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September 5, 2025

BY ELECTRONIC FILING

Matthew L. Homsher, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.; Docket No. R-2025-3053499; C-2025-3054780; **REPLY BRIEF OF THE PENNSYLVANIA STATE UNIVERSITY**

Dear Secretary Homsher:

Attached for filing is the Reply Brief of The Pennsylvania State University. Copies of this document have been served in accordance with the attached Certificate of Service.

If you have any questions regarding this filing, please direct them to me.

Very truly yours,

/s/ Erich W. Struble

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EWS/das
Enclosures

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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2025-3053499
	:	C-2025-3054434
v.	:	C-2025-3054552
	:	C-2025-3054662
Columbia Gas of Pennsylvania, Inc.	:	C-2025-3054780

REPLY BRIEF OF THE PENNSYLVANIA STATE UNIVERSITY

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Dated: September 5, 2025

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I. Introduction

The Complainant, The Pennsylvania State University (“Penn State”), provides this Reply Brief to address one topic—rate structure/revenue allocation. Penn State’s position relies on the “polestar” of ratemaking—assigning costs to those who benefit from the incurrence of the costs and avoiding unreasonable discrimination in rates.¹ Penn State detailed its arguments in its Main Brief and will incorporate them by reference instead of repeating them herein.

II. Summary of Argument

The evidence presented in this proceeding demonstrates that Columbia Gas Company of Pennsylvania’s (“Columbia” or “Company”) Customer-Demand Study is in accord with cost causation principles and the Commission must be guided by that evidence, not past Commission decisions. The Office of Consumer Advocate (“OCA”) fails to contend with the evidence of record, relying instead on Commission precedent. According to the OCA, the Commission has developed a preference for throughput- and demand-based (rather than customer-based) cost of service studies and this preference should override the contrary evidence presented in this proceeding. However, the law requires the Commission to evaluate the evidence presented in this case to determine appropriate class cost allocation; it may not rely on prior cost of service decisions when the current record demonstrates that a different result is warranted. Moreover, the OCA’s reliance on a 2023 base rate proceeding involving Philadelphia Gas Works (“PGW”) is misplaced because: (1) PGW’s system and ratemaking posture are fundamentally different from Columbia’s

¹ *Lloyd v. Pa. Pub. Util. Comm’n*, 904 A.2d 1010 (Pa. Cmwlth. 2006).

and (2) the evidence in the PGW proceeding was deemed insufficient to support adoption of the customer-demand method whereas here Penn State has provided unrebutted testimony demonstrating that customer count and peak demand are the only significant factors Columbia considers in the design of its gas distribution system.

The Peak and Average Study is unreliable as demonstrated by its over-allocation of gas mains to the LDS/LGSS Class. Despite the OCA's argument that there is little support for Penn State's claim that the Peak and Average Study overstated miles of mains attributed to the LDS/LGSS customers, the record contains uncontroverted evidence from both Mr. Crist *and the Company* that the Peak and Average Study's assignment of 12 miles of pipe to each of the 79 LDS/LGSS customers is overstated. Moreover, the record does not support use of the Peak and Average Study because it does not consider the number of customers, which has a direct relationship to the cost of mains, and instead relies on average throughput, which has no relationship to the cost of mains. Accordingly, the Commission should give the Peak and Average Study little, if any, weight.

As stated in Penn State's Main Brief, while the evidence of record illustrates that the Commission should rely on the Customer-Demand Study and afford little weight to the Peak and Average Study, Penn State believes that the Average Study is an acceptable compromise.

The OCA is incorrect that an increase of 2.0× the system average increase is compatible with the concept of gradualism for Columbia's customers. The Commission should again limit the increase to any class to 1.5× the system average increase because the record supports this as the upper bound for gradualism. Indeed, the OCA's arguments

regarding subsidization fail because they rely on an inappropriate comparison of settlement rates to rates based on a specific cost of service study. The Commission should reject the OCA's attempt to justify a 2.0× the system average increase to the LDS/LGSS class because, when properly contextualized, the revenue recognition from the LDS/LGSS class is not in fact below its cost to serve. And while the OCA relies on a 2020 base rate proceeding involve PECO Energy to support a 2.0× the system average increase, that reliance is misplaced because that case presented an exceptional situation where a decade-long rate freeze had left the class at issue significantly below cost, whereas here there is no extraordinary shortfall that compels a departure from capping rate increases to 1.5× the system average for all rate classes.

III. Overall Position on Rate Increase

IV. Rate Base – N/A

V. Revenues – N/A

VI. Depreciation Expense – N/A

VII. O&M and A&G Expenses – N/A

VIII. Taxes – N/A

IX. Rate of Return – N/A

X. Rate Structure and Rate Design

A. Cost of Service Study

- 1. The Evidence of Record Demonstrates that the Customer-Demand Study is in Accord with Cost Causation Principles and the Commission Must be Guided by that Evidence, not Past Commission Decisions.*

As Penn State argued in its Main Brief, the evidence *in this proceeding* shows that the number of customers and the peak demand are the only significant factors the Company

considers in the design of its gas distribution system.² As a result, Penn State's witness Mr. Crist recommends that the Commission rely on the Customer-Demand Study because it is in accord with cost causation principles. He testified that "the cost causer of [the Company's] gas mains is the demand, not the commodity use, of the customer[; a]ll sizing of pipe (the pipe diameter, and subsequent operating system pressure) is determined by demand, which is based on connected load in BTU/hr."³ Moreover, in his surrebuttal testimony, Mr. Crist addressed OCA witness Jerome Mierzwa's assertion that, because the Company collects revenues on a volumetric basis, this proves investment is based on annual throughput:

Mr. Mierzwa has the tail wagging the dog. This is, while Columbia may collect its revenues based on volumetric throughput, that is not proof that gas mains investment is caused by annual throughput. Indeed, in every base rate proceeding, the Company strives to shift revenue collection responsibility out of volumetric-based charges and into fixed charges, knowing that the amount of annual throughput is not how the distribution system was designed, i.e., that the true cost of a customer is largely independent of the amount of gas the customer uses.⁴

Mr. Crist further states that "Columbia witness Mr. Taylor explained that the gas mains are designed and built based on peak demand, not annual throughput."⁵

² Penn State Main Brief ("MB") at 7-10.

³ *Id.* at 7 (citing PSU St. No. 1, Direct Testimony of J. Crist at 16:18-21).

⁴ PSU St. No. 1-SR, Surrebuttal Testimony of J. Crist at 7:4-11.

⁵ PSU St. No. 1-SR, Surrebuttal Testimony of J. Crist at 14:3-4. *See also* Columbia St. No. 17, Direct Testimony of J.D. Taylor at 5:6-8.

The OCA fails to contend with this evidence, aside from a single, unintelligible, sentence regarding the Company’s distribution mains extension policy.⁶ Instead of rebutting evidence, the OCA argues that Penn State’s evidence is “inconsistent with Commission precedent” that “the number of customers is not a factor of cost causation while throughput is.”⁷ Essentially, the OCA’s position is that the Commission has developed a policy preference for “throughput- and demand-based (not customer-based)” cost of service studies in natural gas distribution company base rate proceedings, and this preference should override the contrary evidence presented in this proceeding.⁸ The following two statements from the OCA’s Main Brief and the Company’s Main Brief demonstrate the untenable nature of the OCA’s position that the Commission ignore evidence in favor of policy:

OCA Main Brief:

[N]o reasonable basis in this proceeding has been presented to warrant deviation from the Commission’s well-established precedent that the allocation of mains costs should not include a customer component but should, instead, be based on a combination of annual throughput and peak demand.⁹

⁶ See OCA MB at 177 (“[T]he Company’s main extension policy driven the connection of additional throughput to the system through a revenues test, instead of justifying the extension of mains merely because of the connection of a customer.”).

⁷ *Id.* at 176 (citing *Pa. Pub. Util. Comm’n v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835 *et al.*, at 217-218 (Opinion and Order entered Feb. 19, 2021) (“*Columbia 2020*”).

⁸ *Id.* at 176-178 (citing, *inter alia*, *Columbia 2020*; *Pa. Pub. Util. Comm’n v. Phila. Gas Works*, Docket No. R-2023-3037933 *et al.*, 2023 WL 8714852 (Opinion and Order entered Nov. 9, 2023) (“*PGW 2023*”); *Pa. Pub. Util. Comm’n v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929, *et al.*, 2021 WL 2645922 (Opinion and Order entered June 22, 2021) (“*PECO Gas 2020*”).

⁹ OCA MB at 179.

Company Main Brief:

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.¹⁰

Commission decisions rejecting a customer component in mains cost allocation cannot be treated as controlling where the evidence here clearly demonstrates that the cost of gas mains is driven by the number of customers along with the load (i.e. peak demand) that those customers place on the distribution system. Indeed, the law requires the Commission to evaluate the evidence presented in this case to determine appropriate class cost allocation; it may not rely on prior cost of service decisions when the current record demonstrates that a different result is warranted.¹¹

¹⁰ Columbia MB at 135. *See also* Columbia St. No. 6, Direct Testimony of K. Johnson at 14:14-21 (“The allocation of a portion of distribution mains costs on a customer basis is appropriate because of the way the distribution system is designed. Customer-related costs include, at a minimum, the cost incurred by the Company to extend its existing distribution system using a minimum size pipe (2” diameter) to attach a customer to the distribution system. Simply stated, the customer component of mains calculated in the [allocated cost of service studies] represents a minimum fixed cost investment in mains to attach a customer to the distribution system and therefore, has a direct relationship to the number of customers served by the Company.”).

¹¹ *Duquesne Light Co. v. Pa. Pub. Util. Comm’n*, 107 A.2d 745 751 (Pa. Super. 1954) (“The Commission may not ignore recent information and evidence in the record which substantially affects the problem before it.”); *see also* *Butler Twp. Water Co. v. Pa. Pub. Util. Comm’n*, 473 A.2d 219, 221-22 (Pa. Cmwlth. 1984) (quoting *Aizen v. Pa. Pub. Util. Comm’n*, 60 A.2d 443, 449 (Pa. Super. 1948) (“The declaration of a policy based on general conclusions may not be substituted for an evaluation of the evidence in each case. Although the PUC may adopt and follow a policy with respect to matters within its discretion, the exercise of such discretion is not without limitations. ‘The Commission’s power to act by way of order requires findings of fact, based on the evidence, necessary to support the order. A previously adopted policy may not furnish the sole basis for the Commission’s action in a particular case. Policy cannot be made a substitute for evidence in a proceeding before it.”)).

In addition, OCA's reliance on *PGW 2023* is misplaced. First, Philadelphia Gas Works' system and ratemaking posture are fundamentally different from Columbia's. Whereas PGW operates an urban, municipally-owned utility with unique constraints,¹² the Columbia system:

serves the suburbs of Pittsburgh along with numerous rural regions in Pennsylvania. Thus, the density of customers served by Columbia is less dense than if it served the major urban cities in the Commonwealth. This illustrates the reason that allocation of the cost of distribution mains should be done on a customer basis because customers in less dense areas require more feet of natural gas distributions mains piping to reach them than customers situated in highly dense urban areas. Cost of gas mains are clearly dependent on the number of customers and installing mains to reach those customers.¹³

Second, the Commission in *PGW 2023* determined that the evidence in that proceeding did not support adoption of the customer-demand method.¹⁴ Here, in contrast, Penn State has provided unrebutted testimony demonstrating that customer count and peak demand are the only significant factors the Company considers in the design of its gas distribution system.

2. The Peak and Average Study is Unreliable as Demonstrated by its Over-Allocation of Gas Mains to the LDS/LGSS Class.

The Company's cost of service study witness, Mr. Johnson, confirmed that his Peak and Average Study relies on unreasonable assumptions related to miles of dedicated gas mains. Specifically, Mr. Johnson stated that the "Company agrees with PSU Witness Crist

¹² *PGW 2023* at *1.

¹³ PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 11:22-12:5.

¹⁴ *PGW 2023* at *80.

. . . that it is reasonable to assume Columbia has not built 12 miles of dedicated mains to serve each LDS/LGSS customer.”¹⁵ Nevertheless, the OCA contends that its witness, Mr. Mierzwa, “found little support for witness Crist’s conclusions that the [Peak and Average Study] overstated the miles of mains attributed to the LDS/LGSS customers.”¹⁶ As Penn State explained in its Main Brief, it does not matter whether a precise direct assignment of costs to the LDS/LGSS Class is possible.¹⁷ What matters is the uncontroverted evidence from both Mr. Crist *and the Company* that the Peak and Average Study’s assignment of 12 miles of pipe to each of the 79 LDS/LGSS customers is overstated. Accordingly, the Commission should not, as the OCA contends, “afford substantial weight to the [Peak and Average Study].”¹⁸

The Commission should afford the Peak and Average Study no weight because it does not consider the number of customers, which is a clear cost driver of mains. Instead, it places substantial weight on the average throughput, which is not a cost driver of mains. Both Mr. Crist and Company witness Mr. Taylor provided significant testimony and evidence proving that average throughput is not a factor in the design, construction, and cost of the mains of a distribution system stating, “of paramount understanding is that demand sets the limit on the amount of usage that can occur at any given moment, and the fixed cost investment in the infrastructure to meet this demand does not change as a result of actual gas flow on the system.”¹⁹ Columbia Gas, the party which designs its mains and

¹⁵ Columbia St. No. 6-R, Rebuttal Testimony of K. Johnson at 7:18-8:1.

¹⁶ See OCA MB at 178.

¹⁷ See Penn State MB at 11-12.

¹⁸ OCA MB at 174.

¹⁹ Columbia St. No. 17, Direct Testimony of J.D. Taylor at 4:7-10.

incurs and accounts for these costs, has explained that the number of customers drives the cost of mains.²⁰ Average throughput does not dictate the size of a main and therefore does not dictate the cost of a main. For example, if a pipe is sized to carry a peak load of 1000 mcf/day, then that pipe can carry any amount up to the peak every single day. Whether that pipe averages over a year 365,000 mcf (peak every day) or 100,000 mcf (average throughput) makes no difference to how big the pipe must be. Because the size of the pipe drives the cost of the pipe, and average throughput does not impact how large a pipe must be, average throughput therefore does not drive the costs of mains.²¹ The record evidence does not support use of the Peak and Average Study because it does not consider the number of customers which has a direct relationship to the cost of mains, and instead relies on average throughput which has no relationship to the cost of mains.²²

²⁰ Columbia MB at 135. *See also* Columbia St. No. 6, Direct Testimony of K. Johnson at 14:14-21 (“The allocation of a portion of distribution mains costs on a customer basis is appropriate because of the way the distribution system is designed. Customer-related costs include, at a minimum, the cost incurred by the Company to extend its existing distribution system using a minimum size pipe (2” diameter) to attach a customer to the distribution system. Simply stated, the customer component of mains calculated in the [allocated cost of service studies] represents a minimum fixed cost investment in mains to attach a customer to the distribution system and therefore, has a direct relationship to the number of customers served by the Company.”).

²¹ *See* PSU St. No. 1-SR, Surrebuttal Testimony of J. Crist at 6:11 (“[A]nnual throughput plays no part in the cost of [Columbia’s] gas distribution system.”).

²² *See* PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 17:14-18 (“[The Company’s] Peak & Average [cost of service study, which] uses average demand (annual throughput) to assign costs[,] is not supported in the actual method Columbia uses to design, engineer, and build its gas pipeline system. The engineering procedures I submitted proved that only the peak demands and the number of customers are the data used by the Company in the construction of its distribution system.”).

3. *The Company's Average Study is an Acceptable Compromise.*

As stated in Penn State's Main Brief, while the evidence of record illustrates that the Commission should rely on the Customer-Demand Study and afford little weight to the Peak and Average Study, Penn State believes that the Average Study is an acceptable compromise.²³ Although the Customer-Demand and the Peak and Average Study each favor certain classes of customers over others, adopting the Average Study would provide a balanced outcome for all customers.

B. Revenue Allocation

The OCA is incorrect that an increase of 2.0× the system average increase is compatible with the concept of gradualism for Columbia's customers.²⁴ As the Company's witness Mr. Johnson correctly observes, 1.5× the system average increase "represents the upper bound for rate gradualism used by the Commission in [*Columbia 2020*]"²⁵ The OCA argues that, while reliance on the outcome of *Columbia 2020* is misplaced, the Commission should nevertheless rely on dicta concerning gradualism generally discussed in *Columbia 2020* to justify a 2.0× the system average increase to the SDS/LGSS and LDS/LGSS classes.²⁶ Here, the Commission should again limit the increase to any class to 1.5× the system average increase because the record supports this as the upper bound for gradualism.

²³ See Penn State MB at 14-16.

²⁴ See OCA MB at 185.

²⁵ Columbia St. No. 6-R, Rebuttal Testimony of K. Johnson at 10:11-14.

²⁶ See OCA MB at 186-87.

Mr. Crist provided evidence of the importance of gradualism to Penn State and other LDS/LGSS class members:

The allocations proposed by Mr. Mierzwa and Mr. Ewen will not only harm Penn State, but will harm all 70 customers in the LDS/LGSS class. Penn State has significant cost pressure and wishes not to divert funding from academics and student services which would be necessary given the magnitude of the proposed increase. Other members of the LDS/LGSS class would include industrial manufacturers that provide jobs and are subject to uncertainty due to the volatile tariff policies.²⁷

The OCA's arguments regarding subsidization fail because they rely on an inappropriate comparison of settlement rates to rates based on a specific cost of service study. The OCA states that "the additional \$3,397,637 allocated to the LDS/LGSS class by OCA witness Mierzwa still produced a subsidy of \$15,854,813 to that customer class and resultant RROR of 0.57," and, therefore, the 2.0× the system average increase that Mr. Mierzwa employed is justifiable because, like in *Columbia 2020*, the revenue recognition from the LDS/LGSS class "is still shown to be below its cost to serve and therefore continues to be subsidized by other rate classes."²⁸ However, as Penn State witness Mr. Crist testified:

[U]tilizing the Peak & Average [Study] and comparing it to rates previously developed as part of a settlement to determine relative rates of return compares apples to oranges and is logically inappropriate. When comparing the class rates of return under current rates, which are the product of black box settlements, to the Company's proposal in this rate case, which is based on the Company's Peak & Average [Study], a method that greatly favors residential customers, it is not surprising that the LDS/LGSS would be shown to have a low relative rate

²⁷ PSU St. No. 1-SR at 12:11-19.

²⁸ OCA MB at 186.

of return. Mr. Mierzwa wants to “fix” that by moving additional revenue responsibility to the LDS/LGSS customers resulting in a 32.8% rate hike, which is twice the overall increase. This is unconscionable. First, there is nothing to “fix.” His method is not appropriate because it is not based on cost causation. If Mr. Mierzwa would have considered the relative rate of return of the LDS/LGSS class using the Customer-Demand [Study] his recommendation would be to decrease rates for not only the LDS/LGSS class but also the SGS/DS-1, SGS/DS-2, and SDS/LGSS classes. Specifically, the relative ROR under current rates in the Customer-Demand [Study] is 2.87 and under proposed rates is 2.75, both are exceptionally high. Moreover, even if it were appropriate under cost causation principles to assign such a large increase to these customer classes, a 32.8% increase does not demonstrate gradualism, but would indeed be rate shock.²⁹

Accordingly, Your Honors should reject the OCA’s attempt to justify a 2.0× the system average increase to the LDS/LGSS class by resorting to dicta the Commission discussed in *Columbia 2020* because, when properly contextualized, the revenue recognition from LDS/LGSS class is not in fact below its cost to serve.

Moreover, the OCA downplays the significance of a 2.0× the system average increase by pointing to the Commission’s approval of a 2.5× the system average increase in *PECO Gas 2020*.³⁰ However, that decision is readily distinguishable. PECO’s “L” class (large-volume customers) had been subject to a 2008 settlement that constrained the rates of that class for more than a decade.³¹ Because the settlement limited increases across two successive cases, by 2020, the L class had become severely underpriced. Its relative rate

²⁹ PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 6:18-7:13.

³⁰ See OCA MB at 185.

³¹ *PECO 2020* at *130.

of return at current rates was approximately -0.36, well below cost.³² Even after a 43% increase, which was equivalent to 2.5× the system average, the class still remained below cost at a projected relative return of about -0.45, once the overall revenue requirement was scaled back.³³

The Commission in *PECO Gas 2020* acknowledged that increases above the usual 1.5–2.0× range are rare, citing *Columbia 2020* as an example of its typical approach.³⁴ However, the Commission ultimately found that PECO presented an exceptional situation: a decade-long freeze had left the L class so far below cost that even a 43% increase did not eliminate the subsidy.³⁵ In approving the increase, the Commission also noted that the impact was distributed across a broad group of large-volume customers, and that smaller classes were shielded from similar impacts, in some cases receiving little or no increase.³⁶ But the circumstances here are markedly different from those in *PECO 2020*. The rates of Columbia’s LGS/LDSS class have not been frozen for over a decade. To the contrary, that class received an above-average increase of about 1.5× in 2020 and increases pursuant to settlements in 2022 and 2023.³⁷ Unlike in *PECO 2020*, there is no extraordinary shortfall that compels a departure from capping rate increases to 1.5× the system average for all rate classes.

³² *Id.* at *139.

³³ *Id.*

³⁴ *Id.* at *140.

³⁵ *Id.*

³⁶ *Id.* at *139.

³⁷ See PSU St. No. 1, Direct Testimony of J. Crist at 5; PSU St. No. 1-R, Rebuttal Testimony of J. Crist at 6-7.

- C. **Rate Design/ Tariff Structure – N/A**
 - D. **Summary and Alternatives – N/A**
- XI. **Alternative Ratemaking – N/A**
 - A. **Weather Normalization Adjustment**
 - B. **Revenue Normalization Adjustment**
- XII. **Customer Service / Quality of Service – N/A**
- XIII. **Universal Service Programs – N/A**
- XIV. **Energy Efficiency Program – N/A**
- XV. **Competitive Supply Issues – N/A**
- XVI. **Tariff Issues (Not Briefed Above) – N/A**
 - A. **Rate EDDS**
 - B. **Eligible Customer List**
- XVII. **Miscellaneous Issues – N/A**
- XVIII. **Conclusion – N/A**

Respectfully submitted,

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Dated: September 5, 2025

CERTIFICATE OF SERVICE

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

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Dated this 5^h day of September, 2025