is 5.22%. Columbia's FPFTY short-term debt cost rate is 5.00%.[46]

48. Columbia's cost of equity was developed using 15 cost of equity estimates, using three proxy groups.[47]

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[41] Columbia St. No. 4-R, p. 9.
[42] Columbia St. No. 1-R, p. 24.
[43] Columbia St. No. 8, p. 43.
[44]Columbia Ex. VVR-5, p. 1.
[45] Columbia St. No. 8, p. 44; I&E St. No. 2, p. 23; Tr. 523; OCA Ex. DJG-13
[46] Columbia Ex. VVR-4, p.1.
[47] Columbia St. No. 8, pp. 7-8.

49. Columbia's average DCF result for its Gas LDC Group is 10.97%, Columbia's average CAPM result for its Gas LDC Group is 11.31% and Columbia's average Risk Premium Method ("RPM") result for its Gas LDC Group is 11.23%.[48]

50. Columbia's Gas LDC Group is comprised of six companies.[49]

51. Columbia derived a dividend yield of 3.7% for its Gas LDC Group.[50]

52. Columbia determined an unadjusted DCF growth rate of 6.6% based upon analysts' estimates and historic earnings growth.[51]

53. Columbia calculated a leverage adjustment of 0.64% to be added to the DCF results of its three proxy groups.[52]

54. Columbia added a flotation cost adjustment of 3 basis points to account for issuance expenses.[53]

55. For its CAPM, Columbia calculated a risk free ([54]Rf) rate of 4.65% based upon current and forecasted yields of long-term Treasury bonds.

56. For the market premium (Rm-Rf) component of the CAPM analysis for all three models, Columbia calculated a 7.00% premium, based upon an average derived from long-term historical data (7.17% premium) and forecasted market returns (6.83% premium).[55]

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[48] Columbia St. No. 8, p. 9.
[49] Columbia St. No. 8, pp. 19-20.
[50] Columbia Ex. VVR-7, p. 3
[51] Columbia St. No. 8, p.58, Table VVR-7; Columbia Ex. VVR-7, p. 1.
[52] Columbia St. No. 8, Appendix C, pp. 3-4.
[53] Columbia St. No. 8, Appendix D, p. 1.
[54] Columbia St. No. 8, p. 68.
[55] Columbia St. No. 8, pp. 69-70.

57. Columbia included a size premium of 0.61% in one of its CAPM models.

58. Academic studies have shown that small capitalization stocks have historically earned returns that are materially higher than the returns predicted by the CAPM.[56]

59. For its RPM, Columbia established a 6.06% bond yield for the Gas LDC Group by first evaluating forecasted bond yields for AAA rated corporate bonds and then making a credit spread adjustment to account for the Gas LDC Group's lower average long-term credit ratings of BBB+ from S&P and Baa1 from Moody's.[57]

60. Columbia determined an average risk premium for the Gas LDC Group of 5.15% (5.44%+4.85%)[58]

61. Columbia proposed an adder of 25 basis points for management performance.[59]

62. Columbia began its program to replace priority pipe in 2007, long before the establishment of LTIIPs and DSIC mechanisms.[60]

63. Columbia has retired over 7.8 million feet (1,490 miles) of cast iron, bare steel pipe, pre-1971 ineffectively coated steel pipe and pre-1982 plastic pipe.[61]

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[56] *See* Michael Annin, "Equity and the Small-Stock Effect," Public Utilities Fortnightly, October 15, 1995, 42-43; and Eugene F. Fama and Kenneth R. French, "The Cross-Section of Expected Stock Returns," The Journal of Finance, 48 (June 1992), at 427-465.
[57] Columbia St. No. 8, pp. 77-78.
[58] Columbia St. No. 8, p. 84.
[59] Columbia St. No. 8, p. 4.
[60] Columbia St. No. 1, p. 17.
[61] Columbia St. No. 7, p. 10.

64. Columbia's Quality Management organization is responsible for systematically reviewing operations, documentation and processes to assure that work is completed, and tools and equipment were used, in a safe and compliant manner.[62]

65. Columbia is committed to delivering the highest level of customer service to its low-income customers using an all-inclusive approach. Identified low-income customers are screened and referred to one or more of Columbia's many assistance programs.[63]

66. Columbia employs a full-time Quality Assurance Coordinator for its internally managed LIURP program, which contributes to the Company's average 20% reduction in gas usage per completed job. To place this into perspective, in the last five reporting years, the highest gas industry average was a 16.6% reduction.[64]

67. The Commission's 2023 Universal Service Programs and Collections Report for 2023 lists Columbia as having the highest CAP credit per CAP customer of all gas utilities. [65]

68. To undertake increased outreach, Columbia has relied on improved automation, cross-training of Universal Service employees and rebalancing of duties to become more efficient. The success of these efforts can be seen in the Commission's

[62] Columbia St. No. 9, pp. 35-36.
[63] Columbia St. No. 9, pp. 4-8.
[64] Columbia St. No. 9, pp. 9-10.
[65] Columbia St. No. 9, p. 12.

Universal Service Programs and Collections Report, which indicates Columbia's costs are the second lowest per active CAP customer.[66]

69. Columbia is among the best in most categories for the gas industry in the Commission's most recent Utility Consumer Report and Evaluation ("UCARE"), which includes consumer complaint rates, justified consumer complaint rates, Payment Arrangement Request ("PAR") rates and Commission Infraction Rates.[67]

70. Columbia's Justified Consumer Complaint Rate of 3.4%, compared to the gas industry average of 11.6%.[68]

71. Columbia's recent Quality of Service Performance Report further demonstrates Columbia's commitment to quality service to customers. Overall, call center performance, avoidance of deferred billings, on time meter reading and dispute reporting demonstrate quality customer service.[69]

72. In addition to the foregoing reports, Columbia uses three outside contractors to survey customers regarding their satisfaction with Columbia's service. These survey results show high customer satisfaction with both customer service representatives and field service employees.[70].

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[66] Columbia St. No. 9, pp. 17-18.
[67] Columbia St. No. 9, pp. 19-23.
[68] Columbia St. No. 9, p. 20.
[69] Columbia St. No. 9, pp. 23-28.
[70] Columbia St. No. 9, pp. 28-31.

73. Columbia has reduced its gross residential write-off ratio from 4.07% in 2005 to 2.00% in 2023. Net residential write-offs went from 2.79% in 2005 to 1.37% in 2023.[71]

74. The Columbia Gas Mobile App allows customers to perform a variety of self-service transactions. In 2024, more than 1.09 million transactions were completed across the NiSource footprint by Columbia Gas customers in the app.[72]

75. Columbia prepared three ACOS studies in support of its proposed rates: the Customer-Demand Study (Columbia Exhibit No. 111, Schedule 1), the Peak & Average Study (Exhibit No. 111, Schedule 2) and the Average Study (Exhibit No. 111, Schedule 3). The ACOS studies are based on the FPFTY ending December 31, 2026.[73]

76. The Customer-Demand and Peak & Average studies provide the outside limits of possible allocations of mains to the various classes of service.[74]

77. Since the cost of mains represents the majority of plant costs, mains allocation has a critical effect on the assignment of costs of service to the customer classes.[75]

78. The Customer-Demand study allocates mains costs based on the number of customers ("Customer") and the Company's peak day design ("Demand"). In the Peak & Average study, mains costs are allocated 50% based on the Company's peak design day ("Peak") and 50% based on the Company's throughput ("Average"). The Average Study

[71] Columbia St. No. 9, p. 32.
[72] Columbia St. No. 9, p. 33.
[73] Columbia St. No. 6, p. 4.
[74] Columbia St. No. 6, p. 4.
[75] Columbia St. No. 6, p. 9.

is a combination of the Customer-Demand and Peak & Average studies and gives equal weight to both methods.[76]

79. The Company primarily used the Peak & Average Study to guide the revenue allocation and rate design process.[77]

80. Mr. Crist proposed to modify the Company's Customer-Demand study to make it more favorable to large customers by attempting to directly assign mains to the LDS/LGSS class.[78]

81. In addition to the ACOS studies, Columbia prepared a cost analysis supporting the minimum or system charges for all rate schedules.[79]

82. The cost analysis contains two studies. The first study is the Company's traditional customer charge study based on the Customer-Demand study and includes the customer portion of mains costs. The second study was conducted for comparison purposes and excludes the customer component of mains.[80]

83. None of the other parties in this proceeding prepared a customer charge study.[81]

84. All Residential rate schedules (Residential Sales Service ("RSS") and Residential Distribution Service ("RDS" or "Choice")) were grouped together. The following Commercial and Industrial ("C&I") customers using less than 6,440 therms

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[76] Columbia St. No. 6, p. 5.
[77] Columbia St. No. 6, p. 17.
[78] PSU St. No. 1-SR, p.4.
[79] Columbia St. No. 6, p. 3.
[80] Columbia Exhibit No. 111, Schedule 2, pp. 14-30.
[81] *See* Columbia St. No. 6-R, pp. 2-10.

annually were combined: Small General Service-1 (“SGS-1”), Small Commercial Distribution-1 (“SCD-1”) and Small General Distribution Service-1 (“SGDS-1”). The other customer groups include Small General Service-2 (“SGS-2”), Small Commercial Distribution-2 (“SCD-2”) and Small General Distribution Service-2 (“SGDS-2”) (those with annual usage between 6,440 and 64,400 therms); Small Distribution Service (“SDS”) and Large General Sales Service (“LGSS”) (commercial and industrial customers using between 64,400 and 540,000 therms annually); Large Distribution Service (“LDS”) and LGSS (commercial and industrial customers using greater than 540,000 therms annually); Main Line Distribution Service (“MLDS”); and Negotiated Contract Service plus flex rate customers (“NCS” or “Flex”).[82]

85. The results of the ACOS study indicated that five rate classes – RS/RDS, SGS-1/SGDS-1, SGS-2/SGDS-2, SDS/LGSS and MLDS – are overcontributing compared to the rate of return earned on rate base and two rate classes –LDS/LGSS and Flex – are under contributing based upon the P&A methodology.[83]

86. Columbia’s proposed revenue allocation moves the unitized returns for the classes towards parity (unitized returns of 1.00) with no class yet at parity. Columbia also proposed to limit the rate increases for each class to no more than 1.5 times the total system average increase of 16.73%.[84]

[82] Columbia St. No. 6, p. 7.
[83] Columbia Ex. No. 111, Sch. 3, p. 3.
[84] Columbia St. No. 6, p. 19.

87. Columbia's proposed revenue allocation represents a fair allocation of the proposed revenue increase among the customer classes considering the range of outcomes produced by the ACOS studies and should be accepted.[85]

88. Columbia proposes to increase the Residential customer charge from $16.75 to $31.97. The remaining Residential revenue increase was assigned to the volumetric charge for a resulting rate of $10.4458 per Dth.[86]

89. The monthly Residential customer cost excluding mains is $29.43.[87]

90. The monthly Residential customer cost including a mains component is $77.16.[88]

91. Based on these customer charge calculations, Columbia proposes a Residential customer charge of $31.97.[89]

92. It is undisputed in this proceeding that nearly all of the Company's distribution system costs are fixed and do not vary with usage.[90]

93. Rates should be designed in a way that reflects the fixed-cost nature of the system in that fixed-costs should be recovered through fixed charges, just as is done for most other household costs.[91]

94. At the hearing, I&E witness Sakaya could not identify any distribution system costs that varied with usage.[92]

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[85] Columbia St. No. 6, p. 19.
[86] Columbia St. No. 6, p. 21.
[87] Columbia Ex. No. 111, Sch. 2, p. 16.
[88] Columbia Ex. No. 111, Sch. 2, p. 25.
[89] Columbia St. No. 17, p. 11
[90] Columbia St. No. 17, p. 6.
[91] Columbia St. No. 17, p. 6, lines 13-15.

95. Mr. Sakaya also agreed that all of Company's major cost categories are fixed and do not vary with usage, including mains, services, level of employees and billing costs.[93]

96. The current approach of a low fixed customer charge in comparison to total fixed costs is contrary to sound cost of service rate design principles and is the primary reason why the Company's cost-recovery is so volatile and weather dependent.[94]

97. Recovering fixed distribution system costs through higher fixed customer charges and correspondingly lower volumetric rates provides multiple benefits for the majority of Columbia's low-income customers. Under the Company's customer charge proposal, the average low-income customer would save $24 per year on his/her annual distribution bill as compared to the other parties' proposals to maintain the current customer charge of $17.25 per month. If all distribution costs were recovered through a fixed charge, the average low-income customer would save $139 per year.[95]

98. The majority of household expenses are fixed costs, including mortgage or rent payments, insurance payments, internet and cable payments, phone bills and others.[96]

99. Low-income customers, while higher users, are largely not able to conserve due to the costs of making their homes more efficient or buying more efficient furnaces and appliances.[97]

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[92] Tr. 432.
[93] Tr. 432-435.
[94] Columbia St. No. 17, pp. 12-13.
[95] Columbia St. No. 17, p. 13.
[96] Columbia St. No. 17, pp. 19-20.
[97] Tr. 478.

100. The only customer charge analyses presented in this case are the Company's analyses which support a customer charge in the range of $27.69 - $77.16.[98]

101. Columbia's WNA adjusts residential customer bills in the heating months – November through May, to reflect the normalized weather-related HDD that are used to develop rates in each rate case. If HDDs are more than 3% colder than normal, customers receive a reduction in their bills to better reflect the normalized level of HDDs that were used to develop base rates in this proceeding. If HDDs are more than 3% warmer than normal, customers receive an increase in their bill to better reflect the normalized HDDs that were used to develop rates in this proceeding.[99]

102. The WNA adjusts only the temperature sensitive portion of customers' bills to reflect normal weather levels. By distinguishing between base load and temperature sensitive load, each customer bill is calculated to mitigate the undesirable impacts of warmer than normal or colder than normal weather.[100]

103. Columbia's WNA is similar to the Commission-approved WNAs of the other investor owned NGDCs in Pennsylvania, including the WNAs of Peoples Gas Company LLC ("Peoples"), UGI Utilities, Inc. – Gas Division ("UGI Gas"), and National Fuel Gas Distribution Corporation ("National Fuel"). All of the WNAs for these NGDCs

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[98] Columbia St. No. 6-RJ, pp. 5-6.
[99] Columbia St. No. 17-R, p. 7.
[100] Columbia St. No. 17-R, p. 7.

adjust customer bills based on variations in HDDs that are experienced as compared to the HDDs that are used to develop base rates with a 3% deadband.[101]

104. In this proceeding, Columbia is requesting Commission approval to make its existing WNA a permanent program as opposed to a pilot program with a limited term.[102]

105. The Commission recently approved a permanent WNA for Peoples in its recent base rate proceeding despite the opposition of OCA.[103]

106. Given the substantial recovery of the Company's fixed costs in volumetric distribution changes and the variation in annual heating requirements due to weather, a WNA is necessary for an NGDC to have a reasonable chance to recover its revenues as set in a base rate proceeding.[104]

107. If Columbia did not have the WNA in place, it would have lost approximately $74 Million since the inception of the WNA due to warmer than normal weather, and would not have been able to recoup those losses without a WNA.[105]

108. The other parties all admit that weather has been trending much warmer than normal. CAUSE-PA admitted that the HDD trend has been abnormal.[106]

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[101] *PA PUC v. Peoples Natural Gas Company,* Docket Nos. R-2023-3044549 et al., Order entered September 12, 2024, p. 93 ("*Peoples WNA Order*"); *PA PUC v. UGI Utils., Inc. – Gas Div.,* Docket Nos. R-2021-3030218 et al. Order entered September 15, 2022; *PA PUC v. National Fuel Gas Distribution Corporation,* Docket Nos. R-2022-3035730 et al., Order entered June 15, 2023.
[102] Columbia St. No. 17, p. 26.
[103] *See Peoples WNA Order*.
[104] Columbia St. No. 17, pp. 28-29.
[105] Tr. 448, 453.
[106] Tr. 473.

109. I&E witness Sakaya proposes to change the weather normalization period from 20-years to 10-years in future proceedings in order to better capture recent warming trends.[107]

110. Columbia's WNA is not similar to PECO's WNA, and the *PECO WNA Order* is not applicable especially given the Commission's recent decision approving a permanent WNA for Peoples.[108]

111. The WNA does not discourage conservation.[109]

112. Budget billing does not recover revenues that are lost due to warmer than normal weather and does not credit customers for higher bills resulting from colder than normal weather.[110]

113. Columbia has had very few WNA complaints.[111]

114. The Company's proposed RNA mechanism establishes a benchmark revenue per customer based on the annual authorized revenue requirement approved by the Commission and adjusts future customer bills to recover shortfalls or refund excess revenues compared to the benchmark.[112]

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[107] I&E St. No. 3, p. 18. Columbia has estimated that a 10-year weather normalization period would increase the revenue deficiency in this case by approximately $19 million. See Section V of this brief.
[108] *See Peoples WNA Order*.
[109] Columbia St. No. 17-R, p. 6.
[110] Columbia St. No. 17-R, pp. 10-11.
[111] Tr. 377.
[112] Columbia St. No. 17, p. 43.

115. The proposed RNA excludes weather related factors that have been previously adjusted through the WNA for the residential class, as those are accounted for in the WNA mechanism.[113]

116. The proposed RNA will be determined and adjusted on an annual basis to ensure the Company accurately recovers its approved revenue target without exceeding or falling short.[114]

117. The RNA is designed as a fully reconciling mechanism, meaning any over- or under-recoveries will be accounted for and incorporated into the next RNA adjustment period.[115]

118. Mr. Taylor explained how the RNA formula would work. He explained that the Company would develop a Benchmark Base Revenue Per Customer ("BRPC") that would consist of the Commission authorized revenues for the FPFTY divided by the number of customers determined in the case for each rate schedule.[116]

119. At the end of each year, the Company will compare the BRPC with the Actual Base Revenues Per Customer ("ARPC") and calculate the over or under-collection that resulted for each. Any over-collections will be credited to the customers in those rate schedules through an RNA surcredit. Any under-collections will be credited to the Company through a surcharge.[117]

[113] Columbia St. No. 17, p. 43.
[114] Columbia St. No. 17, p. 43.
[115] Columbia St. No. 17, p. 43.
[116] Columbia St. No. 17, pp. 43-44.
[117] Columbia St. No. 17, pp. 43-44.

120. The RNA rate will be calculated following the end of the calendar year and billed over a 12-month period, beginning in April of the same year the calculation is performed. Any over or under recoveries from the prior RNA period will be rolled into the next RNA period.[118]

121. The intent of the RNA is to collect the exact amount of revenues per customer allowed in base rates.[119]

122. Both refunds and recoveries will be subject to a 6% interest rate.[120]

123. The RNA promotes revenue stabilization because it relies on distribution revenue per customer, not usage per customer. Once the Company's revenue requirement is set through a base rate proceeding, a benchmark revenue per residential customer is established. Because the link between level of throughput and base revenue recoveries is broken, reduced throughput will not lead to revenue and earnings erosion due to under-recovery.[121]

124. The WNA only adjusts for weather related revenue variations, while the RNA addresses non-weather-related revenue fluctuations, along with weather-related revenue fluctuations not captured by the WNA. The RNA will allow Columbia to recover its approved revenue requirement while ensuring customers do not pay more than their cost to serve.[122]

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[118] Columbia St. No. 17, pp. 43-44.
[119] Columbia St. No. 17, p. 44.
[120] Columbia St. No. 17, p. 45.
[121] Columbia St. No. 17, pp. 49-50.
[122] Columbia St. No. 17, p. 46.

125. The RNA ensures recovery of fixed costs in line with cost-of service, preventing over- or under-collection and better aligning distribution revenues with cost causation principles.[123]

126. The RNA stabilizes recovery of fixed distribution costs, ensuring Columbia can invest in infrastructure to meet peak and long-term capacity needs while reducing under-recovery risk during low-usage periods.[124]

127. The RNA calculates revenue targets by customer class and assigns adjustments individually within each class, preventing both inter-class and intra-class cost shifting.[125]

128. The RNA provides customer protections including no over-recovery of authorized revenue, regulatory oversight and customer transparency.[126]

129. Mr. Taylor explained that decoupling mechanisms such at the RNA are common throughout the U.S., with at least 50 natural gas utilities in 21 states having full or partial decoupling mechanisms.[127]

130. Several of the parties argue that the RNA guarantees rate recovery without providing customer protections.[128]

[123] Columbia St. No. 17, pp. 48-52.
[124] Columbia St. No. 17, pp. 48-52.
[125] Columbia St. No. 17, pp. 48-52.
[126] Columbia St. No. 17, pp. 48-52.
[127] Columbia St. No. 17, p. 53.
[128] CAUSE-PA St. No. 2, p. 69; OCA St. No. 1, p. 2.

131. As explained by Mr. Taylor, the RNA does not guarantee earnings but simply aligns actual revenues with authorized revenues because the fixed customer charge recovers such a small percentage of fixed costs.[129]

132. Even with the WNA, the Company has under-recovered its authorized revenues by approximately $69 Million since 2019.[130]

133. When customers reduce usage, even under an RNA, their bills are lower.[131]

134. The RNA is designed to stabilize recovery of fixed distribution costs, not volumetric costs.[132]

135. Decoupling mechanisms such at the RNA are common throughout the U.S., with at least 50 natural gas utilities in 21 states having full or partial decoupling mechanisms.[133]

136. OCA witness Alexander proposes that any approved rate increase in this proceeding include a requirement that Columbia maintain its 2024 call center performance levels throughout the FPFTY.[134]

137. In Surrebuttal, Ms. Alexander clarified that her "recommendation does not call for any suggestion that the rate increase should not take effect if Columbia's future call center performance deteriorates below the 2024 performance level."[135]

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[129] Columbia St. No. 17-R, p. 22.
[130] Columbia St. No. 17, p. 38, Table 6.
[131] Columbia St. No. 17-R, pp. 22-23.
[132] Columbia St. No. 17-R, pp. 22-23.
[133] Columbia St. No. 17, p. 53.
[134] OCA St. 6-R, p. 5.
[135] OCA St. 6SR, p. 5.

138. Ms. Alexander cites historic performance from 2021 to 2023 in two areas, call abandonment rate and percentage of calls answered in 30 seconds.[136]

139. Columbia's 2024 call center performance demonstrated marked improvements in these areas, with the Company answering 83% of calls within 30 seconds and achieving a 2.25% call abandonment rate.[137]

140. The Company's internal performance standard for calls answered within 30 seconds is 80% and its internal performance standard for the call abandonment rate is 2.5%.[138]

141. The Company was meeting the 80% target for calls answered within 30 seconds as of June 2025 and the 2.5% target abandonment rate as of the first quarter of 2025.[139]

142. Ms. Alexander recommends that the Company maintain its current service levels and agrees that Columbia has maintained those performance levels in 2025 to date.[140]

143. Columbia witness Paloney described the measures the Company has taken since 2023 to achieve these improvements in call center performance.[141]

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[136] OCA St. 6, p. 12.
[137] OCA St. 6, pp. 11-12.
[138] Columbia St. No. 9-R, pp. 18-19. In her Direct Testimony, Ms. Alexander states that Columbia does not appear to have established a formal target for call abandonment rates. OCA St. 6, p. 12. In Rebuttal, the Company clarified that it does have an internal performance standard for the call abandonment rate, which is 2.5%. Columbia St. No. 9-R, pp. 18-19.
[139] Columbia St. No. 9-R, pp. 18-19.
[140] OCA St. 6SR, p. 7.
[141] Columbia St. No. 9-R, pp. 17-18.

144. In 2023, the Company created a team to identify opportunities to improve call center performance, which developed and implemented several measures to enhance customer satisfaction, improve call center performance, and foster employee engagement.[142]

145. These measures included: (1) a new mentorship program for new CSRs; (2) a New Hire Engagement and Recognition program to improve retention of CSRs; (3) new CSR empathy training to improve customer satisfaction; and (4) new Real-Time Analyst positions to monitor call center performance in real time.[143]

146. OCA witness Alexander recommends that the Company be required to develop and implement a root cause analysis of customer disputes, including formal and informal complaints.[144]

147. Ms. Alexander states that the root cause analysis should be developed using input from interested stakeholders within 6 months of the adoption of a final order in this proceeding.[145]

148. Ms. Alexander claims that the Company has no internal documentation that reflects an analysis of trends and issues, determines the root cause, or reflects documented changes to the complaint process.[146]

149. The Company explained that it does track complaints by issue and that its Regulatory Compliance department also holds regular meetings with the call center and

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[142] Columbia St. No. 9-R, pp. 17-18.
[143] Columbia St. No. 9-R, pp. 17-18.
[144] OCA St. 6, pp. 16-17.
[145] OCA St. 6, pp. 16-17.
[146] OCA St. 6, p. 15.

other customer-facing teams to review complaint trends and address emerging concerns.[147]

150. Columbia witness Paloney described that these collaborative discussions often lead to targeted refresher training or individualized coaching to reinforce proper procedures and improve customer interactions.[148]

151. Ms. Alexander testifies that the Company is outperforming other NGDCs in Bureau of Consumer Services ("BCS") reports concerning customer complaints and payment arrangement disputes that require BCS investigation.[149]

152. Ms. Alexander testifies that the Company's "justified" complaint rate and its verified infraction[150] rate were the lowest of all other Pennsylvania NGDCs in 2023.[151]

153. Ms. Alexander testifies that the Company's justified payment arrangement cases increased by .03% between 2021 and 2023.[152]

154. OCA witness Alexander recommends that the Company review its scripts for automated chat programs and IVR scripting to ensure compliance with consumer protection rights.[153]

155. In Rebuttal, the Company agreed to conduct a thorough review of its workflow and scripting regarding consumer protections for these areas and to report its

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[147] Columbia St. No. 9-R, p. 24.
[148] Columbia St. No. 9-R, p. 24.
[149] *See* OCA St. 6, pp. 14-15.
[150] Verified infractions in this context relate to findings that utilities have not complied with Chapter 56 of the Commission's regulations. OCA St. 6, p. 15.
[151] OCA St. 6, pp. 14-15.
[152] *Id.*
[153] OCA St. 6, p. 22.

findings to its Universal Service Advisory Council ("USAC")within 6 months of the final order entered in this proceeding.[154]

156. OCA witness Alexander also recommends that the Company evaluate and report on the effectiveness of its payment plans and related policies and identify potential reforms or enhancements that could improve the overall success rate of these arrangements.[155]

157. Ms. Alexander's only support for this recommendation is the .03% increase in justified payment agreements between 2021 and 2023 discussed in Section XII B, above.[156]

158. Ms. Alexander does not allege that the Company is not adhering to the applicable provisions of the Public Utility Code, the Commission's orders or regulations, or the Company's Commission-approved tariff related to payment agreements.[157]

159. The Company already strictly adheres to all collection procedures outlined in Chapter 56 of the Commission's regulations, including the payment arrangement provisions established pursuant to Chapter 14 of the Public Utility Code.[158]

160. OCA witness Alexander recommends that the Company be required to revise its training materials and provide additional training to ensure compliance with all

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[154] Columbia St. No. 9-R, p. 27.
[155] OCA St. 6, p. 17.
[156] OCA St. 6SR, p. 11.
[157] *See* OCA St. 6, p. 17; OCA St. 6SR, p. 11.
[158] Columbia St. No. 9-R, p. 25.

applicable consumer protections and rights for residential customers facing service termination.[159]

161. Ms. Alexander raises concerns regarding the training and procedures followed by the Company's field technicians at the time of service termination.[160]

162. The Company's current policies and training are fully compliant with all regulatory requirements.[161]

163. The Company has multiple contacts with customers leading up to the moment of termination that inform customers of their rights, including the 10-day termination notice and 3-day personal contact attempts.[162]

164. The written notice left at the premises after termination also informs customers of their rights.[163]

165. Raising additional consumer rights issues at the point of field contact could create potential safety risks and privacy concerns for both the customer and the field technician. For example, discussing protections related to domestic violence in an uncontrolled environment could inadvertently cause harm.[164]

166. Ms. Alexander argues in Surrebuttal that she intends only that field technicians be trained to recognize and respond to all potential customer rights that may

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[159] OCA St. 6, p. 19.
[160] OCA St. 6, p. 19.
[161] Columbia St. No. 9-R, p. 26.
[162] Columbia St. No. 9-R, p. 26.
[163] Columbia St. No. 9-R, p. 26.
[164] Columbia St. No. 9-R, p. 26.

be raised by the customer, not that they be required to reiterate all possible rights at the time of termination.[165]

167. The Company's termination work orders are not generated for any account that is in dispute.[166]

168. The Company's training materials address the four circumstances in which a utility must halt termination in the field.[167]

169. Pursuant to the settlement reached in the Company's last base rate case at Docket No. R-2024-3046519,[168] the Company is proposing a Speech Analytics Pilot Program that will use Speech Analytics Technology ("SAT") to review customer calls to identify customers that may be eligible for Columbia's Customer Assistance Program ("CAP") and were not referred to CAP during a customer service call.[169]

170. The Speech Analytics Pilot has two primary goals: (1) to verify that existing Company policies related to CAP referrals are being followed; and (2) to improve the rate of referrals to CAP by identifying key contacts, conversations, and

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[165] OCA St. 6SR, pp. 12-13.
[166] Columbia St. No. 9-R, p. 26.
[167] 52 Pa. Code § 56.94(1).
[168] *See Columbia Gas of Pa. v. Pa. PUC, et al.*, Docket Nos. R-2024-3046519, *et al.*, at 21 (Order entered Nov. 21, 2024) ("Columbia will present a pilot program involving the use of speech analytics no later than the Company's next USECP review or base rate proceeding, whichever comes first. As discussed in the Direct Testimony of OCA witness Colton, the Company will include the USAC in the development of the speech analytics pilot. The Company may recover the costs thereof through its Universal Services Rider.").
[169] Columbia St. No. 16, p. 7.

words or phrases that would more quickly recognize a CAP-eligible customer and use those to adjust processes to make appropriate referrals to CAP as soon as possible.[170]

171. SAT is a tool that uses artificial intelligence natural language processing to analyze customer conversations from live or recorded audio data.[171]

172. In Phase I of the Speech Analytics Pilot, the Company will use SAT to screen recordings of calls related to payment arrangements, while in Phase II the Company will expand its call screening to recordings of a sample size of all call types, with the intention to expand screening to all calls.[172]

173. In both phases, the Company will look for specific, words, phrases, or themes, as recommended by the Company's USAC, to identify customers that were not referred to CAP but may be eligible based on the conversation.[173]

174. The Company will consult the USAC to provide feedback regarding the appropriate words and phrases the SAT will use in the Pilot. The Company will also share preliminary findings and ongoing results with its USAC.[174]

175. The Company's estimated annual budget for the Speech Analytics Pilot is $300,000, which includes the prorated portion of the annual licensing fee for SAT, programming the SAT, analyzing results, and related training.[175]

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[170] Columbia St. No. 16, p. 7.
[171] *Id.*, p. 8.
[172] *Id*.
[173] Columbia St. No. 16, p. 8.
[174] *Id.*, p. 10.
[175] *Id.*, p. 9.

176. The Company proposes recovering costs related to the Speech Analytics Pilot through its Rider USP.[176]

177. OCA witness Colton recommends approval of the Company's Speech Analytics Pilot, with costs recoverable through Rider USP.[177]

178. CAUSE-PA witness Geller does not appear to oppose the Speech Analytics Pilot but raises certain concerns with the use of SAT generally and makes recommendations based on those concerns.[178]

179. Mr. Geller is concerned that artificial intelligence ("AI") tools like SAT "have the potential to infuse bias within the modeling, which could result in disproportionate outcomes based on factors such as race, ethnicity, gender, age, primary language, or education level."[179]

180. The Company will not be using demographic data in its implementation of SAT and will instead focus on specific words and phrases to help identify eligible customers for enrollment in CAP.[180]

181. The Company will also evaluate its plan for any inherit bias prior to implementation and draw on the experience of its USAC to ensure that the SAT screens for the appropriate words and phrases to identify eligible customers.[181]

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[176] *Id.*
[177] OCA St. 5, pp. 73-74.
[178] *See* CAUSE-PA St. 1, pp. 32-33.
[179] CAUSE-PA St. 1, p. 32.
[180] Columbia St. No. 16-R, pp. 5-6.
[181] Columbia St. No. 16-R, pp. 5-6.

182. Mr. Geller cautions that the Company should not rely solely on its USAC for this task and recommends seeking input from other organizations with expertise and experience in this area.[182]

183. The Company clarified in Rebuttal that it will not rely solely on the USAC and that the NiSource Data Science Team will build the framework for the Speech Analytics Pilot.[183]

184. This team collectively brings over 40 years of experience in Data Science and Natural Language Processing, with specific experience in the development of models on customer communications and phone transcripts.[184]

185. Mr. Geller also recommends that the Company be prohibited from sharing data collected through the Speech Analytics Pilot with any third parties other than the contractors who help develop the SAT used.[185]

186. The Company has existing, stringent guidelines in place regarding sharing sensitive customer information to third parties and data security in general, and has clarified that no raw data collected through the Speech Analytics Pilot will be shared with third parties.[186]

187. I&E witness Patel opposes rate recovery of the Company's annual expense claim of $300,000 for the Company's proposed Speech Analytics Pilot.[187]

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[182] CAUSE-PA St. 1, p. 32.
[183] Columbia St. No. 16-R, p. 5.
[184] Columbia St. No. 16-R, pp. 5-6.
[185] CAUSE-PA St. 1, p. 33.
[186] Columbia St. No. 16-R, p. 6.
[187] I&E St. No. 2, p. 100.

188. Mr. Patel argues that the use of SAT is not mandated by any statute or regulation.[188]

189. The Company committed to proposing this Speech Analytics Pilot as part of the settlement of its last base rate case.[189]

190. The Commission encourages the use of pilots to improve Universal Service programs.[190]

191. Mr. Patel claims that the Company has not supported the $300,000 annual expense of the Pilot.[191]

192. In Direct Testimony, Columbia identified that the SAT budget is to cover Columbia's prorated portion of the SAT licensing fee, programming the SAT, analyzing results and training.[192]

193. Mr. Patel argues that recovery of costs through the Rider USP will provide the Company with a guaranteed return without any metrics of success or corresponding benefits to customers.[193]

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[188] I&E St. No. 2, p. 100.
[189] *See Columbia Gas of Pa. v. Pa. PUC, et al.*, Docket Nos. R-2024-3046519, *et al.*, at 21 (Order entered Nov. 21, 2024) ("Columbia will present a pilot program involving the use of speech analytics no later than the Company's next USECP review or base rate proceeding, whichever comes first. As discussed in the Direct Testimony of OCA witness Colton, the Company will include the USAC in the development of the speech analytics pilot. The Company may recover the costs thereof through its Universal Services Rider.").
[190] Columbia St. No. 16-R, p. 19.
[191] I&E St. No. 2, p. 101.
[192] Columbia St. No. 16, p. 9.
[193] I&E St. No. 2, p. 101.

194. The Company will be able to gauge the success of the Speech Analytics Pilot through increased CAP enrollments and has committed to working with its USAC to develop reporting metrics and to provide regular updates to the USAC with the results.[194]

195. The success of the Speech Analytics Pilot will also be evaluated by a required third-party evaluation.[195]

196. The SAT for the Speech Analytics Pilot is not currently being used in Columbia's call centers and was purchased for use in the proposed Pilot.[196]

197. Accelerating CAP enrollments through the Speech Analytics Pilot will benefit all Columbia customers by avoiding additional arrears accumulated prior to enrollment, preventing terminations, and increasing successful monthly payments.[197]

198. The purpose of a pilot program is to develop novel programs to address relevant issues.[198]

199. Columbia's next USECP filing is due in April 2030.[199]

200. The Company is proposing a two-year CAP Arrearage Pilot Program ("CAP Pilot") to help customers who were removed from CAP for non-payment return to the program.[200]

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[194] Columbia St. No. 16-R, p. 19.
[195] Columbia St. No. 16-R, p. 19.
[196] Columbia St. No. 16-R, pp. 19-20.
[197] Columbia St. No. 16-R, p. 20.
[198] Columbia St. No. 16-R, p. 19.
[199] Columbia St. No. 16-R, p. 7.
[200] Columbia St. No. 16., pp. 3, 5.

201. The Company proposes a $100,000 budget for this pilot, to be recovered through its Rider USP. Columbia estimates that the CAP Pilot will provide assistance to at least 153 customers and has budgeted for up to 270 customers to be served through the program based on average arrears.[201]

202. Under the proposed CAP Pilot, the Company will issue grants up to $650 for the payment of CAP arrears to facilitate re-entry into CAP.[202]

203. Customers will be approved for the grant by the current CAP administrator, Dollar Energy Fund ("DEF"), while the Company's EAT will be responsible for posting the grants to customer accounts.[203]

204. Once the grant is posted, the customer will be re-enrolled in CAP.[204]

205. To be eligible for the CAP Pilot, customers must meet all existing CAP requirements as specified in the Company's USECP and must have outstanding CAP arrears. Customers will be eligible for only one grant through the CAP Pilot.[205]

206. The $650 grant amount is in line with the maximum hardship fund grant awarded through the Company's Hardship Fund and the Company's records reveal that most CAP customers owe less than $650 in arrears.[206]

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[201] Columbia St. No. 16., pp. 3, 5.
[202] *Id.*, p. 3.
[203] *Id.*, p. 3.
[204] *Id.*, p. 3.
[205] *Id.*, p. 4.
[206] *Id.*, p. 4.

207. Initial referrals to the CAP Pilot will be made by Company CSRs, and if additional funds remain after 3 months of the Pilot's initiation, the Company will provide reach out to potentially eligible customers in writing.[207]

208. The Company will report on the progress of the proposed CAP Pilot through reports at USAC meetings, as well as through annual reports to its USAC.[208]

209. No party opposes the Company's proposed CAP Pilot.

210. Mr. Geller recommends that the CAP Pilot term be extended to three years with a budget of $244,200, and that the Company conduct targeted outreach to all potentially eligible customers regarding the CAP Pilot, including in October prior to the winter heating season and in March before the winter moratorium ends.[209]

211. The Company believes a 2-year pilot with a budget of $100,000 will provide enough data to analyze results and determine effectiveness of the CAP Pilot.[210]

212. Mr. Geller argues that the extension of the program will align with the filing of the Company's next USECP, but the Company's next USECP is not due until 2030, which is more than three years away.[211]

213. The Company's proposed outreach includes targeted referrals to the CAP Pilot in the initial months of the program followed by broader outreach to potentially eligible customers if funds remain.[212]

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[207] *Id.*, pp. 5-6.
[208] *Id.*, pp. 6-7.
[209] CAUSE-PA St. 1, pp. 35, 37.
[210] Columbia St. No. 16-R, p. 6.
[211] Columbia St. No. 16-R, pp. 6-7.
[212] Columbia St. No. 16, p. 6.

214. The Company determined the budget for the CAP Pilot by reviewing its records for removed CAP customers with incomes at or below 150% of the FPIG who owe both CAP and non-CAP arrears.[213]

215. The Company found that there were 150 qualified customers with applications on file and outstanding arrearages, who have average CAP arrears of $370.[214]

216. The $100,000 budget would allow the Company to process 270 similarly situated applicants, which the Company anticipates is within its internal team's capacity to manage while providing a good sample size to evaluate the impact of the CAP Pilot.[215]

217. If the Pilot is approved, the Company commits to reviewing the CAP Pilot data points to be collected with its USAC and filing annual results at the Company's most recent USECP docket.[216]

218. The Company proposes to recover EAT costs associated with the administration of Universal Services programs like CARES and CAP through its Rider USP.[217]

219. Under the Company's proposal, approximately $220,000 in annual costs would be shifted from recovery under O&M expenses to the Rider USP.[218]

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[213] Columbia St. No. 16, p. 5.
[214] Columbia St. No. 16, p. 5.
[215] Columbia St. No. 16, p. 5.
[216] Columbia St. No. 16-R, p. 7.
[217] Columbia St. No. 16, p. 10.
[218] *Id.*, p. 14.

220. If approved, the Company would use existing processes to ensure the allocated EAT costs are only recovered through the Rider USP.[219]

221. The Company is also proposing minor amendments to the Rider USP provisions in its tariff to account for this change.[220]

222. Currently, Universal Services costs associated with the EAT are recovered in base rates.[221]

223. Columbia's EAT is responsible for the administration of all energy assistance activities, from outreach and processing grants to trouble shooting issues, including the administration of CAP, LIHEAP, CRISIS, the Homeowner Assistance Fund, the Emergency Rental Assistance Program, hardship funds, and the Security Deposit Assistance Fund.[222]

224. All EAT responsibilities are directly related to the administration of energy assistance programming.[223]

225. All CAP external administration costs and all costs associated with the LIURP program are already recovered through Rider USP.[224]

226. The EAT is currently experiencing additional workload due to new outreach coordination, including the coordination of data sharing from the Department of

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[219] *Id.*, p. 14.
[220] *Id.*, p. 15. Specifically, the Company is proposing to add a sentence to the first paragraph under the calculation of the rate to state "and any other replacement or Commission- mandated Universal Service Program or low-income program that is implemented during the period that the rider is in effect." *Id.*
[221] Columbia St. No. 16, p. 10.
[222] *Id.*, p. 11.
[223] *Id.*, p. 11.
[224] *Id.*, p. 12.

Human Services ("DHS") and the streamlining of CAP applications, which requires additional staffing.[225]

227. Recovering additional labor costs through Rider USP will permit the Company to appropriately staff for fluctuating demands only when the additional staffing is necessary.[226]

228. The Company has increased staffing of its EAT in recent years to three full-time employees, to meet increased demands of administering LIHEAP and CAP, as well as additional state assistance programs put in place during the COVID pandemic, such as the Homeowners Assistance Fund and the Emergency Rental Assistance Program.[227]

229. Columbia's Universal Service programs are subject to a third-party evaluation every six years, where the costs and effectiveness of program measures are scrutinized.[228]

230. In addition, the Commission's Bureau of Audits conducts a review of the reasonableness and prudency of all rider-recovered expenses.[229]

231. The EAT costs result directly from the administration of Universal Services and energy assistance and the number of employees that staff the EAT is identified and approved in the Company's USECP.[230]

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[225] *Id.*, p. 12.
[226] *Id.*, p. 12.
[227] *Id.*, pp. 13-14.
[228] Columbia St. No. 16-R, p. 15.
[229] Columbia St. No. 16-R, p. 15.
[230] Columbia St. No. 16-R, p. 15.

232. The role of the EAT has evolved in recent years to meet the growing demands of coordinating account review and grant approvals with state and local agencies, implementing program changes agreed to in prior rates cases that were proposed by low-income advocates, and participating in the DHS data sharing agreement.[231]

233. The Company has established processes in place for the recovery of internal labor and expenses associated with the LIURP program through Rider USP.[232]

234. The Company has undergone multiple audits, all of which found no evidence of over-recovery related to internal administrative costs of LIURP.[233]

235. If approved, the Company would use these existing processes to ensure these EAT costs are only recovered through the Rider USP.[234]

236. CAUSE-PA witness Geller "caution[s]" that recovery through Rider USP should be limited to costs for staff that work exclusively on the Company's Universal Services programs and recommends limiting the proposed tariff language to specifically list the programs and costs that are recovered under Rider USP. [235]

237. The Company's proposed tariff language specifies that cost recovery under the Rider USP is limited to Commission-mandated Universal Service Programs and low-income programs.[236]

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[231] *See* Columbia St. No. 16, p. 13; Columbia St. No. 16-R, p. 15.
[232] Columbia St. No. 16, p. 14.
[233] Columbia St. No. 16, p. 14.
[234] Columbia St. No. 16, p. 14.
[235] CAUSE-PA St. 1, p. 61.
[236] Columbia St. No. 16, p. 15.

A. AUTOMATICALLY ENROLLMENT OF LIHEAP GRANT RECIPIENTS INTO CAP

238. CAUSE-PA proposes that the Company automatically enroll into CAP all customers that receive a LIHEAP grant and agree to share their information via the DHS data sharing agreement.[237]

239. Mr. Geller asks the Commission to require Columbia to file a petition to amend its USECP to implement the auto-enrollment.[238]

240. Mr. Geller claims that the auto-enrollment process would "help to reduce administrative burdens for both the Company and the customer."[239]

241. Auto-enrollment would only be possible for a portion of the customers identified by CAUSE-PA. For example, customers who have previously participated in CAP may not be eligible for enrollment due to an existing CAP balance, failure to cooperate with weatherization, or if the receipt of the LIHEAP grant causes a credit on the account.[240]

242. The Company would need to manually review and follow-up on the accounts not eligible for CAP, which in turn would lead to a significant increase in time and resources of the Company's EAT.[241]

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[237] CAUSE-PA St. 1, p. 25.
[238] CAUSE-PA St. 1, p. 25.
[239] CAUSE-PA St. 1, p. 26.
[240] Columbia St. No. 16-R, p. 2.
[241] Columbia St. No. 16-R, p. 3.

243. Customers who are automatically enrolled in CAP would not have the opportunity to review and agree to the responsibilities associated with CAP participation.[242]

244. These program responsibilities include providing proof of income to the Company on a regularly scheduled basis, notifying the Company of any changes in household size or income, agreeing to make bill payments every month, accepting changes to CAP approved by the Commission, and cooperating with weatherization.[243]

245. The Company cannot decide for its customers whether CAP is financially beneficial for their households.[244]

246. CAP requires periodic confirmation of financial eligibility as well as commitment to specific program terms and services.[245]

247. Both CAUSE-PA witness Geller and OCA witness Colton recommend a more thorough screening of applicants and customers when customers contact Columbia's call center to connect or transfer service.[246]

248. Under these proposals, the Company would be required to screen all applicants for their income level at the time they establish or transfer service to identify whether they are low-income or may be eligible for energy assistance.[247]

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[242] *See Petition of Peoples Natural Gas Company LLC – to Amend 2019-2023 Universal Service and Energy Conservation Plan*, Docket Nos. P-2024-3052324, et al., p. 20 (Order entered April 24, 2025).
[243] Columbia St. No. 16-R, p. 3.
[244] Columbia St. No. 16-R, p. 2.
[245] *See* Columbia St. No. 16-R, pp. 2-3.
[246] CAUSE-PA St. 1, pp. 30-31, OCA St. 5, p. 65.
[247] CAUSE-PA St. 1, pp. 30-31; OCA St. 5, p. 68.

249. The majority of customers contacting Columbia to initiate or transfer service are not identified as low-income and approximately 82% of the Company's customer base does not meet low-income criteria.[248]

250. Requiring financial information during these often initial interactions with customers may be perceived as intrusive, potentially leading to a negative first impression and diminished customer satisfaction.[249]

251. Adopting these proposals will increase the average call handle time and, therefore, could significantly impact current call center performance metrics.[250]

252. To maintain service standards while implementing the OCA and CAUSE-PA proposals, the Company would need to hire a minimum of three full-time employees and implement additional training materials and procedures.[251]

253. CAUSE-PA recommends that the Company begin to review CAP accounts on a monthly basis to ensure customers are receiving the lowest payment option.[252]

254. Columbia's CAP account review process is automated, and accounts are already reviewed monthly to determine the lowest monthly payment option for each account.[253]

255. Annual funding for the Company's LIURP is set at $5,425,000 for the years 2026 and 2027.[254]

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[248] Columbia St. No. 16-SR, p. 4.
[249] Columbia St. No. 16-R, p. 4.
[250] Columbia St. No. 16-R, p. 4.
[251] Columbia St. No. 16-R, p. 4.
[252] CAUSE-PA St. 1, p. 38.
[253] Columbia St. No. 16-R, pp. 7-8.

256. Mr. Geller recommends that the LIURP budget be increased by a percentage equal to any approved increase to residential rates approved in this proceeding.[255]

257. Ms. Warabak recommends that the LIURP budget be increased by $1,500,000 so that an additional 100 jobs can be completed annually.[256]

258. For covered NGDCs, the Commission's regulations require that a utility's LIURP budget shall be at least 0.2% of the utility's jurisdictional revenues.[257]

259. The Company's current LIURP budget is slightly less than 1% of its jurisdictional revenues, or five times higher than the Commission's minimum standard.[258]

260. The Commission's 2023 Universal Service Program and Collections Performance Reports shows that Columbia customers are already paying on average $14.00 annually for the LIURP program as compared to the $9.00 average of all Pennsylvania natural gas customers.[259]

261. The Company's non-profit weatherization providers are currently behind in their production for 2025 and have reported they are unable to complete Columbia jobs due to the prioritization of other projects, while the Company is competing with other utilities for the availability of its for-profit weatherization providers.[260]

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[254] I&E St. No. 1-R, p. 5.
[255] CAUSE-PA St. 1, p. 41.
[256] PWPTF St. 1, p. 7.
[257] *See* 52 Pa. Code § 58.4(a).
[258] Columbia St. No. 16-R, p. 8.
[259] Columbia St. No. 16-R, p. 8.
[260] Columbia St. No. 16-R, p. 10.

262. CAUSE-PA recommends that the Company's Health & Safety Pilot funds should be separated from the LIURP budget and rolled over if unspent.[261]

263. Currently, the Company's Health & Safety Pilot has an annual budget of $600,000, and any unused funds are redirected to support other weatherization measures and heating system repairs.[262]

264. LIURP funds are already subject to a rollover, so any remaining Health & Safety Pilot funds carry over for future use.[263]

265. No property has been denied Health & Safety funding due to lack of available funding to date.[264]

266. PWPTF witness Warabak recommends that the Company increase its contribution to its Hardship Fund by a percentage equal to any approved increase to residential rates approved in this proceeding and that Hardship Funds be distributed in accordance with the percentage of low-income customers in the counties served by the Company.[265]

267. The Company currently has more than $1,000,000 in Hardship Funds.[266]

268. The Company has established processes to direct eligible customers to its CAP, whenever possible. As a result, only those customers that are over income for

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[261] CAUSE-PA St. 1, pp. 44-45.
[262] Columbia St. No. 16-R, pp. 10-11.
[263] Columbia St. No. 16-R, p. 11.
[264] Columbia St. No. 16-R, p. 11.
[265] PWPTF St. 1, p. 7.
[266] Columbia St. No. 16-R, p. 22.

CAP, decline participation in CAP or require financial assistance for CAP re-entry receive Hardship Funds.[267]

269. Since January 2025, the number of customers entering CAP has doubled compared to the enrollment levels during the first six months of each of the prior six years.[268]

270. No customers have been denied Hardship Fund assistance due to a lack of funds in recent years.[269]

271. In his Direct Testimony, OCA witness Colton identified an omission regarding the Company's policy to waive security deposits to low-income customers in its self-service workflow and scripting.[270]

272. Mr. Colton recommends a thorough review of these channels to ensure that the availability of a low-income exemption is communicated to customers.[271]

273. In Rebuttal the Company committed to conducting a thorough review of its workflow and scripting and to implementing changes to ensure customers are aware of the low-income exemption for security deposits.[272]

274. The Company is proposing in this case its Phase II Three-Year Energy Efficiency Plan ("Phase II Plan" or "Plan").[273]

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[267] Columbia St. No. 16-R, p. 22.
[268] Columbia St. No. 16-R, p. 22.
[269] Columbia St. No. 16-R, p. 22.
[270] OCA St. 5, p. 78.
[271] *Id*.
[272] Columbia St. No. 16-R, p. 17.
[273] The Company's Phase II Plan was attached to the Direct Testimony of Columbia witness Nunley as Exhibit JAN-2.

275. The voluntary Phase II Plan is based on the successful implementation of the Company's Energy Efficiency Pilot Program ("EE Pilot"), and the updates in the Plan are based on energy efficiency efforts across other NGDC Energy Efficiency and Conservation ("EE&C") plans in Pennsylvania.[274]

276. The Company is proposing to continue its two existing energy efficiency programs from the EE Pilot and launch a new, third energy efficiency program.[275]

277. The Phase II Plan will be implemented across three years starting in January of 2026.[276]

278. The Plan's three programs are designed to help the Company's residential and small commercial customers reduce their energy consumption, improve efficiency, and conserve resources.[277]

279. Overall, the Phase II Plan is projected to provide lifetime savings of 2.7 million dekatherms ("Dths") of natural gas at an implementation cost of $7.9 Million over three years.[278]

280. Columbia's voluntary Phase II Plan was developed using the guiding principles of the Commission's Act 129 *Phase IV Implementation Order*.[279] For example, the Phase II Plan employs the Total Resource Cost ("TRC") test laid out in the

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[274] *Id*., p. 23.
[275] *Id*., p. 23.
[276] Columbia St. No. 13, p. 8.
[277] Columbia St. No. 13, p. 8.
[278] Columbia St. No. 13, p. 8.
[279] *See Energy Efficiency and Conservation Program*, Docket No. M-2020-3015228 (Order entered June 18, 2020) ("*Phase IV Implementation Order*"), *clarified*, Docket No. M-2020-3015228 (Order entered March 12, 2020).

Phase IV Implementation Order to determine the cost-effectiveness of its plan measures and the Plan's budget is well under the 2% cap that Act 129 imposes on electric efficiency programs in Pennsylvania.[280]

281. The Company's EE Pilot was originally approved as part of the Company's 2022 Rate Case at Docket No. R-2022-3031211, with a budget of $4 Million for the years 2023 to 2025.[281]

282. The EE Pilot has two programs: (1) the Residential Prescriptive ("RP") Program, which provides incentives for high-efficiency natural gas fired equipment; and (2) the Online Audit Kit ("OAK") Program, which provides customers with a customized online audit that then allows them to receive a space heating and/or water heating kit at no cost.[282]

283. In the Company's 2024 rate case, the EE Pilot was updated to shift funding between programs to support additional prescriptive rebate measures. The updated EE Pilot was approved, with the budget remaining $4 Million for the years 2023 to 2025.[283]

284. Through the Pilot Program, the OAK Program exceeded program goals, with 2,455 water savings kits and 1,339 space heating savings kits distributed in the first five months of program operation.[284]

285. Preliminary 2024 data shows that in year two, participation in the RP Program exceeded the Company's projections.[285]

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[280] *See* Ex. JAN-2, pp. 5, 9-10.
[281] Columbia St. No. 13, p. 3.
[282] Columbia St. No. 13, pp. 3-4.
[283] Columbia St. No. 13, p. 3.
[284] Columbia St. No. 13, p. 4.

286. The Company's Annual Report on 2023 program performance showed TRC net benefits of $1.8 Million in just five months of program operation for the participating residential Columbia Gas customers.[286]

287. The Phase II Plan reflects two major changes in programming.[287]

288. First, the Company is proposing to expand the measure offerings in the RP Program, adding three new rebate offerings to provide customers with more natural gas saving opportunities. These additional rebate offerings include boiler reset controls, efficient fireplace inserts, and single packaged vertical units.[288]

289. Second, the Company is proposing the addition of a Small Commercial ("SC") Program. The SC Program will provide natural gas saving opportunities through equipment rebates to small commercial customers by providing rebates for installing energy efficient equipment for heating, water heating, steam process, commercial cooking and dishwashing, and controls, as well as rebates for making improvements to the building shell through insulation and air sealing.[289]

290. The OAK Program will continue unchanged from the EE Pilot.[290]

291. The total Phase II Plan portfolio is projected to cost $7.9 Million over three years, or an average of $2.6 Million per year.[291]

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[285] Columbia St. No. 13, pp. 5-7.
[286] Columbia St. No. 13, p. 7.
[287] Columbia St. No. 13, p. 8.
[288] Columbia St. No. 13, p. 8.
[289] Columbia St. No. 13, p. 8.
[290] Columbia St. No. 13, p. 9.
[291] Columbia St. No. 13, p. 9.

292. At this level of investment, over the three years of the Phase II Plan, the Plan is projected to return a present value of TRC net benefits of $17.1 Million, in 2025 dollars, with a TRC benefit-cost ratio ("BCR") of 2.49.[292]

293. In addition, the RP, OAK, and SC programs are each cost-effective on their own.[293]

294. Together, the Phase II Plan programs are projected to save 160 thousand incremental annual Dths of natural gas and 2.7 million Dths over the lifetime of the measures installed.[294]

295. The Phase II Plan is projected to save 7,629 MWh of electricity and 508 million gallons of water over the lifetime of the measures installed.[295]

296. The emission reduction of over 164,575 short tons of CO2 is expected to occur from program activity, which is equivalent to removing over 6,286 cars from the road permanently.[296]

297. The Plan is also projected to generate between 81 and 162 net additional new jobs over the lifetime of the efficiency measures installed.[297]

298. The Phase II Plan will also help customers increase the comfort of their homes and businesses and reduce the emission of greenhouse gases.[298]

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[292] Columbia St. No. 13, p. 9.
[293] Columbia St. No. 13, p. 16.
[294] Columbia St. No. 13, p. 12.
[295] Columbia St. No. 13, p. 12.
[296] Columbia St. No. 13, p. 12.
[297] Columbia St. No. 13, p. 13.
[298] Columbia St. No. 13, p. 9.

299. Reduced spending on energy also shifts spending to other parts of the economy which can have both an economic multiplier effect and help with regional job creation.[299]

300. The RP Program aims to reduce lost opportunities for efficiency improvements during the turnover of natural gas space heating and water heating equipment.[300]

301. The existing Pilot RP program will continue into Phase II by providing incentives for furnaces, boilers, combination space and water heating boilers, tankless water heaters, WIFI-enabled thermostats, natural gas heat pumps, and insulation and air sealing.[301]

302. The RP Program uses ENERGY STAR® criteria as a minimum efficiency level, when available.[302]

303. Phase II of the RP Program will provide customers additional opportunities to save natural gas by providing incentives for boiler reset controls, fireplace inserts, and single packaged vertical units.[303]

304. The Company will continue to operate with the existing third-party implementor that is currently implementing the Pilot RP program.[304]

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[299] Columbia St. No. 13, p. 9.
[300] Columbia St. No. 13, p. 17.
[301] Columbia St. No. 13, p. 17.
[302] Columbia St. No. 13, p. 17.
[303] Columbia St. No. 13, pp. 17-18.
[304] Columbia St. No. 13, p. 18.

305. The RP Program is cost-effective and is projected to provide present value TRC net benefits of $8.6 Million with a BCR of 2.32.[305]

306. The RP Program is expected to cost $3.8 Million in nominal dollars over three years and save 1.72 million Dth of natural gas over the lifetime of measures installed.[306]

307. The RP Program is also projected to save 6,690 MWh of electricity and approximately 107 thousand tons of CO2 over the lifetime of the installed measures, which is equivalent to permanently removing over 4,074 cars from the road.[307]

308. In Phase II, the OAK Program will provide residential customers with a free online audit that will provide targeted information for customers on how to reduce their energy usage and bills.[308]

309. The OAK Program will also provide customers who complete the audit with free, targeted energy savings kits.[309]

310. The Company will utilize the same two third-party implementors currently under contract for the OAK Program.[310]

311. The OAK Program is cost-effective and is expected to cost $1.7 Million in nominal dollars over three years and save 431.5 thousand Dth of natural gas over the lifetime of measures installed.[311]

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[305] Columbia St. No. 13, p. 17.
[306] Columbia St. No. 13, p. 17.
[307] Columbia St. No. 13, p. 17.
[308] *Id.*, p. 20.
[309] *Id.*, p. 20.
[310] *Id.*, p. 20.

312. The OAK Program is projected to provide present value TRC net benefits of $7.3 Million with a BCR of 5.78.[312]

313. The OAK Program will also save 500.8 million gallons of water and approximately 25 thousand tons of CO2 over the lifetime of the installed measures, which is equivalent to permanently removing over 964 cars from the road.[313]

314. The SC Program is designed to overcome market barriers to energy efficiency space heating, water heating, commercial cooking, and building shell upgrades by providing incentives to businesses that install high efficiency equipment and make improvements to their buildings.[314]

315. The SC Program provides incentives for commercial sized boilers, water heaters, fryers, griddles, dishwashers, process steam traps, single packaged vertical units, advanced rooftop unit controls, and insulation and air sealing.[315]

316. The program uses ENERGY STAR® criteria as a minimum efficiency level, when available.[316]

317. The Company plans to operate with the existing third-party implementor currently implementing the RP program.[317]

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[311] Columbia St. No. 13, p. 19.
[312] Columbia St. No. 13, p. 19.
[313] Columbia St. No. 13, p. 19.
[314] *Id.*, pp. 20-21.
[315] *Id.*, pp. 20-21.
[316] *Id.*, pp. 20-21.
[317] *Id.*, p. 21.

318. The Company also plans to utilize the existing RP and OAK evaluator to complete a full impact and process evaluation of the SC Program once program activity reaches levels of statistical significance.[318]

319. The SC Program is cost-effective and is expected to cost $1.5 Million in nominal dollars over three years and save 544 thousand Dth of natural gas over the lifetime of measures installed.[319]

320. The SC Program is projected to provide present value TRC net benefits of $2.1 Million with a BCR of 1.80.[320]

321. The SC Program will also save 938.4 MWh of electricity and approximately 32.7 thousand tons of CO2 over the lifetime of the installed measures, which is equivalent to permanently removing over 1,248 cars from the road.[321]

322. The A&R Program covers up to $3,600 of weatherization work at no cost for customers up to 250% of the FPIG. The A&R Program can also be stacked with the proposed Phase II Plan, thereby providing eligible customers up to $4,800 of no-cost insulation and air-sealing measures.[322]

323. The Company retains Green Energy Economics Group, Inc. ("GEEG") to perform the portfolio's evaluations.[323]

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[318] *Id.*, p. 21.
[319] *Id.*, p. 20.
[320] *Id.*, p. 20.
[321] Columbia St. No. 13, pp. 20-21.
[322] Columbia St. No. 13-R, p. 10.
[323] Columbia St. No. 13-R, p. 10.

324. As the EE Plan developer, GEEG is well positioned to evaluate the plan and make future adjustments based on evaluation results while maintaining independence from the Company.[324]

325. In Rebuttal, the Company committed to address three of OCA witness Sherwood's recommendations in a Compliance Plan filing for an approved Phase II Plan. Specifically, Columbia agreed to: (1) use the most recent available market information to support the development of its portfolio in future filings; (2) file all evaluation, measurement, and verification ("EM&V") reports completed on the Phase II Plan programs at this docket; and (3) coordinate with EDC programs, when appropriate.[325]

326. Ms. Sherwood recommends to only provide rebates for smart thermostats that are also eligible for potential EDC smart thermostat demand response programs.[326]

327. While the Commission has allowed EDCs to develop smart thermostat demand response programs as part of their Act 129 program offerings if they choose, it is unclear if any EDCs will offer these programs or whether they will offer compatible thermostats.[327]

328. Ms. Sherwood recommends requiring Columbia to provide a bonus incentive to customers who install a new heating system along with air sealing and insulation.[328]

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[324] *Id.*
[325] *Id.*, p. 11.
[326] OCA St. 7, p. 11.
[327] Columbia St. No. 13-R, p. 12.
[328] OCA St. 7, p. 12.

329. If the installed measures are not appropriately sized, installing both measures together would not necessarily lead to greater savings.[329]

330. The RP Program design already provides a rebate for a portion of the incremental cost of each measure. Customers that install heating systems and perform air sealing and insulation on their homes at the same time receive rebates for both measures.[330]

331. Mr. Geller claims that low-income customers not enrolled in CAP are paying for EE&C programs that benefit higher income customers but do not provide specific, proportionate low-income measures.[331]

332. Mr. Geller also opposes the approval of a voluntary EE&C plan that does not offer dedicated low-income programming to all customers at or below 150% of the FPIG.[332]

333. All customers who pay into the EE Rider, including low-income customers who are not enrolled in CAP, are able to participate in Columbia's EE&C programs.[333]

334. To date during the EE Pilot, 550 customers have been referred to Columbia's various dedicated low-income programs when they indicated income levels at or below 250% of the FPIG.[334]

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[329] Columbia St. No. 13-R, pp. 12-13.
[330] Columbia St. No. 13-R, pp. 12-13.
[331] CAUSE-PA St. 1, p. 52.
[332] CAUSE-PA St. 1, p. 49.
[333] Columbia St. No. 13-R, p. 14.
[334] Columbia St. No. 13-R, p. 14.

335. Act 129 is only applicable to Pennsylvania EDCs with over 100,000 customers.[335]

336. As an NGDC with a voluntary EE&C plan, Columbia is not subject to the Act 129 requirement to offer dedicated programming for customers at or below 150% of the FPIG.[336]

337. Columbia offers the A&R Program, which is a dedicated program for customers up to 250% of the FPIG who do not qualify for LIURP. These customers receive a free energy audit and up to $3,600 worth of energy efficiency improvements to their homes at no cost.[337]

338. Alternatively, Mr. Geller proposes that if Plan is approved, either all confirmed low-income customers should be exempt from the EE Rider or Columbia should be directed to expand funding for its A&R Program and Emergency Repair Program ("ERP") and rollover any unused funds to the next year.[338]

339. Mr. Geller recommends that the A&R Program and ERP budgets be increased by a percentage equivalent to the total cost increase between Phase I and Phase II of Columbia's Plan, or by $243,75015 and $292,500, respectively.[339]

340. Exempting all confirmed low-income customers from Columbia's EE Rider would remove their eligibility to participate in the Plan rebate offerings generally and receive financial assistance toward the purchase of high efficiency equipment.[340]

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[335] *Id.*, p. 14.
[336] *Id.*, p. 14.
[337] *Id.*, p. 15.
[338] CAUSE-PA St. 1, p. 52.
[339] CAUSE-PA St. 1, p. 52.

341. This could lead to negative outcomes, as without rebates those customers may install lower efficiency equipment at a lower upfront cost, leading to higher long-term energy costs for those customers who could have participated in the program.[341]

342. A large percentage of the cost increase in the Phase II Plan is due to the addition of the Small Commercial Program.[342] The cost increase as a result of the new SC Program will be paid through the EE Rider for the eligible small commercial rate classes and will have no impact on residential customers of any income level.[343]

343. Since the A&R Program's inception in 2009, no household has been denied assistance due to a lack of funding.[344]

344. Allowing A&R program funds to roll over each year as Mr. Geller recommends risks creating a growing surplus of funds collected from ratepayers, which remain unspent over time.[345]

345. The Company also just increased its ERP funding in 2024.[346]

346. In addition to LIURP, customers also pay an additional $5.00 annually for the ERP and the A&R Program.[347]

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[340] *Id*., p. 16.
[341] *Id*., p. 16.
[342] *Id*., p. 16.
[343] *Id*., p. 16.
[344] Columbia St. No. 16-R, p. 13.
[345] Columbia St. No. 16-R, p. 13.
[346] Columbia St. No. 16-R, p. 14.
[347] Columbia St. No. 16-R, p. 14.

347. Currently, any unspent funds from the programs are credited during the annual Rider USP reconciliation each February and reduce the total Rider USP collected in the following year.[348]

348. I&E witness Patel also recommends that the Company's Phase II Plan be rejected.[349]

349. The Commission has approved voluntary natural gas EE&C plans from Philadelphia Gas Works ("PGW"), UGI Gas, PECO, and Columbia through its EE Pilot.[350]

350. These existing NGDC energy efficiency portfolios have been in place for more than a decade without a statutory mandate or the threat of civil penalties.[351]

351. EE&C plans provide no direct monetary benefit to the administrator.[352]

352. Absent federal efficiency standards being increased to disallow the manufacture and sale of low efficiency equipment, lower efficiency equipment still exists in the market as an option with lower upfront costs to customers while operating at a higher lifetime cost by consuming more natural gas and requiring more maintenance.[353]

353. Utility EE&C plans are a proven and effective way to help customers offset the higher upfront cost of high efficiency equipment, consume less natural gas over the

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[348] Columbia St. No. 16-R, p. 13.
[349] I&E St. No. 2, pp. 93-94.
[350] Columbia St. No. 13-R, p. 3.
[351] Columbia St. No. 13-R, p. 3.
[352] Columbia St. No. 13-R, p. 3.
[353] Columbia St. No. 13-R, p. 4.

life of their equipment purchase, and provide significant economic benefits to the Commonwealth as a whole.[354]

354. Ms. Alexander recommends that the Company be required to send targeted educational messages to these shopping customers explaining how to compare NGS charges per therm to the PTC and "urg[ing]" them to compare rates on a monthly basis.[355]

355. Mr. Geller recommends that the Commission require the Company to develop a targeted letter for low-income shoppers being charged rates higher than the PTC that is sent at least once every 6 months and includes clear instructions for applying to CAP.[356]

356. The Company regularly advises customers of the PTC to provide them with information to help make decisions regarding shopping.[357]

357. The Company also provides customers the phone numbers and website addresses of each licensed NGS operating in its service territory and a calculator that allows customers to compare shopping costs based on their actual consumption and the NGS's actual quoted prices.[358]

358. Columbia has many low-income customers who pay their bills regularly and on time, and the Company has no desire to interfere with its low-income customers' shopping choices.[359]

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[354] Columbia St. No. 13-R, p. 4.
[355] OCA St. 6, p. 21.
[356] CAUSE-PA St. 1, p. 60.
[357] Columbia St. No. 1-R, p. 22.
[358] Columbia St. No. 1-RJ, p. 9.
[359] Columbia St. No. 1-R, p. 21.

359. To the extent low-income customers are paying "excessive" shopping rates, those rates are a result of NGS pricing and are not a function of Columbia's PTC or the information the Company supplies to its customers.[360]

360. In this proceeding, Columbia proposes to implement Rate EDDS to allow it to serve extremely large load customers such as data centers.[361]

361. Rate EDDS will treat these extremely large load customers as non-jurisdictional to protect jurisdictional customers from bearing the risks associated with serving these unique, large users.[362]

362. Columbia proposes to enter into individual, specialized contracts with these unique users that reflect their specific costs and service requirements. Columbia does not currently have an existing rate schedule that can accommodate data centers.[363]

363. In subsequent rate cases, any costs for serving Rate EDDS customers will be separated out in the cost of service study to ensure that jurisdictional customers are not bearing costs for Rate EDDS customers.[364]

364. This will protect all customers from the risk of EDDS customers leaving the system. It also protects jurisdictional customers from bearing costs associated with investment for Rate EDDS customers. Columbia witness Paloney describes how the cost allocation procedures will work in her Direct Testimony.[365]

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[360] Columbia St. No. 1-RJ, p. 9.
[361] Columbia St. No. 9, pp. 40-50.
[362] Columbia St. No. 9-R, p. 37.
[363] Columbia St. No. 9-R, p. 37.
[364] Columbia St. No. 9, pp. 45-47.
[365] Columbia St. No. 9, pp. 45-47.

365. Columbia does not currently have a rate schedule that can accommodate extremely large users such as data centers. Columbia has already had an inquiry from a potential customer that may qualify for the service.[366]

366. Ms. Paloney explained that customers taking service under this rate schedule prioritize timely service as a critical issue during contract negotiations, as they need to know that Columbia has a rate schedule that can fulfill their requirements in advance of beginning any negotiation for service.[367]

367. If an approved rate schedule does not exist, and no timeline can be provided in which to expect Commission consideration of a proposed large-load rate schedule, these customers will find a more progressive state to build, where existing tariff provisions do exist that support the level of service they are looking for. [368]

368. As also explained by Ms. Paloney, Rate EDDS is consistent with Governor Shapiro's Ten-Year Strategic plan for economic growth in Pennsylvania.[369]

369. Several of the parties argue it is premature for the Commission to approve Rate EDDS because Columbia does not have customers that are interested in the service.[370]

370. Between the time of the filing and rebuttal testimony, the Company has received an inquiry from an interested potential customer.[371]

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[366] Columbia St. No. 9-R, p. 35.
[367] Columbia St. No. 9-R, p. 35.
[368] Columbia St. No. 9-R, p. 35.
[369] Columbia St. No. 9-R, p. 35.
[370] *See, e.g.*, OCA St. No. 1, p. 59.
[371] Columbia St. No. 9-R, p. 35.

371. CAUSE-PA witness Cicero argues that the Company should wait to have Rate EDDS until the Commission acts in its proceeding regarding Interconnection and Tariffs for Large Load Customers at Docket No. M-2025-3054271.[372]

372. This proceeding relates to issues regarding interconnection of electric customers to the electric grid.[373]

373. There are significant differences in providing gas or electric service to data centers,[374] and it does not appear that the Commission is addressing gas service issues in the Interconnection Docket especially because NGDCs were not invited to participate.[375]

374. I&E witness Sakaya expressed concerns that the non-jurisdictional nature of the service would preclude Commission oversight resulting in costs being subsidized by jurisdictional customers.[376]

375. Columbia's tariff establishes procedures for the release of customer information through the Eligible Customer List ("ECL").[377]

376. By Order entered March 13, 2025, the Commission directed changes to its guidelines for ECLs.[378]

377. In Rebuttal, Columbia submitted a revised Tariff Page 227a to bring its tariff into compliance with the Commission's Order. The revised page updated timing of

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[372] CAUSE-PA St. No. 2, p. 78.
[373] *See* Secretarial Letter issued April 12, 2025.
[374] Columbia St. No. 9-R, pp. 37-38.
[375] *See* Secretarial Letter issued April 12, 2025.
[376] I&E St. No. 3, pp. 33-34.
[377] Columbia Ex. 14, Sch. 2, Attachment A, p. 261 (Tariff Page 227a).
[378] Guidelines for Eligible Customer Lists, Docket No. M-2010-2183412, Order entered March 13,2025.

ECL from three to five years, removed the need for customers to reaffirm their decision to opt-out if the customer previously opted-out, renamed the solicitation to ECL Refresh from Triennial Letter, and allows electronic methods to communicate regarding the ECL.[379]

378. OCA witness Alexander and CAUSE-PA witness Geller each propose to remove the words “third party” from Section 4.5.4 of the tariff.[380]

379. The words “third party” are contained in Columbia’s existing Tariff Section 4.5.4.[381]

380. On March 20, 2025, Columbia filed Supplement No. 392. Pursuant to Section 1308(d) of the Public Utility Code,[382] and by Order dated April 24, 2025, in this proceeding, Supplement No. 392 is suspended until December 19, 2025.

381. I&E proposes that the Commission direct Columbia to make new rates effective January 1, 2026, the first day of the FPFTY.[383]

382. In accordance with Section 1308 of the Public Utility Code, the effective date of new rates shall be no later than December 19, 2025 (60 days from March 20 to May 19, and 7 months from May 19 to December 19).

383. Columbia used a HTY that is a twelve-month period ended no more than 120 days prior to the filing.[384]

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[379] Columbia St. No. 12-R, p. 3.
[380] Columbia OCA St. No. 6SR, p. 17; CAUSE-PA St. No. 1-SR, p. 34.
[381] Columbia Ex. 14, Sch. 2, Attachment A, p. 261 (Tariff Page 227a).
[382] 66 Pa, C.S. § 1308(d).
[383] I&E St. No. 2, p. 106.

384. Columbia used a FTY that is a twelve-month period beginning immediately after the end of the HTY. Columbia also used a FPFTY that is the twelve-months beginning January 1, 2026, which is the twelve-month period beginning with the first month that the new rates will be placed in effect *after* application of the full suspension period.[385]

385. I&E recommends that Columbia provide a report by April 1 of 2026 and 2027 updating Columbia's Exhibit No. 108 for actual plant additions and retirements for the FTY and FPFTY.[386]

386. Columbia does not oppose this recommendation, which has been included in prior Columbia rate case settlements.[387]

387. OSBA witness Ewen recommends that Columbia conduct a competitive analysis for each flex customer every two years.[388]

388. Columbia is authorized by its tariff to negotiate discounted rates for distribution service to respond to competition from alternative fuels.[389]

389. Columbia undertakes an analysis of competitive conditions whenever it negotiates a new or renewal of a flex agreement.[390]

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[384] 52 Pa. Code § 53.52(b)(2). Columbia used a HTY ended November 30, 2024, which is less than 120 days prior to the March 20, 2025, filing date.
[385] 66 Pa. C.S. § 1308(d).
[386] I&E St. No. 3, p. 3.
[387] Columbia St. No. 9-R, p. 44.
[388] OSBA St. No. 1, p. 10.
[389] Columbia Ex. 14, Sch 2, Attach. A, p. 93.
[390] OSBA St. No. 1, p. 10.

390. Flex agreements are based on the unique circumstances of individual customers, with the economic analysis of whether the customer could bypass Columbia's system based upon known market conditions.[391]

391. Recent flex rate agreements are generally for a term of around five years.[392]

392. To conduct a valid competitive analysis, the Company would need the competitive customer to update their bypass options and costs, as Columbia has only limited information as to current options and costs.[393]

393. Performing these analyses can be time-consuming and costly, involving both internal customer staff and outside consultants.[394]

394. While circumstances may change over time, absent a specific provision to update the contract, the contractual rate will remain the same throughout the duration of the contract. Thus, the results of any analysis performed now would not impact Columbia's ability to change the terms of the previously-negotiated contract, and it is not likely that a customer would be willing to spend the resources to update the information.[395]

395. Conversely, if the purpose of the analysis would be to shorten contract terms to every two years, this will lead to more competitive customers selecting the certainty of their bypass option rather than rate reviews every two years.[396]

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[391] Columbia St. No. 9-R, p. 42.
[392] *Id*.
[393] Columbia St. No. 9-R, p. 43.
[394] *Id*.
[395] *Id*.
[396] *Id*.

396. The resulting loss of Flex rate customer revenue will then shift cost recovery of fixed costs to remaining customers.[397]

397. OSBA witness Ewen questions the long-term viability of natural gas service in general, and Columbia's operations in particular, referencing the cost of Columbia's main replacement program and "growing societal and political concerns regarding the burning of fossil fuels," along with "concomitant increasing pressure for electrification" and potential "increased regulation of CO_2 emissions."[398]

398. Mr. Ewen asserts that Columbia has not demonstrated that its capital spending is prudent, and that the Commission should advise Columbia "that future capital expenditures have not been shown to be part of a demonstrably prudent long term investment plan, and that they can be subjected to *ex post* prudence reviews should they become stranded."[399]

399. Mr. Ewen recommends that, at a minimum, the Commission should require Columbia to demonstrate that it has a long-term viable business as part of its next LTIIP filing.[400]

400. Mr. Kempic demonstrated that even older, less efficient gas furnaces are less expensive to operate than other heating alternatives, including a standard heat pump.[401]

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[397] *Id*.
[398] OSBA St. No. 1, p. 7.
[399] OSBA St. No. 1, p. 8.
[400] *Id*.
[401] Columbia St. No. 9-R, p. 10.

401. Mr. Kempic demonstrated that electric rates are also increasing, and at a higher pace than gas price increases.[402]

402. I&E witness Pankiw recommends that the Company implement a pilot methane detector installation program for Smart Remote Methane Detector ("SRMD") devices in conjunction with its Advanced Metering Infrastructure ("AMI") installation.[403]

403. Mr. Pankiw's recommendation builds on the Company's Direct Testimony noting that approximately 330,000 of the Company's Automated Meter Reading ("AMR") devices are expected to reach the end of their useful lives and that the Company is planning to install replacement AMI devices in 2026.[404]

404. Mr. Pankiw supports the Company's use of AMI technology and seeks to leverage its deployment with the use of SRMD devices to improve safety throughout the Company's distribution system.[405]

405. The Company is interested in evaluating the technologies associated with the integration of AMI and SRMDs for potential future deployment.[406]

406. Implementation of this pilot as described would require a comprehensive assessment of the Company's existing IT infrastructure to ensure compatibility and support in integrating AMI and SRMD technologies into current platforms along with the

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[402] Columbia St. No. 9-R, p. 11-12. As one example, last year's PJM capacity auction resulted in prices 800% higher than the prior year.
[403] *See* I&E St. No. 4, pp. 8-9.
[404] Columbia St. No. 7, pp. 7-9.
[405] I&E St. No. 4, p. 3.
[406] Columbia St. No. 7-R, pp. 6-7.

testing for the safe application of automated remote meter shut offs after notification from a compatible methane detection device.[407]

407. In response to I&E's proposal, the Company investigated the use of SRMDs and found that the functionality for its deployment is not currently available.[408]

408. The Company is investigating SRMD solutions that can communicate over cellular networks and/or long-range wide area network ("LoRaWAN") protocols that may be compatible with the Company's planned AMI technology. Columbia plans to coordinate with the Gas Technology Institute ("GTI") and peer utilities to better understand experiences from those who have deployed SRMD solutions.[409]

409. The Company committed in Rebuttal to conducting a thorough investigation into the technical and operational requirements necessary to support such integration and to providing the results of this assessment in its next base rate case filing.[410]

[407] Columbia St. No. 7-R, pp. 6-7.
[408] Columbia St. No. 7-RJ, p. 2.
[409] Columbia St. No. 7-RJ, p. 2.
[410] Columbia St. No. 7-R, pp. 6-7.

APPENDIX B

APPENDIX B

PROPOSED CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding.[411]

2. Under Section 1301 of the Public Utility Code, a public utility's rates must be just and reasonable.[412]

3. The Commission possesses a great deal of flexibility in its ratemaking function. "In determining just and reasonable rates, the [Commission] has discretion to determine the proper balance between the interests of ratepayers and utilities."[413]

4. The term "just and reasonable" is not intended to confine the ambit of regulatory discretion to an absolute or mathematical formulae; rather, the Commission is granted the power to balance the prices charged to utility customers and returns on capital to utility investors.[414]

5. A public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate increase request.[415]

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[411] 66 Pa. C.S. §§ 1301, 1308(d).
[412] 66 Pa. C.S. § 1301.
[413] *See Popowsky v. Pa. Pub. Util. Comm'n*, 542 Pa. 99, 108, 665 A.2d 808, 812 (Pa. 1995).
[414] *Pa. Pub. Util. Comm'n v. Pennsylvania Gas and Water Co.*, 494 Pa. 326, 337, 424 A.2d 1213, 1219 (Pa. 1980), *cert. denied*, 454 U.S. 824, 102 S. Ct. 112, 70 L. Ed. 2d 97 (1981).
[415] 66 Pa.C.S. § 315(a); *Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 (Order entered Aug. 5, 2004) ("*Aqua 2004 Order*").

6. “It is well-established that the evidence adduced by a utility to meet this burden must be substantial.”[416]

7. However, a public utility, in proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other party has questioned. As the Commonwealth Court has explained: While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.[417]

8. Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment.[418]

9. In addition, tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission’s prior approval is no longer justified.[419]

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[416] *Lower Frederick Twp. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

[417] *Allegheny Center Assocs. v. Pa. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).

[418] *See, e.g., Pa. PUC v. PECO*, Docket No. R-891364, *et al.*, 1990 Pa. PUC LEXIS 155 (Order dated May 16, 1990); *Pa. PUC v. Breezewood Telephone Company*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Order dated Jan. 31, 1991).

[419] *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ’s discussion on burden of proof).

10. Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof.[420]

11. The decision of the Commission must be supported by substantial evidence.[421]

12. "Substantial evidence" is such relevant evidence that a reasonable mind might accept as adequate to support a conclusion. More is required than a mere trace of evidence or a suspicion of the existence of a fact sought to be established.[422]

13. Rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment.[423]

14. Under the Public Utility Code, the Commission is required to consider management effectiveness in setting rates.[424]

15. The WNA is a form of alternative ratemaking that is expressly authorized by statute in Pennsylvania.[425]

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[420] *See, e.g., Pa. PUC v. Philadelphia Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).
[421] 2 Pa. C.S. § 704.
[422] *Norfolk & Western Ry. Co. v. Pa. P.U.C.*, 489 Pa. 109, 413 A.2d 1037 (1980); *Erie Resistor Corp. v. Unemployment Comp. Bd. of Review*, 194 Pa. Superior Ct. 278, 166 A.2d 96 (1961); *Murphy v. Comm., Dept. of Public Welfare, White Haven Center*, 85 Pa. Commonwealth Ct. 23, 480 A.2d 382 (1984).
[423] *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia*, 262 U.S. 679, 690 (1923).
[424] 66 Pa.C.S. § 523(a).
[425] 66 Pa. C.S. § 1330(b)(1)(i).

16. The RNA is a “decoupling mechanism” that is authorized by statute in Pennsylvania.[426]

17. The Commission does not have the authority to delay the effective date of rates under Section 1308(d).[427]

18. The rates and terms of service set forth in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 are supported by substantial evidence and are in the public interest. Therefore, Columbia’s proposed rate increase should be granted.

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[426] 66 Pa. C.S. §§ 1330(b).

[427] 66 Pa, C.S. § 1308(d); *Bell Telephone Co. v. Pa. PUC*, 452 A. 2d 86. (Pa. Cmwlth 1982), aff’d, 482 A.2d 1272 Pa 1983).

APPENDIX C

APPENDIX C

PROPOSED ORDERING PARAGRAPHS

1. The rate increase and other proposals set forth in Supplement No. 392 to Tariff Gas Pa. P.U.C. No. 9 to become effective for service rendered on or after December 19, 2025, are approved.

2. Columbia is authorized and directed to file tariffs, tariff supplements and/or tariff revisions, on at least one day's notice, and pursuant to the provisions of 52 Pa. Code §§ 53.1, et seq., and 53.101, designed to produce an annual revenue increase of approximately $110.5 Million, to become effective for service rendered on and after December 19, 2025.

3. The tariff revisions proposed by Columbia are approved.

4. Columbia's Weather Normalization Adjustment is approved to operate on a permanent basis, as set forth in the testimony of John. D. Taylor.

5. Columbia's Revenue Normalization Adjustment is approved as a pilot program, as set forth in the testimony of John D. Taylor.

6. Columbia is authorized and directed to implement its proposed Rate EDDS, as set forth in the testimony of Nicole Paloney.

7. Columbia is authorized and directed to implement its proposed Phase II Energy Efficiency Plan, as set forth in the testimony of Joseph A. Nunley.

8. Columbia is authorized and directed to implement its proposed CAP Arrearage Pilot, as set forth in the testimony of Deborah A. Davis.

9. Columbia is authorized and directed to implement its proposed Speech Analytics Pilot, as set forth in the testimony of Deborah A. Davis.

10. The Complaint filed by the Office of Consumer Advocate is dismissed.

11. The Complaint filed by the Office of Small Business Advocate is dismissed.

12. The Complaint filed by The Pennsylvania State University is dismissed.

13. The above-captioned respective Complaints of Terri Walker, Linda Slick, Linda Allison, Alexandra Garlitz, and Daniel and Stacy Chronister are dismissed.

14. That, upon acceptance and approval by the Commission of the tariff supplements filed by Columbia, the investigation at Docket No. R-2025-353499, and the above-captioned complaint dockets be marked closed.

APPENDIX D

TABLE I
Columbia Gas of Pennsylvania, Inc
INCOME SUMMARY
R-2025-3053499

	Pro Forma Present Rates (1)	Company Adjustments (1)	Pro Forma Present Rates (Revised) (1)	ALJ Adjustments	ALJ Pro Forma Present Rates	ALJ Revenue Increase	Total Allowable Revenues	
	$	$	$	$	$	$	$	
Operating Revenue	919,007,833	110,444,676	1,029,452,509	0	1,029,452,509	0	1,029,452,509	
Expenses:								
O & M Expense	467,930,273	1,486,725	469,416,998	0	469,416,998	0	469,416,998	
Depreciation	154,650,832	0	154,650,832	0	154,650,832	0	154,650,832	
Taxes, Other	4,493,642	0	4,493,642	0	4,493,642	0	4,493,642	
Income Taxes:								
State	4,580,110	8,160,951	12,741,061	0	12,741,061	0	12,741,061	
Federal	38,693,547	21,167,370	59,860,917	0	59,860,917	0	59,860,917	
Total Expenses	670,348,404	30,815,046	701,163,450	0	701,163,450	0	701,163,450	701,163,450
Net Inc. Available for Return	248,659,429	79,629,630	328,289,059	0	328,289,059	0	328,289,059	328,289,059
Rate Base	3,839,638,127	0	3,839,638,127	0	3,839,638,127		3,839,638,127	
Rate of Return	6.48%		8.55%				8.55%	

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TABLE I(A)
Columbia Gas of Pennsylvania, Inc
RATE OF RETURN
R-2025-3053499

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt			2.38%		2.38%
Long-term Debt	43.28%	5.22%	2.26%		2.26%
Short-term Debt	2.32%	5.00%	0.12%		0.12%
Preferred Stock	0.00%	0.00%	0.00%	0.73	0.00%
Common Equity	54.40%	11.35%	6.17%	0.73	8.45%
	100.00%		8.55%		10.82%
Pre-Tax Interest Coverage	4.56				
After-Tax Interest Coverage	3.60				

TABLE I(B)
Columbia Gas of Pennsylvania, Inc
REVENUE FACTOR
R-2025-3053499

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.01346126
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Gross Receipts Tax	0.00000000
Other Tax Factors	0.00000000
	0.98653874
State Income Tax Rate (*)	0.07490000
Effective State Income Tax Rate	0.07389175
Factor After Local and State Taxes	0.91264699
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.19165587
Revenue Factor (100% - Effective Tax Rates)	0.72099112

(*) Company Main Brief

TABLE II
Columbia Gas of Pennsylvania, Inc
SUMMARY OF ADJUSTMENTS
R-2025-3053499

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
	$	$	$	$	$	$	$
RATE BASE:	0						
CWC:							
Int. & Div. (Table IV)	(IV!B38)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
REVENUES:		0					
						0	0
EXPENSES:							
						0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
			0			0	0
TAXES:							
Interest Synchronization (Table III)						0	0
TOTALS	0	0	0	0	0	0	0

TABLE III
Columbia Gas of Pennsylvania, Inc
INTEREST SYNCHRONIZATION
R-2025-3053499

	Amount $
Company Rate Base Claim	3,839,638,127
ALJ Rate Base Adjustments	0
ALJ Rate Base	3,839,638,127
Weighted Cost of Debt	2.37600000%
ALJ Interest Expense	91,229,802
Company Claim (1)	0
Total ALJ Adjustment	(91,229,802)
Company Adjustment	(91,229,802)
Net ALJ Interest Adjustment	0
State Income Tax Rate	7.49%
State Income Tax Adjustment	0
Net ALJ Interest Adjustment	0
State Income Tax Adjustment	0
Net ALJ Adjustment for F.I.T.	0
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment	0

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TABLE IV
Columbia Gas of Pennsylvania, Inc
CASH WORKING CAPITAL - Interest and Dividends
R-2025-3053499

Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends	
Company Rate Base Claim	$3,839,638,127	$3,839,638,127	Company Rate Base Claim	$3,839,638,127
ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
ALJ Rate Base	$3,839,638,127	$3,839,638,127	ALJ Rate Base	$3,839,638,127
Weighted Cost of Debt	2.26000000%	0.11600000%	Weighted Cost Pref. Stock	0.00000000%
ALJ Annual Interest Exp.	$86,775,822	$4,453,980	ALJ 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				
ALJ Daily Interest Exp.	$237,742	$12,203	ALJ Daily Dividends	$0
Net Lag Days	0.0	0.0	Net Lag Days	0.0
ALJ Working Capital	$0	$0		$0
Company Claim (1)	$0	$0	Company Claim (1)	$0
ALJ Adjustment	$0	$0		$0
Total Interest & Dividend Adj.	$0			

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TABLE V
Columbia Gas of Pennsylvania, Inc
CASH WORKING CAPITAL -TAXES
R-2025-3053499

Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ 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	$0.00	0.00	$0
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$0	$0	$0	$0	$0	$0.00	0.00	$0
Federal Income Tax	$0	$0	$0	$0	$0	$0.00	0.00	$0
	$0	$0	$0	$0	$0			

ALJ Allowance	0
Company Claim (1)	0
ALJ Adjustment	0

(1) Company Main Brief

TABLE VI
Columbia Gas of Pennsylvania, Inc
CASH WORKING CAPITAL -- O & M EXPENSE
R-2025-3053499

Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ 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
	$0	$0	$0	0.00	$0

ALJ Average Revenue Lag	0.0	
Less: ALJ Avg. Expense Lag	0.0	
Net Difference	0.0	Days
ALJ Pro forma O & M Expense per Day	$0	
ALJ CWC for O & M	$0	
Less: Company Claim (1)	$0	
ALJ Adjustment	$0	

(1) Company Main Brief