COMMONWEALTH OF PENNSYLVANIA

DARRYL A. LAWRENCE
Consumer Advocate

OFFICE OF CONSUMER ADVOCATE
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
(800) 684-6560

@pa_oca
/pennoca
FAX (717) 783-7152
consumer@paoca.org
www.oca.pa.gov

September 5, 2025

Via Electronic Filing
Secretary Matthew L. Homsher
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

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

Dear Secretary Homsher:

Attached for electronic filing please find the Office of Consumer Advocate's Reply Brief in the above-referenced proceeding.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectively,

/s/ Christy Appleby
Christy Appleby
Senior Assistant Consumer Advocate
PA Attorney I.D. # 85824
CAppleby@paoca.org

Enclosures
cc: Administrative Law Judge Jeffrey A. Watson (Via Email: jeffwatson@pa.gov)
Administrative Law Judge Chad Allensworth (Via Email: callenswor@pa.gov)
OSA (Via Email: ra-osa@pa.gov)
Certificate of Service

CERTIFICATE OF SERVICE

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

I hereby certify that I have this day filed electronically on the Commission's electronic filing system and served a true copy of the following document, the Office of Consumer Advocate's Reply Brief, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below.

Dated this 5th day of September 2025.

(*) Can receive CONFIDENTIAL information

SERVICE BY E-MAIL ONLY

Steven C. Gray, Esq. *
Rebecca Lyttle, Esq. *
Office of Small Business Advocate
555 Walnut Street
1st Floor, Forum Place
Harrisburg, PA 17101-1923
sgray@pa.gov
relyttle@pa.gov
Counsel for OSBA

Michael W. Hassell, Esq. *
Megan E. Rulli, Esq. *
Anthony D. Kanagy, Esq. *
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101
mhassell@postschell.com
mrulli@postschell.com
akanagy@postschell.com
Counsel for Columbia

Scott B. Granger, Esq. *
Adam J. Williams, Esq. *
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
400 North Street, 2nd Floor
Harrisburg, PA 17120
sgranger@pa.gov
adawilliam@pa.gov
Counsel for I&E

Elizabeth R. Marx, Esq.
John W. Sweet, Esq. *
Ria M. Pereira, Esq. *
Lauren N. Berman, Esq. *
118 Locust Street
Harrisburg, PA 17101
pulp@pautilitylawporject.org
Counsel for CAUSE-PA

Whitney E. Snyder, Esq. *
Thomas J. Sniscak, Esq.
Erich W. Struble, Esq. *
501 Corporate Circle, Suite 302
Harrisburg, PA 17110
wesnyder@hmslegal.com
tjsniscak@hmslegal.com
ewstruble@hmslegal.com
Counsel for PSU

James L. Crist *
Lumen Group, Inc.
4226 Yarmouth Drive, Suite 101
Allison Park, PA 15101
JLCrist@aol.com
Consultant for PSU

Emily Farah, Esq. *
NiSource Corporate Services Co.
121 Champion Way, Suite 100
Canonsburg, PA 15317
efarah@nisource.com
Counsel for Columbia

Candis A. Tunilo, Esq. *
NiSource Corporate Services Co.
800 N. Third St., Suite 204
Harrisburg, PA 17102
ctunilo@nisource.com
Counsel for Columbia

Joseph L. Vullo, Esq.*
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@bvrrlaw.com
Counsel for Pennsylvania Weatherization Providers Task Force

Mark Ewen
Industrial Economics, Incorporated
2067 Massachusetts Avenue
Cambridge, MA 02140
mewen@indecon.com
Witness for OSBA

/s/ Christy Appleby
Christy Appleby
Senior Assistant Consumer Advocate
PA Attorney I.D. # 85824
CAppleby@paoca.org

Jacob D. Guthrie
Assistant Consumer Advocate
PA Attorney I.D. # 334367
jguthrie@paoca.org

Barrett C. Sheridan
Assistant Consumer Advocate
PA Attorney I.D. # 61138
BSheridan@paoca.org

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
HBreitman@paoca.org

OCAColumbiaGas2025@paoca.org

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: 717-783-5048
Fax: 717-783-7152

Dated: September 5, 2025

Counsel for:
Darryl A. Lawrence
Consumer Advocate

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF
OF THE
OFFICE OF CONSUMER ADVOCATE

Christy M. Appleby
Senior Assistant Consumer Advocate
PA Attorney I.D. # 85824
CAppleby@paoca.org

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
HBreitman@paoca.org

Jacob Guthrie
Assistant Consumer Advocate
PA Attorney I.D. # 334367
JGuthrie@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: 717-783-5048
Fax: 717-783-7152

Date: September 5, 2025

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[1] The OCA notes that the Table of Contents for the Main Brief erroneously only included the heading for Depreciation Expense and did not include the subheadings from the Main Brief. Consistent with the Second Interim Order, the OCA would like to note that the heading and subheadings for the Main Brief and Reply Brief are the same.

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I. INTRODUCTION

In accordance with the procedural schedule established in this proceeding, before the Honorable Jeffrey A. Watson and Chad Allensworth of the Pennsylvania Public Utility Commission (Commission), the Office of Consumer Advocate now submits this Reply Brief in opposition to Columbia Gas of Pennsylvania, Inc's (Columbia or Company) requested rate increase.

A. Description of the Office of Consumer Advocate

The Office of Consumer Advocate (OCA) is a statutory advocate with the authority and duty to represent the interest of consumers as a party before the Commission in public utility rate requests. 71 P.S. § 309-4. The OCA's interest in this case is to ensure that consumers who ultimately pay the revenue requirement to the Company are paying enough, but no more than is necessary, to ensure that service remains adequate, reliable, and safe while allowing the Company to have the opportunity to recover its prudently incurred costs and earn a fair rate of return on its investments.

B. Procedural History

The OCA incorporates by reference the Procedural History section of its Main Brief and now addresses only procedural developments that extend beyond those already identified. OCA M.B. at 2-4. On August 26, 2025, the OCA, the Company, the Bureau of Investigation & Enforcement (I&E), Office of Small Business Advocate (OSBA), the Coalition for Affordance Utility Service and Energy Efficiency in Pennsylvania (CAUSE-PA), the Pennsylvania Weatherization Task Force (PWTF), and the Pennsylvania State University (Penn State) submitted Main Briefs in this proceeding. In this Reply Brief, the

OCA responds to the arguments made by the Company regarding its overall position on the rate increase, rate base, depreciation expense, O&M and A&G expenses, taxes, rate of return, revenue allocation and rate design, alternative ratemaking, customer and quality of service concerns, universal service programs, energy efficiency programs, and other tariff issues. The OCA also replies to the arguments made by the Pennsylvania State University (PSU) and Office of Small Business Advocate (OSBA) regarding revenue allocation and rate design.

C. Legal Standards

The OCA incorporates the Legal Standards portion of its Main Brief as if fully set forth herein. OCA M.B. at 4-17.

D. Statement of the Case

The OCA incorporates its Statement of the Case provided in its Main Brief as if fully set forth herein. OCA M.B. at 17-26.

II. SUMMARY OF REPLY ARGUMENT

Overall Position

Columbia's Main Brief does not impact or change the OCA's overall position in this case. Columbia already charges the highest rates to residential customers in Pennsylvania, and the third-highest rates in the mid-Atlantic. The Company has filed for a general rate increase request five times in the last six years and has significantly increased its revenues per customer despite declining usage per customer. Yet, Columbia's predominant concern in this rate case is its revenue stability. As part of this proceeding, Columbia has requested a significant increase in its residential customer charge, a permanent Weather Normalization Adjustment, and a Revenue Normalization Adjustment without providing customers with benefits from its decreased revenue risk such as a lower return on equity claim, meeting minimum performance objectives, or reducing the frequency of its rate filings. Instead, Columbia proposes to maintain the *status quo* while extracting additional revenues from its captive customers. Due to the threat posed by the Company's requested rate increase and alternative rate mechanisms to Columbia's customers' long-term affordability and energy efficiency incentives, the OCA requests that the Commission adopt its recommendations set forth in full below.

Revenue Requirement

OCA's position on revenue requirement has also not changed. The OCA recommends that the Commission authorize a revenue requirement decrease of no less than \$36,316,933, or \$146,813,730 lower than the Company's requested revenue requirement increase of \$110,496,797. The OCA's recommended revenue requirement decrease is based on a number of adjustments proposed by OCA witnesses Mugrace and Garrett to the Company's claimed rate base balance, expenses, and income tax expense. The OCA's recommendations regarding depreciation expense and rate of return are summarized separately below.

Columbia's argues that inclusion of costs in its rate base and expense balances associated with inflationary adjustments that are not known and measurable are reasonable. However, Columbia's subjective inflation adjustments are merely estimates that are not sufficient to meet Columbia's burden of proof. Additionally, Columbia argues that it should be able to recover costs which do not directly benefit ratepayers but instead operate to the benefit of the Company and its shareholders, which the Commission is empowered to disallow. The OCA recommends that these costs be disallowed for ratemaking purposes because they are not consistent with the requirements of the Public Utility Code, Commission precedent, and/or the public interest and operate only to unnecessarily inflate the amount included in rates.

Depreciation Expense

Columbia's choice of depreciation procedure results in unjust and unreasonable rates that directly increase rates by $63.615 million. This represents 58% of Columbia's rate increase request. The OCA carried its burden of production to show that use of the Average Life Group (ALG) procedure produces just and reasonable rates, while Columbia's choice of using the Equal Life Group (ELG) procedure produces unjust and unreasonable rates. Adopting the ALG procedure is squarely within the Commission's ratemaking discretion, as no state or federal law prohibits the Commission's adoption of the ALG procedure in this proceeding.

Columbia argues for a standard that does not exist in precedent in which it is allegedly entitled to continue using the ELG procedure despite its significant impact to revenue requirement. Columbia failed to meet its burden of proof with respect to depreciation expense as Columbia cites to no statute, case law, or precedent that requires the continued use of ELG. Instead, Columbia merely asserts that a standard exists in which they should be able to continue using the ELG procedure due to Columbia's current use of ELG, without legal citation, instead of supporting its burden of proof with substantial evidence to show that ELG results in just and reasonable rates.

Substantial and uncontroverted record evidence shows that the use of ELG depreciation unreasonably accelerates recovery of depreciation expense. As Columbia was unable to argue against this fact, Columbia instead argues that using the ALG procedure for depreciation expense will harm future rate payers. However, the ALG procedure reasonably allocates depreciation expense throughout the service life of the asset and recovers the cost over the average service life using the same depreciation rate for each year. ELG, on the other hand, accelerates recovery of depreciation expense and produces unjust and unreasonable rates for current customers, resulting in intergenerational inequity, Columbia did not rebut the fact that the ELG procedure results in higher depreciation rates for current customers. Instead, Columbia's own example shows that ELG recovers more from current customers.

A super majority of state commissions approve the ALG procedure, including Pennsylvania. For example, FirstEnergy uses the ALG procedure. Columbia, however, attempts to argue that the differences between the remaining life technique and the whole life technique make comparison between other jurisdictions impossible. However, both OCA witness Garrett and Columbia witness Spanos used the remaining life technique. Moreover, Columbia Gas of Kentucky, Columbia Gas of Virginia, and Columbia Gas of Maryland all use the ALG procedure and the remaining life technique as recommended by Columbia witness Spanos in other jurisdictions. Columbia also argues that Pennsylvania's treatment of net salvage makes it impossible to compare Pennsylvania to other states. However, the recovery of net salvage following plant retirement is an entirely separate issue compared to depreciation procedure. Moreover, net salvage is a component of the straight-line accrual allocation method, which both OCA witness Garrett and Columbia witness Spanos used. Moreover, no party disagrees as to the treatment of net salvage in Pennsylvania. Columbia fails to reasonably distinguish cases in which the proposed continued use of ELG was denied. The reasoning contained in these cases also applies to the instant proceeding. The use of ALG results in just and reasonable rates. Columbia's choice to continue using ELG in this proceeding results in unjust and unreasonable rates.

Rate of Return

The Company's criticisms of the OCA's rate of return recommendation are results-based and do not change the market- and cost-based nature of the analyses performed by OCA witness Garrett. No evidence indicates that accepting the OCA's recommendation would indicate that Pennsylvania is not supportive of utility investment. Columbia's arguments should be rejected because they are not supported by the theoretical bases for return on equity analysis or consistent with the Commission's historic use of the Discount Cash Flow (DCF) model and Capital Asset Pricing Model (CAPM). Further, the leverage, size, flotation, and management performance adjustments proposed by Columbia are inappropriate and inconsistent with the record evidence presented in this proceeding. The OCA's recommended return on equity of 8.9% represents a fair return on equity to both the Company and its customers, is supported by evidence, consistent with Commission precedent, and should be accepted as reasonable in this case.

Revenue Allocation and Rate Design

Based on Commission precedent and the design and buildout of the Company's distribution system, mains costs should be allocated based on demand and throughput, not on the number of customers in each customer class. The Peak & Average allocated cost of service study does this, and the Pennsylvania State University's (PSU's) opposition should be given little weight.

The OCA presented the most reasonable and equitable revenue allocation based on the Peak & Average study proposed by Columbia. The Company's objection to the OCA's proposed allocation is unsupported, as OCA witness Mierzwa's recommendation is consistent with the principles of gradualism. The OSBA's opposition to the OCA's proposed allocation is inequitable, as the OCA's proposal allocates the revenue subsidies provided by the residential and small business classes evenly between them, instead of forcing the residential class to continue bearing a disproportionate burden. Principles of gradualism and equity favor the OCA's proposed revenue allocation and it should be accepted.

The Company's proposal to increase its residential customer charge by 85%, from $17.25 to $31.97, are unsupported by cost of service principles, gradualism, or the effects of such a significant increase on low-income customers. The OCA, I&E, and CAUSE-PA all recommend that the Company's proposal be rejected and the customer charge be maintained at $17.25. Columbia already charges the highest residential customer charge of any natural gas utility in Pennsylvania; permitting an increase would move the Company out-of-step with other similar utilities. For these reasons, Columbia's current residential customer charge should be maintained in this case.

Weather Normalization Adjustment

Columbia's WNA Pilot is set to expire as of the effective date of new rates. The Company has not met its burden of proof that the proposed, permanent WNA would result in just and reasonable rates. The WNA Pilot operated unilaterally over the past five heating seasons to increase customers' bills without providing the purported benefits of credits during colder than normal months or providing improved bill stability. The Company's claim that the proposed WNA is similar to other WNAs in Pennsylvania is not relevant to the instant proceeding. Claims of "lost revenue" due to warmer than normal weather are unsupported by evidence because the Company is not entitled to revenue, only an opportunity to earn it. The proposed WNA would harm customers, is contrary to cost of service principles, distorts price signals to reduce usage, and shifts risk appropriately allocated to a large, technically, financially, and legally fit natural gas distribution company (NGDC) to its customers, who have significantly less agency to control costs than the Company does. Columbia's billing determinants – which were proposed by the Company and were not challenged by other parties – demonstrate that rates designed without the WNA will provide Columbia with the opportunity to earn a reasonable return on its investment. No further assurances or guarantees need be provided based on the record before the Commission in this case, and the proposed WNA should be denied consistent with record evidence and the Commission's recent denial of a proposed WNA.

Revenue Normalization Adjustment

The Company's claim that the proposed Revenue Normalization Adjustment (RNA) is in the public interest is not supported by substantial evidence. The proposed RNA contains no benefits for customers; instead, it unilaterally shifts risk from the Company without rewarding customers for their newly allocated volumetric risks. Further, the proposed RNA is not based in cost of service principles, permits the Company to recapture customers' bill savings due to usage reduction measures, and eliminates Columbia's incentives to control costs. The Commission has not previously approved a full decoupling mechanism and no evidence presented indicates that the Company's proposal in this case should be the first.

Customer / Quality of Service

Columbia fails to address important customer service and quality of service claims by the OCA. The OCA recommends several improvements to Columbia's quality of customer service. Currently, Columbia does not adequately investigate potential system-wide causes of customer disputes and complaints, establish payment arrangement terms in which its customers can succeed, or educate its field representatives on proper personal contact procedures. Further, the Company's billing and payment practices regarding shopping for natural gas suppliers and the use of automated chat boxes may be inadequate to ensure that customers are adequately informed about their bill or their rights under the Commission's regulations. The OCA requests that the Commission implement the recommendations of its expert, OCA witness Alexander, to ensure that Columbia's service is adequate and reasonable.

Universal Service Programs

Columbia's Main Brief ignores the concerns identified by OCA witness Colton regarding the impact of the frequency and magnitude of Columbia's rate increase requests, its customer base is battling increasing unaffordability of natural gas bills. The OCA continues to request that the Commission consider Columbia's customers' ability to afford the rate increase authorized in this proceeding when authorizing Columbia's revenue requirement increase or decrease which has a pronounced effect on Columbia's low- and moderate-income customer base.

The OCA also recommends several improvements to the Company's universal service programming. Columbia's claims regarding Columbia should improve its identification of low-income customers and undertake greater efforts to ensure low-income customers are not disconnected from service and are timely reconnected. The OCA supports the Company's requested arrearage forgiveness pilot because it will help re-enroll CAP customers who would otherwise be unable to re-enroll due to a high arrearage balance. However, the OCA recommends that the Company's request to recover universal service administrative costs through the Rider USP should be denied because the administrative costs identified by Columbia do not fall within the narrow definition of costs eligible for recovery through the Rider USP. The OCA submits that implementation of its recommendations in this proceeding regarding affordability and universal service programs will be a significant benefit to the Company and its customer base by reducing costs associated with uncollectibles and terminations and by ensuring that as many Columbia customers retain natural gas distribution service as possible.

<u>Energy Efficiency Programs</u>

The OCA supports Columbia's proposed continuation of its Energy Efficiency Plan into its second phase. The benefits associated with the Plan far outweigh the costs by maximizing affordable energy efficiency and demand-side management measures available to Columbia's customers. Columbia largely adopted the recommendations of the OCA regarding necessary improvements to the Plan. However, the OCA continues to recommend that an independent third-party evaluator should measure the success of the Plan. By adopting the OCA's proposed improvements to the Plan, the Commission would ensure that not only is Columbia able to offer energy efficiency programming to its customers, but also that the Company's offerings will provide the most benefit to the most customers.

Rate EDDS

The Company claims that now is the time to approve its proposed Rate EDDS or else it runs the risk of losing potential customers. However, the Company's concerns are not based in evidence because no potential customer has made more than a preliminary inquiry into Rate EDDS service. The OCA maintains its position that Rate EDDS is premature and the Commission should be fully informed regarding the usage characteristics of potential customers before approving the proposed tariff provision.

Eligible Customer Lists

Columbia's proposed expansion of the tariff is not reasonable. The OCA recommends that the Commission disallow Columbia's proposal to modify its tariff to expand the customer information it can provide to natural gas suppliers and third-parties through Columbia's Eligible Customer Lists. The Company's proposed tariff revision raises significant customer privacy concerns, especially when it is unclear to which third-parties Columbia will provide customers' contact information, including their email address. Columbia recently filed a letter indicating that it plans to implement on-bill billing for non-basic services and receive compensation for on-bill billing services. The OCA is concerned with the proposed expansion of the information Columbia provides to undisclosed third-parties paired with its desire to begin on-bill billing. As such, to protect customers' personal information and privacy from disclosure to unidentified third-parties, the OCA respectfully requests that the Company's proposals be denied.

III. OVERALL POSITION ON RATE INCREASE

A. Overall Position on Rate Filing

The OCA incorporates by reference Section III.A of its Main Brief, beginning on page 36. In this portion of its Reply Brief, the OCA responds to Section III of the Main Brief of Columbia, beginning on page 8.

The Company presents a false narrative: because Columbia invests in pipeline replacement, its rate increase request should be approved without further scrutiny.[2] No evidence was presented in this proceeding that the Company is anything less than a large, financially, technically, and legally fit public utility in a strong financial position to continue investing in safety- and reliability-related plant. Authorizing a rate increase of far less than the proposed $110.4 million is not only appropriate but prudent, considering the unaffordability issues plaguing Columbia's customers[3], the fact that Columbia's customers pay the highest rates in Pennsylvania and the third-highest in the mid-Atlantic[4], and the

[2] Columbia M.B. at 8-9.
[3] OCA M.B at 289-304; OCA St. 5 at 8-46, 112.
[4] OCA M.B. at 36-37; OCA Exh. MWD-7.

Company's excessive 11.35% return on equity.[5] Instead, Columbia could provide safe and adequate service at just and reasonable rates with an annual revenue decrease of $36.3 million.

The remaining averments made by Columbia in the Overall Position section of its Main Brief are addressed in the OCA's Main Brief and below in full.

B. Overall Position on Revenue Requirement

The OCA's overall position on the revenue requirement has not changed. The OCA addressed the OCA's overall position at pages 42-43 of its Main Brief.

IV. RATE BASE

A. Plant in Service – Inflation Adjustment

In this portion of its Reply Brief, the OCA responds to Section IV.A of the Main Brief of Columbia, beginning on page 15.

Columbia is projecting net plant additions (gross plant additions less retirements) of $436,529,280 for the future period ending November 30, 2025, and an additional $436,492,629 for the fully projected future test year period ending December 31, 2026.[6] In reaching these totals, Columbia included an inflation rate factor of 4% for 2025 and 5% for 2026.[7] The OCA recommended that the inflation rate factors be removed.[8]

[5] OCA M.B. at 123-71; *see generally* OCA St. 3.
[6] OCA St. 2 at 4; Columbia Exhibit 108 at 3.
[7] OCA St. 2 at 7.
[8] OCA M.B. at 43-46.

Columbia argues that the OCA's adjustment to remove Columbia's inflation factors ignores reality as increasing unit costs are real.[9] As discussed extensively in the OCA's Main Brief, The use of broad inflation adjustments to estimate the cost of additional plant undermines the ratemaking concept of "used and useful" and certainly does not rise to the level of meeting Columbia's burden of proof in this proceeding.[10] The Commission has repeatedly required specificity by the utility when the utility uses an inflation factor to estimate cost increases in the test year, and the Commission has disallowed inflation factors that are too speculative in nature.[11] In *Aqua 2022*, the Commission stated, "allowing Aqua to apply a general inflation adjustment to a block of expenses could incentivize less accurate tracking of expenses and a less rigorous approach to controlling costs for those expenses."[12] Additionally, the Commission found that Aqua's "application of a General Price Adjustment to 22% of expenses is neither targeted nor specific."[13]

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[9] Columbia M.B. at 17-18.
[10] *Id.*; *see also* 66 Pa. C.S. § 102 (defining "Rate base" as "[t]he value of the whole or any part of the property of a public utility *which is used and useful* in the public service") (emphasis added); *see also* 66 Pa. C.S. § 315(e) (permitting the use of a FPFTY in discharging the burden of proof); *see also Pa. PUC v UGI Utilities, Inc- Electric Division,* R-2017-2640058, Order (Oct. 25, 2018) (*UGI Electric 2018*) at 27-31, 79 (rejecting the utility's rate base and related expense claims in the FPFPTY because the utility did not demonstrate by the close of the record that there would be "reasonable certainty" that the claimed plant would "be in operation" and thus used and useful in the FPFTY); *see also* 66 Pa.C.S. § 315(a) (utility bears the burden of proving the justness and reasonableness of every element of its requested rate increase); *Burleson v. Pa. PUC*, 461 A.2d 1234, 1236 (Pa. 1983).
[11] *Pa. PUC v. Phila. Elec. Co.*, 58 Pa. P.U.C. 7 (1983) (*PECO 1983*); *Nat'l Fuel Gas Dist. Corp. v. Pa. PUC*, 677 A.2d 861 (Pa. Cmwlth. 1986) (*NFG 1986*).
[12] *Pa. PUC v Aqua Pa. Water Co.*, 2022 Pa. PUC LEXIS 161, *50-51 (Order entered May 16, 2022) (*Aqua 2022*).
[13] *Id.* at *51.

OCA witness Mugrace testified that Columbia could over-recover if inflation factors are included in rate base as follows:

> These types of inflation-related adjustments do not provide a good index or pattern of increased costs over time. While such types of inflationary increases are useful to develop economic data, they should not be used to develop and set rates for utility service under a ratemaking methodology. Rates once set are collected until they change in another rate case and thus have to be set as just and reasonable rates. The Company has not provided any additional information or evidence showing that these cost increases will be realized or be present in its FPFTY period. If inflation costs were utilized, and if those costs did not materialize when rates are set by the Commission, the Company will recover costs greater than its cost of service and over-recover costs which ratepayers will not be able to get back.[14]

Columbia provided no evidence supporting that its inflation adjustments described above are accurate representations of the costs which the Company knows will be incurred. Data provided by the Company indicates that its inflation factors were calculated using historical inflation data, which is an inaccurate representation of what levels of inflation will actually be experienced in the future.[15] By failing to establish a factual or evidentiary basis for the actual, specific inflation factors utilized, Columbia should not be able to recover such costs, as it bears the burden of proof.[16]

Allowing the Company to incorporate an inflation rate factor of 4% for 2025 and 5% for 2026 is excessive, speculated, and unsupported. Historically, Columbia files rate cases every 14 months.[17] Including inflation factors in rates, especially for Columbia, is especially unnecessary given Columbia's frequent filing history. Moreover, Columbia

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[14] OCA St. 2SR at 6.
[15] OCA St. 2SR at 5-6.
[16] 66 Pa. C.S. § 315(e).
[17] *See* OCA M.B. at 116.

noted in a separate section of its Main Brief that it anticipates that it will be filing base rate cases annually, which further goes against the necessity of including excessive 4% and 5% inflation factors into Columbia rate base.[18] Columbia's arguments in favor of inflating its rate base by using inflation factors should be rejected.

B. Accumulated Depreciation

In this portion of its Reply Brief, the OCA responds to Section IV.B of the Main Brief of Columbia, beginning on page 19.

The first adjustment recommended by OCA witness Mugrace to the Company's claimed accumulated depreciation reserve is based on his adjustment to the Company's utility plant in service account.[19] OCA witness Mugrace recommended an adjustment of $(14,507,711) to Columbia's claimed utility plant in service amount.[20] Mr. Mugrace explained his adjustment to the associated claim for accumulated depreciation on that utility plant in service as follows:

> As I have recommended disallowance of $14,507,711 (Exhibit DM-5) to reduce the Company's UPIS claim and so remove inflation related capital costs related to contractor costs, a corresponding adjustment to the Company's FPFTY Accumulated Depreciation expense claim is also necessary. Since the Company has included inflation related adjustments in its capital expenditure additions, depreciation is based upon total costs of Company capital expenditures and therefore is the basis to the development of depreciation expenses. I utilized OCA witness Mr. Garrett's recommended depreciation rate related to mains (account 376) of 1.63% multiplied by the $14,507,711.[21]

[18] Columbia M.B. at 54.
[19] OCA M.B. at 47.
[20] *Supra* at Section IV.A.
[21] OCA St. 2 at 9.

Based on Mr. Mugrace's calculation, he recommended an adjustment of $(236,476) to accumulated depreciation based on his recommended reduction to the Company's utility plant in service balance.[22]

Columbia also argues that OCA witness Mugrace simply takes OCA witness Garrett's adjustment to depreciation expense and uses it to compute a depreciation reserve.[23] Columbia argues that OCA witness Mugrace's approach results in mistaken depreciation reserves, and proceeds to quote Columbia witness Spanos's critique of OCA witness Garrett's calculated depreciation expense.[24] However, as discussed in the OCA's Main Brief, while Columbia witness Spanos claimed in rebuttal that OCA witness Garrett made an error by using the incorrect reserve balance in calculating the proposed rates under ELG, OCA witness Garrett testified as follows:

> **Q. Mr. Spanos claims that you made an error by using the incorrect reserve balances in calculating your proposed rates under the ELG method. What is your response?**
>
> A. To calculate my proposed depreciation rates, I used the reserve balances that were presented in Mr. Spanos's exhibits. If Mr. Spanos is suggesting different reserve balances should be used, he did not present those balances to be considered. The primary issue before the Commission is whether the ALG or ELG method should be used, which has an impact of approximately $45 million to depreciation expense as of the 2026 depreciation study. The use of different estimated reserve balances, as Mr. Spanos is suggesting, should not have a material impact to the overall result. If it does, the Company can present what it believes are the correct balances to use for calculating ALG rates so the parties can review it (though it did not take the opportunity to do so in rebuttal testimony).[25]

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[22] *Id.*; *see also* OCA Exh. DM-6, DM-32.
[23] Columbia M.B. at 19-20.
[24] Columbia M.B. at 20.
[25] OCA M.B. at 70; OCA St. 3SR at 14-15.

Based on Mr. Garrett's recommended adjustment, OCA witness Mugrace made a corresponding reduction to Columbia's claimed accumulated depreciation of $45,802,423.[26] While the Company disagreed with the basis of Mr. Mugrace's adjustment, it did not present evidence indicating that the proposed adjustment was inaccurate.[27] As a result, if the Commission adopts the OCA's recommended adjustment to depreciation expense, Mr. Mugrace's adjustment to accumulated depreciation should be adopted as well.

In rejoinder, once it was too late for OCA witnesses Garrett or Mugrace to respond, Columbia witness Spanos stated as follows:

> OCA Witness Garrett has stated he utilized the same book reserve that was developed in the Depreciation Studies. However, if he utilized the ALG procedure then the book reserve he utilizes in his calculations would be different than that of the Depreciation Studies. In each case, the book reserve would be lower and the resulting depreciation expense that he calculates would be higher. Therefore, it is OCA Witness Garrett's responsibility to calculate the proper book reserve for his calculations.[28]

To be clear, the OCA is not the party that produced or was required to produce a depreciation study for the FFPTY as it does not bear the burden of proof in this case. Columbia produced the depreciation study to meet its initial burden of proof.[29] When the burden of production shifted, the OCA only needed to demonstrate, per *Lindheimer*[30] and *Hope*[31], that the ELG procedure for determining annual depreciation expense is

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[26] OCA M.B. at 70-71; OCA St. 2 at 10; OCA Exh. DM-SR-6.
[27] Columbia St. 5-R at 32.
[28] OCA St. 5RJ at 71.
[29] *See* OCA M.B. at 71.
[30] *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934) (*Lindheimer*).
[31] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 606 (1944) (*Hope*).

unreasonable and that the ALG procedure is reasonable to ensure the Company is whole and the integrity of its investments maintained, which the OCA has successfully demonstrated.[32] The OCA also needed to demonstrate, per *Pa. Power*[33], that the use of the ALG procedure will permit accumulated depreciation (or book reserves) and annual depreciation expense to be calculated on a reasonably consistent basis, which the OCA also has successfully demonstrated.[34] Columbia's tactics in rejoinder to refuse to calculate the book reserve or accumulated depreciation amounts under the ALG procedure should be viewed as an impermissible shift of the burden of proof to a challenger of proposed rates.[35] If this is permitted, it is questionable whether any party can sustain a challenge to depreciation expense without having to produce a separate depreciation study that would increase expense and burden, including the discovery burden.[36]

C. Cash Working Capital

In this portion of its Reply Brief, the OCA responds to Section IV.C of the Main Brief of Columbia, beginning on page 20.

Columbia notes that it did not make a cash working capital claim in this case.[37] To be clear, in its filing, Columbia only included a cash working capital claim for its materials and supplies, prepayments and gas storage underground balances.[38] However, OCA

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[32] OCA M.B. at 71.
[33] *Pa. Power & Light Co. v. Pa. Pub. Util. Com.*, 311 A.2d 151, 158 (Pa. Cmwlth. 1973) (*Pa. Power*)
[34] OCA M.B. at 71-72.
[35] *Id.* at 72.
[36] *Id.*
[37] Columbia M.B. at 21.
[38] OCA St. 2 at 10; Columbia Exh. 108.

witness Mugrace testified that "[t]he Company's claim is overstated by the application of inflation adjustments to certain components of the Company's claim particularly its Materials and Supplies and its Prepayments."[39] While the OCA did not recommend an adjustment to cash working capital regarding Columbia's gas storage underground balance, the OCA recommended that inflation adjustments be removed from Columbia's cash working capital balance for Columbia's materials and supplies balance and its prepayments balance as further discussed in the OCA's Main Brief and in Section IV.E.[40]

OCA witness Mugrace removed the Gross Domestic Product (GDP) inflation factor of 2.93% for 2025, and the 3.05% GDP inflation factor for 2026.[41] OCA witness Mugrace testified:

> As I indicated above in my adjustments related to the Company's [Utility Plant in Service], I believe that including inflation type factors to adjust for costs are not reasonable because these types of increase adjustments are not known and measurable and they do not reflect the true costs of providing service. Inflation adjustments do not provide a good index of cost increases but rather an overall broad blanket-type economic adjustment that are [sic] typically applied to goods and services that may not be directly rated to costs incurred by the Company. Inflation adjustments do not address any particular or individual expense category. These are simple forecasts and predictions of cost estimates. As goods and services fluctuate over time, applying escalating or inflation factors to adjust costs is not a proper approach that should be utilized in setting rates for service. While such inflation type adjustments are used to develop economic data as in changes to broad baskets of consumer goods and services such as housing, clothing, food, etc., utilizing adjustments for ratemaking purposes is not reasonable. More definitive types of increases are contractually related increases or escalation increases that are included in agreements or services contracts.[42]

[39] OCA St. 2 at 10-11.
[40] OCA M.B. at 49-50.
[41] OCA St. 2 at 11.
[42] OCA St. 2 at 11.

OCA witness Mugrace's adjusted cash working capital balance represents a reduction for materials and supplies of $56,977 and a reduction of prepayments of $262,481 for a net decrease of $319,457.[43]

D. Accumulated Deferred Income Taxes (ADIT)

In this portion of its Reply Brief, the OCA responds to Section IV.D of the Main Brief of Columbia, beginning on page 23.

The OCA recommended that Columbia's ADIT balance be reduced by $67,372.[44] This reduction corresponds to OCA witness Mugrace's recommendation to remove the inflation-related adjustments Columbia used to calculate its plant additions for 2025 and 2026.[45] Columbia merely stated that the Company did not agree with OCA witness Mugrace's adjustment and that it identified several mathematical errors in Mr. Mugrace's calculations.[46] However, OCA witness Mugrace acknowledged and accepted these mathematical errors as follows:

> I reviewed my exhibits and the calculations that are reflected in Ms. Harding's Schedule JH-1R. I am accepting Ms. Harding's adjustment of the Depreciation Expense calculation to the $41,409,747 balance, which reflects the decrease in tax repairs of $4,629,116 related to mixed service costs and reduction in capital expenditures. Although Ms. Harding did not identify how the calculation of the reduction of $4,629,152 was derived in her direct testimony, I am accepting this balance for purposes of calculating the Company's Deferred Income Tax balance. With respect to Ms. Harding's discussion of the unexplained adjustment of $2,834,217, I note that in response to OCA-Set 9-42, the Company stated that this adjustment was part of an update related to Excess Tax Depreciation over Book Depreciation of $32,331,282, representing the state flow through net of federal benefits.

[43] OCA St. 2 at 12.
[44] OCA M.B. at 50.
[45] OCA M.B. at 50.
[46] Columbia M.B. at 24.

> However, the Company utilized the balance of $35,165,499 to calculate the excess tax depreciation over book. I am accepting this calculation for purposes of adjusting the excess tax depreciation over book.[47]

As OCA witness Mugrace accepted Columbia's mathematical corrections and properly removed inflation adjustments from Columbia's ADIT balance, the OCA's recommended adjustment should be adopted.

E. Materials & Supplies/Prepayments

In this portion of its Reply Brief, the OCA responds to Section IV.C of the Main Brief of Columbia, beginning on page 20.

Similar to Columbia's attempt to inflate its rate base through the use of inflation factors for plant in service, Columbia also proposed to include inflation in its materials and supplies rate base balance.[48] Columbia argues that the OCA's removal of inflation factors is improper as Columbia is replacing items in its materials and supplies.[49] Columbia further claims that, if Columbia's inflation adjustment is not included, the FPFTY balance will be understated.[50]

For the materials and supplies/prepayments adjustment, OCA witness Mugrace testified that he "disallowed this inflation adjustment and calculated a non-inflated balance of $891,093."[51] OCA witness Mugrace further testified as follows:

> The Company reflected a 2025 13-month average balance of $5,470,802. Included in that balance is an inflation adjustment of 2.93% (Statement No. 11-R at 2). I disallowed this inflation adjustment and calculated a non-

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[47] OCA St. 2SR at 7-8.
[48] *See* OCA M.B. at 51.
[49] Columbia M.B. at 21.
[50] Columbia M.B. at 21.
[51] OCA St. 2SR at 8.

> inflated balance of $5,315,070. There was no need to include the 2026 inflation adjustment of 3.05% because my adjustment sets the Prepayments at the 2025 level at actual costs with no further adjustment needed. The Company proposed 2025 13-month average balance of materials and supplies included a 2.93% inflation factor. The same holds true for the Company's Prepayments.[52]

Moreover, Columbia argues in its Brief that Commission decisions over two decades ago accepted inflation adjustments.[53] Importantly, recent precedent shows that the Commission consistently rejects inflation adjustments. For example, in a 2024 PGW proceeding, the Commission stated as follows:

> As previously noted, we rejected the Company's proposed inflation adjustment, finding that based upon prior Commission precedent, an inflation adjustment cannot be applied broadly and does not meet the "known and reasonable" standard for increasing each FTY expense claim in the FPFTY.
>
> We remain of the opinion that PGW's requested inflation adjustment was unreasonable and that normalizing the above seven expenses over a three-year period was proper. As observed by I&E, in our *November 2023 Order*, we first adjusted PGW's claimed expenses to a reasonable level by removing the Company's proposed inflation adjustment and then adjusted the time period over which the expenses were recovered by normalizing the cost over three years. We are not persuaded by PGW's arguments in its Petition that such adjustments are duplicative. Rather, both adjustments are necessary to [*36] ensure a reasonable and prudent level of expense recovery in rates. *See*, I&E Answer at 6. On review of the above, we find that PGW's arguments in its Petition are not new or novel, nor do they demonstrate a consideration that has not previously been heard or has been overlooked by this Commission.[54]

Columbia's attempt to claim that the Commission accepts inflation adjustments is contradicted by recent Commission precedent and no other examples of the Commission

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[52] *Id.*
[53] Columbia M.B. at 21 (internal citations omitted).
[54] *Pa. PUC v. PGW*, 2024 PA. PUC LEXIS 19, *35-36 (Jan. 18, 2024).

accepting inflation adjustments since 2002 have been provided by Columbia. Columbia's proposal to include inflationary adjustments to its material and supplies account should be rejected.

Additionally, similar to Columbia's addition of an inflation factor to its materials and supplies account, Columbia included an inflation adjustment in for its prepayment account.[55] OCA witness Mugrace testified as follows:

> The same holds true for the Company's Prepayments. The Company reflected a 2025 13-month average balance of $5,470,802. Included in that balance is an inflation adjustment of 2.93% (Statement No. 11-R at 2). I disallowed this inflation adjustment and calculated a non-inflated balance of $5,315,070. There was no need to include the 2026 inflation adjustment of 3.05% because my adjustment sets the Prepayments at the 2025 level at actual costs with no further adjustment needed.[56]

Columbia argues that the "OCA's adjustment is improper for the same reasons that its proposed adjustment to materials and supplies inventory is improper and should be rejected."[57] For the reasons stated above in Section IV.C.1 regarding materials and supplies, the proposed inflation adjustment included in Columbia's prepayments balance should be rejected.

F. Consolidated Income Tax Adjustment

In this portion of its Reply Brief, the OCA responds to Section IV.D.3 of the Main Brief of Columbia, beginning on page 24.

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[55] OCA St. 2SR at 8.
[56] OCA St. 2SR at 8.
[57] Columbia M.B. at 23.

The OCA recommended that Columbia be required to commit 50% of its consolidated tax expense adjustment, or $2,263,821, to utility working capital.[58] In response, Columbia argued that the OCA's recommendation regarding the Consolidated Income Tax Adjustment (CTA) is contrary to Section 1301.1 of the Public Utility Code.[59]

Act 40 of 2017, codified at 66 Pa. C.S. § 1301.1, changed the computation of income tax expense for ratemaking purposes. It provides that anytime an investment is included in rates, the related income tax deductions shall also be included in the calculation of current or deferred income tax expense to reduce rates. Conversely, if an expense or investment is not included in the calculation, the related income tax deductions and credits shall not be included to reduce rates. Section 1301.1(a) states:

> Section 1301.1. Computation of income tax expense for ratemaking purposes.
>
> (a) Computation.--**If an expense or investment is allowed to be included in a public utility's rates for ratemaking purposes, the related income tax deductions and credits shall also be included in the computation of current or deferred income tax expense to reduce rates.** If an expense or investment is not allowed to be included in a public utility's rates, the related income tax deductions and credits, including tax losses of the public utility's parent or affiliated companies, shall not be included in the computation of income tax expense to reduce rates. The deferred income taxes used to determine the rate base of a public utility for ratemaking purposes shall be based solely on the tax deductions and credits received by the public utility and shall not include any deductions or credits generated by the expenses or investments of a public utility's parent or any affiliated entity. The income tax expense shall be computed using the applicable statutory income tax rates.[60]

[58] OCA M.B. at 52-53.
[59] Columbia M.B. at 24-28.
[60] 66 Pa. C.S. § 1301.1 (emphasis added).

Under subsection (c)(2) of Section 1301.1, this amendment applies to "all cases where the final order is entered after the effective date of this section."[61] Additionally, Section 1301.1 states that regulated public utilities are required to used 50% of excess rates collected for the purpose of paying income tax "to support reliability or infrastructure related to the rate-base eligible capital investment" and 50% for "general corporate purposes."[62]

As Columbia is expected to invest $316.8 million of infrastructure projects in the FTY and an additional $329.3 million in the FPFTY period, this expenditure is greater than the $2.26 million (50% of the $4.53 million differential) that would have been a consolidated tax adjustment prior to Act 40.[63] However, Columbia has not specifically identified how the 50% differential would be used for general corporate purposes.[64] Indeed, Columbia did not provide any specifics as to whether the 50% of the differential would be used in any way to benefit Pennsylvania ratepayers.[65]

As Columbia chose to be vague rather than specific, the OCA has no reassurance that these funds will appropriately benefit ratepayers and recommends that the balance of the consolidated tax expense adjustment be used as a source of non-investor-supplied funding for utility working capital.[66] The OCA's adjustment should be adopted.

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[61] 66 Pa. C.S. § 1301.1(c)(2).
[62] 66 Pa. C.S. § 1301.1(b).
[63] OCA M.B. at 52.
[64] *Id.*
[65] *Id.*
[66] OCA St. 2 at 48.

V. REVENUES

The OCA did not propose any adjustments to the Company's FPFTY revenues under present rates and does not have any Reply to Columbia's Main Brief.

VI. DEPRECIATION EXPENSE

In this portion of its Reply Brief, the OCA responds to Section VI of the Main Brief of Columbia, beginning on page 29.

A. Introduction

For the reasons set forth in the OCA's Main Brief and below, the OCA maintains its position that the Commission should reject Columbia's proposed use of the Equal Life Group (ELG) procedure in this proceeding and instead require Columbia to use the Average Life Group (ALG) procedure in order to produce just, reasonable, and non-discriminatory rates.

B. Use of the ELG procedure results in excess recovery of $45.8 million in annual depreciation expense and a total of approximately $63.615 million in revenue requirement, after grossing up for taxes.

The OCA addressed this issue in its Main Brief at pages 56 to 61. No further reply is necessary.

C. Use of depreciation procedure is a matter of Commission ratemaking discretion to determine just and reasonable rates, and no state or federal law prohibits the Commission's adoption of the ALG procedure.

In this portion of its Reply Brief, the OCA responds to Section VI.C of the Main Brief of Columbia, beginning on page 31.

1. Case law does not prohibit the adoption of ALG procedure.

Columbia argues that "the relevant standard should not be whether other jurisdictions use different depreciation methods."[67] Instead, Columbia states that "[w]hat 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."[68] Columbia further argues that while Mr. Spanos supports ALG for other utilities (including other Columbia Gas utilities), "the depreciation procedures he uses in other jurisdictions conform to the practices and procedures established in other jurisdictions."[69]

As discussed extensively in the OCA's Main Brief, Columbia's current use of ELG is not the relevant legal standard.[70] Instead, depreciation procedure is squarely a matter of Commission ratemaking discretion, as there is no state or federal law that mandates a specific depreciation procedure for conducting a depreciation analysis.[71] Moreover, the Public Utility Code and Commission regulations do not prohibit the adoption of the ALG procedure in Pennsylvania.[72] In fact, Columbia already uses the ALG procedure for its pre-1976 plant.[73]

Simply put, the practices and procedures in Pennsylvania support a switch to ALG and there is nothing specific to Pennsylvania that requires continued use of ELG. To the

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[67] Columbia M.B. at 40.
[68] Columbia M.B. at 40.
[69] Columbia M.B. at 40-41.
[70] OCA M.B at 61-63.
[71] OCA M.B. at 61-63.
[72] OCA M.B. at 64-66.
[73] OCA M.B. at 69.

contrary, as the ALG procedure simplifies the Commission's ability to monitor depreciation practices and capital planning for regulated utilities, it furthers the Commission's regulations regarding depreciation "to establish uniform and industry-wide reporting requirements designed to improve the Commission's ability to monitor on a regular basis the depreciation practices and capital planning of electric, telephone, gas and water public utilities subject to Commission jurisdiction."[74] On the other hand, continued use of the ELG procedure adds unnecessary complexities and results in unjust and unreasonable rates.[75]

The U.S. Supreme Court stated as follows regarding the Company's burden of proof in showing that its depreciation expense is not excessive:

> [T]he company has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive. That burden is not sustained by proof that its general accounting system has been correct. The calculations are mathematical, but the predictions underlying them are essentially matters of opinion.[76]

Columbia has failed to meet its burden of proof. Columbia cites to no statute, case law, or precedent that requires the continued use of ELG. Instead, Columbia merely asserts that a standard exists in which they should be able to continue using the ELG procedure due to Columbia's current use of ELG, without legal citation, instead of supporting its burden of proof with substantial evidence. As Columbia failed to meet its burden in proving

[74] 52 Pa. C.S. § 73.1.
[75] *See* OCA M.B. at 69-70.
[76] *Lindheimer*, 292 U.S. at 169.

that the ELG procedure produces just and reasonable rates, Columbia's arguments should be rejected.

2. The Public Utility Code and Commission regulations do not prohibit the adoption of the ALG procedure.

The OCA addressed this issue at pages 64 to 66 of its Main Brief. No further reply is necessary.

D. Substantial record evidence shows that use of the ALG procedure will permit the Company's recovery of reasonable amounts for depreciation expense and permit accumulated depreciation and annual depreciation to be calculated on a reasonably consistent basis but will remove excess amounts from being charged in rates to consumers.

The OCA addressed this issue at pages 66 to 72 of its Main Brief. No further reply is necessary.

E. Substantial record evidence shows that the use of ELG depreciation unreasonably accelerates recovery of depreciation expense.

In this portion of its Reply Brief, the OCA responds to Section VI.C of the Main Brief of Columbia, beginning on page 31.

Substantial record evidence shows that use of the ALG procedure will permit the Company's recovery of reasonable amounts for depreciation expense and permit accumulated depreciation and annual depreciation to be calculated on a reasonably consistent basis but will remove excess amounts from being charged in rates to consumers.

Columbia argues that a changing from ELG to ALG is inappropriate and "will shift to future customers costs that should be charged to current customers."[77] Columbia

[77] Columbia M.B. at 30.

acknowledges that the ELG procedure causes certain customers to pay more than future customers but states that "[t]his 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."[78] Columbia further argues that a change to ALG "will create higher, and continuously 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."[79]

Requiring current customers to pay for future customers' costs is inconsistent with Pennsylvania Supreme Court precedent.[80] OCA witness Garrett testified as to Columbia's concern regarding future customers as follows:

> I do not believe that the financial well being of future customers is the primary motivation for the Company's proposal to use the ELG method. Mr. Spanos does not represent either present or future customers in this case, and he exclusively represents utility companies as I understand.[81]

OCA witness Garrett further testified that the ALG procedure reasonably allocates depreciation expense throughout the service life of the assets:

> In the average life procedure, a constant annual accrual rate based on the average life of all property in the group is applied to the surviving property. While property having shorter lives than the group average will not be fully depreciated, and likewise, property having longer lives than the group average will be over-depreciated, the ultimate result is that the group will be fully depreciated by the time of the final retirement. Thus, the average life procedure treats each unit as though its life is equal to the average life of the group.[82]

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[78] Columbia M.B. at 36.
[79] Columbia M.B. at 30.
[80] *Barasch v. Pa. PUC*, 507 Pa. 496, 517, 491 A.2d 94, 104 (1985) ("Current ratepayers should shoulder only the actual expenses of providing current utility service.").
[81] OCA St. 3SR at 13.
[82] OCA St. 3, App. C. at 4.

OCA witness Garrett testified that "use of the average life results in the same depreciation rate applied to each age interval."[83] As such, there is no sudden increase in depreciation expense that is unjustly paid for by a future customer. Instead, depreciation expense is recovered over the average life of the plant under ALG using the same depreciation rate for each year.[84]

F. Substantial record evidence shows that the use of ELG procedure is inconsistent with the well-established "matching principle" of ratemaking.

The OCA addressed this issue at pages 76 to 78 of its Main Brief. No further reply is necessary.

G. Substantial record evidence shows that the ELG procedure results in intergenerational inequity among consumers paying utility rates.

In this portion of its Reply Brief, the OCA responds to Section VI.C of the Main Brief of Columbia, beginning on page 31.

Columbia argues that the ALG procedure results in intergenerational inequity because the ALG recovers costs over the average service life while ELG recovers costs on shorter service lives.[85] OCA witness Garrett testified that "I do not agree with Mr. Spanos on these issues."[86] OCA witness Garrett further testified:

> Again, Mr. Spanos is attempting to position himself as a representative not only for customers, but very specifically for future customers. In reality, the Company's proposal to use the ELG method results in higher cash flow for the Company in the present, which is likely the primary motivation for the Company's proposal to use the ELG method. From my point of view, it is

[83] OCA St. 3 at 61.
[84] OCA M.B. at 75.
[85] Columbia M.B. at 38.
[86] OCA St. 3SR at 14.

> the ELG method, not the ALG method, that results in intergenerational inequity for customers. To say otherwise would mean that the vast majority of regulatory jurisdictions (using the ALG method) are authorizing inequitable depreciation rates, and have been doing so for decades, which cannot be accurate.[87]

At no point in Columbia's Brief or testimony did Columbia rebut the fact that compared to the ALG procedure, the ELG procedure results in higher depreciation rates for current customers.[88] Instead, Columbia provided an example of how depreciation expense is calculated under the ELG and ALG procedures.[89] However, Columbia's example shows $266.67 of depreciation expense under ELG vs. $200 in depreciation expense under ALG for each year for the first five years.[90]

OCA witness Garrett also provided the following example showing that the ELG procedure results in higher rates and accrual amounts in earlier years, which was uncontradicted by Columbia:

> In that example, there were two units being depreciated – one with an original cost of $4,000 and a 4-year life and the second with an original cost of $6,000 and an 8-year life. Thus, the average life of this group is 6.4 years. Under the ALG procedure, the depreciation rate is 15.625% per year (1/6.4 = 15.625%). Under the ELG procedure, however, there are higher rates and accrual amounts during the earlier years. In reality, Columbia has numerous units of property that are depreciated on a group basis in each account.[91]

As depreciation expense is evenly charged to current and future customers based on the same depreciation rate over the average life of the group under the ALG procedure, no

[87] OCA St. 3SR at 14.
[88] OCA St. 3SR at 13.
[89] Columbia M.B. at 32-33.
[90] OCA M.B. at 76.
[91] OCA St. 3SR at 13-14.

such inequity results between generations of customers.[92] ALG ensures the most reasonable allocation of depreciation expense between customer generations and supports intergenerational equity.

H. A super majority of state commissions approve the ALG procedure and Pennsylvania is in the small minority of jurisdictions that approve the ELG procedure.

In this portion of its Reply Brief, the OCA responds to Section VI.C of the Main Brief of Columbia, beginning on page 31.

According to Columbia, "other jurisdictions have other differences in depreciation methods from Pennsylvania, which makes it impossible to compare results."[93] First, Columbia argues that there is a difference between the use of whole life vs. remaining life depreciation.[94] As discussed in the OCA's Main Brief, however, the basic components used to estimate deprecation rates are 1) methods, (2) procedures, (3) techniques, and (4) models.[95] OCA witness Garrett testified:

> A depreciation system may be defined by several primary parameters, including: 1) a method of allocation; 2) a procedure for applying the method of allocation; 3) a technique of applying the depreciation rate; and 4) a model for analyzing the characteristics of vintage property groups. **In this case, I used the straight-line method, the average life group procedure, the remaining life technique, and the broad group model.**[96]

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[92] OCA M.B. at 75.
[93] Columbia M.B. at 39.
[94] Columbia M.B. at 39.
[95] OCA M.B. at 57-58.
[96] OCA M.B. at 57-58 (emphasis added).

Regarding depreciation procedures, OCA witness Garrett testified that "'[t]he average life' and 'equal life' grouping procedures are the two most common."[97] In practice, depreciation experts tend to rely on either the ALG procedure or the ELG procedure, as is the case here.[98] OCA witness Garrett testified:

> The primary issue before the Commission in this case regards the amounts to be recovered in operating expenses for annual depreciation and whether the ALG versus the ELG procedure should be used to determine those amounts.[99]

Separate from the Depreciation Procedures is the Application Technique for applying the depreciation rate. OCA witness Garrett testified as follows:

> The third factor of a depreciation system is the "technique" for applying the depreciation rate. There are two commonly used techniques: "whole life" and "remaining life." The whole life technique applies the depreciation rate on the estimated average service life of a group, while the remaining life technique seeks to recover undepreciated costs over the remaining life of the plant.[100]

OCA witness Garrett described the choice of application techniques as follows:

> In choosing the application technique, consideration should be given to the proper level of the accumulated depreciation account. Depreciation accrual rates are calculated using estimates of service life and salvage. Periodically these estimates must be revised due to changing conditions, which cause the accumulated depreciation account to be higher or lower than necessary. Unless some corrective action is taken, the annual accruals will not equal the original cost of the plant at the time of final retirement. Analysts can calculate the level of imbalance in the accumulated depreciation account by determining the "calculated accumulated depreciation," (a.k.a. "theoretical reserve" and referred to in these appendices as "CAD"). The CAD is the calculated balance that would be in the accumulated depreciation account at a point in time using *current* depreciation parameters. An imbalance exists

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[97] OCA St. 3, App. C at 4-5.
[98] OCA St. 3 at 60 (emphasis added).
[99] OCA St. 3 SR at 14.
[100] OCA St. 3, App. C at 4.

> when the actual accumulated depreciation account does not equal the CAD. The choice of application technique will affect how the imbalance is dealt with.[101]

OCA witness Garrett described the difference between the whole life technique and the remaining life technique as follows:

> Use of the whole life technique requires that an adjustment be made to accumulated depreciation after calculation of the CAD. The adjustment can be made in a lump sum or over a period of time. With use of the remaining life technique, however, adjustments to accumulated depreciation are amortized over the remaining life of the property and are automatically included in the annual accrual. This is one reason that the remaining life technique is popular among practitioners and regulators.[102]

The remaining life technique was summarized by OCA witness Garrett as follows:

> Average remaining life represents the future years of service expected from the surviving property. Remaining life is sometimes referred to as "average remaining life" and "life expectancy." To calculate average remaining life at age x, the area under the estimated future potion of the survivor curve is divided by the percent surviving at age x (denoted SX).[103]

OCA witness Garrett further testified to the remaining life technique as follows:

> The remaining life accrual formula is similar to the basic straight-line accrual formula above with two notable exceptions. First, the numerator has an additional factor in the remaining life formula: the accumulated depreciation. Second, the denominator is "average remaining life" instead of "average life." Essentially, the future accrual of plant (gross plant less accumulated depreciation) is allocated over the remaining life of plant. Thus, the adjustment to accumulated depreciation is "automatic" in the sense that it is built into the remaining life calculation.[104]

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[101] OCA St. 3, App C. at 4-5.
[102] OCA St. 3, App. C. at 5.
[103] OCA St. 3, App. D at 11.
[104] OCA St. 3, App. C at 6.

The Supreme Court discussed the difference between whole life and remaining life as follows:

> The 1980 order further sought to promote improved accounting accuracy by replacing "whole life" depreciation with the "remaining life" method. Under remaining life, and unlike the treatment under a whole life regime, if estimates upon which depreciation schedules are premised prove erroneous, they may be corrected in midcourse in a way that assures that the full cost of the asset will ultimately be recovered.[105]

The FCC explained the difference between whole-life and remaining life depreciation as follows:

> The essential difference between whole-life and remaining-life depreciation rate calculations is that the former attempts to determine that annual charge that would be appropriate in the event that the current predictions of whole-life (estimated future life added to current experienced or expired life) were in fact correct. The remaining-life process proceeds on the premise that the current prediction of remaining or prospective life is correct and attempts to allocate any unrecovered or unallocated costs over that time period. That is, the original cost less accumulated reserve, or net unrecovered cost is divided by the prospective remaining-life in order to determine the annual future charges to expense.[106]

To be clear, Columbia currently uses the remaining life application technique and OCA witness Garrett recommends continued use of the remaining life application technique.[107] While Columbia simply asserts that it is "impossible to compare results" between jurisdictions due to the use of whole life instead of remaining life, no explanation as to how this is the case was provided by Columbia.[108] Instead, at the evidentiary hearing

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[105] *La. Public Serv. Com v. FCC*, 476 U.S. 355, 361 (May 27, 1986)
[106] *Union Springs Tel. Co. v. Alabama Public Service Com.*, 437 So. 2d 485, 488 (Aug. 12, 1983).
[107] OCA St. 3 at 60; Columbia Exh. 109, Attachment A at 42; Columbia Exh. JJS-1R.
[108] Columbia M.B. at 39.

under cross examination, Columbia witness Spanos confirmed that he recommended the ALG procedure and the remaining life technique for the Columbia Gas of Kentucky, Columbia Gas of Maryland, and Columbia Gas of Virginia.[109] It is unclear how it is "impossible" to compare Columbia to other utilities and other Columbia Gas utilities operating in other jurisdictions which use the same application technique: remaining life.

Columbia also argues that the recovery of net salvage prospectively over the life of the property in other jurisdictions as opposed to Pennsylvania's procedure that defers net salvage recovery until after retirement makes it "impossible" to compare depreciation methods between jurisdictions.[110] However, the recovery of net salvage following plant retirement is an entirely separate issue compared to depreciation procedure.[111]

Net salvage is a component of the straight-line accrual allocation method.[112] In fact, the formula for the straight-line accrual method is as follows and specifically includes net salvage:

Equation 6:
Straight-Line Accrual

$$Annual\ Accrual = \frac{Gross\ Plant - Net\ Salavage}{Service\ Life}$$

[113]

[109] Tr. 327-37; OCA Cross Exh. 1-2, 4.
[110] Columbia M.B. at 39.
[111] OCA St. 3, App. C. at 1-6.
[112] OCA St. 3, App. C at 2-3.
[113] OCA St. 3, App. C. at 2.

OCA witness Garrett testified that "[g]ross plant is a known amount from the utility's records, while both net salvage and service life must be estimated in order to calculate the annual accrual."[114]

Both OCA witness Garrett and Columbia witness Spanos used the straight-line method.[115] Specifically, OCA witness Garrett testified that "[i]n this case, I used the straight-line method, the average life group procedure, the remaining life technique, and the broad group model."[116] Mr. Spanos testified "[d]epreciation 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."[117]

OCA witness Garrett did not testify that a change in application techniques was necessary. In fact, OCA witness Garrett specifically did not recommend any service life adjustments in this case as it would shift the Commission's focus away from the issue at hand, which is Columbia's choice to continue using the ELG procedure as opposed to the ALG procedure as follows:

> **Q. Are you recommending service life adjustments in this case based on the following analyses?**
>
> A. No. In this case, I believe it is more important for the Commission to focus on the ALG vs ELG issue and limit the accelerated form of cost recovery that would unfairly burden customers under the ELG method proposed by Mr. Spanos.[118]

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[114] OCA St. 3. App. C. at 3.
[115] OCA St. 3 at 60; Columbia St. 5R at 4.
[116] OCA St. 3 at 60.
[117] Columbia St. 5R at 4-5.
[118] OCA St. 3 at 69.

Additionally, the Superior Court previously determined that the Commission erroneously considered negative salvage when determining annual depreciation:

> Although the commission properly refused to recognize negative salvage in the matter of accrued depreciation, it did consider negative salvage in the matter of annual depreciation. This was erroneous and was an inconsistent treatment
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> …
>
> Annual depreciation is an operating expense representing the consumption of assets in rendering service. A utility is entitled under the law to recover from the rate payers the original cost of construction of its depreciable plant. *Harrisburg Steel Corporation v. Pennsylvania Public Utility Commission,* supra, 176 Pa. Superior Ct. 550, 560, 109 A.2d 719; *Scranton Steam Heat Company v. Pennsylvania Public Utility Commission,* 194 Pa. Superior Ct. 143, 156, 167 A.2d 693; 405 Pa. 397, 403, 404, 176 A.2d 86. It is clear in our law that "In no event will a utility be permitted to recover by annual allowances for depreciation a total amount in excess of the original cost, since annual depreciation is computed on original cost and not upon fair value or reproduction cost." *Pittsburgh v. Pennsylvania Public Utility Commission,* supra, 187 Pa. Superior Ct. 341, 356, 144 A.2d 648, 657. Negative salvage attributed to existing plant is purely prospective; it is a cost which has not yet been incurred; it is uncertain when and if it will be incurred; and it is not a part of the original cost of construction of the facilities when first devoted to public service. To permit the recovery of prospective negative salvage is to permit the recovery of a total amount in excess of the original cost of construction prior to the actual expenditure of those costs and, in our opinion, represents the recovery of something in the nature of a future reproduction cost. The established law in this Commonwealth does not permit the recovery by annual depreciation of any such prospective excess. It is therefore the prospective nature of future negative salvage that prevents it from being considered either in accrued depreciation or in the allowance for annual depreciation; they must have a consistent basis under our law.[119]

[119] *Penn Sheraton Hotel v. Pennsylvania Public Utility Com.*, 198 Pa. Super. 618, 626-27 (Pa. Super. 1962) (*Penn Sheraton*).

Columbia attempts to confuse the issue of whether a switch from the ELG procedure to the ALG procedure is reasonable by arguing that there's a distinction between remaining life and whole life. However, both OCA witness Garrett and Columbia witness Spanos used the remaining life technique in this proceeding.[120]

Columbia also attempts to argue that Pennsylvania's treatment of net salvage somehow makes a switch from ELG to ALG unreasonable while also stating that "[t]hese differences can have a meaningful impact upon the actual composite depreciation rate charged."[121] However, both OCA witness Garrett and Columbia witness Spanos used the straight-line method, which includes the same net salvage component.[122] Moreover, no party disagrees as to the treatment of net salvage in Pennsylvania. Columbia's assertion that differences between remaining life, whole life, and net salvage make it impossible to compare depreciation treatment in separate jurisdictions is unsupported and unreasonable.[123]

Columbia attempts to distinguish the Indiana Utility Regulatory Commission's (IURC) rejection of ELG from the instant proceeding.[124] Columbia argues that the IURC

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[120] OCA M.B. at 57-58; Columbia Exh. 109, Attachment A at 42; Columbia Exh. JJS-1R.
[121] Columbia M.B. at 39.
[122] OCA M.B. at 57-58.
[123] The OCA further notes that, while arguing that it is impossible to compare Columbia's depreciation method with other jurisdictions, Columbia simultaneously argues that Columbia's depreciation rate is within the industry's range and as such compares Columbia's depreciation rate with other jurisdictions. *See* Columbia M.B. at 39.
[124] Columbia M.B. at 40.

referenced "a changed landscape" and "a higher than average investment cycle" in support of its decision.[125]

The entirety of the IURC's determination on a switch from ELG to ALG is below:

> First, with respect to the question of whether the ELG or ALG method should be used, we find the evidence presented by OUCC witness Mr. Garrett and Industrial Group witness Mr. Andrews persuasive, as both witnesses showed that the ELG method results in unreasonably high depreciation rates. ALG depreciation rates result in systematical and rational cost recovery with near term customer rate relief and full cost recovery of utility investments. While we have determined in the past that the ELG methodology was appropriate and acknowledge the weight given to precedent in many prior decisions, we always evaluate each case as it comes before us and do not need to approve the same methodology based on prior decisions, especially in light of a changed landscape. The use of ELG in a higher than average investment cycle has the effect of unnecessarily increasing the near term depreciation expense as compared to the use of ALG. A review and comparison of Mr. Andrew's exhibits reflecting only the ALG verses the ELG modifications applied to Mr. Spanos' results indicate that the impact of the methodology change on a percentage basis is markedly more significant for the distribution and transmission components than the production, or generation, component. This evidence is not surprising given the increased investment cycle in these categories as highlighted by the relatively recent statutory support for such investment codified at Indiana Code ch. 8-1-39. A changed and encouraged investment cycle is a material landscape change through which we consider our previous proclamations on methodology. **Furthermore, the consideration of service affordability in the near term provides sufficient weight to temper our historical preference for ELG.** Again, a recently enacted statute, Indiana Code § 8-1-2-0.5, directing the commission to consider "all practical means and measures" to balance necessary investment with service affordability enhances the regulatory landscape. In response to a Docket Entry question DEI confirmed that it had not identified investments that would not be recovered with the ALG methodology as described. Therefore, we find that the application of ALG serves as a reasonable regulatory mechanism to provide rate impact moderation while not limiting DEI's reasonable recovery of its investment.[126]

[125] Columbia M.B. at 40.
[126] *Petition of Duke Energy Indiana, LLC.*, Cause No. 45253, Order at 90 (June 29, 2020) (emphasis added).

Moreover, the IURC case and the instant proceeding both involved witnesses Garrett and Spanos.[127]

In the IURC proceeding, a switch from ELG to ALG reduced the test year depreciation expense by $120 million, or by 83% of Duke's proposed increase.[128] Similarly in magnitude, Columbia's proposed continued use of the ELG procedure represents approximately 58% of Columbia's $110.5 million rate increase request.[129] As such, service affordability is significantly impacted by Columbia's continued use of ELG. Simply put, ELG results in unreasonably high rates, as acknowledged by other jurisdictions.

Additionally, OCA witness Garrett testified that, the larger the investment, the larger the discrepancy between ELG and ALG as follows:

> When a utility has made substantial, recent capital investments, depreciation expense calculated under the ELG method will always be higher than the expense calculated under the ALG method. The larger the amount of the investments, the larger the discrepancy will be between the two procedures. The Indiana commission's criticism of the ELG method would also apply here. In this case, the difference in the annual depreciation accrual between the ELG and ALG methods alone is $44 million based on plant balances at the end of the Fully Projected Future Test Year which is December 31, 2025.[130]

As such, while Columbia argues that, compared to Indiana, Pennsylvania does not have "a changed landscape" or "a higher than average investment cycle" the discrepancy between the two procedures for Columbia and its impact on rates is substantial. In fact, the current recovery of depreciation expense under ELG represents approximately 58% of

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[127] *Id.* at 74-85.
[128] *Id.* at 82.
[129] OCA M.B. at 67.
[130] OCA St. 3 at 62-63.

Columbia's rate increase request, which further illustrates a large amount of investment given the large discrepancy.

Additionally, in another section of its Brief, Columbia noted as follows regarding its high level of investments going forward:

> 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. 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 and normal wage and inflation increases.[131]

Columbia's continued use of ELG will continue to lead to increased rates and decreased affordability for Columbia's customers, similar to how the ELG procedure resulted in unjust and unreasonable rates in Indiana.

Columbia argues that the Kentucky Public Service Commission's (Kentucky PSC) rejection of the ELG procedure is distinguishable from Columbia as "Duke Energy has substantial generation assets, which is not the case for Columbia."[132] The entirety of the Kentucky PSC's rejection of ELG is as follows:

> Duke Kentucky proposes, as part of developing its depreciation rates, the continued use of the ELG procedure. The Attorney General recommends the Commission adopt the ALG procedure in developing Duke Kentucky's depreciation rates. The Attorney General contends that the ALG methodology is the predominant method that is used in the electric industry for developing depreciation rates. The Attorney General contends that, under the ELG methodology, the capital recovery periods are accelerated and shortened and, thus, the depreciation rates are greater than if the ALG procedure was used. The Attorney General argues that the ALG procedure is as accurate as the ELG procedure and the ALG procedure smooths the data so that the depreciation rates for the group of assets tend to remain constant.

[131] Columbia M.B. at 54.
[132] Columbia M.B. at 40.

> Use of the ALG procedure will result in a decrease in Duke Kentucky's depreciation expense of $6.920 million.
>
> Duke Kentucky requested an increase in depreciation expense of $6.920 million, based on its request to utilize the ELG procedure for computing depreciation rates. As was discussed in the rate base section of this Order, this Commission has found that the ELG procedure does not accurately match revenues and expenses, is front-loaded, and Duke Kentucky is the only Kentucky based utility that utilizes the ELG procedure for computing depreciation rates.
>
> Regulatory accounting requires the proper matching of revenues and expense in order to produce fair, just and reasonable rates. The Commission finds Duke Kentucky's proposed ELG procedure does not meet that criteria and that Duke Kentucky's depreciation expense should be reduced by $6.920 million.[133]

As shown above, Duke's generation assets are not discussed at any point in the Kentucky PSC determination regarding its rejection of ELG. The fact that other utilities have generation assets does not mean that Columbia should be able to charge unjust and unreasonable rates resulting from Columbia's choice to use ELG instead of ALG. Instead, as discussed in the OCA's Main Brief, Columbia's proposed ELG procedure does not properly match revenues to expenses in order to produce just and reasonable rates. OCA M.B. at 85. The same matching principle exists in both jurisdictions.[134]

Importantly, the Kentucky PSC found that Duke Kentucky's continued use of the ELG procedure resulted in unjust and unreasonable rates due to a $6.920 million difference to Duke Kentucky's depreciation expense balance between using ALG instead of ELG. *Id.* For Columbia Gas of Pennsylvania, the difference between using ALG and ELG for

[133] *Application of Duke Energy Kentucky, Inc.*, Case No. 2017-00321, Order at 26-27 (Apr. 13, 2018) (*Duke Kentucky*).
[134] OCA M.B. at 76-78.

Columbia's depreciation expense balance is 6.6 times higher, or 566% higher than Duke Kentucky's depreciation expense balance compared to Columbia's $45,802,423 depreciation expense balance.[135] This further illustrates the exorbitantly unjust and unreasonable rates that are the result of Columbia's choice to continue using the ELG procedure.

Columbia also argues that other jurisdictions use the ELG procedure and "others are moving to adopt ELG."[136] However, as discussed in the OCA's Main Brief, the New York proceeding which Columbia refers to as moving towards ELG resulted in settlement and did not include a switch from ALG to ELG.[137] Moreover, under cross-examination, Mr. Spanos was unable to state whether more than ten states in the country use the ELG procedure for natural gas distribution companies.[138] Instead, Mr. Spanos stated "[t]here are more states that use average service life [also referred to as ALG] than equal life group today."[139]

The use of the ALG procedure is not new to Pennsylvania. In fact, FirstEnergy's most recent base rate case included a proposal to change its depreciation procedure from ALG to ELG.[140] FirstEnergy 2024 resulted in a settlement and a change from ALG to ELG was not adopted.[141]

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[135] *Id.*
[136] Columbia M.B. at 39.
[137] OCA M.B. at 83.
[138] Tr. 352-353.
[139] Tr. 330.
[140] *Pa. PUC v. FirstEnergy Pennsylvania Electric Company*, Docket No. R-2024-3047068, Joint Petition for Settlement, Appendix M at 3 (Sept. 13, 2024).
[141] Id. at 3-4.

Given ELG's practical effect of accelerated depreciation recovery from ratepayers, OCA witness Garrett testified that "the ALG procedure is used by analysts and adopted by regulators in the vast majority of jurisdictions in the vast majority of cases."[142] Moreover, OCA witness Garrett further testified that Columbia witness Spanos recommends using the ALG procedure in the vast majority of cases he appears in, including in all Columbia Gas proceedings in other jurisdictions, but for Columbia Gas of Pennsylvania.[143] Columbia's choice to continue using ELG results in unjust and unreasonable rates.

I. Conclusion- Substantial evidence demonstrates that Columbia's proposal to continue using the ELG depreciation procedure results in unjust and unreasonable rates.

In this portion of its Reply Brief, the OCA responds to Sections VI.C and VI.D of the Main Brief of Columbia, beginning on pages 31 and 41, respectively.

For the reasons set forth above and in the OCA's Main Brief, Columbia's continued use of the ELG procedure imposes an unjustified and unreasonable $63.615 million revenue requirement burden on ratepayers, inflates the depreciation expense balance by approximately $45 million, and represents approximately 58% of Columbia's revenue requirement increase request.[144] Rejecting Columbia's proposal to continue using the ELG is not only legally sound, it is essential in preventing the systematic overcharging of current customers due to Columbia's choice of depreciation procedure for years to come. As such, the Commission should reject Columbia's proposed use of the ELG procedure in this

[142] OCA M.B. at 82.
[143] OCA M.B. at 82.
[144] OCA St. 2SR at 26.

proceeding and instead require Columbia to use the ALG procedure in order to produce just, reasonable, and non-discriminatory rates.

VII. O&M AND A&G EXPENSES

In this portion of its Reply Brief, the OCA responds to Section VII of the Main Brief of Columbia, beginning on page 41.

Mr. Mugrace proposed several adjustments to the Company's projected operating expense levels. These adjustments are as follows:

OCA Recommended Expense Adjustments[145]

Labor Vacancy	$	(1,698,622)
Incentive Compensation	$	(2,552,612)
Employee Benefits	$	(390,741)
Outside Services	$	(1,436,907)
Corporate Insurance	$	(131,774)
Injury & Damages	$	(51,257)
Employee Expenses	$	(34,245)
Company Memberships	$	(253,872)
Utilities and Fuel	$	28,758
Advertising	$	11,365
Materials and Supplies	$	(558,615)
NCSC Charges	$	(7,669,076)
DEI Costs	$	(130,450)
Rate Case Expenses	$	(182,207)
Uncollectible Expense	$	(1,487,431)
Rider USP	$	(220,000)
Total Adjustments to O&M and A&G Expenses	**$**	**(16,757,680)** [146]

The adjustments to O&M and A&G expenses identified by OCA witness Mugrace should be disallowed because they are not properly includable in a utility's revenue requirement.[147]

A. Inflation Adjustments

In this portion of its Reply Brief, the OCA responds to Section VII.E of the Main Brief of Columbia, beginning on page 52.

[145] OCA Exh. DM-SR-9.
[146] OCA M.B. at 89.
[147] *Phila. Elec. Co. v. Pa. PUC*, 552 A.2d 342, 346 (Pa. Cmwlth. 1989) ("the PUC is empowered to disallow expenses of a utility that it concludes are of no direct benefit to ratepayers").

The OCA incorporates its discussion regarding the improper nature of adding inflation adjustments to Columbia's expenses as discussed in Section VII.A of the OCA's Main Brief.[148]

B. Labor

In this portion of its Reply Brief, the OCA responds to Section VII.A of the Main Brief of Columbia, beginning on page 43.

Columbia proposes to increase its labor expenses to $38,770,674.[149] Columbia had an actual employee count of 728 as of the month ending November 30, 2025. However, Columbia also indicated that it had 715 employees in the historic test year and that Columbia uses the same level of employee headcount in the FTY and FPFTY period.[150] As such, OCA witness Mugrace took Columbia's average level of employees as represented by Columbia to reach a four-year average of 715.[151] Next, OCA witness Mugrace divided the average historic vacancy rate of 31 employees by the three-year average of 715 employees, which resulted in a ratio of 4.3812%.[152] Mr. Mugrace took this 4.3812% and multiplied that ratio by the Company's proposed labor balance of $38,770,674 to arrive at an adjustment of $1,698,606.[153]

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148 OCA M.B. at 89-91.
149 OCA M.B. at 91.
150 *Id.* at 93.
151 *Id.*
152 *Id.*
153 *Id.*; OCA Exh. DM-SR-10.

Columbia argued that this adjustment is improper as it "fails to recognize that Columbia already took vacancies into account in projecting its FPFTY labor expense."[154] Columbia further argues that Columbia uses actual filled positions as of the end of the HTY instead of authorized positions.[155] OCA witness Mugrace testified as follows:

> The Company cannot with certainty know the actual employee count expected to be actually filled. The Company's prior vacancy rate ratios show a number of vacancies were present (I&E RE-11 Attachment B). The level of employees is typically determined based upon the number of employees needed to perform the work assignments, the level of productivity needed to be achieved, the areas in which staff appears to be over or underworked and the replacement of employees who are under-performing. By not incorporating a vacancy rate ratio to adjust employee counts in the forecasted test year, there could be a situation where the Company could over-earn in the event the Company's forecasted employee head count does not come to fruition. Given this scenario, I am continuing to recommend a vacancy rate ratio resulting in an adjustment of $1,698,606.[156]

Columbia's forecast is unreasonable and unsupported by the historic data relevant to employee complement. Columbia did not provide sufficient evidence to establish that it will experience a vacancy rate of less than 4.3182% by the end of the FPFTY and provided no basis upon which the Commission could determine that Columbia will have 0% vacancy. In fact, Columbia's prior vacancy levels show that in the past, a number of vacancies were present.[157] OCA witness Mugrace testified:

> The number or level of employees is determined based upon the need to perform the work assignments, the level of productivity needed to be achieved and the areas in which staff levels appear to be over or under worked and the replacement of employees who are underperforming. Absent a vacancy rate ratio to adjust employee count in the FPFTY period, there

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[154] Columbia M.B. at 43.
[155] Columbia M.B. at 44.
[156] OCA St. 2SR at 10-11.
[157] *See* OCA M.B. at 94-97.

> could be a situation that arises in which the Company could over-earn in the event no additional employees were to be hired in the test year period.[158]

While the Company claims that its labor expense claim is based on its actual number of filled positions at the end of the HTY and already excludes vacant positions, the Company's position assumes that its number of filled positions will remain the same.[159] This assumption is unsupported by record evidence. The OCA's adjustment is reasonable and should be adopted.

C. Incentive Compensation

In this portion of its Reply Brief, the OCA responds to Section VII.C of the Main Brief of Columbia, beginning on page 47.

The OCA recommended that 30% of the incentive compensation costs, that are geared toward customer-oriented benefits, be allowed for recovery in rates.[160]

Columbia argues that the OCA witness Mugrace "disregards the law and misstates the facts" in recommending that a portion of Columbia's incentive compensation be disallowed.[161] In supporting this allegation, Columbia cites to cases that state that public utilizes are entitled to include all reasonable expenses incurred to provide service to customers.[162] To be clear, the OCA agrees that utilities can include all reasonable expense incurred to provide service to customers and did not state otherwise in testimony or in its Main Brief. Specifically, OCA witness Mugrace testified as follows:

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[158] *Id.* at 17-18.
[159] OCA St. 2SR at 10.
[160] OCA M.B. at 96-99.
[161] Columbia M.B. at 47.
[162] Columbia M.B. at 47-48 (internal citations omitted).

> While I understand the importance of providing incentive compensation to employees, I do not believe that incentive compensation related to financial performance should be recoverable from ratepayers. I believe that incentive compensation should only be recovered from ratepayers if it provides a specific benefit to ratepayers, but not if it benefits the Company in the form of increasing net operating earnings per share. Further, Ms. Hunter stated that incentive compensation gives managers the power to reward and retain its top executives, which would be difficult to accomplish without the element of incentive compensation. Ms. Hunter stated that in order to retain key leaders and attract new talented individuals, offering stock-based programs is an appropriate cost of providing reliable service to Columbia's customers, and absent that, it would have a significant financial impact in the form of turnover costs, recruiting costs, relocation costs and training costs. Part of the Company's argument is that in order to provide safe and reliable service to its customers it has to incent employees. This appears to be an all or nothing approach to compensation in that without appropriate incentive compensation, employees would not be able to perform their duties. The Company has the right and the opportunity to provide its employees with market-based and comparable compensation as other companies offer. While the Company assumes that such compensation may be at a fair and reasonable level to include in rates, there should be no assumption that all of these costs should be recovered. The Company has the opportunity to recover these costs for ratemaking purposes only if they are prudent and reasonable and to the benefit of ratepayers. It is not the responsibility of ratepayers to be required to recover costs related to financial performance (shareholder benefit) or to reward employees with stock awards, to retain and attract employees when it is clearly the responsibility of the Company to share in the burden of absorbing these costs. The Company should not have unfettered access to ratepayers' money when these types of incentive costs do not benefit ratepayers. I am not arguing for the elimination of these incentive type costs. However, costs related to financial metrics and financial performance should be a risk that the Company is taking.[163]

There is no misstatement of law or fact in OCA witness Mugrace's testimony as shown above. Indeed, Columbia did not explain which misstatement of law or fact was made by OCA witness Mugrace.

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[163] OCA St. 2SR at 12-13.

As discussed in the OCA's Main Brief, where an incentive compensation plan is reasonable, prudently incurred, not excessive, and there is a benefit to ratepayers, a Company may recover the expense of that program.[164] In *PPL 2012* the Commission allowed incentive compensation expense because it was consistent with the Commission's "prior decisions approving incentive compensation programs that are focused on improving operational effectiveness."[165] In *Aqua 2022*, the Commission found that Aqua's stock-based compensation was linked to performance objectives that benefit consumers, as they were linked to providing quality service at a reduced cost.[166] Similarly, the Commission has approved incentive compensation plans where employees eligible for the compensation "have direct responsibilities for customer service and regulatory compliance or are otherwise responsible for ensuring safe and reliable service to customers."[167] Having a financial metric component to the incentive compensation plan does not disqualify it from inclusion in the utility's revenue requirement, if the incentive plan establishes that eligibility for the incentive "is based on performance duties and metrics directly related to the provision of service."[168]

OCA witness Mugrace noted as follows regarding his recommendation following Columbia's critiques:

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[164] *See* OCA M.B. at 95 *citing Pa. PUC v. PPL Elec. Util. Corp.*, R-2012-2290597 (Order entered Dec. 28, 2012) (*PPL 2012*).
[165] *Id. citing PPL 2012* at 26 (citing *Pa. PUC v. Aqua Pa., Inc.*, 2008 Pa. PUC LEXIS 50, *24; *Pa. PUC v. Duquesne Light Co.*, 1987 Pa. PUC LEXIS 342 at *99-100).
[166] OCA M.B. at 95 *citing Aqua 2022* at **60-61.
[167] *Id. citing Pa. PUC v. Pa.-American Water Co*., 2021 PA. PUC LEXIS 55 at *59 (Feb. 25, 2021). (Order Feb. 25, 2021) (*PAWC 2021*).
[168] *Id.*

> My recommendation is the same as in my direct testimony. I note that 70% of the Company's total incentive compensation is related to financial performance (adjusted earnings per share) (GAS-RR-027 Attachment B). I am recommending that only $770,642, a portion of the Company's $2,568,807 incentive compensation, be included in rates. I believe this portion is related to Customer Care, Safety, and Satisfaction. My recommendation is shown on my Exhibit DM-SR-11. With respect to the Company's Restricted Stock/LTI costs of $754,446, I am still of the opinion that these types of incentive related costs should be borne by the Company if it truly believes that it provides ratepayer benefits in the area of customer service, satisfaction, safety and reliability to ratepayers. I do not see any customer-oriented benefits inuring to ratepayers by requiring ratepayers to pay for restricted stock paid out to employees.[169]

OCA witness Mugrace's adjustments to incentive compensation are reasonable and should be adopted by the Commission.

D. Restricted Stock and Long Term Incentive (LTI)

In this portion of its Reply Brief, the OCA responds to Section VII.D of the Main Brief of Columbia, beginning on page 50.

Columbia included $754,446 in Long-Term Incentive stock awards in its labor costs for the FPFTY period, including performance share unit and restricted stock unit components.[170] However, Columbia did not provide any reason as to why the 70% of these stock awards dedicated to meeting net operating earnings per share targets to its employees benefit ratepayers or provide customer-oriented service.[171]

Columbia argues that OCA witness Mugrace "misstate[s] the facts regarding the grant of stock rewards" as follows:

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169 OCA St. 2SR at 13-14.
170 OCA St. 2 at 21.
171 OCA St. 2 at 21.

> 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."[172]

However, OCA witness Mugrace specifically testified as follows:

> In Gas-RR-027 the financial metrics related to cash-based award performance measures the Company's Incentive Compensation is predominately geared towards the Company's achievement of its Net Operating Earnings Per Share ("NOEPS") at 70% with the remaining 30% geared towards Occupational Health and Safety, Customer Care, Customer Satisfaction and Customer Safety. I am recommending that only those incentive compensation costs that are geared toward customer-oriented benefits of 30% be allowed for recovery in rates. I believe these types of incentives benefit ratepayers because the metrics reflect costs that are specifically related to provide customer related benefits.[173]

As shown above, OCA witness Mugrace did not mistake any facts in recommending that Columbia's incentive compensation related to net operating earnings per share be disallowed. Yet, Columbia simply states that "the provision of stock rewards benefits customers, as well as shareholders."[174] The OCA submits that it is unclear how providing stock rewards to its own employees based on Columbia's financial metrics benefits customers.

OCA witness Mugrace recommended disallowing these costs for the FPFTY period as ratepayers should not be charged costs related to stock awards and testified as follows:

> These payments are paid to directors and above (OCA Set 9-9), and vest over three years. I do not see any benefits incurred to ratepayers that are customer-oriented or customer satisfaction in the payments of restricted stock and long-term incentive ("LTI"). Rather these types of costs are typically aligned with

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[172] Columbia M.B. at 51.
[173] OCA St. 2 at 20.
[174] Columbia M.B. at 51.

> the Company's financial goals, and earnings per share growth with minimal benefits attributable to customers with respect to customer performance, measures, safety and environmental issues. These types of payments promote shareholders' interest and align with shareholder growth. The Company's shareholders should be responsible for these payments.[175]

OCA witness Mugrace's recommendation is similar to that described *supra* regarding the Company's proposed incentive compensation generally.[176] While the Company claimed that if it would be at risk of losing certain employees if it did not offer LTI compensation, the Company provided no further explanation as to how the 70% of the LTI component Mr. Mugrace recommends disallowing provides direct or indirect benefits to ratepayers.[177] Rather, as stated by OCA witness Mugrace, "[i]t is not the responsibility of ratepayers to be required to recover costs related to financial performance (shareholder benefit) or to reward employees with stock awards."[178] Columbia presented no evidence that the totality of its LTI compensation plan is reasonable when only 30% of the plan is related to safety, customer care, customer satisfaction, or other benefits to ratepayers.[179]

E. Other Employee Benefits

In this portion of its Reply Brief, the OCA responds to Section VII.B of the Main Brief of Columbia, beginning on page 45.

Columbia proposes to recover $8,915,459 in other employee benefits in the FPFTY period.[180] As OCA witness Mugrace incorporated a vacancy rate ratio of 4.3812% for

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[175] OCA St. 2 at 21.
[176] *Id.*; *see also* OCA St. 2 at 20.
[177] OCA St. 2SR at 12-13.
[178] *Id.*
[179] OCA St. 2 at 20-21.
[180] *Id.* at 23; Columbia Exh. 104 Sch. 1.

Columbia's labor expense, a corollary adjustment to Columbia's Other Employee Benefits is necessary for the FPFTY period.[181] This adjustment reduces Columbia's revenue requirement by approximately $543,000.[182]

Columbia argues that, as the OCA's adjustment to Other Employee Benefits is dependent on the OCA's adjustment to labor expense, it should be rejected.[183] For the reasons discussed in the OCA's Main Brief and supra in Section VI.A, the Commission should adopt the OCA's recommendation.

F. Outside Services

In this portion of its Reply Brief, the OCA responds to Section VII.G of the Main Brief of Columbia, beginning on page 55.

Columbia requests $19,014,191 in outside services for the FTY and $18,013,909 for the FPFTY.[184] However, Columbia included an inflation adjustment of 2.93% for the FTY and 3.05% for the FPFTY related to non-recoverable consulting costs (lobbying) and advertising.[185] As noted above, including inflation factors to adjust costs are not reasonable because these types of increase adjustments are not known and measurable and they do not reflect the true costs of providing service.[186]

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[181] OCA St. 2 at 23.
[182] *Id.* at 15.
[183] Columbia M.B. at 45.
[184] OCA St. 2 at 24.
[185] *Id.* at 24.
[186] *Id.* at 25.

Columbia argued that its inflation adjustments are reasonable and should be accepted.[187] Specifically in relation to outside services, Columbia stated as follows:

> 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.[188]

However, Columbia's Outside Services costs have increased/decreased as follows:

2021-2022	4.52% decrease or $1,100,482
2022-2023	10.16% increase or $2,363,643
2023-2024	31.36% decrease or $8,127,134
2025 FTY	12.83% increase or $2,161,674
2026 FPFTY	5.26% decrease or $1,000,282

Three-year average 2022-2024 = (8.57%)- reduction[189]

As shown above, Outside Services costs historically varied from a low of 4.52% to a high of 31.36%.[190] OCA witness Mugrace testified that "[t]hese variances existed for a reason as the Company has changed its scope and scale of work activity, which is a part of the cost of doing business."[191] OCA witness Mugrace further testified that "Outside Services can fluctuate widely depending on the pool of contractors, materials and costs

[187] Columbia M.B. at 53.
[188] Columbia M.B. at 53.
[189] *Id.* at 25.
[190] OCA St. 2SR at 15.
[191] *Id.*

needed, and resources allocated. Not all the work may be performed as planned and within the time frame stated by the Company."[192] Though Columbia opposes the basis of Mr. Mugrace's adjustment, the Company did not challenge the calculation of the adjustment.[193]

Columbia's removal of lobbying costs from outside services is appropriate, but it does not negate the fact that Columbia included inflation adjustments for a significantly fluctuating account with historically large increases and decreases. Indeed, this account further illustrates the shortfalls of applying an inflation adjustment as the account decreased historically, including an over 31% decrease in 2023-2024. As such, the OCA's recommendation to remove Columbia's inflation adjustment is reasonable.

Additionally, Columbia argues that the OCA's recommendation "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."[194] In response, OCA witness Mugrace testified as follows:

> I continue to recommend the use of a three-year average to set Outside Services. The mere fact that this variance has occurred in the past was due to deferral of certain work activities does not change my recommendation. Changes in timing and scope of services does not negate the fact these occurrences may occur going forward. The Company cannot predict with certainty that the Company's forward-looking costs will not vary as in the past. Variations exist as a normal course of business. As I indicated in my direct testimony, these Outside Services costs varied from a low of 4.52% to a high of 31.36%. These variances existed for a reason as the Company has changed its scope and scale of work activity, which is a part of the cost of doing business.[195]

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[192] OCA St. 2 at 26.
[193] OCA St. 2SR at 15.
[194] Columbia M.B. at 56.
[195] OCA St. 2SR at 15.

OCA witness Mugrace's adjustment is reasonable and based on Columbia's actual outside service costs over a three-year average. As such, it should be adopted.

G. Corporate Insurance

In this portion of its Reply Brief, the OCA responds to Section VII.E of the Main Brief of Columbia, beginning on page 52.

Columbia proposed $4,452,228 for Corporate Insurance in the FPFTY.[196] Similar to other Columbia proposals, Columbia included a 3.05% inflation factor for the FPFTY when calculating its requested Corporate Insurance expense.[197] Columbia simply notes that it's corporate insurance reflect its inflationary/deflationary adjustments.[198] For the reasons discussed *supra* and in the OCA's Main Brief, Columbia's inflationary/deflationary adjustments are unreasonable, contrary to precedent, and should be rejected by the Commission.

H. Injury and Damages

In this portion of its Reply Brief, the OCA responds to Section VII.E of the Main Brief of Columbia, beginning on page 52.

Columbia proposed $405,057 for Injury and Damage (I&D) expense.[199] However, Columbia included inflation factors when calculating its proposal.[200] Again, Columbia simply notes that its injuries and damages proposal reflect its inflationary/deflationary

[196] OCA St. 2 at 26.
[197] OCA St. 2 at 26.
[198] Columbia M.B. at 52-53.
[199] OCA St. 2 at 27.
[200] OCA St. 2 at 27-28.

adjustments.[201] The Company did not challenge the reasonableness of Mr. Mugrace's calculation for the adjustment, though it disagreed with the basis of the adjustment.[202] As such, for the same reasons as discussed above, OCA witness Mugrace removed the inflation-related adjustments to the Company's claimed I&D expense.[203]

I. Employee Expenses

In this portion of its Reply Brief, the OCA responds to Section VII.H of the Main Brief of Columbia, beginning on page 52.

Regarding Columbia's Employee Expenses of $554,925 in the HTY and $637,383 in the FPFTY, Columbia stated that these costs include employee recognition gifts, event tickets used for employee morale or team building purposes, and other entertainment expenses that support employee engagement.[204] OCA witness Mugrace's recommended an adjusted disallowance balance is $45,607 $(24,083 related to 50% allowed Meals/Entertainment and $21,524 related to Employee Expenses).[205]

Columbia states that it disagrees with OCA witness Mugrace's adjustment to meals and entertainment as Columbia claims that Mr. Mugrace "arbitrarily" assumes that 50% of the meals and entertainment cost category was entertainment expense.[206] Columbia further notes that it identified $10,926 of non-recoverable entertainment costs were incurred upon

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[201] OCA St. 2 at 27-28.
[202] Columbia M.B. at 52-53; *see also* Columbia St. 4-R at 2, 11 (identifying the injuries and damages adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).
[203] OCA St. 2 at 27-28; OCA Exh. DM-SR-18.
[204] OCA M.B. at 102.
[205] OCA M.B. at 102-105; OCA St. 2SR at 16; OCA Exh. DM-SR-19.
[206] Columbia M.B. at 59.

a review of actual HTY expense and that this amount is already part of what Columbia removed as non-recoverable expense.[207]

However, OCA witness Mugrace accurately reflected the amount of meals and entertainment expense that should be allowed in rates. To be clear, Columbia's Meals/Entertainment expense in relation to its net employee expenses are as follows:

Description	FTY Amount	FPFTY Amount	OCA
Meals / Entertainment	$84,567	$48,166	$24,083
Employee Expenses (net)	$362,248	$438,829	$0[208]

The OCA recommended that 50% of the Company's Meals and Entertainment, or $24,083, be allowed in rates.[209] OCA witness Mugrace testified:

> The Company has not broken-down these costs related to either and it is difficult to segregate out which expenses are meal-related, and which are entertainment-related. Also, I do not believe ratepayers should be paying for entertainment-related costs, company sponsored events for the benefit of the employees which may include entertainment related expenses, or other sports related entertainment. Therefore, I believe that allowing 50% of the Company's Meal and Entertainment is reasonable.[210]

Columbia's ratepayers draw no benefit from Columbia's employee entertainment events. Columbia has not broken-down these costs and OCA witness Mugrace testified that "it is difficult to segregate out which expenses are meal-related, and which are entertainment related."[211]

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[207] Columbia M.B. at 59-60.
[208] OCA St. 2 at 29.
[209] *See* OCA M.B. at 103-104.
[210] OCA M.B. at 103.
[211] *Id.*

Indeed, the Commission has consistently rejected these arguments, finding that expenses for entertainment and gifts should not be included in utility rates because they do not directly relate to the provision of utility service.[212] Likewise, the Commission has disallowed expenses for gifts, flowers, in-house luncheons and horticultural service despite the Company's claim that these items improved employee morale.[213]

Additionally, OCA witness Mugrace also testified that he accepted the Company's categorization errors as follows:

> I am accepting Mr. Leal's categorization error related to clothing allowance. The difference between the Company's error of $417,305 and the remaining costs of $438,829 or $21,524 should be disallowed which are costs related to Employee Expenses which I believe are related to non-customer oriented costs. My adjusted disallowance balance is $45,607 ($24,083 related to 50% allowed Meals / Entertainment and $21,524 related to Employee Expenses). My argument to disallow these costs are the same as in my direct testimony.[214]

OCA witness Mugrace's adjustment to employee expense is reasonable and should be adopted by the Commission.

J. Company Memberships

In this portion of its Reply Brief, the OCA responds to Section VII.I of the Main Brief of Columbia, beginning on page 60.

The OCA recommended a $258,217 reduction to Columbia's proposed claimed membership expense balance of $682,796.[215] First, OCA witness Mugrace removed the

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[212] *Pa. P.U.C. v. Pa.-American Water Co.*, 79 PaPUC 25, 63 (1993).
[213] *Pa. P.U.C. v. Citizens Utilities Water Co. of Pa.*, 169 PUR4th 552, 584-85 (1996).
[214] OCA St. 2SR at 16.
[215] OCA St. 2 at 31; OCA Exh. DM-SR-20.

Company's 2.93% and 3.05% inflation adjustment.[216] The Company challenged the basis of Mr. Mugrace's adjustment but did not submit evidence on the reasonableness of his calculations.[217]

Second, Mr. Mugrace recommended removal of membership dues and other organization fees from the Company's claimed expenses with respect to Chamber of Commerce membership fees.[218] Under the Public Utility Code, utilities are not permitted to recover the costs of "membership fees, dues or charges to fraternal, social or sports clubs or organizations."[219]

Columbia argues that the OCA's proposed disallowance of Chamber of Commerce membership dues is unreasonable.[220] First, Columbia argues that Chambers of Commerce cannot be considered as fraternal, social, or sports clubs or organizations.[221] Second, Columbia argues that membership provides opportunities for Columbia to network and collaborate.[222] Finally, Columbia argues that its membership in the Chamber of Commerce allows Columbia to "make strategic connections with other members and the communities at-large in which it serves."[223] Columbia additionally notes that its Long-Term Infrastructure Improvement Plan (LTIIP) specifically identifies meeting with municipal

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216 OCA St. 2 at 31.
217 Columbia M.B. at 52-53; *see also* Columbia St. 4-R at 2, 11 (identifying the company memberships adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).
218 OCA St. 2 at 30-31.
219 66 Pa. C.S. § 1316.1.
220 Columbia M.B. at 60-62.
221 Columbia M.B. at 60-61.
222 Columbia M.B. at 61.
223 Columbia M.B. at 62-63.

trade groups and township business owners as part of its outreach and coordination activities.[224]

Columbia's statements about potential benefits that might, at some time in the future, be achieved are not adequate evidence to support recovery of membership costs in this proceeding. Accordingly, the same rationale the Commission has applied to disallow the recovery of lobbying expenses and employee gifts in utility rates should be applied to disallow the cost for Chamber of Commerce memberships. Specifically, the expense is not a necessary and reasonable cost related to the provision of utility service.[225]

OCA witness Mugrace testified as follows:

> Organizations which provide economic benefit and development to areas where the Company services and policy analysis on regulatory issues provide no demonstrated benefits to ratepayers. The notion of such is too far removed from utility service to justify the inclusion in the revenue requirement, as there is no direct connection to providing customers with adequate service, customer service and safety or reliability. Therefore, these costs cannot be charged to ratepayers.[226]

Columbia's customers see no benefit from the Company's participation in these organizations, as they are related to civic causes or lobbying; as a result, the Company should not be able to recover the costs of memberships which reflect its corporate

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[224] Columbia M.B. at 62.
[225] *See Pa. PUC v. Nat'l Fuel Gas Dist. Corp.*, 84 PaPUC 134, 196 (1995) (disallowing lobbying expenses because they do not provide direct benefit to ratepayers); *see also Pa. PUC v. Pa.-American Water Co.*, 79 PaPUC 25, 63 (1993) (expenses for employee entertainment and gifts cannot be included in utility's rates because they are not directly related to the provision of utility service).
[226] OCA St. 2SR at 17.

citizenship and should be incurred below-the-line.[227] OCA witness Mugrace's disallowance of Columbia's Chamber of Commerce membership fees is reasonable and should be adopted by the Commission.

K. Utilities – Fuel Used in Company Operations

In this portion of its Reply Brief, the OCA responds to Section VII.E of the Main Brief of Columbia, beginning on page 52.

Columbia proposed a $2,075,819 balance related to its Utilities and Fuel used in Company Operations for the FPFTY.[228] OCA witness Mugrace recommended disallowing the deflation factors of 2.93% (FTY) and 3.05% (FPFTY) to arrive at an adjustment of $28,758, an increase over the Company's HTY balance.[229]

Again, Columbia simply notes that its utilities and Company use gas proposal reflects its inflationary/deflationary adjustments. Columbia M.B. at 52-53.[230] The Company did not challenge the reasonableness of Mr. Mugrace's calculation for the

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[227] *Cf. Pa. PUC v. Columbia Gas of Pa.*, Docket No. R-2022-3032167, 2023 PA. PUC LEXIS 173 at *27 (Order entered June 15, 2023) (tariff charge determined by the Commission to not be necessary for the provision of service should have been included "below the line," despite providing service which is desirable for some consumers, and could not be included in rates); *cf. Pa. PUC v. Pa.-American Water Co.*, Docket No. R-00038304, 2003 Pa. PUC LEXIS 498 (Order entered Nov. 26, 2003) at *145 (charitable contributions which the Commission lacks authority to order a public utility to make are properly considered "below the line" for ratemaking purposes, even if such contributions may provide benefits to some ratepayers).
[228] OCA St. 2 at 31; Columbia Exh. 104, Sch. 1 at 2.
[229] OCA St. 2 at 32.
[230] OCA St. 2 at 27-28.

adjustment, though it disagreed with the basis of the adjustment.[231] As such, for the same reasons as discussed above, OCA witness Mugrace removed the inflation-related adjustments to the Company's claimed Utilities- Fuel Used in Company Operations expense.[232]

L. Advertising

In this portion of its Reply Brief, the OCA responds to Section VII.E of the Main Brief of Columbia, beginning on page 52.

Again, Columbia simply notes that its advertising expense reflects its inflationary/deflationary adjustments.[233] The Company did not challenge the reasonableness of Mr. Mugrace's calculation for the adjustment, though it disagreed with the basis of the adjustment.[234] As such, for the same reasons as discussed above, OCA witness Mugrace removed the inflation-related adjustments to the Company's claimed advertising expense.[235]

M. Materials and Supplies

In this portion of its Reply Brief, the OCA responds to Section VII.J of the Main Brief of Columbia, beginning on page 62.

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[231] *See* Columbia M.B. at 52-53; *see also* Columbia St. 4-R at 2, 11 (identifying the injuries and damages adjustment but not commenting on the reasonableness of Mr. Mugrace's calculation).
[232] OCA St. 2 at 27-28; OCA Exh. DM-SR-18.
[233] Columbia M.B. at 52-53.
[234] *Id.*
[235] OCA St. 2 at 27-28; OCA Exh. DM-SR-18.

The OCA recommended that a three-year normalization adjustment be used for one account within Columbia's claimed materials and supplies expenses for an allowance of $558,615.[236]

OCA witness Mugrace noticed that the Company's account "2020 Facilities Maintenance and Repairs Materials" increased from "$42,478 in 2022, $174,598 in 2023 and $946,461 in 2024."[237] Due to the significant increases in year-over-year trends, OCA witness Mugrace found that the cost trend is not representative of likely anticipated costs for the Company in the FPFTY and, as a result, proposed a three-year normalization to control for the high variance in the cost account.[238] OCA witness Mugrace noted that a three-year normalization was reasonable and testified as follows:

> A three-year normalization provides for a smoothing of expenses based upon prior actual costs. Operating costs incurred from prior years typically show a trend that can be utilized to set costs in the future. In response to OCA Set-14-5 the Company has not provided a reason for these increased costs over the years.[239]

In *PGW 2023*, the Commission made similar adjustments as a result of the OCA's recommendation, providing that:

> Normalization adjustments are made to eliminate any unusual activity or event, or to stabilize fluctuations in expenses which would not reasonably be expected to recur in the future. In other words, normalization is a ratemaking

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[236] OCA Exh. DM-SR-24.
[237] OCA St. 2 at 33.
[238] *Id.*
[239] *Id.*

> technique used to smooth out the effects of an expense item that occurs at regular intervals in irregular amounts.[240]

Columbia argues that an increase to this expense that was previously recorded as an outside service expense was due to an accounting change.[241] OCA witness Mugrace, however, addressed this argument in testimony as follows:

> I continue to recommend normalizing these costs over a three-year period. But for the accounting change occurring in 2024 and the inadvertent change in the O&M Expense related to a vendor adjustment, the Company has not provided any further information. As indicated by Mr. Vassalotti, the Company is currently researching the best method to correct the inadvertent O&M Expense change related to a vendor adjustment. Until such time as the Company's alters or changes its method, I am continuing to recommend the three-year normalization adjustment of $558,615.[242]

Next, Columbia argues that the OCA's methodology for computing this adjustment is unfair as, for outside services, the OCA used a three year average percentage of declining expense while for an inclining expense trend for materials and supplies, the OCA also used a three-year average of the expense.[243] First, as discussed above, the Commission acknowledged that "normalization is a ratemaking technique used to smooth out the effects of an expense item that occurs at regular intervals at irregular amounts."[244] Next, as discussed in Section VI.F, outside expense had significant variance over recent years, with both increases and decreases as follows:

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[240] *Pa. PUC v. Phila. Gas Works*, Docket No. R-2023-3037933 (Order entered Nov. 9, 2023) (*PGW 2023*) at 82-83 (citing *Pa. PUC v. Total Environmental Solutions, Inc.*, Docket Nos. R-00072493 (Order July 30, 2008) (*TESI*) at 72).
[241] Columbia M.B. at 63.
[242] OCA St. 2SR at 18.
[243] Columbia M.B. at 63.
[244] *PGW 2023* at 82-83.

2021-2022	4.52% decrease or $1,100,482
2022-2023	10.16% increase or $2,363,643
2023-2024	31.36% decrease or $8,127,134
2025 FTY	12.83% increase or $2,161,674
2026 FPFTY	5.26% decrease or $1,000,282

Three-year average 2022-2024 = (8.57%)- reduction[245]

OCA witness Mugrace consistently applied normalization adjustments to smooth out expenses. Both normalization adjustments are reasonable and supported by substantial evidence.[246] Columbia's claim that the OCA's normalization adjustments are unfair because they were applied to two fluctuating accounts is unreasonable and should be rejected. Due to the levels of fluctuation in Columbia's materials and supplies expense, the three-year normalization adjustment proposed by OCA witness Mugrace is appropriate and should be adopted.[247]

N. NiSource Corporate Services Company (NCSC) Shared Services

In this portion of its Reply Brief, the OCA responds to Sections VII.K and VII.L of the Main Brief of Columbia, beginning on pages 63 and 64, respectively.

The Company claimed an allowance of allocated affiliate service company charges of $79,191,884 from the NiSource Corporate Services Company (NCSC), a sister company owned by Columbia's parent company, NiSource Inc.[248] Columbia addressed this issue in

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[245] *Id.* at 25.
[246] *See* OCA M.B. at 100-101, 108-110.
[247] OCA St. 2 at 33.
[248] OCA St. 2 at 34.

two separate sections of its Brief while the OCA addressed the issue of NCSC shared services in one section.[249]

1. Long-Term Incentive (LTI) Compensation

First, Columbia notes that OCA proposed to disallow $4,012,229 in stock award expense allocated to Columbia from NCSC and $493,890 in capitalized stock awards allocated from NCSC.[250] This adjustment is discussed extensively in the OCA's Main Brief.[251] To provide further clarity, OCA witness Mugrace testified as follows:

> In response to OCA Set 9-9, **the Company included long-term incentive (LTI) compensation and stock awards in the form of Performance Share Units (PSU) and Restricted Stock Units (RSU) to employees at the level of Director and above.** The balances were shown in the amount of $3,356,377 in the HTY, $4,320,459 in the FTY and **$4,012,229 in the FYFTY.** In my opinion I believe that PSU and RSU costs appear to be predominately geared towards executive pay with no value accruing to the ratepayers of Columbia. These types of incentive costs are typically geared toward the achievement of financial performance, earnings growth and aligning with the goals of the Company's shareholders. I do not see any benefit accruing to the ratepayer in the area of customer-oriented goals related to safety, environmental, or satisfaction. Therefore, **I am recommending that the FPFTY costs of $4,012,229 for PSU and RSU be disallowed for ratemaking purposes.** I do not believe that ratepayers should pay for incentive compensation which promotes NCSC's shareholders' interest and the alignment of NCSC's shareholder growth. As the performance metrics are the same for direct allocation to CPA, these types of costs should not be included, and they provide no benefit to ratepayers but rather to the benefit of shareholders.[252]

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[249] OCA M.B. at 119-115; Columbia M.B. at 50-52, 63-64.
[250] Columbia M.B. at 50.
[251] OCA M.B. at 111-112.
[252] OCA St. 2 at 36.

As shown above, for the FPFTY, the balance of these awards totals $4,012,229.[253] Additionally, and in relation to the Company's incentive compensation costs, witness Mugrace recommended as follows regarding Columbia's NCSC shared services expenses regarding restricted stock units:

> **Q. WHAT ARE YOUR ADJUSTMENTS RELATED TO THE COMPANY'S FPFTY INCENTIVE COMPENSATION?**
>
> **A.** My total adjustments related to the Company's incentive compensation costs is a reduction of $1,798,165 related to financial performance and $754,446 related to restricted stock units for a total disallowance of $2,552,612. These adjustments are shown on my Exhibit DM-11. The Company has not identified where the restricted stock units of $754,446 are accounted for so I am including my recommended disallowance in the Company's total incentive compensation category. With respect to capitalized restricted stock units my adjustments is a reduction of $719,400 of which $225,510 is related to the Columbia LTI and **$493,890 is related to the allocated NCSC costs to Columbia** and is shown on my Exhibit DM-3.[254]

Columbia argues that the provision of stock awards benefits customers as well as shareholders.[255] However, for the same reasons discussed in Section VI.C supra regarding incentive compensation, OCA witness Mugrace reasonably recommended removal of the $493,890 of allocated NCSC costs to Columbia. OCA witness Mugrace testified:

> I believe that PSU and RSU costs appear to be predominately geared towards executive pay with no value accruing to the ratepayers of Columbia. These types of incentive costs are typically geared toward the achievement of financial performance, earnings growth and aligning with the goals of the Company's shareholders. I do not see any benefit accruing to the ratepayer in the area of customer-oriented goals related to safety, environmental, or satisfaction.[256]

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[253] *Id.* at 36.
[254] OCA St. 2 at 22 (emphasis added).
[255] Columbia M.B. at 51.
[256] *Id.*

As the performance metrics are the same for direct allocation to Columbia, these types of NCSC shared services costs should not be included as they provide no benefit to ratepayers, but instead benefit shareholders.[257]As such, the OCA recommends disallowing the $4,012,229 for PSU and RSU for ratemaking purposes.[258]

2. Supplemental Executive Retirement Plan

Columbia also proposed to include Supplemental Executive Retirement Plan (SERP) expense in rates.[259] SERP costs are an NCSC shared service expense.[260] OCA witness Mugrace testified as to the benefits to Columbia through NCSC's shared service as follows:

> Under a SERP, the Company retains the benefits in the event an employee dies, leaves or quits the Company. The Company has access to the dollars in the SERP and gets the cash value of the plan. Ratepayers should not be burdened with costs that eventually inure to the shareholders of the Company.[261]

Columbia argues that SERP is necessary to attract and retain quality employees. However, there is simply no nexus between the recovery of SERP expenses from ratepayers and ratepayer benefits.[262] As SERP costs do not directly benefit ratepayers, and inures directly to shareholders of the Company in the event an employee quits, leaves, or dies, the OCA recommendation to disallow Columbia's proposed recovery of $136,102 for

[257] *Id.*
[258] *Id.*
[259] *See* OCA M.B. at 113.
[260] *See* OCA St. 2 at 37-38. OCA St. 2SR at 18-19.
[261] *Id.*
[262] OCA St. 2SR at 19.

the SERP cost component of the allocated NCSC expense is reasonable and should be adopted.[263]

3. Short-Term Incentive (STI) Compensation.

Columbia did not discuss the OCA's adjustment to STI at any point in its Brief. However, STI is also an NCSC shared expense.[264] In fact, Columbia's allocated share of NSCS expenses included a requested allowance of $5,029,637 for short-term incentive compensation.[265] Based on Mr. Mugrace's review of the STI compensation plan, and to be consistent with the portion of STI compensation directly incurred by Columbia, OCA witness Mugrace recommended that 70% of the allocated portion of NCSC STI expense be disallowed.[266] Mr. Mugrace's recommended adjustment is $(3,520,746) for a recommended allowance of $1,508,891.[267] Columbia has failed to meet its burden of proof to support this expense with substantial evidence. OCA's recommended adjustment is based on substantial record evidence, is reasonable, and should be adopted.

O. Diversity, Equity, and Inclusion (DEI) Expense

In this portion of its Reply Brief, the OCA responds to Section VII.L of the Main Brief of Columbia, beginning on page 64.

The OCA recommended a $130,450 disallowance of the Company's claimed DEI expense.[268] Initially, the OCA notes that Columbia acknowledged that "[t]he $130,450 in

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[263] *Id.* at 18.
[264] See OCA M.B. at 114; OCA St. 2 at 22-23.
[265] *Id.* at 22-23.
[266] *Id.* at 23.
[267] OCA Exh. DM-SR-27.
[268] OCA M.B. at 114-115.

NCSC Allocated DEI O&M expenses represents labor and benefits of three employees who worked in the DEI team."[269] Columbia refers to this expense in its brief as "Workplace Connections."[270]

Columbia argues that its common knowledge that workforces included multiple generations of employees that have different experiences, styles of work and expectations of employment.[271] Columbia further argues that the Commission's policy statement on diversity is support for its NCSC allocated DEI O&M Expense.[272]

While the OCA supports DEI initiatives which promote cultural competence within utilities' points of consumer contact, as with all other expenses, the Company bears the burden of proving that its proposed expense is prudent and reasonable before it can recover the cost of that expense from ratepayers.[273] OCA witness Mugrace testified that Columbia does not identify any targets or metrics to support it's claimed DEI expense as follows:

> I continue to recommend disallowance of these costs. The Company has provided no evidence on whether these costs actually produce benefits to ratepayers, nor has the Company evaluated metrics to demonstrate ratepayer value. While Ms. Hunter stated that these costs benefit ratepayers, these appear to be costs to benefit the Company such as corporate branding, imaging and touting Company stewardships.[274]

Columbia also presented no evidence that the benefits the Company itself receives from its DEI initiatives are passed on to ratepayers through improving their quality of

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[269] Columbia St. 20-R.
[270] Columbia M.B. at 64-65.
[271] Columbia M.B. at 65.
[272] Columbia M.B. at 65-66.
[273] 66 Pa. C.S. § 315.
[274] OCA St. 2SR at 20,.

service, customer service, safety, or reliability, or that the employees receiving DEI incentives have a direct impact on ratepayers. OCA witness Mugrace testified:

> I do not see a nexus between DEI costs and customer-oriented benefits. These types of costs should be recovered and borne by the Company or its shareholders if it believes they provide a benefit.[275]

Columbia has failed to meet its burden of proof regarding its DEI expense. The OCA's disallowance of DEI costs for ratemaking purposes is reasonable and should be adopted by the Commission.

P. Rate Case Expense

In this portion of its Reply Brief, the OCA responds to Section VII.F of the Main Brief of Columbia, beginning on page 53.

Columbia claims $1,321,000 of rate case expense normalized over 12 months.[276] The OCA did not recommend any adjustment to the level of expense claimed, but does recommend that the 12-month normalization period proposed by the Company be adjusted to a 14-month normalization period to reflect Columbia's historical rate case filing frequency.[277] Columbia argues that "Columbia has used a twelve-month normalization period because Columbia anticipates the need to file annual rate cases for the foreseeable future."[278]

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[275] OCA St. 2 at 38-39.
[276] Columbia Exh. 104, Schedule 2 at 16.
[277] OCA M.B. at 115-116.
[278] Columbia M.B. at 54.

Columbia also acknowledges that "the Commission often looks to the history of rate filings to determine normalization of rate case expense."[279] However, Columbia notes that one exception was made in PPL Electric's 2012 base rate case in which the Commission approved PPL's request for a two-year normalization for rate case expense instead of the three-year normalization expense based on historical filing frequency.[280] The entirety of the Commission's disposition as to rate case expense in PPL's 2012 Base Rate Case is below:

> Based upon our review of the record established in this proceeding, the ALJ's recommendation, the Exceptions and the Replies filed thereto, we shall reverse the ALJ and grant the Exception of PPL on this issue. As previously discussed, this proceeding is premised upon a FTY and, based upon that criterion, certain expenses may now be based upon future expectations. We believe that the normalization period for rate case expense is one of those expenses. We fully support PPL's capital expenditure program and expect that it will proceed into the future as explained by PPL. Further, we can reasonably expect that PPL will file its next base rate case much closer to a twenty-four month interval than to a thirty-two month interval as proposed by I&E and the OCA. Accordingly, we shall grant the exceptions of PPL on this issue.[281]

But for one exception in 2012, the Commission has consistently held that a normalization period based on historical filing frequency is appropriate for rate case expense. For example, the Commission recently stated as follows:

> We agree with the ALJ that, based on the historic filing frequency of the Company, a five-year normalization period is appropriate for the rate case expense. While the Company asserts that it will need to file within three years, we cannot rely on the Company's assertion, as there is no guarantee the Company will make the capital investments it projects. As the

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[279] Columbia M.B. at 54.
[280] Columbia M.B. at 54-55 (internal citations omitted).
[281] *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2021-2290597, (Order entered Dec. 5, 2012) at 47-48(*PPL Electric 2012*).

> Commission found in the recent *Columbia Gas* case, a normalization period based on the actual historic filing frequency is more reliable than future speculation or the stated intention to file a rate case. *See Columbia Gas* at 78-79. For these reasons, PECO Exception No. 8 is denied, and we shall adopt the ALJ's recommendation on this matter.[282]

By adjusting the normalization period from 12-months to 14-months, Columbia's rate case expense will be normalized based on its historic frequency of rate filings. The Commission should accept Mr. Mugrace's adjustment to the rate case expense, as it conforms with Commission precedent, and reduce the annual normalized rate case expense by $182,207 for an allowance of $1,138,793.[283]

Q. Uncollectible Expense

In this portion of its Reply Brief, the OCA responds to Section VII of the Main Brief of Columbia, beginning on page 41.

Columbia did not discuss OCA witness Mugrace's adjustment to uncollectible expense in its Brief. As noted in the OCA's Main Brief, OCA witness Mugrace accepted Columbia's computation of its level of uncollectible expense.[284] However, as the totality of Mr. Mugrace's O&M expense adjustments are being grossed-up by a revenue conversion factor of 1.38698, OCA witness Mugrace's uncollectible expense is calculated at $(488,873) as OCA witness Mugrace's overall revenue requirement decrease of $36,316,933 multiplied by the uncollectible account factor of 0.01346130.[285]

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[282] *Pa. PUC v. PECO Energy Co. – Gas Division*, Docket No. R-2020-3018929 (Order entered June 17, 2021) at 119.
[283] OCA Sch. DM-SR-28.
[284] OCA M.B. at 117-118.
[285] OCA M.B. at 117.

As a result, if the Commission accepts the revenue requirement recommendation supported by OCA witness Mugrace, the OCA recommends that the Commission apply Mr. Mugrace's methodology for the calculation of the applicable uncollectible expense adjustment.

R. Rider Universal Service Plan (USP)

In this portion of its Reply Brief, the OCA responds to Section VII.M of the Main Brief of Columbia, beginning on page 66.

Columbia proposed recovery of $31,862,500 in the FPFTY related to its Rider USP for its universal service program reconciling mechanism, and $1,235,965 in the FPFTY related to its Rider EE for its energy efficiency program reconciling mechanism.[286]

As discussed in Section XIII.G.5 of the OCA's Main Brief, and in Section XIII.G.5 *infra*, OCA witness Colton recommended that the shift of $220,000 of administrative costs from base rates to Rider USP should be denied.[287] Columbia correctly states that OCA witness Colton opposed Columbia's proposed shift of recovery of these costs from base rates to Rider USP.[288] As such, the OCA concedes that OCA witness Mugrace's made an inadvertent error in disallowing $220,000 of administrative costs entirely.

Instead, and as discussed extensively in the OCA's Main Brief, the OCA recommends that the Company's proposal to move $220,000 from base rates to the Rider USP should be denied.[289] This adjustment is further discussed in Section XIII.G.5, *infra*.

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[286] Columbia Exh. 104, Sch. 1 at 2; OCA St. 2 at 41.
[287] OCA M.B. at 317-321.
[288] Columbia M.B. at 68-69.
[289] OCA M.B. at 317-321.

S. Depreciation and Amortization Expense.

In this portion of its Reply Brief, the OCA responds to Section IV.B of the Main Brief of Columbia, beginning on page 19.

As described *infra*, OCA witness Garrett recommended that Columbia switch depreciation grouping procedures from the ELG to the ALG.[290] Consistent with Mr. Mugrace's recommendation to disallow inflation-related adjustments to the Company's claimed utility plant in service balance, OCA witness Mugrace further reduced the Company's depreciation expense claim by $236,476.[291]'

Columbia merely states as follows regarding this adjustment:

> 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.[292]

As Columbia's plant additions include inflation adjustments, as discussed in Section IV.A., *supra*, OCA witness Mugrace's further adjustment to Columbia's depreciation expense claim to remove inflation factors is reasonable and should be adopted.

T. Conclusion Regarding Expenses

Columbia has the burden of proving each element of its general rate increase request, which includes the operations and maintenance and administrative and general expenses the Company estimates it will incur in its future test years.[293] The Company's request to recover costs which are not supported by sufficient evidence because they rely

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[290] OCA St. 3 at 61-66.
[291] OCA St. 2 at 42.
[292] Columbia M.B. at 19.
[293] 66 Pa. C.S. § 315(a)(e).

on inflationary adjustments or to recover costs this provide no ratepayer benefit but directly benefit the Company's image as a corporate citizen or provide greater return to its shareholders are unsupported and should be disallowed. The OCA requests that the Commission assign significant weight to the evidence and testimony submitted by OCA witness Mugrace regarding the Company's requested expense allowances that are not Cshown to be known and measurable or to provide direct ratepayer benefit.

VIII. TAXES

A. Income Taxes

In this portion of its Reply Brief, the OCA responds to Section VIII.A of the Main Brief of Columbia, beginning on page 74.

Columbia claimed a total income tax expense of $72,811,341, including federal income tax, state income tax, deferred income tax, excess deferred income tax, and amortization of investment tax credit components.[294] OCA witness Mugrace adopted the Company's method of calculating its tax obligations.[295] However, due to the recommendations made by OCA witnesses Mugrace and Garrett regarding the Company's claimed rate base, O&M expense, depreciation expense, capital structure, and return on equity, Mr. Mugrace recommended an income tax expense allowance of $(55,267,855), which is $17,543,486 greater than the Company's claimed income tax expense of $(72,811,341).[296]

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[294] OCA M.B. at 21.
[295] *Id.*
[296] OCA St. 2SR at 4; OCA Exh. DM-SR-34.

Mr. Mugrace explained how he arrived at his recommended adjustment as follows:

> Using the Company's methodology shown on the Company's Exhibit 107 Page 8, with a Federal Income Tax Rate (FIT) of 21% and a PA State Income Tax Rate (SIT) of 7.49%, I utilized the flow through of my Rate Base and Operating Income adjustments to compute my State and Federal Income Tax balance and the Deferred Tax adjustments. In response to OCA 9-42 the Company updated its excess tax depreciation over book depreciation by $2,834,217 and a balance of $32,331,282. With respect to the Company's Statutory Adjustments of ($223,215,150), I made an adjustment to the Company's Interest Expense, in that I used my recommended Rate Base Balance of $3,883,435,478 times the recommended weighted Cost of Short-Term and Long-Term Debt of 2.60%, as recommended by Mr. Garrett which equals $100,789,131. This is $9,422,861 greater than the Company's proposed Interest Expense balance of $91,366,270. I have accepted the Company's balance related to its EDIT of $2,498,191. My total recommended State Income Tax is $16,023,187; my total recommended Federal Income Tax is $69,205,671 and my total Deferred Income Taxes are ($38,689,948).[297]

Columbia correctly notes that no party proposed disallowance of the income tax expense except for as related to respective adjustments to rate base, expenses, and rate of return.[298] Overall, the OCA accepts the Company's methodology for calculating its income tax expense and recommends that the Commission adopt Mr. Mugrace's calculated adjustment of $17,543,486 for an income tax allowance of $(55,267,855) consistent with the recommendations of OCA witnesses Mugrace and Garrett's regarding the appropriate revenue requirement for the Company.[299]

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[297] OCA St. 2 at 45.
[298] Columbia M.B. at 72.
[299] OCA M.B. at 21.

B. Taxes Other Than Income Taxes

In this portion of its Reply Brief, the OCA responds to Section VIII.B of the Main Brief of Columbia, beginning on page 74.

Columbia claims that 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.[300] However, the OCA also proposed an adjustment to property taxes to reflect the changes OCA witness Mugrace proposed to Utility Plant in Service. OCA witness Mugrace testified as follows:

> I also adjusted the Property Taxes to reflect the changes in my recommended UPIS balance. I used the Company's Property tax level of $1,372,160 to the Company's proposed UPIS balance of $5,219,879,723 and calculated a composite tax rate of 0.00026287%. Using my recommended UPIS balance of $5,205,372,014 times the composite tax rate of 0.00026287%, I computed a Property Tax expense of $1,368,336, a reduction of $3,824. [301]

As discussed in the OCA's Main Brief, based on the sum of these two adjustments, Mr. Mugrace's overall recommendation to the Company's taxes other than income tax is an adjustment of $(191,397) for an allowable balance of $4,309,435.[302] The OCA recommends that, if Mr. Mugrace's adjustments to Columbia's claimed labor expense and utility plant in service balances are adopted by the Commission, then the proposed adjustment to taxes other than income tax should be adopted as well.[303]

[300] Columbia M.B. at 74.
[301] OCA St. 2 at 43.
[302] OCA M.B. at 122.
[303] OCA M.B. at 122-123.

IX. RATE OF RETURN

A. Introduction

In this portion of its Reply Brief, the OCA responds to Section IX.A of the Main Brief of Columbia, beginning on page 74.

In its Main Brief, the OCA recommended the following rate of return for Columbia:

- An overall cost of capital of 7.06%
- A Return on Equity (ROE) of 8.9%
- An imputed capital structure of 50% common equity and 50% debt for ratemaking purposes
- That the management premium performance adder be denied.[304]

The Company's position in its Main Brief is that the OCA's recommended, cost-based weighted rate of return is deficient.[305] Columbia argues, instead, that its non-market, non-cost-based rate of return recommendation should be adopted, including an aberrant capital structure proposal of 54.4% common equity and 45.6% debt and an excessive 11.35% return on equity. The Company's arguments should be given little weight because they are unsupported by the record, Commission precedent, or the constitutional standards for the award of a rate of return.[306]

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[304] OCA M.B. at 123; OCA St. 3 at 3, 56.

[305] Columbia M.B. at 75; *see* Columbia M.B. at 74-132.

[306] Columbia cites *PPL Electric 2012* for the proposition that, due to infrastructure replacement needs, Columbia should be authorized a return above a market-based cost of equity. Columbia M.B. at 75 (citing *PPL Electric 2012* at 81). However, *PPL Electric 2012* was decided before the implementation of fully projected future test years or the implementation of distribution system improvement charges. The Commission's concerns in *PPL Electric 2012* referenced by Columbia were resolved by the General Assembly in Act 11 of 2012. *See* 66 Pa. C.S. §§ 315(e), 1350-60. As NiSource, Inc. communicated to its shareholders in a 2022 investor presentation, Pennsylvania is and remains an attractive

Further, OCA witness Garrett addressed the Company's stated concern that authorizing a market-based return on equity would result in shock to the financial community.[307] Mr. Garrett testified that:

> Mr. Rea has provided no evidence to support his claims. I am not aware of any utility in U.S. history that has not been able to attract sufficient capital to provide service as a result of an authorized ROE that was lower than the national average. According to Mr. Rea's logic, the regulatory jurisdiction that currently has the lowest ROE should not be able to issue debt or equity because investors would prefer to invest in any other jurisdiction. This is obviously not the case. Utility ROE witnesses such as Mr. Rea in this case, often present similar narratives suggesting that regulators who authorize the highest ROEs are somehow winning a race to be the most "supportive" of their utilities. It is not the Commission's duty to be supportive of the Company any more or less than it is to customers. The authorized ROE I recommend in this case is not high or low; rather it is simply fair, as it is based on an objective analysis of the Company's market-based cost of equity. Furthermore, neither the *Hope* nor *Bluefield* standards dictate that an authorized ROE must conform to a national average. To the extent regulators simply rely on a national average of authorized ROEs, it would mean that the authorized ROEs themselves have little basis in market indicators, and the purpose of conducting financial modeling to analyze specific utilities would be negated. If the Commission were to adopt an 8.9% ROE, it would not affect the Company's ability to attract capital or its duty to provide safe and reliable service.[308]

It is well established that a utility's authorized return on equity must be fair and reasonable to both the utility and to its customers.[309] Rates adopted by the Commission must be within a "zone of reasonableness."[310] The Commission's obligation in this proceeding is not to

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regulatory landscape for Columbia's operations in part because "100% of capital [is] recovered with zero lag." OCA Exh. MWD-8 at 8.

[307] Columbia M.B. at 76-77 (quoting Columbia St. 8-R at 10-11).

[308] OCA St. 3SR at 2-3.

[309] *Permian Basin Area Rate Cases*, 390 U.S. 747, 794-95 (1968) (*Permian Basin*) (citing *Atlantic Ref. Co. v. Pub. Serv. Comm'n*, 360 U.S. 378, 388 (1981)).

[310] OCA M.B. at 11 (quoting *Permian Basin*, 390 U.S. at 797).

attract investment at any cost; rather, the Commission is charged with reaching decisions "with due consideration to the interests of consumers."[311]

The Company presented no evidence that its requested rate of return is within the zone of reasonableness, only that it is above the constitutional floor. Further, Columbia did not discuss the Commission's obligation to ratepayers in its Main Brief.[312] This deficiency should not be overlooked. Rather, the OCA's proposed rate of return is sufficient to ensure Columbia's ability to attract capital and continue investment to provide safe and reliable service while guarding the interests of consumers.[313]

B. Columbia's proposed capital structure strays significantly from Columbia's proposed proxy group.

In this portion of its Reply Brief, the OCA responds to Section IX.B of the Main Brief of Columbia, beginning on page 74.

The OCA recommends that the Commission adopt a hypothetical capital structure of 50% equity and 50% debt.[314] Columbia argues that its requested capital structure should be adopted for ratemaking purposes because Columbia's projected common equity ratio is lower than the highest common equity ratio for a utility holding company in the proxy group.[315] The Company's proposed capital structure is atypical and should not be used for ratemaking purposes.

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[311] 71 P.S. § 309-5.
[312] Columbia M.B. at 77-79.
[313] *See* OCA M.B. at 12 (quoting *Pa. Power* at 579).
[314] OCA M.B. at 124-25; OCA St. 3 at 3.
[315] Columbia M.B. at 81-85.

The Company relies upon the Commission decision in *PPL Electric 2012* for the proposition that a ratemaking capital structure is reasonable if it is within the range of capital structures employed in the proxy group.[316] However, the Commission has previously adopted capital structure ratios consistent with the average capital structure in the proxy group. For example, in *PPL Gas 2007*, the Commission adopted the recommendation of the ALJ which used a hypothetical structure consistent with the average debt-to-equity ratio of the proxy group.[317] In that case, "PPL Gas proposed an actual capital structure of 55.68 percent common equity and 44.32 percent debt."[318] The Commission's Office of Trial Staff proposed a hypothetical capital structure which was adjusted to reflect PPL Gas's use of short-term debt, for a total capital structure of 51.79% equity and 48.21% debt.[319] The ALJ in that case found that PPL Gas's actual capital structure unreasonable and unsupported by record evidence.[320] While PPL Gas did not except to the ALJ's recommendation, the Commission explicitly agreed that the calculation adopted by the ALJ "aligns the hypothetical long-term debt and common equity used on average by the larger barometer group" and further considered the use of short-term debt by PPL Gas.[321] The Commission's decision in *PPL Gas 2007* is consistent with the OCA's recommendation in this proceeding.

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[316] Columbia M.B. at 83-84.
[317] *Pa. PUC v. PPL Gas Utilities Corporation*, Docket No. R-00061398, 2007 Pa. PUC LEXIS 2 at **138-45 (Order entered Feb. 8, 2007) (*PPL Gas 2007*).
[318] *Id.* at **138-39
[319] *Id.* at **140-43.
[320] *Id.* at *143.
[321] *Id.* at *145.

Further, the Commission recent decisions in *Columbia 2021*, *Aqua 2022*, and *PAWC 2023* are readily distinguishable.[322] In each of these cases, the Commission indicated that the utility's requested capital structure was similar to the average or median equity ratios proposed.[323] According to the five-year average capital structures presented by Columbia witness Rea and I&E witness Patel, Columbia would have the second-highest equity ratio of the seven or eight companies studied, respectively.[324] Based on the data presented, Columbia's proposed capital structure may not have the highest equity component observed, but it is far from the average equity component of 45%.[325] Columbia's proposed capital structure is more atypical than in *Columbia 2021*, *Aqua 2022*, or *PAWC 2023*, and the Commission should not consider it to be comparable in this proceeding.

The Commission's precedent, as a result, is more complex than Columbia provides in its Main Brief. As Vice Chair Barrow recently stated with respect to the rate increase request of Peoples Natural Gas:

> I agree with the OCA's capital structure proposal of 50% debt and 50% equity. Not only does this capital structure comport with Commission precedent but, as I&E highlighted, it is optimal when trying to balance the financial integrity of a utility as well as trying to control costs to ratepayers. Importantly, going by the calculation put forth by I&E, adopting Peoples' capital structure, and maintaining the Company's claimed ROE, means ratepayers would pay approximately an additional $17.9 million.

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[322] Columbia M.B. at 84.
[323] *Columbia 2021* at 117 (proposed equity ratio as the fifth-highest of ten utilities, including Columbia); *Aqua 2022* at 140-41 ("Aqua's proposed common equity ratio of 53.95% is very close to the forecasted average common equity ratio for the entire proxy group of 53.43%"); *PAWC 2023* at 159-60 (proposed equity ratio as the third-highest of six utilities, including PAWC).
[324] *Compare* OCA Exh. DJG-13 *with* Columbia Exh. VVR-2 at 3-4 *and* I&E Exh. 2, Sch. 2.
[325] OCA M.B. at 125; OCA St. 3 at 50.

> Historically, this Commission has viewed capital structures hewing closer to 50/50 as reasonable.[326]

The Commission should not constrain its prior holdings.

Rather, the Company's proposed capital structure is atypical and should not be adopted due to the impact on ratepayers.[327] While Columbia asserts that the OCA "cannot[] show that Columbia's capital structure is outside the normal for comparable gas companies," the OCA has done so with relevant and competent record evidence.[328] As identified by OCA witness Garrett, "Columbia has less financial risk due to its projected capital structure which has a higher equity component than the average of the proxy group," meaning that ratepayers bear more costs associated with risk than the Company faces.[329] The adoption of a 50% equity component in a capital structure for ratemaking purposes would result in an approximately $14.4 million savings to ratepayers.[330] For these reasons, and those set forth in the OCA's Main Brief, the OCA recommends the Commission utilize a 50% equity and 50% debt capital structure for ratemaking purposes in this proceeding.[331]

C. Debt Cost Rate.

The OCA accepts the Company's debt cost rate. No further reply is necessary.

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[326] *Pa. PUC v. Peoples Natural Gas Co. LLC*, Docket No. R-2023-3044549 (Vice Chair Barrow Statement Sep. 12, 2024) at 2 (available at: https://www.puc.pa.gov/pcdocs/1848370.pdf).
[327] OCA M.B. at 126.
[328] Columbia M.B. at 85.
[329] OCA St. 3SR at 8-9.
[330] I&E St. 2 at 24.
[331] OCA M.B. at 124-26.

D. The OCA's recommended return on common equity is supported by substantial evidence and results in just and reasonable rates.

In this portion of its Reply Brief, the OCA responds to Section IX.D of the Main Brief of Columbia, beginning on page 86.

The OCA recommended a return on equity percentage of 8.9%.[332] The average return on equity calculated by OCA witness Garrett was 8.1%, with a range of 7.3% to 8.9%.[333] Columbia, by contrast, requested a return on equity of 11.35%, including a 0.03% flotation cost adjustment, 0.25% management performance adjustment, and adjustments for leverage and financial risk to its DCF and CAPM model results, respectively.[334]

The Commission should grant little weight to the evidence presented by Columbia regarding an appropriate return on equity because it overstates investors' expected return, includes non-cost-based adjustments, and deviates from critical assumptions underlying the DCF and CAPM models.

1. Mr. Garrett's Discounted Cash Flow model is reasonable and supported by substantial evidence.

OCA witness Garrett's DCF results indicated a cost of equity of 7.3% for his sustainable growth model and 7.5% based on his analyst growth rate model.[335] The Company maintains that its non-cost-based leverage adjustment are appropriate to include in the DCF analysis results.[336] Further, Columbia claims that Mr. Garrett's results are

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[332] OCA M.B. at 126; OCA St. 3 at 57-58.
[333] OCA M.B. at 127; OCA St. 3 at 57-58.
[334] Columbia M.B. at 86-131.
[335] OCA M.B. at 127-133; OCA St. 3 at 27.
[336] Columbia M.B. at 97-103.

unreasonable because they are too low, his use of U.S. Gross Domestic Product (GDP) in his sustainable growth model, and his use of dividends per share growth rates instead of earnings per share growth rates.[337] The Commission should give little weight to Columbia's analysis results as they are out of line with investors' expectations and fail to balance the interests of ratepayers.

a. OCA witness Garrett's Analyst Growth Rate DCF relies on Value Line's publication without modification.

Columbia's proposed leverage adjustment should be denied. Columbia asserts that a leverage adjustment to its DCF results should be permitted because "[t]he unadjusted DCF results demonstrate the DCF continues to understate the cost of equity in light of current market risks."[338] The Company's unadjusted DCF results indicated an estimated cost of equity of 10.30%, which is five basis points higher than the Commission authorized return on equity for DSIC purposes[339] and 57 basis points higher than the average

[337] Columbia M.B. at 117-21.
[338] Columbia M.B. at 102.
[339] The OCA reiterates the Commission's position that "[t]he purpose of the quarterly DSIC calculations is to provide an incentive to public utilities to invest in their infrastructure between base rate cases, while still placing a cap on public utility overearnings." *Pa. PUC v. Pike Cty. Light & Power Co.*, Docket Nos. R-2024-3052357, R-2024-3052359 (Interim Order entered May 9, 2025) at 28. The OCA makes reference to this figure only to rebut Columbia's contention that the unadjusted DCF results are understated. Rather, "TUS's methodology for creating the DSIC ROEs was not intended to serve as a substitute for the parties' positions and various calculations in formulating a ROE as part of a record developed in a base rate case and accordingly, is not relevant." *Id.* Columbia's statement that the return on equity in this proceeding should be set "meaningfully above" the allowable return on equity for DSIC purposes, by contrast, is contrary to the facts that the DSIC ROE is not a benchmark and does not operate as an incentive if it is meaningfully lower than the return on equity authorized in a rate case. Columbia M.B. at 9.

authorized return on equity of 9.73% for natural gas utilities in the first quarter of 2025.[340] The leverage adjustment alone represents an additional $18.6 million in annual rates.[341]

Importantly, Columbia witness Rea's proposed leverage adjustment of 64 basis points is based on the market to book value ratios for the Gas LDC Group.[342] Columbia, however, proposes a capital structure which is more equity-rich and, therefore, unrepresented by Mr. Rea's calculations.[343] It is more appropriate to decrease Columbia's return on equity due to differences in financial leverage than to apply a leverage adjustment which is not calculated based on Columbia's specific capital structure.[344]

The Commission precedent cited by Columbia does not support the application of one in this proceeding.[345] For example, in *UGI Electric 2018*, the Company's unadjusted DCF results, plus a five basis point management performance adjustment, produce an authorized ROE of 9.85% was "higher than the average equity returns for electric utilities in 2017 and the first quarter of 2018" by 10 basis points and, as a result, was not adjusted further.[346] In this case, the unadjusted DCF results are 57 basis points higher, not just 10.[347] The concerns the Commission expressed in *PPL Electric 2012*, *Columbia 2021*, and *Aqua*

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[340] *Compare* Columbia M.B. at 96 *with Report on the Quarterly Earnings of Jurisdictional Utilities*, Docket No. M-2025-3055266 (Published July 24, 2025) at 23 *and* I&E St. 2 at 86-87.
[341] I&E St. 2 at 87.
[342] Columbia M.B. at 97-98.
[343] OCA St. 3SR at 11.
[344] *Id.*
[345] Columbia M.B. at 99-102.
[346] *UGI Electric 2018* at 116-17, 119
[347] I&E St. 2 at 86-87.

2008 that the unadjusted DCF results are already high are clearly present in this case.[348] Therefore, the Company's request to receive a leverage adjustment should be denied.

b. OCA witness Garrett's Sustainable Growth Rates DCF is reasonably based on the U.S. Gross Domestic Product growth.

Columbia's critiques of OCA witness Garrett's DCF results are unsupported by record evidence. OCA witness Garrett recommended an ROE of 8.9%, not the 7.3% or 7.5% produced by his DCF results.[349] The Company's overall concerns with Mr. Garrett's DCF results are based on disagreements with the sustainable growth DCF model and the use of dividends per share growth rates instead of earnings per share growth rates.[350] Mr. Garrett's DCF results are consistent with investor expectations because they do not assume unreasonable growth will continue into perpetuity, like Columbia's DCF results, and reflect the value measured by the DCF.

Columbia's disagreement over the use of the U.S. GDP growth rate in the sustainable growth DCF model is inconsistent with the function of that model.[351] Specifically, the sustainable growth model assesses a firm's cost of equity in perpetuity, instead of just in the near-term.[352] As stated by Mr. Garrett, "[a] fundamental concept in

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[348] Columbia M.B. at 100, 102 (citing *Pa. PUC v. Aqua Pa., Inc.*, Docket No. R-00072711, 2008 Pa. PUC LEXIS 50 (Order entered July 31, 2008) at 38-39; *PPL Electric 2012* at 82; *Columbia 2021*); *see*, *e.g.*, *PPL Electric 2012* at 91 ("we conclude that there is no need to have an artificial upwards adjustment to compensate for any perceived risk related to PPL's market-to-book ratio").
[349] OCA St. 3SR at 5-6.
[350] Columbia M.B. at 117-21.
[351] Columbia M.B. at 118-19.
[352] OCA M.B. at 129-31; OCA St. 3 at 24-27.

finance is that no firm can grow forever at a rate higher than the growth rate of the economy in which it operates. Thus, the terminal growth rate used in the DCF Model should not exceed the aggregate economic growth rate."[353]

Further, the Commission has not specifically rejected the use of the sustainable growth model, contrary to the assertions of Columbia.[354] Rather, as indicated clearly in the Company's quotation from *Aqua 2022*, Mr. Garrett's DCF model in that case was the "Quarterly Approximation DCF" model, which is not the sustainable growth model.[355] As explained in the OCA's Main Brief, the sustainable growth model is especially appropriate for regulated public utilities, as "the growth of regulated utilities is constrained by physical service territories and limited primarily by ratepayer and load growth within those territories."[356] The sustainable growth model remains a widely used and relied-upon way of assessing a utility's cost of equity, including by FERC, demonstrating that it is not *per se* unreasonable.[357]

By contrast, the inputs relied upon by Columbia witness Rea cannot be sustained long-term.[358] While Columbia indicates that the Gas LDC Group's planned rate base growth over the next five years or earnings growth rates as high as 10% are more reasonable

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[353] OCA St. 3 at 26.
[354] Columbia M.B. at 119-20 (quoting *Aqua 2022* at 154).
[355] *Compare* Columbia M.B. at 119 *with Aqua 2022* at 145, 154.
[356] OCA M.B. at 129-31; OCA St. 3 at 25.
[357] *See Inquiry Regarding the Commission's Policy for Determining Return on Equity*, 171 FERC ¶ 61,155 at P 5 (Issued May 21, 2020) (describing FERC's use of the sustainable growth DCF model as part of its "two-step" DCF analysis, including the use of forecasted GDP growth rates)
[358] OCA M.B. at 132-33.

measures, such growth rates are not sustainable over the period of time measured by the DCF.[359] The growth rates relied upon by Columbia witness Rea are specifically represented by Value Line as "short-term annual growth rate," not the type of sustainable growth assumed by the DCF model.[360] No evidence presented supports that near-term projections of rate base or earnings growth are valid inputs into a sustainable growth DCF calculation.

Finally, Mr. Garrett's use of dividend per share growth rates, instead of earnings per share growth rates, is in accordance with the function of the DCF model. As stated by Mr. Garrett:

> It is important to reiterate that in the DCF Model, the "cash" that is being discounted is the dividends paid to investors. While it is true that dividends are paid from earnings, and earnings growth can be an indicator to consider when assessing the growth rate input in the DCF Model, the ultimate form of "cash flow" in the discounted cash flow model, is dividends. In that regard, it is perfectly appropriate and reasonable to consider dividend growth when conducting the DCF Model.[361]

While earnings growth and dividend growth are related, the Company's results-based opposition to the use of analysts' dividends per share growth rate do not adequately inform the Commission's assessment of an appropriate DCF growth rate.[362]

Ultimately, the DCF analysis prepared by OCA witness Garrett is more reasonable and representative of the cost of equity for Columbia than the DCF analysis prepared by Columbia witness Rea and should be granted more significant weight. However, the

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[359] *Compare* Columbia M.B. at 118-19 *with* OCA St. 3 at 28 ("Mr. Rea is suggesting the company's earnings will growth by 10% each year, every year, in perpetuity.")
[360] OCA M.B. at 132-33; OCA St. 3 at 28.
[361] OCA St. 3SR at 5-6.
[362] Columbia M.B. at 121.

OCA's recommended return on equity is 8.9%, higher than Mr. Garrett's DCF results, which should alleviate concerns about the DCF-indicated cost of equity being considered too low.

c. OCA witness Garrett's DCF model relies on data from financial institutions without alteration while Columbia witness Rea's DCF analysis overstates the appropriate rate of return.

The OCA fully addressed this issue in its Main Brief at pages 131 to 133. No further reply is necessary.

2. Capital Asset Pricing Model

The OCA recommended in its Main Brief that the Company's requested size premium is unnecessary and that Columbia witness Rea's equity risk premium is overstated due to its reliance on historical information instead of forward-looking information.[363] Columbia argues that a size premium is appropriate in this case and that Mr. Garrett's CAPM analysis is deficient because it does not use a historically derived equity risk premium.[364]

a. OCA witness Garrett's Risk Free Rate is reasonably based on U.S. Treasury securities.

The OCA addressed this issue at page 134 of its Main Brief. No further reply is necessary.

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[363] OCA M.B. at 136-40; OCA St. 3 at 36-42.
[364] Columbia M.B. at 108-10, 121-22.

b. OCA witness Garrett's beta is the most recent Value Line beta.

The OCA addressed this issue at page 135 of its Main Brief. No further reply is necessary.

c. OCA witness Garrett appropriately relied on expert surveys and an implied equity risk premium based on respected financial institutions and scholars.

Further, Columbia's criticism of OCA witness Garrett's CAPM equity risk premium are directly contrary to recent Commission decisions.[365] In *Columbia Water 2023*, the Commission adopted the OCA's risk premium determination by Mr. Garrett and stated:

> We are of the same opinion as the OCA that the ERP used in a CAPM analysis should be forward looking. Here, Columbia calculates its ERP partly with historical data of returns on stocks and returns on bonds. Thus, we find that the Company's ERP is not forward-looking and that it is inappropriate to use in its CAPM analysis.[366]

As in *Columbia Water 2023*, in this case the Company also partly relied on long-term historical data to calculate its equity risk premium.[367] Mr. Garrett's use of expert surveys and well-known sources such as Kroll (formerly Duff & Phelps) more accurately reflects the sources investors are likely to rely on instead of the equity risk premium supported by Columbia witness Rea.[368] For these reasons, Mr. Garrett's CAPM calculation should be

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365 Columbia M.B. at 121-22.
366 *Columbia Water 2023* at 105.
367 Columbia M.B. at 107 ("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)").
368 OCA St. 3SR at 7-8 ("Effectively, Mr. Rea is suggesting the Commission should adopt his ERP estimate over the opinions of thousands of unbiased experts, Kroll (a global financial advisory firm), and one of the world's leading experts on the ERP.").

granted more significant weight than the calculation supported by Columbia witness Rea, because Columbia's supported CAPM includes outdated and historical data in its requested size premium adjustment and equity risk premium.

d. Conclusion as to the OCA's CAPM recommendation.

For the reasons set forth in the OCA's Main Brief and above, OCA witness Garrett's CAPM cost of equity of 8.9% is reasonable and should be granted more significant weight than the calculation supported by Columbia witness Rea.

e. Response to Mr. Rea's CAPM analysis and other issues.

Columbia witness Rea's traditional CAPM analysis produced an 11.05% cost of equity for the Gas LDC Group.[369] Mr. Rea also conducted another variation of the CAPM called the "empirical CAPM" (ECAPM), which resulted in a 11.21% cost of equity for the Gas LDC Group.[370] Columbia witness Rea also conducted another type of risk premium analysis, which resulted in an 11.25% cost of equity for the Gas LDC Group.[371] Morever, Mr. Rea also applied a size premium to his final results, which caused his CAPM results to be as high as 11.66%.[372]

i. Mr. Rea's CAPM Beta is Outdated.

The OCA addressed this issue in its Main Brief at pages 138 to 139. No further reply is necessary.

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[369] OCA St. 3 at 38.
[370] OCA St. 3 at 38.
[371] OCA St. 3 at 38-39.
[372] OCA St. 3 at 39.

ii. Mr. Rea's Equity Risk Premium are excessive.

The OCA addressed this issue in its Main Brief at pages 139 to 140. No further reply is necessary.

iii. Mr. Rea's size premium adjustment is unreasonable.

As stated by OCA witness Garrett, "the size effect phenomenon was short lived."[373] Further, the perceived "size effect" was "'driven by the extreme outliers, which occurred three-quarters of a century ago,'" and "'[i]f the size premium were discovered today, rather than in the 1980s, it would be challenging to even publish a paper documenting that small stocks outperform large ones.'"[374] While FERC may accept a size effect, insufficient evidence was presented in this proceeding to indicate that the size effect is appropriate for Columbia, especially considering a final CAPM result of 11.02% before adjustments, using the Company's overstated and outdated beta[375] and equity risk premium inputs.[376]

iv. Mr. Rea's Risk Premium Model significantly overestimates the cost of equity.

The Company claims a three-basis point flotation cost adjustment is appropriate to recover the costs associated with its parent company's issuance of shares, such as underwriting fees.[377] Columbia provides no citation to law that its proposed flotation cost adjustment is appropriate. The Pennsylvania Superior Court has previously determined that

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[373] OCA St. 3 at 42.
[374] OCA St. 3 at 44.
[375] OCA M.B. at 138-39 (Value Line's average beta for the Gas LDC Group is 0.80, instead of the 0.91 used by Mr. Rea); OCA St. 3 at 39.
[376] Columbia M.B. at 110.
[377] Columbia M.B. at 102-03.

flotation cost adjustments should not be included in a rate of return.[378] As identified by OCA witness Garrett, "I am not aware of any commission who specifically authorizes flotation cost premiums," and that "if Columbia has experienced any type of costs associated with the issuance of new shares by NiSource during the FPFTY, then those expenses should have been included in the Company's expense schedules."[379] The Company's request to recover flotation costs through its rate of return should be denied.

E. Management Performance Premium

In this portion of its Reply Brief, the OCA responds to Section IX.D.3 of the Main Brief of Columbia, beginning on page 122.

The OCA recommends that the Company's management performance adder request be denied because Columbia did not present evidence of exemplary management performance or how its requested adder was calculated.[380] Columbia requests a management performance premium of 0.25% be added to its return on equity request of an already excessive 11.10%.[381] For the reasons set forth in full in its Main Brief, the Commission should deny Columbia's request for a 25 basis point increase to its authorized return on equity for management performance.

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[378] *Pittsburgh v. Pa. PUC*, 126 A.2d 777, 784 (Pa. Super. 1956) ("underwriting costs incurred in obtaining capital for the Columbia system as a whole were part of the cost of capital to Columbia which has been applied to Manufacturers. Whether it might cost Manufacturers an additional amount to obtain capital is entirely beside the point").

[379] OCA St. 3SR at 11-12.

[380] OCA M.B. at 141-71.

[381] Columbia M.B. at 122-32.

1. Columbia's performance does not merit the granting of a 25 basis point performance management adder.

OCA submitted extensive evidence in this proceeding regarding areas of the Company's quality of service that are inadequate and should be improved.[382] The Company's statements in support of its purported management effectiveness are consistent with the requirements of the Public Utility Code and do not represent exceptional performance.[383] Approving the proposed management performance adder would cost consumers an additional $6.9 million in rates for the same quality of service which is, in many ways, inadequate.[384]

The OCA specifically identified in its Main Brief the following deficiencies in the Company's service which must be addressed:

- The Company's performance with respect to obtaining LIHEAP assistance for its low-income customers is far less than exemplary.[385]
- Columbia has the lowest percentage of CAP bills that were paid in full by CAP participants of any natural gas utility.[386]
- Columbia has the lowest annual CAP forgiveness of any natural gas utility in Pennsylvania.[387]
- Columbia reconnects fewer terminated customers any other natural gas utility in Pennsylvania by a wide margin.[388]

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[382] OCA M.B. at 143-71.
[383] Columbia M.B. at 123-30.
[384] OCA St. 3 at 3.
[385] OCA M.B. at 144-45; OCA St. 5 at 48-49.
[386] OCA M.B. at 146-47; OCA St. at 49-50; OCA St. 5SR at 3.
[387] OCA M.B. at 148-49; OCA St. 5 at 50-51; OCA St. 5SR at 5.
[388] OCA M.B. at 149-51; OCA St. 5 at 51-52; OCA St. 5SR at 6-7.

- Columbia's high CAP credit amounts are due to the significant difference between Columbia's rates and the next-highest natural gas rates in Pennsylvania.[389]

- The Company's collection rate for CAP bills is the lowest of any natural gas utility in Pennsylvania.[390]

- Columbia has the second-lowest Customer Assistance Referral and Evaluation Services program benefits of any natural gas utility in Pennsylvania and has low rates of CARES and CAP cross-enrollment.[391]

- Columbia consistently fails to spend its Hardship Fund to assist low-income customers at risk of termination and has maintained the same level of contributions per year since 2017 without adequately fundraising for the Hardship Fund.[392]

- The Company has failed to enroll the vast majority of either its confirmed or estimated low-income populations.[393]

- Columbia's nonpayment disconnection rate for confirmed low-income customers is three times the rate for residential income customers as a whole.[394]

- The Company's gross write-off ratio for Confirmed Low-Income customers that is more than three times higher than the gross write-off ratio for residential customers as a whole.[395]

- Columbia's call center performance has deteriorated as compared to 2024 and, from 2021-2023, was among the worst performing call centers for natural gas utilities in Pennsylvania.[396]

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[389] *Compare* Columbia M.B. at 126-27 *with* OCA M.B. at 151-53; OCA St. 5 at 53-54.
[390] OCA M.B. at 153-54; OCA St. 5 at 54-55; OCA St. 5SR at 8.
[391] OCA M.B. at 154-57; OCA St. 5 at 57-58; OCA St. 5SR at 9.
[392] OCA M.B. at 158-59; OCA St. 5 at 59 OCA St. 5SR at 9.
[393] OCA M.B. at 159; OCA St. 5 at 60-61.
[394] OCA M.B. at 160; OCA St. 5 at 61.
[395] OCA M.B. at 161-62; OCA St. 5 at 62-63; OCA St. 5SR at 14.
[396] OCA M.B. at 165-67; OCA St. 6 at 11-12.

While the Company contests that comparing Columbia to other NGDCs is not appropriate,[397] OCA witness Alexander describes why it is a critical comparison:

> The comparison to Columbia's performance to its peers in Pennsylvania allows a consideration of performance with the same regulatory expectations, similar economic impacts that vary year to year, and data that is gathered and evaluated by the Commission to ensure that it is accurate and reflects the Commission's directive. Under these circumstances it is fair to point to differences or trends since the performance data is presented in a uniform manner and reflects similar circumstances (such as how the COVID pandemic impacted utility performance and how these utilities responded in subsequent years).[398]

Exceptional performance does not require the Company to excel in every single measure; however, the glaring inadequacies in the Company's performance with respect to promoting affordability, outcomes for low-income customers, and customer service demonstrate that Columbia does not perform exceptionally.

2. Columbia's management performance regarding low-income customers has not been superior and does not merit a management performance adder.

The OCA fully addressed this issue in its Main Brief at pages 143 to 162. Columbia's Main Brief did not specifically address Mr. Colton's concerns related to management performance for low-income customer issues. No further reply is necessary.

a. LIHEAP Performance

The OCA fully addressed this issue in its Main Brief at pages 143 to 145. Columbia's Main Brief did not specifically address Mr. Colton's concerns related to management performance for LIHEAP Performance. No further reply is necessary.

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[397] Columbia M.B. at 131.
[398] OCA St. 6 at 4-5.

b. Columbia Gas's efforts to serve its low-income customers have not been exemplary as demonstrated by the BCS Universal Services Report.

The OCA fully addressed this issue in its Main Brief at pages 145 to 162. Columbia's Main Brief did not specifically address Mr. Colton's concerns related to management performance for LIHEAP Performance. No further reply is necessary.

c. Columbia's customer service performance also fails to achieve superior performance.

i. Call Center Performance

In the context of the Company's management performance and as discussed in the OCA's Main Brief, the OCA raised OCA witness Alexander's concerns about the Company's overall call center performance.[399] Ms. Alexander recommended that the Company maintain its 2024 call center performance. In its Main Brief, Columbia completely ignores the point of the OCA's recommendation regarding call center performance. OCA witness Alexander raised the issue in her examination of the Company's claims for "superior" performance and identified concerns with the Company's historic call center performance. Instead of addressing as a management performance issue, instead Columbia addresses the issue of OCA witness Alexander's call center performance in its Section XII regarding Customer Service/Quality of Service.[400] In it Section IX(D)(3)(b) where the Company addresses "Other Parties' Arguments Against Any Allowance for Management Effectiveness," Columbia does not address the details of the

[399] OCA M.B. at
[400] Columbia M.B. at 179-181.

OCA's concerns regarding the Company's performance as presented by OCA witnesses Alexander and Colton.[401]

As a part of the Customer Service/Quality of Service Section, Columbia argues that the proposed rate increase should not include a requirement that Columbia maintain its 2024 call center performance levels throughout the FPFTY, but as the Company notes, OCA witness Alexander clarified this recommendation in Surrebuttal 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."[402] Columbia recommends that OCA witness Alexander's call center performance standards be rejected entirely.

The OCA notes that in its Main Brief, Columbia takes out of context OCA witness Alexander's recommendation and does not reference the reason for the OCA's recommendation. Columbia has requested a 25-basis point management performance adder for "superior" performance. OCA witness Alexander challenged the performance levels as not being superior and identified that as part of a rate increase the Company should be required to maintain improvements achieved in 2024. In its Main Brief, Columbia responds to OCA's recommendation by citing to the ways that the Company has worked to improve its call center performance including: (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

[401] Columbia M.B. at 131-132.
[402] Columbia M.B. at 179.

positions to monitor call center performance in real time. In its Main Brief, OCA witness Alexander discussed the reasons that the improvements to performance did not fully address her concerns.[403] Yet, importantly, Columbia is unwilling to commit to maintaining the improvements on a going-forward basis.

Columbia seeks to minimize the OCA's concerns regarding the call center performance, arguing that the OCA has "singled" out their historic performance for three years from 2021 to 2023 in two areas: call abandonment rates and percentage of calls answered in 30 seconds.[404] The ability for customers to access the call center quickly and how many customers abandon the call line queue are two of the call center performance's most critical metrics. The Company's Main Brief seeks to minimize these two call metrics, and moreover, to minimize the fact that Columbia did not achieve the Company's own internal objectives for the three-year period of 2021, 2022, and 2023. OCA witness Alexander also examined the strength of the Company's performance and found concerns with the Company's performance as compared to its peers.[405]

The call center is an essential function of a utility. It is the only means by which customers can speak to the Company about their service needs, file a complaint, ask for a payment plan, otherwise engage in negotiations since there is no in-person office available in the service territory. The OCA thoroughly discussed the Company's historic and to date call center performance and believes that maintaining existing performance is a reasonable

[403] Columbia M.B. at 181.
[404] Columbia M.B. at 181.
[405] OCA M.B. at 165-166.

recommendation as a part of overall quality of service. The OCA continues to recommend that Columbia should maintain its 2024 call center performance.

ii. Customer Satisfaction Surveys

The OCA fully addressed this issue in its Main Brief at pages 168-169. Columbia did not address in its Main Brief. No further reply is necessary.

iii. J.D. Power Customer Satisfaction Survey

The OCA fully addressed this issue in its Main Brief at pages 169-170. Columbia did not address in its Main Brief. No further reply is necessary.

iv. Conclusion

For the reasons set forth above and in the OCA's Main Brief, Columbia's requested 0.25% proposed management performance adder should be denied.

X. REVENUE ALLOCATION AND RATE DESIGN

A. Cost of Service Study

In this portion of its Reply Brief, the OCA responds to Section X.A of the Main Brief of PSU, beginning on page 3.

1. The results of the Company's P&A ACOS are reasonable and should be given weight.

The OCA supports the Peak & Average (P&A) allocated cost of service (ACOS) study presented by Columbia.[406] PSU is the only party which opposed the Company's P&A ACOS in this case.[407] The Commission should adopt the P&A ACOS because it is

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[406] OCA M.B. at 172-79.
[407] PSU M.B. at 3-16.

consistent with Commission precedent that no customer component should be included in the allocation of the cost of mains and with the design of Columbia's distribution system.

The results of the cost study do not, themselves, over-allocate costs to LDS/LGSS customers, as PSU claims.[408] PSU witness Crist overstated the number of miles of mains allocated to LDS/LGSS customers because he did not consider the size of mains allocated to the class[409] PSU's argument is results-based and should be given little weight.

PSU's attempt to distinguish the instant case from *Columbia 2021*, *PECO 2020*, and *PGW 2023* – which clearly state that allocation of mains costs should not include a customer component[410] – are unsupported by the design and buildout of Columbia's gas distribution system.[411] Columbia's main extension policy is driven by 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.[412] If the Company's system design were based on connecting customers instead of connecting additional load, then its main extension policy would not consider throughput. The weight of evidence presented in this case demonstrates that Columbia's distribution system is built to serve load and throughput, not to serve a specific number of customers. Therefore, PSU's

[408] PSU M.B. at 10-13.
[409] OCA M.B. at 178; OCA St. 4R at 8-9.
[410] *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket No. R-2020-3018835 (Order Feb. 19, 2021) (*Columbia 2021*) at 217-18; *Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket No. R-2020-3018929 (Order entered June 17, 2021) (*PECO Gas 2020*) at 275; *Pa. PUC v. Phila. Gas Works*, Docket No. R-2023-3037933 (Order entered Nov. 9. 2023) (*PGW 2023*) at 137.
[411] PSU M.B. at 14.
[412] OCA M.B. at 179; OCA St. 4R at 8.

arguments are unsupported by the record in this proceeding and should be given little weight.

2. The Customer-Demand ACOS is unsupported by cost causation principles and Commission precedent and should be given no weight.

The OCA and Columbia support the Company's use of the P&A ACOS study for the purposes of revenue allocation and rate design. However, the Company's customer charge study which includes the cost of mains in the fixed customer charge is contrary to the fundamental principles underlying the P&A ACOS study.[413] The Company's argument should be rejected.

Columbia argues that 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."[414] The Company provides no citation to record evidence in support of this argument.[415] However, the Commission has consistently held that:

> [W]e remain of the opinion that although mains serve customers, it is the throughput that determines the type of main investment because it is the load that determines the main investment, not the number of customers served. The existence of one customer, five customers, or ten customers does not determine the amount of mains investment. Mains investment is driven by the loads placed upon it, not by the number of customers served.[416]

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[413] Columbia M.B. at 139.
[414] *Id.*
[415] *Id.*
[416] *Columbia 2021* at 217.

This is why OCA witness Mierzwa testified that it is inappropriate to consider distribution mains costs as a customer cost, "since distribution mains costs are driven by the loads placed upon it, not by the number of customers served, it is not appropriate to consider distribution mains costs as a customer cost."[417] Rather, the Peak & Average ACOS study submitted by Columbia does not identify mains costs as fixed, it identifies them as demand- and throughput-related and such costs are not appropriately included in a customer charge.[418] Therefore, the Commission should grant little weight to the Company's customer charge study which includes mains costs.

B. Revenue Allocation

In this portion of its Reply Brief, the OCA responds to Section X.B of the Main Brief of Columbia, beginning on page 140, and the Main Brief of the OSBA, Section X.B, beginning on page 8.

The OCA's revenue allocation seeks to minimize and otherwise spread equitably the $61,902,450 inter-class subsidy provided by residential and small commercial customers to the benefit of LDS/LGSS and Flex rate customers under the Company's proposal.[419] Columbia and the OSBA disagree with OCA witness Mierzwa's proposed revenue allocation.[420] These positions should be given little weight because they allocate the residential customer class a greater share of the subsidies provided to LDS/LGSS and Flex rate customers to the residential customer class than other classes.

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[417] OCA M.B. at 191; OCA St. 4 at 13-14.
[418] OCA M.B. at 194; OCA St. 4 at 13-14.
[419] OCA M.B. at 179-86; OCA St. 4 at 8-12; OCA St. 4R at 4; OCA St. 4SR at 7-8
[420] Columbia M.B. at 143; OSBA M.B. at 10-11.

1. **Rate LDS/LGSS are currently underpaying their cost of service and the revenue allocation adopted in this proceeding should move them closer to their cost of service than proposed by Columbia.**

First, Columbia's argument that the OCA's position should not be adopted because it reduces allocation to the OCA's "respective class" is disingenuous.[421] Columbia does not indicate any other basis to disagree with the OCA's position.[422] Namely, an increase of 2.0 times the system average increase to the LDS/LGSS customer class is consistent with the principle of gradualism while reducing the subsidy provided by residential and small commercial customers.[423] The OCA's recommendation moves all customer classes closer to their cost of service and should be accepted as reasonable.[424]

2. **The revenue allocation selected by the Commission should move customer classes overpaying their indicated cost of service to the same RROR instead of moving them towards their cost of service by the same amount.**

Second, OSBA argues that equalizing the relative rates of return for Columbia's customer classes providing subsidies to the LDS/LGSS and Flex rate customer classes is inconsistent with cost of service principles.[425] However, residential customers currently shoulder a disproportionate burden of paying for Columbia's revenue requirement.[426] It is inequitable for residential customers to continue to have the highest relative rate of return of any class receiving a rate increase when other customer classes could share the cost

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[421] Columbia M.B. at 143.
[422] *Id.*
[423] OCA M.B. at 183-86.
[424] *Lloyd v. Pa. PUC*, 904 A. 2d 1010, 1020 (Pa. Cmwlth. 2006).
[425] OSBA M.B. at 11.
[426] OCA M.B. at 188; OCA St. 4 at 11.

burden proportionately.[427] The OCA's proposal equitably shares the burden of inter-class subsidies between the residential and small business classes, unlike the OSBA's.

For these reasons, the OCA's proposed revenue allocation should be adopted as consistent with the principles of cost causation and gradualism.

C. Rate Design/Tariff Structure[428]

In this portion of its Reply Brief, the OCA responds to Section X.C of the Main Brief of Columbia, beginning on page 144.

The OCA, I&E, and CAUSE-PA argued that Columbia's residential customer charge should be maintained because the Company's significant proposed increase is inconsistent with cost causation principles, violates the principle of gradualism, disincentivizes energy efficiency, has a disproportionate impact on low-income customers, and is inconsistent with the residential customer charges of other natural gas companies in Pennsylvania.[429] Columbia argues that its proposed residential customer charge of $31.97, an increase of 85% over its current customer charge of $17.25, should be approved.[430] For the reasons set forth in the Main Briefs of the OCA, I&E, and CAUSE-PA, Columbia's requested increase to the residential customer charge should be denied.

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427 OCA M.B. at 188; OCA St. 4SR at 7-8.
428 Responsive to Columbia M.B. Sec. X.C, beginning on page 144. The OCA does not address rate design for non-residential customer classes.
429 OCA M.B. at 189-204; OCA St. 4 at 16; I&E M.B. at 62-63; I&E St. 3 at 43; CAUSE-PA M.B. at 40-47; CAUSE-PA St. 2 at 41-42.
430 Columbia M.B. at 145-51.

1. Columbia's residential customer charge is inconsistent with cost causation principles.

As fully explained in the OCA's Main Brief and *supra*, the proposed residential customer charge of $31.97 is not rooted in cost of service principles.[431] Columbia misrepresents Commission precedent in support of its argument that "fixed" costs should be recovered through customer charges.[432] Namely, the Company quotes the portion of the Commission's *PPL Electric 2012* Order which includes a recitation of the ALJ's determination, not the Commission's determination.[433] As identified by the OCA in its Main Brief, the Commission's disposition section states: "We further conclude that the ALJ correctly recommended that, consistent with *Aqua,* other *customer-related* costs are properly *includable* in a customer charge cost analysis."[434] The Commission did not state that demand- and throughput-related costs are includable in a customer charge.

As stated by OCA witness Mierzwa, "only those costs that change directly with the addition or subtraction of a customer should be included in the calculation of a customer charge."[435] Based on clear Commission precedent, mains costs vary with demand and usage, not the number of customers connected to a system, and, therefore, should not be included in a customer charge.[436] Further, the Company's request to include uncollectible expense is unfounded, as uncollectible expense does not vary directly with the number of

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[431] OCA M.B. at 191-94; OCA St. 4 at 13-16; *Columbia 2021* at 217.
[432] Columbia M.B. at 145 (citing *PPL Electric 2012*).
[433] *Compare* Columbia M.B. at 145 *with PPL Electric 2012* at 127.
[434] OCA M.B. at 192; *PPL Electric 2012* at 131 (emphasis added).
[435] OCA St. 4 at 15-16.
[436] *Lloyd*, *supra*; *Columbia 2021* at 264-65; OCA St. 4 at 13-14.

customers connected to Columbia's distribution system.[437] Columbia has failed to meet its burden of proof that mains costs and uncollectible expense are appropriately included in the residential customer charge.[438]

2. Columbia's residential customer charge is inconsistent with gradualism.

The OCA fully addressed this issue at pages 195 to 197. No further reply is necessary.

3. Columbia's residential customer charge exacerbates affordability concerns.

The OCA and CAUSE-PA, the two parties which retained experts to review the impact of the Company's rate filing on low-income customers, both submitted testimony that the Company's fixed customer charge proposal presents a clear harm to Columbia's low-income customers.[439] Columbia, by contrast, argues that the proposed customer charge increase benefits the majority of its low-income customers.[440] Greater weight should be assigned to the evidence presented by the parties which advocate on behalf of low-income customers than to the Company's arguments.

Columbia's Main Brief fails to address the critical concern raised by the OCA and CAUSE-PA: low-income customers benefit from agency over their monthly bills.[441] As

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[437] OCA M.B. at 191, 194; OCA St. 4SR at 3.
[438] OCA M.B. at 194; 66 Pa. C.S. § 315(a).
[439] OCA M.B. at 197-201; OCA St. 5 at 79-87; CAUSE-PA M.B. at 40-47; CAUSE-PA St. 2 at 33-47
[440] Columbia M.B. at 147-49.
[441] *Compare* Columbia M.B. at 147-49 *with* OCA St. 5 at 82 (identifying the lengths to which low-income customers are forced to go to reduce their natural gas heating bills).

stated by OCA witness Colton, "[i]ncreasing the fixed monthly customer charge increases the portion of a bill that a low-income customer cannot avoid by adjusting the customer's usage."[442] A low-income advocate at the Public Input Hearings testified that Columbia's proposed fixed customer charge increase will "penalize ratepayers who attempt to reduce consumption through conservation, efficiency, or economic necessity."[443] He also testified that the customer charge proposal "undermines households' ability to manage utility costs and disproportionately impacts those least able to afford higher bills."[444]

Further, to meet the aims of bill stability, Columbia's low-income customers can elect to enroll in budget billing if they qualify and choose to do so.[445] Providing greater bill stability means providing low-income customers with improved access to Columbia's budget billing program, not by implementing high customer charges during non-heating seasons.[446]

The OCA, CAUSE-PA, and Columbia's customers identified that the proposed residential customer charge increase poses a threat to low-income customers. As a result, Columbia's argument that the proposed fixed customer charge increase will benefit low-income customers is unfounded and not based in evidence.

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[442] *Id.* at 81.
[443] Tr. 180.
[444] Tr. 180.
[445] OCA St. 5 at 96-100.
[446] Columbia M.B. at 148-49; OCA St. 5 at 97 ("Arrears must be paid in full prior to establishing a budget plan," preventing a significant portion of Columbia's budget billing customers from enrolling in the Company's budget billing plan).

4. Columbia's residential customer charge reduces incentives to pursue energy efficiency and conservation.

The OCA fully addressed this issue in its Main Brief at pages 201 to 202. No reply is necessary.

5. Overall, Columbia's proposed residential customer charge should be denied and the evidence presented by the OCA, I&E, and CAUSE-PA regarding the residential customer charge should be given greater weight.

The OCA, I&E, and CAUSE-PA argued that Columbia's current customer charge should be maintained in this case because it is already the highest customer charge in Pennsylvania and increasing it further would make Columbia's residential customer out of step with other natural gas residential customers.[447] Columbia contends that its customer costs are higher than other NGDCs, justifying its high customer charge and even higher proposed customer charge.[448] The Company's arguments should be given little weight, as neither cost nor non-cost factors justify the residential customer charge difference between Columbia and other NGDCs.

Columbia provides no citation to evidence that its customer costs are higher than those of other NGDCs.[449] The record does not indicate that Columbia's customer costs are the highest in the Commonwealth, only that its residential rates are.[450] While Columbia

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[447] OCA M.B. at 202-04; OCA St. 4 at 16; I&E M.B. at 62-63; I&E St. 3 at 43; CAUSE-PA M.B. at 43-44; CAUSE-PA St. 2 at 41-42; *see also Popowsky v. Pa. PUC*, 683 A.2d 958, 961 (Pa. Cmwlth. 1996) (The Commission "has broad discretion in determining whether rates are reasonable" and "is vested with discretion to decide what factors it will consider in setting or evaluating a utility's rates.").
[448] Columbia M.B. at 150-51.
[449] Columbia M.B. at 151.
[450] OCA M.B. at 36; OCA Exh. MWD-7.

argues that its rates must be set based upon its costs, and not the costs of other NGDCs, the Commission is obligated to consider non-cost factors when setting rates, such as gradualism, affordability, and cost of service.[451] Regulatory consistency across NGDCs benefits NGDCs' ratepayers is an appropriate consideration in this case.

In addition, Columbia's argument that customers may see a bill reduction due to higher fixed costs which outweighs benefits associated with energy efficiency and conservation misses the point.[452] The Company's proposal weakens price signals promoting energy conservation, which shape long-term customer behavior.[453] An increase to Columbia's residential customer charge dilutes and weakens the price signals in the Company's rate design, especially considering how small of a percentage of Columbia's residential bills are comprised of commodity costs.[454]

As described *supra* and in full in the OCA's Main Brief, Columbia's proposed residential customer charge is inconsistent with cost causation principles, violates the principles of gradualism, disincentivizes conservation, disproportionately harms low-income customers, and would draw Columbia out of step with other NGDCs in Pennsylvania. The Company's arguments to the contrary should be given little weight

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[451] OCA M.B. at 9, 180; *Phila. Elec. Co. v. Pa. PUC*, 470 A.2d 654, 658 (Pa. Cmwlth. 1984); *Hoover v. Pa. R.R.*, 27 A. 282, 283 (Pa. 1893) (it is appropriate to consider the conditions and circumstances of service when designing rates); *Columbia 2021* at 46-47 (citing 66 Pa. C.S. §§ 523, 526(a)) (citing also *Lloyd* at 1020 and *Pa. PUC v. Twin Lakes Util., Inc.*, Docket No. R-2019-3010958 (Order Mar. 26, 2020) at 48, 80).
[452] Columbia M.B. at 150.
[453] OCA St. 4 at 14; *PECO Gas 2020* at 274 ("Improved price signals can translate into more economically efficient energy usage").
[454] OCA M.B. at 22-14; Tr. 169, 180, 182, 187, 216, 226; Evans Exh. 1.

because they are unsupported by fact or law. Therefore, the OCA reiterates its request that the Commission maintain Columbia's residential customer charge at $17.25 per month.

D. Summary and Alternatives

The OCA fully addressed its Summary and Alternatives in its Main Brief at page 204. No further reply is necessary.

XI. ALTERNATIVE RATEMAKING

A. Weather Normalization Adjustment

In this portion of its Reply Brief, the OCA responds to Section XI.A of the Main Brief of Columbia, beginning on page 155.

The OCA argued in its Main Brief that Columbia's proposed WNA should be denied because it would not result in just and reasonable rates.[455] Columbia, in its Main Brief, argues that it should be permitted to implement the proposed WNA because it should not bear the risk of warming weather.[456] The Commission should deny Columbia's request to implement the proposed WNA, consistent with the recent decision in *PECO Gas 2024*.[457]

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[455] OCA M.B. at 205-42;
[456] Columbia M.B. at 155-69 ("if the Company did not have the WNA, it would not have been able to recover these revenues that were previously authorized for recovery").
[457] *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2024-3046932 (Order entered Dec. 12, 2024) (*PECO Gas 2024*) at 94-101 (available at: https://www.puc.pa.gov/pcdocs/1859395.pdf).

1. **Columbia's WNA has operated in the past 10 years to extract additional revenues from its customers without providing commensurate benefits to the customers subjected to the WNA.**

Columbia argues that its WNA Pilot "is similar to the Commission-approved WNAs of other investor owned NGDCs in Pennsylvania."[458] Not only is Columbia's proposed WNA distinguishable from the WNAs of other NGDCs in Pennsylvania, other WNAs are not relevant to the instant proceeding. As the Commission stated in *PECO Gas 2024*:

> We further note that each of the previously approved NGDCs' WNAs were approved during settlements and do not set a precedent that would lead to the automatic approval of PECO's proposed WNA here. We are tasked with considering PECO's proposed WNA in this specific proceeding, not the WNAs of the other NGDCs. We agree with the ALJs' conclusion that the use of WNAs by other NGDCs does not constitute substantial evidence that meets PECO's burden of proof in the instant proceeding. R.D. at 93 (citing *Bell Atl.-PA., Inc. v. Pa. PUC*, 672 A.2d 352 (Pa. Cmwlth. 1995)).[459]

The Commission has specifically considered and rejected the argument that it is relevant to compare its proposed WNA to others currently in effect in Pennsylvania.[460]

Further, compared to the WNAs of UGI Utilities Inc. – Gas Division (UGI), and National Fuel Gas Distribution Corporation (NFG), which use 15-year weather normal to calculate the normal number of heating degree days for the purposes of billing determinants and the WNA, Columbia proposes to use a longer normal period of 20 years.[461] Peoples

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[458] Columbia M.B. at 156.
[459] *PECO Gas 2024* at 100 (footnote omitted).
[460] *See HIKO Energy, LLC v. Pa. PUC*, 163 A.3d 1079, 1102-03 (Pa. Cmwlth. 2017) *affirmed by HIKO Energy, LLC v. Pa. PUC*, 209 A.3d 246, 255 (Pa. 2019) (the Commission does not consider settlement agreements to be precedential).
[461] *PECO Gas 2024* at 100; I&E St. 3 at 19 ("by utilizing a twenty-year weather cycle to determine normal HDD's, the Company is ignoring the significant winter weather warming trend that is representative of recent Pennsylvania winters, which results in more winter

Natural Gas Company LLC (Peoples) includes a cap on its bills rendered in May such that the WNA will not issue a charge above 100% of billed distribution revenue.[462] Columbia's proposed WNA includes no such cap, for May or any month. Regarding reporting requirements, Peoples includes the number of customers affect by, and bill impacts associated with, extreme WNA charges and credits.[463] Columbia does not report on the number of extreme WNA charges or credits. While the OCA submits that it is neither relevant nor appropriate to compare Columbia's proposed WNA to the WNAs implemented pursuant to settlements by other NGDCs in Pennsylvania, Columbia's proposed WNA is likely to result in greater harm than UGI's, NFG's, and Peoples' WNAs, which have resulted in significant harm to the NGDCs' respective ratepayers.[464]

Rather, when presented with an opportunity to rule on the implementation of a proposed WNA, the Commission denied that proposal. In *PECO Gas 2024*, the Commission specifically found that:

- PECO's "budget billing program more effectively evens out bills for customers than the proposed WNA, and still allows customers to easily understand and predict their bills."[465]

months falling short of normal and providing revenue to the Company when customers should be realizing heating bill savings").

[462] *Pa. PUC v. Peoples Natural Gas Co. LLC*, Docket No. R-2023-3044549 (Order entered Sep. 12, 2024) (*Peoples 2024*) at 19.

[463] *Id.*

[464] *Compare PECO Gas 2024* at 100 ("We are tasked with considering PECO's proposed WNA in this specific proceeding, not the WNAs of the other NGDCs.") *with* Columbia M.B. at 159-60 ("the PECO WNA Order is not applicable especially given the Commission's recent decision approving a permanent WNA for Peoples").

[465] *PECO Gas 2024* at 95; *see also* OCA M.B. at 235-36 ("Instead, the existing budget billing plan is a superior alternative to the WNA for low-income customers to better reduce bill volatility.").

- "PECO is not guaranteed a return on service that is not used."[466]

- "[T]here is no 'ceiling' for the revenue that PECO can collect through the WNA."[467]

- "[T]he proposed WNA is more likely to benefit PECO far more than its customers."[468]

- "[T]he proposed WNA is not cost-based and shifts costs to customers."[469]

- "The WNA affects the distribution charge on a customer's bill, while only commodity charges will be based on actual usage, thus muting the effect of consumers' efforts to conserve energy on their bill."[470]

- "While PECO avers that the WNA will not negatively affect confirmed low-income customers participating in CAP, there are substantial numbers of low-income customers not enrolled in CAP."[471]

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[466] *PECO Gas 2024* at 95; *see also* OCA M.B. at 227-28 (the WNA fabricates usage "in order to bill customers for greater system utilization when the greater system utilization that was billed-for is not connected to the costs incurred by Columbia to serve that customer").

[467] *PECO Gas 2024* at 95. Columbia also does not propose a cap on WNA earnings. OCA St. 1SR at 7-8.

[468] *PECO Gas 2024* at 96; *see also* OCA M.B. at 207 ("Columbia's WNA Pilot has systematically overcharged customers without providing commensurate benefits to customers, extracting approximately $74 million in additional revenues for Columbia from customers subject to the WNA in the five most recent heating seasons" without issuing a refund to customers)

[469] *PECO Gas 2024* at 96; *see also* OCA M.B. at 227-28 ("The proposed WNA does not reflect the collection of additional revenue associated with a particular cost causing factor; demand and throughput do not vary with weather").

[470] *PECO Gas 2024* at 97; *see also* OCA M.B. at 229-33 ("The WNA's distortion of price signals makes it more difficult for customers to determine if investment in energy efficiency measures are sufficiently beneficial to outweigh the cost, or to reward customers for reduced consumption.").

[471] *PECO Gas 2024* at 97; *see also* OCA M.B. at 237-38 ("Though the Company has confirmed the low-income status of 76% of its estimated low-income population, the Company has only enrolled 30% of its confirmed low-income customers in its CAP, or 23% of its total estimated low-income population.").

- "[T]here are potential negative impacts from the WNA to CAP customers, non-CAP low-income customers, and the CAP program as a whole."[472]

- "[T]he WNA is complex and confusing to customers. Indeed, a customer cannot easily look at the multi-variable formula used to calculate the WNA and determine how their bill would be affected by their usage. Moreover, the customer will not have access to all of the data used to complete the bill calculation."[473]

While Columbia attempts to distinguish its proposed WNA from that proposed in *PECO Gas 2024*, due to the size of the deadband, age of weather data, reporting requirements, location of PECO Gas' service territory, and the fact that Columbia does not offer electric service, the Company's proposed WNA is still similar to PECO's proposed WNA in each of the above-identified respects.[474] The OCA addressed each of these issues in its Main Brief.[475] Columbia's attempt to liken its proposed WNA to those of UGI, NFG, and Peoples and distinguish it from that proposed by PECO should be rejected as unsupported by evidence.

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[472] *PECO Gas 2024* at 97-98; *see also* OCA M.B. at 214-15 ("The proposed WNA's one-size-fits-all approach to adjusting usage fails to capture the difference between how low-income and non-low-income customers react to changes in outside temperatures, resulting in low-income customers overpaying WNA charges during warmer-than-normal winters compared to other customers.").
[473] *PECO Gas 2024* at 98; *see also* OCA M.B. at 221-22 *and* Tr. 367-68 (describing how customers may need to call the Company to determine the inputs to their WNA calculation) *and* OCA Exh. MWD-1 at 4 ("Customers have no means of anticipating future WNA charges as it is impossible for customers to forecast WNA charges in advance and likely difficult for customers to calculate even after the fact.").
[474] Columbia M.B. at 160.
[475] OCA M.B. at 205-42.

2. **Columbia's proposed permanent WNA fails to satisfy the Commission's stated policy factors for approval of alternative ratemaking mechanisms.**

The OCA fully addressed this issue at pages 209 to 223 of the OCA's Main Brief. No further reply is necessary.

3. **Columbia's proposed WNA is disfavored by Columbia's customers due to their experience under the WNA Pilot.**

The OCA argued in its Main Brief that the proposed WNA is not necessary for Columbia to have a reasonable opportunity to earn its revenue requirement because usage trends, as influenced by normalized weather and usage reduction assumptions, are reflected in the Company's billing determinants used for rate design purposes.[476] Columbia argues that its customers should "be required to bear the abnormal risk of warming weather."[477] The Company's argument underscores the transfer of risk the Company is proposing without providing meaningful compensation for that risk to its customers which is contrary to the public interest.[478]

Columbia is best able to bear the risk associated with changing weather. The Company controls its cost efficiencies, rate case filing frequency, whether to implement a distribution system improvement charge, and proposed billing determinants.[479] Ratepayers,

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[476] OCA M.B. at 40-41; *see* Columbia St. 2 at 10-12.
[477] Columbia M.B. at 158.
[478] OCA M.B. at 40; OCA St. 1 at 30-39 ("The Commission simply cannot adopt regulatory policies and strategies that offer zero ratepayer benefits and run the further risk of making Columbia's already worse-in-class retail natural gas rates any worse"); OCA St. 1 at 55 ("Regulatory policy disfavors mechanisms that allow utilities to recover lost revenues or costs from customers without also exposing the utility to comparable downside risk or performance standards.")
[479] *See*, *e.g.*, OCA St. 1 at 8.

by contrast, can only control whether they are connected to Columbia's system and their natural gas usage.[480] Abnormal risks, such as periods of high inflation[481] or economic contraction[482] and the recent COVID-19 pandemic[483] are borne by both ratepayers and the utility under traditional ratemaking.

Abnormal weather risk should not be borne exclusively by ratepayers as under the Company's proposed WNA. As stated by OCA witness Deupree:

> Regulatory policy disfavors mechanisms that allow utilities to recover lost revenues or costs from customers without also exposing the utility to comparable downside risk or performance standards. The WNA, as designed and applied by the Company, operates as a one-way ratchet: imposes surcharges but has failed to provide meaningful refunds, due to its design. This violates basic ratemaking principles of fairness and reciprocity between ratepayers and shareholders.[484]

The Company's use of alternative ratemaking to shift risk inherent in the natural gas industry to its customers comes without compensation for the new risk assumed by its ratepayers.[485] Columbia has failed "to deliver measurable bill stability or balance" under the WNA Pilot and, despite "notably colder than usual temperatures during the months of

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[480] OCA St. 5 at 89-90.
[481] OCA St. 5 at 28-31 ("Just as inflation may have placed stress on the utility, it has also placed stress on utility ratepayers. Indeed, the inflation experienced in recent years has placed far more stress on lower income ratepayers than it has placed on others.").
[482] OCA St. 1 at 42-45 (describing how decoupling transfers risks associated with periods of economic contraction from the utility to ratepayers).
[483] *Columbia 2021* at 42-55 ("the continued use of traditional ratemaking methodologies during this pandemic is consistent with the setting of just and reasonable rates and the constitutional standards established in *Bluefield* and *Hope Natural Gas*, and the pandemic does not change the continued application of these standards").
[484] OCA St. 1 at 55-56.
[485] OCA St. 1 at 55.

January and February of this year," the WNA Pilot extracted "on net more than $9.6 million through the WNA" through April of the most recent heating season.[486]

The Company failed to present evidence as to why it is equitable, just, reasonable, or in the public interest for ratepayers to solely bear the risk of warmer than normal weather without providing benefits commensurate with the degree of risk transferred from Columbia to its customers.[487] As a result, Columbia's argument that it should be permitted to shift the risk of warming weather to its ratepayers should be given little weight.

4. Columbia's use of the FPFTY and its frequent filing demonstrate that it does not need the proposed WNA to earn sufficient revenue.

The OCA argued in its Main Brief that the relative guarantee of additional revenue under the proposed WNA mutes the effects of regulatory lag on the Company's incentives to control costs and disincentives to overcapitalize, which benefit its customers in the long-term.[488] Columbia claims that it is entitled to collect its authorized revenue requirement regardless of weather.[489] As stated by the Company, "[i]f 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."[490] The Company does not "lose" revenues in the absence of a WNA if weather is warmer than normal.

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[486] OCA St. 1 at 55; OCA St. 1 SR at 13.
[487] *PECO Gas 2024* at 96 ("The ALJs found that it is unreasonable for customers to bear the risk of changing weather. R.D. at 92.").
[488] OCA M.B. at 240-42.
[489] Columbia M.B. at 168-69.
[490] *Id.* at 168.

Columbia is only permitted a reasonable opportunity to earn its authorized revenue requirement, not a guarantee.[491] By stating that revenue is "lost" due to differences between normal weather and actual weather, Columbia implies that it would have earned that revenue but for the weather. There are a host of other factors which determine whether or not Columbia is able to earn a reasonable return, such as support for its universal service programs[492] and cost efficiencies[493] as well as economic conditions, energy efficiency, the number of customers, and overall affordability of rates.[494] Columbia understates its own agency and overstates the effects of weather in arguing that it requires a retroactive guarantee of weather-related revenues to earn a reasonable return on its investment .

Functionally, the WNA assumes that customers reduce usage commensurate with the changes in weather and that all usage adjustments are weather-related, which presents harm to ratepayers for two reasons.[495] First, as stated by the Commission in *PECO Gas 2024*, an NGDC "is not guaranteed a return on service that is not used."[496] This is consistent with principles of cost causation. The variable charges adjusted by the WNA recover demand- and throughput-related costs and the adjustment of those charges inflate billed

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[491] *Hope*, 320 U.S. at 603; *Pa. Elec. Co. v. Pa. PUC*, 502 A.2d 130, 133-35 (Pa. 1985) (determining just and reasonable rates does not require setting rates which are guaranteed to ensure continued net revenues).
[492] *See Pa. PUC v. Roaring Creek Water Co.*, 73 Pa. PUC 373, 400 (1990) (affordability "is in both the shareholders' and ratepayers' best interest. Affordable bills will maximize revenues for the Company and will enable ratepayers to continue to receive an essential service.").
[493] OCA Exh. MWD-4.
[494] Tr. 473-74.
[495] OCA St. 1 at 50-51.
[496] *PECO Gas 2024* at 95.

demand and throughput beyond actual levels.[497] Second, the WNA's assumptions are undermined by the evidence presented in this proceeding, namely that the non-baseload usage adjusted by the WNA is affected by more than just weather and that not all customers adjust their usage consistently and proportionately with changes in weather.[498] While the Company is correct that it would not have collected $74 million through the WNA Pilot without the WNA, Columbia's argument that this amount reflects rates uncollected "due to abnormal weather conditions that are outside of the Company's control" is inaccurate, overly simplistic, and unsupported by evidence.[499]

Columbia cannot "lose" weather-related revenues during periods of warmer-than-normal weather because such revenues are not the Company's to lose. The Commission should grant no weight to the arguments of Columbia that it is entitled to every dollar in its authorized revenue requirement, regardless of weather; rather, the Company is only guaranteed an opportunity to earn them.

5. The proposed WNA's departure from principles of cost causation is unwarranted and unsupported.

The OCA fully addressed this issue at pages 226 to 229 of its Main Brief. No further reply is necessary.

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[497] OCA M.B. at 226-29.
[498] OCA M.B. at 212-13, 215, 233-38; OCA St. 1SR at 7-8; OCA St. 5 at 25, 99; OCA St. 5SR at 21-24.
[499] Columbia M.B. at 161.

6. The proposed WNA disincentivizes conservation and energy efficiency by customers because the WNA captures customers' bill savings earned through their reduced usage.

The OCA fully addressed this issue at pages 230 to 233 of its Main Brief. No further reply is necessary.

7. Columbia's proposed WNA disproportionately harms the Company's low-income customers.

In its Main Brief, the OCA argued that the Company's proposed WNA would create one-sided surcharges, is an inferior option to budget billing for levelizing bills, has illusory customer protections, disincentivizes conservation, has a disproportionate impact on low-income customers, and is difficult to understand.[500] Columbia disagreed.[501] The Company's support for the proposed WNA with respect to the impact on ratepayers is not nearly as robust as the record developed indicating that the proposed WNA will result in harm to consumers.

First, Columbia does not contest that the WNA Pilot resulted in one-sided benefits to the Company over the past five years.[502] Instead the Company claims that "[t]he WNA also levelizes costs for customers and decreases their bills in colder than normal months."[503] As stated by OCA witness Colton:

> I conclude that the Columbia Gas WNA does not increase the "stability" of natural gas heating bills to customers. Indeed, continuing the WNA… will impose substantial harms on low-income customers in particular. The

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[500] OCA M.B. at 205-25, 229-33; OCA St. 1SR at 6-7 OCA Exh. MWD-1 at 3-4; OCA Exh. MWD-11; OCA St. 5 at 99-100; OCA St. 6 at 23-25.
[501] Columbia M.B. at 157-71.
[502] Columbia M.B. at 161.
[503] Columbia M.B. at 158.

> benefits of the WNA flow not to customers, and particularly not to low-income customers, but rather to the Company.
>
> The existing Budget Billing program provides a more than satisfactory opportunity to customers who seek to use it. It provides greater benefits to customers without imposing the same risks. Moreover, Budget Billing has the effect of being able to address the volatility in bill payment that arises as a result of variations in cold weather monthly heating bills. The Budget Billing program would play that role in a much more efficient and effective fashion than would the WNA.[504]

The WNA's "levelizing" effect, if it exists, is from year-to-year (e.g., comparing January 2024 to January 2025), not from month-to-month.[505]

Low-income customers see greater benefits from budget billing, which provides bill stability on a month-to-month basis, than the WNA.[506] Columbia argues that budget billing "does not accomplish the same goals as a WNA."[507] From the Company's perspective, this is true; however, as stated by Columbia witnesses Kempic and Johnson, and the Company in its Main Brief, for customers, the purported benefits of the WNA include bill stability and predictability and reducing bill spikes during colder than normal weather.[508] Budget billing is a superior option for customers to achieve the averred benefits of the WNA.[509] As stated by the Commission in *PECO Gas 2024*, "the budget billing

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[504] OCA St. 5 at 99-100.
[505] *Id.* at 96-97.
[506] *Id.*
[507] Columbia M.B. at 166.
[508] Columbia St. 1 at 9 ("The goal of the WNA continues to be to improve predictability and stability of the customers' bills and to provide revenue stability"); Columbia St. 6 at 29 (the goal of the WNA is "to improve customer bill and revenue stability"); Columbia M.B. at 158.
[509] OCA St. 5 at 92.

program more effectively evens out bills for customers than the proposed WNA, and still allows customers to easily understand and predict their bills."[510]

Second, the Company's conservation bill savings example demonstrates how the WNA mutes price signals which encourage conservation and energy efficiency.[511] As described by OCA witness Deupree:

> The Company argues that the WNA does not eliminate the price signals customers receive from their energy consumption, and references as an example a customer's April 2025 bill. Specifically, a customer who used 45 therms in April of 2025 would have seen \$6.27, or approximately 11.1 percent, savings by reducing consumption by 10 percent after application of the WNA. This compared to a \$4.70, or 10 percent, savings by reducing consumption by 10 percent without application of the WNA.
>
> The Company's hypothetical demonstrates the concern associated with the WNA undermining efforts to conserve energy. Under the WNA, a customer that used approximately 40 therms in the month of April 2025 (approximately 10 percent less than the base of 45 therms) would have seen a final monthly bill of \$50.14. This is more than the \$47.00 monthly bill the same customer using 45 therms would have seen in the absence of the WNA. While a customer would still see savings on monthly utility bills from reducing consumption, the WNA in this example still results in a customer consuming less having a higher final monthly bill due to the imposition of the WNA.[512]

Clearly, the hypothetical customer in the Company's example pays more with the WNA than without.[513] Adding a WNA charge to a customer's bill obscures the extent to which a customer can tell the effects of their conservation efforts on their bill.[514]

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[510] *PECO Gas 2024* at 95.
[511] Columbia M.B. at 162.
[512] OCA St. 1SR at 6-7.
[513] *Compare* Columbia M.B. at 162 *with* Columbia St. 17-R at 6.
[514] *PECO Gas 2024* at 97; Tr. 366-67 (identifying that customers are not likely to be able to determine their WNA charge from their bill alone).

Third, the Company does not adequately explain the WNA to its customers.[515] OCA witness Alexander reviewed the Company's call center scripts and customer communication materials and found them to be deficient.[516] The Company inappropriately relies on a low number of customer complaints regarding the WNA to support its position that the WNA is not too difficult to understand or that its communication materials are deficient.[517] For example, Public witness Evans identified at Public Input Hearings that the Company's claim on its website that "over time your bill should total the same as it would without applying weather normalization, which simply provides a more even method of collecting delivery costs. But that is really not so."[518]

For these reasons, the evidence of record indicates that the proposed WNA will continue the harm experienced by customers under the WNA Pilot without benefit.

8. Overall, Columbia has failed to meet its burden of proof that the proposed WNA is a just and reasonable rate.

Overall, under the WNA Pilot, Columbia extracted an additional $74 million in revenues since it was first implemented.[519] Since the fall of 2019, the WNA has not operated symmetrically, resulting in net charges each heating season despite months which were atypically cold.[520] This is a symptom of the WNA Pilot's design, as the Company

[515] OCA M.B. at 221-22.
[516] OCA M.B. at 221-22; OCA St. 6 at 23-25.
[517] *See Commonwealth v. Hardy*, 337 A.3d 385, 2025 Pa. LEXIS 895, **79-80 (Pa. June 17, 2025) ("the absence of evidence is not conclusive evidence of absence").
[518] OCA M.B. at 26; Tr. 218.
[519] OCA M.B. at 241; OCA Exh. MWD-11; CAUSE-PA St. 2-SR at 14.
[520] *Id.*

relies on a 20-year average definition of normal, which, as discussed by OCA witness Deupree:

> may overstate the expected number of heating degree days in a typical year. As a result, actual HDDs often fall short of "normal," which triggers automatic surcharges. This results in a structurally biased mechanism that consistently benefits the utility at the expense of ratepayers.[521]

The proposed WNA does not refine or improve on the structurally biased WNA Pilot.[522]

Under the WNA, virtually all the risk associated with weather is shifted to Columbia's customers. Though the Company claims that the WNA is designed to benefit both customers and the Company, it does not operate to do so.[523] The fact that other NGDCs have, pursuant to settlement agreements, been permitted to implement WNAs does not alleviate Columbia's burden of proof.[524] The Company has not met its burden of proof, nor has it sufficiently distinguished the proposed WNA from that proposed in *PECO Gas 2024*. As in *PECO Gas 2024*, the OCA requests that the proposed WNA be denied as it would not result in just and reasonable rates.

B. Revenue Normalization Adjustment

In this portion of its Reply Brief, the OCA responds to Section XI.B of the Main Brief of Columbia, beginning on page 172.

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521 OCA St. 1 at 53.
522 *Id.*
523 *Compare* Columbia M.B. at 171 *with* OCA Exh. MWD-11.
524 2 Pa. C.S. § 704; 66 Pa. C.S. §§ 315(a), 1330; *Bell Atl.-Pa., Inc. v. Pa. PUC*, 672 A.2d 352, 354 (Pa. Cmwlth. 1995) (administrative agencies are not bound by the rule of *stare decisis*, but are, instead, tasked with rendering consistent opinions that affirm, overrule, or distinguish prior opinions).

The OCA opposes Columbia's request to implement a Revenue Normalization Adjustment (RNA) because the Company has not met its burden of proof that the RNA benefits ratepayers, promotes Columbia's incentives to control costs, is consistent with cost causation principles, or that the RNA does not permit the Company to recapture bill savings due to customers' usage reduction measures.[525] Columbia's position is that it should have guaranteed recovery of "fixed" costs through full revenue decoupling.[526] The Commission should give little weight to Columbia's arguments because its list of purported benefits under the proposed RNA includes *no* benefits for customers.[527]

1. The Company's proposed RNA would not result in just and reasonable rates.

As stated by the OCA in its Main Brief, I&E, the OSBA, CAUSE-PA, and PSU also submitted testimony that Columbia has failed to meet its burden of proof regarding the proposed RNA for similar reasons as those identified by OCA witnesses Deupree, Colton, and/or Alexander.[528] While PSU did not argue in its Main Brief against approval of the proposed RNA, PSU's witness did recommend it be denied.[529]

I&E argues that the proposed RNA fails to satisfy the Commission's concerns regarding the Commission's policy factors 1, 2, 8, 10 and 12 which are assessed to determine the justness and reasonableness of proposed alternative rate mechanisms.[530]

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[525] OCA M.B. at 242-72
[526] Columbia M.B. at 172-79.
[527] Columbia M.B. at 175.
[528] OCA M.B. at 245; *see* I&E St. 3 at 21-28; I&E St. 3SR at 23-31; OSBA St. 1 at 17-20; CAUSE-PA St. 2 at 65-78; CAUSE-PA St. 2SR at 21-22; PSU St. 1 at 20-24.
[529] PSU St. 1 at 20-24.
[530] I&E M.B. at 70.

Further, I&E contends that "Columbia's current system of rates and charges, which include fixed monthly customer charges, a purchased gas adjustment mechanism, and potentially a distribution system improvement charge provide Columbia with the revenue stability it needs."[531] I&E also notes that customers would not see benefits associated with the proposed RNA and that the proposed RNA "will have a chilling effect on voluntary conservation by the ratepayers."[532]

The OSBA similarly argues that Columbia has presented no need for the RNA due to its current access to capital, the FPFTY and the DSIC and offers no benefit to ratepayers.[533] The OSBA further states that "by shifting the financial risks associated with gas consumption variability from Columbia to the Company's ratepayers, the risk will now fall on the residential and small business customers in the form of rate adjustments to 'normalize' revenue."[534]

CAUSE-PA also argues that the proposed RNA presents no benefit to ratepayers and, instead, would likely increase customers' rates.[535] CAUSE-PA, similarly to the OCA and I&E, assesses the proposed RNA under the Commission's policy factors for assessing proposed alternative rate mechanisms and finds the proposed RNA to not result in reasonable rates under these factors.[536] CAUSE-PA raises concerns that the proposed RNA "would likely compound energy insecurity for low income households," "will have a

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[531] *Id.*
[532] *Id.*
[533] OSBA M.B. at 13-14.
[534] OSBA M.B. at 13.
[535] CAUSE-PA M.B. at 83.
[536] CAUSE-PA M.B. at 84-98.

detrimental impact on low income customers' ability to reduce their bills through energy efficiency measures," and "will also lead to inequitable intraclass subsidies causing low income customers to subsidize more advantaged residential ratepayers who can afford to implement energy efficiency measures and efficient appliances that low income customers cannot afford."[537]

For the reasons set forth in the OCA's Main Brief and in the Main Briefs of I&E, the OSBA, and CAUSE-PA, the proposed RNA will not result in just and reasonable rates and should be denied.

2. The proposed RNA is deficient under the Commission's policy factors.

The OCA fully addressed this issue at pages 246 to 258 of its Main Brief. No further reply is necessary.

3. The proposed RNA presents no potential benefit to Columbia's customers and is likely to result in increased rates.

The OCA fully addressed this issue at pages 258 to 262 of its Main Brief. No further reply is necessary.

4. Columbia is not entitled to a guarantee of recovering its costs and the RNA eliminates the Company's incentive to control its costs between rate cases.

The OCA fully addressed this issue at pages 262 to 266 of its Main Brief. No further reply is necessary.

[537] CAUSE-PA M.B. at 90-91, 98.

5. The proposed RNA is contrary to cost causation because it recovers demand- and throughput-related costs as a fixed, unavoidable charge.

The OCA fully addressed this issue at pages 266 to 268 of its Main Brief. No further reply is necessary.

6. The proposed RNA is likely to produce a disincentive for customer conservation and energy efficiency because avoided distribution charges in one year results in RNA charges the following year; the RNA captures customers' bill savings earned through their reduced usage.

The OCA fully addressed this issue at pages 268 to 270 of its Main Brief. No further reply is necessary.

7. Overall, Columbia has failed to meet its burden of proof that the RNA is a just and reasonable rate.

The Company makes several arguments in its Main Brief regarding why it should be entitled to recapture customers' unpaid rates from reduced throughput. The OCA addresses these arguments below. However, the arguments made by Columbia are unsupported by record evidence or are inconsistent with cost of service principles, principles of equity, or the bedrock principles of ratemaking.

First, Columbia does not attempt to distinguish its proposed RNA from the revenue decoupling mechanisms proposed in *PAWC 2023* and *Columbia 2021* which were rejected by the Commission.[538] As discussed in the OCA's Main Brief, Columbia's proposed RNA suffers from the same deficiencies which resulted in rejection of the RDM proposed in

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[538] OCA M.B. at 244-45; *Pa. PUC v. Pa.-American Water Co.*, Docket Nos. R-2023-3043189 *et al* (Order entered July 22, 2024) (*PAWC 2023*) at 307-28 (available at: https://www.puc.pa.gov/pcdocs/1838564.pdf/); *Columbia 2021* at 265.

PAWC 2023 and the RNA proposed in *Columbia 2021*, such as reduced incentives to conserve energy, creation of guaranteed rate recovery without ratepayer benefit, confusion to customers, and failure to demonstrate a need for decoupling.[539]

Second, despite Columbia's claim, no party is required to "quantify" alleged harms from the proposed RNA to warrant its denial.[540] The burden of proof does not shift to a challenger of a proposed rate.[541] As stated by OCA witness Deupree:

> The Company confirmed it has not conducted any analysis of how its historical earnings would have changed had the proposed RNA been in place. It has not simulated or modeled the retroactive effects of the RNA on past periods. Additionally, the Company has also stated that no supporting documentation or workpapers were prepared to justify the benchmark revenue per customer levels proposed under the RNA.[542]

Absent any analysis or quantification of benefits or harms from the proposed RNA, OCA witness Deupree provided a table demonstrating that decoupling mechanisms for natural gas utilities are, far more likely than not, going to issue more charges than credits.[543]

Third, the Company's claim that criticisms of the proposed RNA "can be alleged about any revenue decoupling mechanism" is both irrelevant and inaccurate.[544] Columbia, as the proponent of the RNA, bears the burden of proof; diminishing arguments opposed to Columbia's proposed RNA merely because they can be made about any decoupling

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[539] OCA M.B. at 244-45, 250, 252, 256, 263.
[540] Columbia M.B. at 175-77.
[541] *Pa. PUC v. Equitable Gas Co.*, 57 Pa. PUC 423, 471 (1983); *see also University of Pa. v. Pa. PUC*, 485 A.2d 1217 (Pa. Cmwlth. 1984); *Pa. PUC v. PPL Elec. Utils. Corp.*, 237 PUR4th 419 (PaPUC 2004) (Order entered Dec. 22, 2004).
[542] OCA St. 1 at 31.
[543] OCA St. 1 at 37; OCA Exh. MWD-6.
[544] Columbia M.B. at 175.

mechanism constitutes burden shifting and is contrary to law.[545] Further, Columbia's proposed RNA's deficiencies, in addition to those identified in the OCA's Main Brief, are summarized by OCA witness Deupree as follows:

> While the proposed RNA would provide the Company with assured recovery of its authorized revenue per customer, the Company offers no meaningful protections for ratepayers in return. The proposal lacks common safeguards such as caps on annual adjustments, deadbands to limit volatility, or performance-based conditions tied to efficiency outcomes. These types of protections are routinely used by utilities and regulators in other jurisdictions to ensure that decoupling mechanisms do not impose excessive or unfair burdens on customers. The Company's filing includes none of these measures, instead presenting the RNA as a one-sided tool that mitigates business risk for the Company without offering ratepayers any corresponding benefit or protection.[546]

To compare Columbia's proposed RNA to others which have been implemented, OCA witness Deupree prepared a survey of ratepayer protection mechanisms, including whether the mechanism limited recover or capped accruals, had a check on over-earnings, had demand-side management or energy efficiency targets, ran for a pilot or trial period, or had some compliance review.[547] The Company's proposed RNA is devoid of ratepayer benefits in comparison to other approved decoupling mechanisms.

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[545] 66 Pa. C.S. § 315(a), 1330; *Pa. PUC v. Pa.-American Water Co.*, 2004 Pa. PUC LEXIS 29 at *16-18 (Jan. 29, 2004) ("It is well-established that in general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one that that burden remains with the public utility throughout the course of the rate proceeding.")
[546] OCA St. 1 at 45-46.
[547] OCA Exh. MWD-9.

Fourth, the proposed RNA provides an inequitable guarantee of rate recovery without adequate consumer protections.[548] Columbia makes the inconsistent claims that the proposed RNA does not guarantee rate recovery and that there is a cap on RNA earnings.[549] As explained in the OCA's Main Brief, these statements cannot both be true: either there is no cap on earnings and no guarantee of rate recovery viewed over the short term or the inverse is true over the long term.[550] Further, the Company provides no actual customer protections, such as a deadband or reduced rate filing frequency, to mitigate the effects of the RNA on its customers.[551] The Company's virtual guarantee of retroactive rate recovery under the proposed RNA reduces its incentives to control costs and disincentives to overcapitalize.[552]

Fifth, the Company's claim that it needs to implement the proposed RNA because "its distribution system costs are fixed, yet the majority of costs are recovered through volumetric charges" is unsupported by record evidence.[553] PAWC similarly recovers some of the fixed costs of its distribution system through volumetric charges in *PAWC 2023* and the Commission nevertheless determined that PAWC did not need to implement a decoupling mechanism.[554] Further, the Company's argument that demand- and throughput-

[548] OCA M.B. at 262-66; OCA St. 1 at 15; OCA St. 1SR at 3-5.
[549] *Compare* Columbia M.B. at 176 *with PAWC 2023* at 308 (the proposed decoupling mechanism "would produce guaranteed rate recovery where no guarantee existed in the past and shift the risk of recovery entirely onto customers without any benefit").
[550] OCA M.B. at 264-65.
[551] OCA St. 1 at 45-46.
[552] OCA M.B. at 265; OCA St. 1SR at 3-5.
[553] Columbia M.B. at 176.
[554] *PAWC 2023* at 308.

related "fixed" costs should be recovered through fixed RNA surcharges is not based in fundamental cost of service principles, as such costs appropriate var with consumption.[555]

Sixth, the Company has presented no evidence that the proposed RNA is designed to eliminate its throughput incentive or that the Company is motivated by its throughput incentive.[556] While Columbia claims that customers will still be able to see bill savings due to reduced usage, customers' savings will still be sacrificed to the Company in the following RNA period. Year-over-year, average customers' incentives to implement energy efficiency improvements or to conserve are muted because the RNA recaptures bill savings through a fixed surcharge.[557] The commodity-related portion of customers' bills remains a relatively small portion of their overall bill, minimizing the bill savings under the RNA and further distorting customers' price signals.[558]

As noted by OCA witness Deupree, the Company's extension of its Energy Efficiency Plan into its second three-year phase indicates three important things:

> First, the entire premise for the RNA, to the extent it is even allowed, should be to remove a disincentive to aggressively pursue energy efficiency activities. While the Company currently has various EE&C programs, the Company also appears to have adequate incentives in promoting these programs since they were initiated without revenue decoupling. Further, and

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[555] OCA M.B. at 266-68; *Phila. Indus. And Comm. Gas Users Group v. Pa. PUC*, 2025 Pa. Commw. LEXIS 133, *39 (Pa. Cmwlth. Aug. 1, 2025)(*PICGUG*).
[556] Columbia M.B. at 177.
[557] *Compare* Columbia M.B. at 177 *with* OCA M.B. at 268-70 *and PAWC 2023* at 308 *and* OCA St. 1SR at 15.
[558] OCA M.B. at 22-24; Tr. 169, 180, 182, 187, 216, 226; Evans Exh. 1; *see also PECO Gas 2024* at 97 ("The WNA affects the distribution charge on a customer's bill, while only commodity charges will be based on actual usage, thus muting the effect of consumers' efforts to conserve energy on their bill. Similarly, it will be difficult for consumers to gauge the return on investment for energy efficiency investments when their efforts to conserve energy are not clearly beneficial in reducing their costs.") (citations omitted).

> more importantly, the Company has not proposed any new incremental offerings to accompany the RNA proposal. Approving the RNA alone, without any new or incremental energy efficiency program commitments, effectively "decouples" the problem from the solution. Second, this omission shifts the entire regulatory and performance-related risk associated with the Company's future energy efficiency activities entirely onto ratepayers since there is nothing to assure that the RNA, in fact, will lead to enhanced energy efficiency efforts. Third, the proposal itself suggests the Company's EE&C activity is not adequate, yet the Company does not quantify or provide any other record evidence to show how it could be doing more than it is already doing with regards to its EE&C service offerings.[559]

Based on the Company's proposal of an extension to its voluntary Energy Efficiency Plan, it is clear that the Company does not need decoupling to further promote energy efficiency with its customers.[560]

Further, the Company's statement that the RNA "is designed to stabilize recovery of fixed distribution costs, not volumetric costs," is inaccurate and misleading.[561] The RNA does not consider if costs are throughput-related when it recovers them via surcharge: if the costs are included in the revenue requirement, they can be recovered through the RNA, even if the costs are throughput-related.[562] Columbia presented no evidence that the entirety of its revenue requirement is "fixed" and does not vary with the volume of natural gas consumed, and any such evidence would be undermined by the Peak & Average ACOS study relied upon to allocate the costs of distribution mains.[563]

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[559] OCA St. 1 at 35.
[560] OCA M.B. at 249; OCA St. 1 at 30-36.
[561] Columbia M.B. at 177.
[562] OCA M.B. at 266-68; OCA St. 4 at 13.
[563] OCA St. 4 at 13-14.

Seventh, and finally, the Company's response to OCA witness Alexander's critique of Columbia's educational and communication materials fails to grasp the basis of Ms. Alexander's opposition to the RNA.[564] Namely, the Company has inadequately educated its customers regarding the WNA Pilot.[565] In the absence of customer education and communication materials, such as call center training scripts, there is no basis to conclude that Columbia will adequately inform the Company's customers sufficient to overcome the confusing nature of the proposed RNA.[566]

For these reasons, as well as those set forth in the OCA's Main Brief, the Company's arguments in support of its proposed RNA should be given little weight. The proposed RNA will not result in just and reasonable rates and is not in the public interest and, therefore, should be denied, as in *Columbia 2021* and *PAWC 2023*.

XII. CUSTOMER/QUALITY OF SERVICE ISSUES

In this portion of its Reply Brief, the OCA responds to Section XII of the Main Brief of Columbia, beginning on page 179.

In its unreasonable dismissal of OCA's customer service and quality of service recommendations, Columbia continues to fail to meet its burden of proof in this case. Service[567] must be adequate, efficient, safe, and reasonable, but as the OCA thoroughly

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[564] Columbia M.B. at 178.
[565] OCA M.B. at 256; OCA St. 6 at 23-26; OCA St. 6SR at 1-2.
[566] *See PAWC 2023* at 308 (the proposed decoupling mechanism is ""likely be confusing and difficult to understand for consumers due to its complex design in determining whether the RDM is a credit or charge").
[567] "Service" is used broadly and inclusively, and captures, "any and all acts done, rendered, or performance" by public utilities. 66 Pa. C.S. § 102, *West Penn Power Co. v. Pa. PUC*, 578 A.2d 75-77 (Pa. Cmwlth. Ct. 1990). As such, all parts of a public utility's customer

explained in its Main Brief, absent adoption of the OCA's recommendations, Columbia fails to provide such service.[568] In its Main Brief, the OCA fully support recommendations for improvement in Columbia's quality of service and asks that they be imposed as conditions of any rate increase awarded to Columbia. These recommendations include the following: (1) maintain 2024 levels of customer service performance; (2) perform a root cause analysis; (3) perform an analysis of payment arrangement policies, termination and reconnection policies; (4) ensure that appropriate billing disclosures and notifications are provided for Natural Gas Suppliers; and (5) implement a review of chat boxes and IVR scripting regarding Chapter 56 consumer protections with the Universal Services Advisory Committee.

The OCA notes that Columbia addressed OCA witness Alexander's customer service issue in this section, and the OCA responds as it did in its Main Brief in the Rate of Return Section IX(E) as the recommendation was made pursuant to the OCA's review of the Company's claims of superior management performance. For purposes of brevity, and because the OCA fully supported each recommendation in its Main Brief, the OCA will incorporate the relevant portions of its Main Brief.

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service must ve adequate in order for the utility to comply with the requirements of Section 1501 of the Code, and "inappropriate and unreasonable treatment to customers can be interpreted as inadequate service." *See*, *e.g.*, *Laura Andracchio-Johnson and Charles Johnson v. Duquesne Light Co.*, Docket No. C-2022-3032695, 2023 Pa. PUC LEXIS 343 at *17 (Order entered Dec, 21, 2023) (citing *Barbara R. Lolly v. Duquesne Light Co.*, Docket No. C-2010-2167824 (Order entered May 9, 2011)).

[568] *See* 66 Pa.C.S. § 1501; OCA M.B. at 273-287.

A. Columbia should perform a root cause analysis to address customer disputes.

In this portion of its Reply Brief, the OCA responds to Section XII.B of the Main Brief of Columbia, beginning on page 181.

As discussed in its Main Brief, the OCA recommends that the Company be required to implement a root cause analysis of customer disputes, including formal and informal complaints.[569] The root cause analysis should be developed using input from interested stakeholders within 6 months of a final order in this proceeding.[570] In its Main Brief in Section XII(B), Columbia argues that the OCA's recommendation for a root cause analysis should be rejected.[571]

In its Main Brief, Columbia argues that its current process of tracking complaints by issue and its Regulatory Compliance team's regular meetings with customer facing teams is a "more efficient and effective method for improving customer experience."[572] Columbia also argues that Ms. Alexander has not demonstrated a need for a root cause analysis for customer disputes, including formal and informal complaints and disputes that the Company is experiencing a "deterioration" related to justified payment arrangement cases.[573]

As discussed in the OCA's Main Brief and in Ms. Alexander's Surrebuttal testimony, the Company has misunderstood the OCA's recommendation for a root cause

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[569] OCA M.B. at 274-278; OCA St. 6 at 16-17.
[570] *Id*.
[571] Columbia M.B. at 181-183.
[572] Columbia M.B. at 181-182.
[573] Columbia M.B. at 182.-183.

analysis in this case. Ms. Alexander further explained the deficiencies with the Company's approach:

> [w]hile collecting data on the categories of customer complaints is a part of a root cause analysis, that is only the first step. The next steps are to explore trends in complaints, find the root cause of complaints that are similar and repeated, explore possible solutions to prevent complaints or reduce trends that can be impacted by training, changes in policies, and additional management oversight, monitor the results of actions taken based on the root cause analysis, and routinely explore complaint data on a regular basis.[574]

Columbia witness Paloney's response "reflects a lack of knowledge of the process and ignores the potential benefits."

Columbia's current process and approach has proven to be deficient and demonstrates a need for improvements to their processes. As discussed in Surrebuttal Testimony, OCA witness Alexander cited to an example of how a root cause analysis could have been used to address a series of complaints that Columbia experienced recently:

> [f]or example, had Columbia taken a root cause analysis approach to the pattern of improper denial of service communications that appeared in their internal disputes prior to the customer appealing those results to the BCS, the Company could have identified the need for internal reforms prior to waiting to be notified by the BCS and triggering Columbia's response. Instead, Ms. Paloney relies on this prompt response to change the denial of service letter based on BCS communications as an example of a proper action, thus missing the basic purpose and point of my recommendation.[575]

For the reasons set forth in the OCA's Main Brief, the OCA continues to recommend that Columbia be required to develop and implement a more rigorous root cause analysis of customer disputes, informal and formal complaints, and BCS findings, particularly those

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[574] OCA St. 6SR at 9.
[575] OCA St. 6 at 10; Columbia St. 9-R at 25.

identified as "verified" and "infractions" on a regular basis.[576] The analysis should be developed in consultation with stakeholders within six months of the adoption of the final order in this proceeding.[577] The Company should initiate this routine process within six months of a final order in this base rate proceeding after consultation with stakeholders on the design and implementation of a proper root cause analysis.[578]

B. Columbia should perform an analysis of payment arrangement policies and termination and reconnection policies.

In this portion of its Reply Brief, the OCA responds to Sections XII.D and XII.E of the Main Brief of Columbia, beginning on pages 184 and 185, respectively.

As the OCA discusses in its Main Brief,[579] the OCA raised two interrelated concerns regarding payment arrangements and the Company's field service training materials. The concern that Ms. Alexander identified Columbia's Main Brief separates these two issues into two separate sections (Section XII(D) Billing and Payment Policies and Section XII(D)(E) Field Training Materials). The separation of these two issues highlights the Company's lack of understanding about how these issues are interrelated.

For payment arrangement policies, the OCA recommends that the Company be required to evaluate and report on its payment plans, their policies, and identify potential reforms and changes that are likely to ensure a greater success with payment plans.[580] This could help to reduce collection costs and future terminations of service with a resulting

[576] OCA St. 6 at 17.
[577] OCA St. 6 at 17, Exh. BA-3 (example of a proper root cause analysis).
[578] OCA St. 6SR at 9.
[579] OCA M.B. at
[580] OCA St. 6 at 17.

lower uncollectible expense. The OCA submits that it is unreasonable to approve Columbia's proposed uncollectible expense when the Company does not undertake any reasonable steps to evaluate the success or failure of its payment arrangements.[581] The OCA recommends that the Company should evaluate the results of its termination and reconnection of service policies as a crucial component of determining the reasonableness of bad debt.[582]

Columbia recommends that OCA witness Alexander's recommendation be rejected.[583] In its Main Brief, Columbia argues that a need for the recommendation has not been shown or that the Company is not adhering to provisions of the Public Utility Code, Commission Orders or regulations, or the Company's Commission-approved tariff related to payment arrangements.[584] As discussed in the OCA's Main Brief, the Company has missed the point of the OCA's recommendation. At present, Columbia does not evaluate the success or failure of its payment arrangements, and the Company has not undertaken any analysis of its termination and reconnection results.[585] Columbia takes a similar approach to its payment arrangements as it does to its evaluation of customer complaints as discussed *supra*. OCA witness Alexander testified that "the Company's approach does not reflect any responsibility or interest in determining the factors that lead to success or failure of its payment plan policies or the results of its termination and reconnection service

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581 OCA St. 6 at 18.
582 OCA St. 6 at 18.
583 Columbia M.B. at 184.
584 Columbia M.B. at 184.
585 OCA St. 6 at 17.

policies."[586] The Company is correct that it has experienced a 0.30% uptick in the percentage of justified infractions between 2021 and 2023 before the Bureau of Consumer Services, but the point of the examination is not the percentage of infractions, the point is whether the payment arrangements and training materials are successfully addressing consumer complaints.

OCA witness Alexander's presented concerns are about the Company's lack of analysis of how the payment arrangements are operating to address consumer success. OCA witness Alexander testified:

> [t]he purpose of my recommendation is not to determine if Company is violating any Commission rule, but to evaluate whether the payment plans are successful and whether internal training, additional customer education, or other potential policy changes that might improve their success rate. Such an evaluation might also explore why the Company's PARs increased based on the UCARE data.[587]

The OCA recommends that the Company should evaluate the results of its termination and reconnection of service policies as a crucial component of determining the reasonableness of bad debt.[588]

In its Main Brief, Columbia argues that OCA witness Alexander ignores the multiple contacts with customers prior to termination and the written notice left at the home. Columbia argues that the field contact is not the appropriate time to address consumer protections for "potential safety risks and privacy concerns."[589] Although the

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[586] OCA St. 6 at 17.
[587] OCA St. 6SR at 11.
[588] OCA St. 6 at 18.
[589] Columbia M.B. at 185.

Company argues that the training materials address the conditions that would require an employee to withdraw termination, OCA witness Alexander does not agree and specifically identified in the Confidential version of her testimony important consumer protections that are not identified or implemented in Columbia's training materials.[590] Ms. Alexander is instead recommending that the Company appropriately educate and train its field personnel on all potential rights that may be encountered and how to respond. She testified "the obvious interpretation when the training materials fail to describe and recognize these rights is that the field representatives may not recognize or properly respond when those rights are alleged."[591] The Company's brief does not acknowledge or address these concerns.

As discussed in the OCA's Main Brief, neither the Company nor OCA witness Alexander are proposing to put a field representative in an unsafe situation or to violate the customer's privacy.[592] The field service representative should always bear in mind that the purpose of the contact is to terminate essential natural gas service for every member of the household and should be trained appropriately to respond to the rights that the Commission has ordered its public utilities to implement.[593]

Evaluation of the success for payment arrangements and the evaluation of the field training materials work hand-in-hand. As a part of that evaluation of termination and reconnection policies, the OCA recommends that the Company should evaluate the results

[590] OCA Confidential M.B. at 280-281; OCA St. 6 (Confidential version) at 18-19.
[591] OCA St. 6SR at 13.
[592] OCA M.B. at 282.
[593] OCA St. 6SR at 13.

of its termination and reconnection of service policies as a crucial component of determining the reasonableness of bad debt.[594] As a result of her review, Ms. Alexander recommended that the Company revise its training materials to comply with all the applicable consumer protections and rights for residential customers facing termination of service. She recommended that the training materials should be improved to reflect the full range of customer rights associated with termination of service. She also recommended that additional regular reporting should be developed to allow management to track the implementation of this policy and its results once an attempt at contact has been achieved in consultation with stakeholders within 6 months of the final order in this proceeding.[595]

C. Columbia Billing and Payment Policies

In this portion of its Reply Brief, the OCA responds to Section XV of the Main Brief of Columbia, beginning on page 224.

1. Columbia should ensure that appropriate billing disclosures and notifications are provided for Natural Gas Suppliers.

Columbia should provide billing disclosures and notifications for customers who are shopping. The OCA recommends that Columbia take some action in light of the impact on customer bills who are paying higher prices compared to default service and who will be at risk for potential collection and termination of service from Columbia for inability to pay higher prices. At a minimum, Columbia should target educational messages to the choice customers to emphasize how to compare NGS charges per therm to the PTC and to

[594] OCA M.B. at 280-282; OCA St. 6 at 18-19.
[595] OCA St. 6 at 19.

urge them to compare prices and rates on a monthly basis.[596] Similarly, CAUSE-PA witness Geller recommended that the Commission require Columbia to send targeted communications to customers who are enrolled with an NGS and pay higher rates than the Company's Price to Compare (PTC).[597]

As discussed in the OCA's Main Brief, Ms. Alexander testified regarding the impact that the NGS charges actually billed to their customers by Columbia. Ms. Alexander testified:

> [a]s documented in this analysis, Columbia's residential (and non-residential) customers are vastly overpaying for essential natural gas supply when choosing an NGS instead of relying on the Price to Compare. From January 2022 through March 2025, approximately 48,000 residential customers paid $35,332,095 MORE than the PTC. In only two months was there even a slight benefit from NGS prices.[598]

In its Main Brief, Columbia argues that the recommended messaging conflicts with the intent of the Natural Gas Choice and Competition Act, 66 Pa. C.S. Section 2203(2).[599] Columbia states:

> 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>" 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.[600]

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[596] OCA St. 6 at 21.
[597] CAUSE-PA St. 1 at 60.
[598] OCA St. 6 at 21.
[599] Columbia M.B. at 225.
[600] Columbia M.B. at 225, citing 66 Pa. C.S. § 2203(2).

The Company argues that the proposed messaging proposed by the OCA and also by CAUSE-PA conflicts with the Competition Act.[601]

The OCA disagrees with the Company's interpretation of the Competition Act. Nowhere in the Competition Act does it state that an NGDC cannot provide customers with education about shopping. Education and accurate billing information does not prevent a customer from shopping or from being able to choose any different supply or pricing options. The supplier includes the prices of its service on Columbia's bill. Moreover, the Company currently is not hands off with respect to customer shopping. Columbia does provide information to customers about shopping. As OCA witness Alexander testified, customer service representatives from Columbia already are required to read and solicit customer's interest in a "choice packet" but no regulation or order requires this action.[602] As Ms. Alexander concluded, "the Company promotes choice and appears to take no responsibility when customers end up paying higher bills issued by Columbia on behalf of participating suppliers."[603]

The Commission has previously issued orders affirming the adverse impact of customer choice shopping on low-income customers and the evidence that these customers pay higher prices for essential utility service when served by retail suppliers.[604] OCA

[601] *Id.*
[602] OCA St. 6SR at 14.
[603] *Id.*
[604] OCA St. 6SR at 15.

witness Alexander testified that "Columbia should exclude known low income customers from customer choice if it has not already done so."[605]

Columbia also asserts that no NGSs or industry groups representing NGSs have not intervened in this proceeding so therefore the communications recommended by OCA witness Alexander and CAUSE-PA witness Geller should not be considered. The education proposed by the OCA in this matter directly impacts the quality of service provided by Columbia to its customers, and in particular, its low-income customers under Section 1501 of the Public Utility Code. An NGS or industry group's intervention or lack of intervention in a proceeding should have no impact on the opportunity for the OCA to raise its concerns in this proceeding. Columbia's assertion presumes a position by the NGSs and/or industry groups that has not been placed into evidentiary record of this proceeding. What is before this Commission is the OCA's appropriately raised concerns regarding the quality of service provided by the Company's billing disclosures.

For the reasons set forth in the OCA's Main Brief and in the testimony of OCA witness Alexander, the OCA continues to recommend that Columbia take some action in light of the impact on customer bills who are paying higher prices compared to default service and who will be at risk for potential collection and termination of service from Columbia for inability to pay higher prices.[606] At a minimum, Columbia should target

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[605] OCA St. 6SR at 15.
[606] OCA M.B. at 283-285.

educational messages to the choice customers to emphasize how to compare NGS charges per therm to the PTC and to urge them to compare prices and rates on a monthly basis.[607]

2. Columbia Website and Automated Service Offerings

In Section XII (C) of its Main Brief, Columbia addresses the OCA's recommendations regarding review of scripts for IVR and automated chat boxes.[608] Columbia and OCA agree that the Company should implement a review for its scripts for the automated chat boxes and IVR scripting with its USAC, but disagree about the proposed timing of the review. In its Main Brief, Columbia adopts OCA witness Alexander's recommendation that the Company review its scripts for the automated chat bots/boxes and IVR scripting in order to ensure compliance with Chapter 56 and that the Company report its findings to the Universal Services Advisory Committee (USAC) within 6 months of the Final Order in this proceeding.[609] In her Rebuttal Testimony, Company witness Paloney agreed to conduct a review of the "workflow and scripting regarding consumer protections and will report its findings to the Universal Service Advisory Council, within six months of the final Order of this proceeding."[610] OCA witness Alexander agreed that this responded to the issue that she raised in her Direct Testimony concerning the example of the automated script to determine whether a security deposit would be required upon application of service that did not reflect the right of low income

[607] OCA St. 6 at 21.
[608] Columbia M.B. at 183.
[609] Columbia M.B. at 183-184; OCA St. 6 at 16.
[610] Columbia St. 9-R at 27.

customers to be exempt.[611] OCA witness Alexander stated that "since the Company has properly recognized this concern, Columbia should initiate this review immediately and not wait for the final order in this proceeding."[612]

As the OCA discussed in its Main Brief, the OCA recommends that the Company immediately implement this recommendation rather than waiting for a final order in this proceeding.[613]

XIII. UNIVERSAL SERVICE PROGRAMS

A. Introduction

In this portion of its Reply Brief, the OCA responds to Section XIII of the Main Brief of Columbia, beginning on page 187.

As the OCA discussed more fully in its Main Brief, the law requires that the Commission must consider as a part of setting rates in this proceeding the interests of all customers, including low-income customers, with the interests of the Company.[614] Affordability for low-income customers is a paramount consideration. The Public Utility Code "seeks to ensure that service remains available to all customers on reasonable terms and conditions."[615] The Commission can order improvements to service as a condition of any rate increase.[616] The OCA did not present evidence regarding Columbia's Low Income Usage Reduction Program funding; Hardship Fund; and the Health and Safety Pilot as

[611] OCA St. 6SR at 16.
[612] OCA St. 6SR at 16.
[613] OCA M.B. at 286-287.
[614] OCA M.B. at 287-289.
[615] 66 Pa. C.S. § 1402(3).
[616] *Pa. PUC v. Pa. Gas & Water Co.*, 74 PUR4th 238, 244-45 (1986) (*PG&W 1986*).

discussed in Columbia's Main Brief at Sections XIII(F)-(H). The OCA does not respond in this Reply Brief to those issues.

For purposes of brevity, and because the OCA fully supported each recommendation in its Main Brief, the OCA will incorporate the relevant portions of its Main Brief.

B. The Commission must consider as a part of this rate request the overall affordability of Columbia's rates.

On pages 289 to 292 of its Main Brief, the OCA discussed the impact of affordability of rates on customers, particularly low-income households. Columbia did not address this issue in its Main Brief.

C. The Commission must also consider the impact on affordability for low-income households.

On pages 292 to 298 of its Main Brief, the OCA discussed the unaffordability of Columbia's rates, and recommended that unaffordability of rates be considered in determining the appropriate revenue requirement and in structuring rates. Columbia did not address this issue in its Main Brief.

D. In reaching its final determination as to a revenue requirement in this matter, the Commission should consider disproportionate impact of inflation on low-income customers.

On pages 298 to 300, the OCA discussed that the Commission should consider as a part of setting rates the impact that inflation has had on low-income households' ability to afford utility services, and particularly with respect to the recommendations for modifications to the programs to address those issues. Columbia did not address the issue of inflation's impact on low-income households' ability to afford service. The OCA addresses below in Section G Columbia's responses to the OCA's recommendations.

E. In reaching its final determination as to a revenue requirement in this matter, the Commission should consider the disproportionate impact of setting a revenue requirement on moderate income ALICE households.

On pages 300 to 302 of the OCA's Main Brief, the OCA discussed that the Commission should consider the impact of setting a requirement on moderate income ALICE households. Columbia did not address the issue of ALICE households in its Main Brief.

F. The Cost-of-Living in Columbia's service territory can impact affordability for ratepayers.

On pages 302 to 304 of the OCA's Main Brief, the OCA discussed the impact of cost-of-living on the affordability of rates for ratepayers. Columbia did not address the issue of cost-of-living in its Main Brief.

G. Recommendations to Address Low-Income Unaffordability

In this portion of its Reply Brief, the OCA responds to Sections XIII.C through XIII.I of the Main Brief of Columbia, beginning on page 195.

1. Introduction

As discussed in the OCA's Main Brief, the OCA has identified concerns regarding the affordability of Columbia's rates for low-income and moderate income ratepayers. The OCA recommended that Columbia implement changes to improve the identification of low-income customers and that Columbia should take more effective actions to use the universal service program to prevent the disconnection of service for nonpayment to Confirmed Low-Income customers. The OCA supports approval of the proposed arrearage forgiveness pilot. For the reasons set forth below and in the OCA's Main Brief, the OCA also recommends that the Company's proposal to recover additional costs through the Rider USP be denied.

In Section XIII(A) of its Main Brief, Columbia addresses the speech analytics pilot. As the Company correctly identifies in its Main Brief, OCA witness Colton supported the pilot program in his Direct Testimony, and the OCA does not address the issue in this Reply Brief. [617] The OCA did not present evidence regarding Columbia's Low Income Usage Reduction Program (LIURP) funding; auto-enrollment of LIHEAP recipients; Hardship Fund; and the Health and Safety Pilot as discussed in Columbia's Main Brief at Sections XIII(F)-(H). The OCA does not respond in this Reply Brief to those issues.

2. Columbia should implement changes to improve its identification of low-income customers.

In its Main Brief, the Company addresses together the proposed improvements that OCA made regarding identification of its low-income customers and more effective actions to use the universal service program to prevent the disconnection of service for nonpayment by Confirmed Low-Income customers including proposed extensions of prior Settlement agreement pilots.[618] Columbia addresses together the OCA and CAUSE-PA's recommendations. Columbia also separately addresses as "call scripting" in Section XIII(I) the OCA's recommendations regarding security deposits.[619] The OCA will only be addressing the OCA's recommendations.

[617] OCA St. 5 at 73-74; Columbia M.B. at 187-192.
[618] Columbia M.B. at 203-204.
[619] Columbia M.B. at 208.

Columbia argues that under the proposals, the Company would be required to screen all applicants for their income level at the time they establish or transfer service. The Company argues that it would increase call time, require the hiring of additional employees, and potentially be perceived as invasive questions.[620] Columbia asserts that it plans to conduct a thorough review of its workflow and scripting to ensure that customers are aware of the exemptions for security deposits are communicated to customers.[621]

While the OCA supports review of the Company's workflow and scripting, the OCA does not believe that it is sufficient without requesting financial information to assess whether a customer would be eligible for an exemption. As the OCA discussed in its Main Brief, the recommendations that the OCA is making should be actions that the Company is already taken under the requirements of the Commission's regulations.[622] It appears from Ms. Davis's response in Rebuttal Testimony and the Company's Main Brief response that the Company does not inquire into the potential low-income status of applicants when determining whether a customer must pay a security deposit in the absence of Mr. Colton's recommendation.[623] The implication of the Company's actions is inconsistent with Pennsylvania's regulations.[624] Pennsylvania regulations provide that income eligible applicants – not customers but applicants – are exempt from being required to post cash security deposits.[625] Section 56.32(e) provides in relevant part:

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[620] Columbia M.B. at 203-204.
[621] Columbia M.B. at 208.
[622] OCA M.B. at 307-308.
[623] Columbia St. 16-R at 4; Columbia M.B. at 203-204.
[624] 52 Pa. Code § 56.32(e).
[625] 52 Pa. Code § 56.32(e).

> …a public utility may not require a cash deposit from an applicant who is, based upon household income, confirmed to be eligible for a customer assistance program. An applicant is confirmed to be eligible for a customer assistance program by the public utility if the applicant provides income documents or other information attesting to his or her eligibility for state benefits based on household income eligibility requirements that are consistent with those of the public utility's customer assistance program.[626]

Under the regulations, Columbia is under an obligation to already be taking the steps to determine financial eligibility for a security deposit, and OCA's recommendation is just to utilize that provided information in order to determine eligibility for CAP. As OCA witness Colton testified:

> It would not be possible for Columbia Gas to comply with this statutory mandate without inquiring into the income of the applicant. By definition, if the applicant provides sufficient income documentation to qualify for the exemption from a cash deposit, that applicant would have provided sufficient income documentation to inform Columbia Gas that further effort should be made to determine if the applicant qualifies for CAP.[627]

For the reasons set forth above and in the OCA's Main Brief, the OCA recommends that Columbia initiate a screening process at the time a household first applies to receive service from Columbia to determine whether the applicant: (a) should be classified as a Confirmed Low-Income customer; and (b) should be referred to the CAP application process.

[626] 52 Pa. Code § 56.32(e).
[627] OCA St. 5SR at 16.

3. Columbia should take more effective actions to use the universal service program to prevent disconnection of service for nonpayment of Confirmed Low-Income customers.

As noted in Section XIII(G)(2) supra, the Company has addressed the OCA's two recommendations under a discussion of CAUSE-PA and OCA recommendations for better "screening" of low-income customers.[628] The OCA has made a separate recommendation regarding improvements to help prevent disconnection of low-income customers from the screening for identification recommendation, including proposed extensions of prior Settlement agreement pilots, to which the Company does not address in its Main Brief. The OCA will not repeat its arguments made in its Main Brief here.[629] For the reasons set forth in the OCA's Main Brief, the OCA recommends that the pilots identified in the 2024 Settlement be extended to work towards the deficiencies in enrolling Confirmed Low-Income customers in CAP as identified by OCA witness Colton.[630] The OCA also recommends that the Company be directed within 60 days of a final Order in this proceeding to modify any policies, practices, standard operating procedures, or other internal activities so as to fully communicate in a clear and timely manner the low-income deposit exemption to new applicants.

[628] See Columbia M.B. at 203-204, Section XIII(E).
[629] OCA M.B. at 309-315.
[630] OCA M.B. at 315.

4. Columbia's proposed arrearage forgiveness pilot should be approved.

Columbia addressed the proposed arrearage forgiveness pilot program in Section XIII(B) of its Main Brief.[631] For the reasons set forth in the OCA's Main Brief, the OCA agrees with Columbia that the proposed arrearage forgiveness pilot should be approved.[632]

5. Columbia's proposal to change the cost recovery for CARES and CAP administrative costs should be denied.

In its Main Brief Section XIII(C), the Company discusses its proposal to change the cost recovery for its internal administrative Team EAT costs from base rates to the Rider USP. Ms. Paloney testified:

> [t]he Company is proposing to modify the recovery of costs associated with CARES, specifically LIHEAP, and CAP internal administration. They are currently recovered through base rates as part of Operation & Maintenance expenses. These costs are directly related to all of Columbia's low-income assistance programs, and accordingly, these costs should be moved out of base rates and recovered through Rider USP.[633]

Company witness Davis proposed that $220,000 in internal administrative costs be switched from base rates to the Rider USP.[634] As the OCA discusses in its Main Brief, the OCA objects to the proposal to recover the costs through the Rider USP. I&E, OCA and CAUSE-PA either object or express concerns about the proposal to shift the costs.

In its Main Brief, Columbia argues that the EAT costs result directly from the administration of universal services and energy assistance and that the number of

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[631] Columbia M.B. at 192-195.
[632] *See* OCA M.B. at 316-317.
[633] Columbia St. 9 at 18-19; Columbia St. 16 at 10-15.
[634] Columbia St. 16 at 10-15.

employees are approved as included in the Universal Service and Energy Conservation Plan (USECP).[635] As the OCA discussed in its Main Brief, the Company's intent is clear from Ms. Davis's testimony that the Company proposes to expand the categories of costs to be recovered through the Rider USP. [636]Company witness Davis testified that part of the costs that the Company seeks to recover results not from Company programs, but rather from additional costs imposed by the federal LIHEAP program.[637]

OCA witness Colton testified that "inclusion of administrative costs in the Universal Service Rider is only appropriate when such costs might fluctuate thus posing a risk that the costs would not be fully recovered."[638] Columbia witness acknowledges that the "the number of employees that staff the EAT is identified and approved in the Company's USECP."[639]

The Company is seeking to recover the costs for various miscellaneous programs through its Rider USP which is not permissible. The Rider USP "is not a mechanism for Columbia Gas to use to recover costs imposed by federal and state agencies."[640] The Rider USP is also not "intended to be the catch-all through which Columbia Gas is to recover the costs of miscellaneous temporary federal and/or state programs, such as COVID relief

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[635] Columbia M.B. at 198-199.
[636] OCA M.B. at 319; Columbia St. 16 at 13.
[637] Columbia St. 16 at 13.
[638] OCA St. 5SR at 16.
[639] Columbia St. 16-R at 15.
[640] OCA St. 5 at 114.

programs cited by Ms. Davis."[641] These programs included the Homeowners Assistance Fund and the Emergency Rental Assistance Program.[642]

The tariff specifically limits the categories allowable for recovery of Rider USP costs. Costs are not automatically deemed to be "universal service" costs simply because they are directed towards low-income customers.[643] OCA witness Colton testified:

> The Columbia Gas "Rider USP" tariff, for example, appropriately notes the limitations of the Rider. The tariff provides: "The Rider USP rate shall be calculated to recover costs for the following programs: Low Income Usage Reduction Program (LIURP); Customer Assistance Program (CAP); and the WarmWise® Audits and Rebates program; and the Emergency Repair Program (ERP)." (Columbia Gas PA Tariff, Rider USP). The costs of the CARES program, for example, are not included in the Rider. No cost associated with the Company's hardship fund are collected through the Rider. No costs of LIHEAP outreach, Crisis outreach, or the administration of the Crisis program, are included in the Rider. Costs associated with administering winter disconnection protections, the negotiation of low-income deferred payment arrangements, or the determining low-income customer exemptions from cash security deposits are not collected through the Rider USP. The Rider USP is intended to be a reconcilable rider to account for the fluctuating nature of the costs of the listed programs. Columbia Gas generally, and the rebuttal testimony of Columbia Gas witness Davis in particular, has not established the propriety of collecting the EAT costs through the Rider USP. [644]

For the reasons set forth above and in the OCA's Main Brief, the OCA recommends that the Company not be permitted to shift recovery for the CARES and internal CAP administration (referred to by the Company as EAT Team costs) in the amount of $220,000 from base rates to the Rider USP. The proposed costs are not appropriate for recovery in

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[641] OCA St. 5 at 114, citing Columbia St. 16 at 14.
[642] OCA St. 5 at 114.
[643] OCA St. 5SR at 17.
[644] OCA St. 5SR at 17.

the Rider USP. Collection through the Rider USP is narrowly defined and the proposed expansion to include Call Center EAT costs expands the scope.

6. Conclusion

For the reasons set forth above and in the OCA's Main Brief, the OCA recommends that Columbia should implement changes to improve its identification of low-income customers. Columbia should also take more effective actions to use the universal service program to prevent disconnection of service for nonpayment to Confirmed Low-Income customers. Columbia's proposed arrearage forgiveness pilot program should be approved. The OCA also recommends that the Company's proposal to recover additional costs through the Rider USP be denied.

XIV. ENERGY EFFICIENCY PROGRAM

A. Introduction

In this portion of its Reply Brief, the OCA responds to Section XIV of the Main Brief of Columbia, beginning on page 208.

As Columbia discusses in its Main Brief, the Company has proposed to continue its voluntary Energy Efficiency and Conservation (EE&C) plan for Phase II.[645] As the OCA discussed in its Main Brief, the OCA supports continuation of the EE&C plan for Phase II and the Company adopted several of the OCA's recommendations in its Rebuttal Testimony from Columbia witness Nunley. The Company agreed to adopt, in full or in part, some of Ms. Sherwood's recommendation including: (1) to use the most recent

[645] Columbia M.B. at 208-215.

available market information to support the development of its portfolio in future filings; (2) to file within this docket all EM&V reports completed on the programs; and (3) to coordinate with the EDC programs.[646] The OCA discusses below those adopted recommendations and the additional modifications and clarifications that OCA witness Sherwood recommend still be included.

B. In its Rebuttal Testimony, the Company adopted, in full or in part, several of OCA witness Sherwood's recommendations.

In this portion of its Reply Brief, the OCA responds to Section XIV.C of the Main Brief of Columbia, beginning on page 216.

1. Market Data

The Company adopted the OCA's recommendations related to modifications to the market data as discussed in the OCA's Main Brief.[647] In the Rebuttal, Company Nunley stated that the Company would adopt the OCA's recommendation to update its compliance filing to incorporate the most recent market information and will do so in future filings.[648] Mr. Nunley indicated that the Phase V Commission Order was released on June 18, 2025. In Surrebuttal Testimony, OCA witness Sherwood agreed that the Order should be considered in the Company's filing in addition to the Commission's Orders related to the Phase V Technical Resource Manual and Total Resource Cost test that were released prior to the Company's filing in this docket.[649] She testified that "if as part of that update program

[646] OCA St. 7SR at 3.
[647] OCA M.B. at
[648] Columbia St. 13-R at 11.
[649] OCA St. 7SR at 3.

modifications are needed, the Company should be required to file those with the Commission."[650] No further reply is necessary.

2. Residential Prescriptive Program

As discussed in the OCA's Main Brief, the Company adopted the OCA's recommendations for modifications to the Residential Prescriptive Program, in part. As the Company correctly identifies in Section XIV(C)(1) of its Main Brief, the Company committed to address three of OCA witness Sherwood's recommendations in a Compliance Plan filing for an approved Phase II Plan. Columbia agreed to: (1) use the most recent available market information to support the development of its portfolio in future filings (as the OCA noted *supra*); (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.[651]

OCA witness Sherwood recommended that the Company should connect with the EDCs with overlapping service territories to consider potential cost sharing options, leveraging of rebates, and messaging.[652] The Company adopted the OCA's recommendation, however, only in part. Although the Company agreed to coordinate, if possible, with the EDCs, the Company did not accept the OCA's recommendation that the smart thermostat rebates should be limited to technology that is compatible with the EDCs.[653]

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[650] *Id.*
[651] Columbia M.B. at 217.
[652] OCA St. 7 at 11.
[653] Columbia St. 13-R at 12.

In Section XIV(C)(1) of its Main Brief, the Company addressed its objections to the OCA's recommendation regarding smart thermostats and bonus rebates.[654] Columbia argued that its 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, Columbia argues the EDC Act 129 plans will not be filed until November 2025, and the programs will not be launched until June 2026.[655]

The OCA does not agree that this should be a reason why the Company cannot coordinate with the EDC plans. Under the Company's theory, there would only be a limited list of compatible thermostats, but the Company's assumptions may not prove to be accurate. OCA witness Sherwood disagreed and testified:

> however, as pointed out by the Company, a list is not available as the EDCs are not required to file their plans until November 2025. The Company should reach out to the EDCs, as the Company is aware, that plans are developed and designed in advance of a regulatory filing. The Company should inquire as to whether a smart thermostat demand response program or a smart thermostat rebate will be offered by the EDCs. If so, there should be coordination between the two and offer potential for collaboration that could provide shared savings and shared costs. The Company should document its coordination efforts and collaboration with EDCs in its annual filing.[656]

As recommended by OCA witness Sherwood, the Company should proactively reach out to the EDCs to work with them about the type of smart thermostat demand program and

[654] Columbia M.B. at 216-218.
[655] Columbia M.B. at 217.
[656] OCA St. 7SR at 5-6.

rebate that the EDC may be offering, and if there is a program, they should seek to coordinate the programs.

Columbia also rejected Ms. Sherwood's proposal to offer a comprehensive bonus to customers that opt to install a new heating system at the same time as air sealing and insulation.[657] Columbia argues that OCA's proposed rebate does not take into account the system sizing and that if the measures are not appropriately sized, that the measures together would not lead necessarily to greater savings.[658] Columbia argues that the program already provides a rebate for a portion of the incremental cost of each measure.[659]

As the OCA discussed in its Main Brief, the OCA does not agree with the Company's assessment of the operational savings that could be achieved with the more comprehensive bonus proposal that Ms. Sherwood recommended.[660] OCA witness Sherwood testified:

> [w]hile the Company may establish rebate levels based upon incremental cost, there is potential for operational savings for the participants, as recognized by the Company. Outside of operational savings, this opportunity will encourage participants to implement more than one measure at the time of service rather than relying on the customer to follow up for additional services in the future. A comprehensive bonus does not need to be substantial, only enough to motivate the additional services. The Company could run a pilot to see how a comprehensive bonus impacts the program but should at a minimum evaluate the inclusion of a comprehensive bonus into its cost-effectiveness test.[661]

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[657] OCA St. 7SR at 5; Columbia St. 13-R at 12.
[658] Columbia M.B. at 217.
[659] Columbia M.B. at 217.
[660] OCA M.B. at 333.
[661] OCA St. 7SR at 6.

Ms. Sherwood also supported the Company's inclusion of air sealing and insulation as part of its measure offerings. However, she recommended that the enhanced rebate could be redesigned to address the cost barrier for low-income qualified customers. Columbia's Main Brief does not directly address her recommendation that to encourage participation of qualified low-income customers in the Residential Prescription Program, the Company should cover up to 80 or 90% of weatherization costs. For the reasons set forth in the OCA's Main, the recommendation should be approved.[662]

For the reasons set forth above and in the OCA's Main Brief, the OCA recommends that the Company should coordinate with the EDCs and only offer WiFi programmable thermostats that are compatible with the EDC demand response programs if offered. To encourage participation of qualified low-income customers in the Residential Prescription Program, the Company should cover up to 80 or 90% of weatherization costs. The Company should offer a bonus incentive for comprehensive projects completed through the Residential Prescription Program for customers which install a new heating system with air sealing and insulation.

C. An independent third-party evaluator should be hired to complete evaluations of the program.

In this portion of its Reply Brief, the OCA responds to Section XIV.C of the Main Brief of Columbia, beginning on page 216.

In its Main Brief, Columbia argues that OCA witness Sherwood's recommendation an independent evaluator has already been completed because the Company retains Green

[662] OCA M.B. at 218.

Energy Economics Group, Inc. ("GEEG") to perform the portfolio's evaluations.[663] The OCA's concern has not been addressed. GEEG is the same entity that developed the plan, and is not an independent evaluator.[664] Ms. Sherwood testified:

> Green Energy Economics Group is the one that helped to develop the plan for Columbia Gas. Based on the Company's response to OCA-18-9, the Company provided an evaluation that was conducted by Green Energy Economics Group. The TRM was compiled by Green Energy Economics Group. There appears to be a conflict of interest as the same company that develops the plan and the TRM, is also evaluating it. As of 2020, 78% of states have evaluations conducted by an independent third party that is neither the administrator nor the implementer. The Act 129 EDCs are evaluated by an independent third-party evaluator, known as the Statewide Evaluator. Columbia Gas should hire an independent third-party evaluation contractor to perform its evaluations to ensure independent judgment and confidence in the results.[665]

Although the Company identified that GEEG's compensation is not tied to the performance of the energy efficiency plan, this was not the reason that OCA witness Sherwood raised the concern. OCA witness Sherwood testified that:

> [w]hether performance is involved or not, there is still the potential for the planner to have a biased perspective on the program effectiveness and design. In addition, separation of the planner and evaluator roles allows for a second opinion on the programs and allows for a different perspective. While GEEG may be qualified for both roles, for them to provide both services to the same energy efficiency portfolio removes the impartial perspective that is expected from evaluation of energy efficiency programs.[666]

For the reasons set forth in the OCA's Main Brief[667] and above, the OCA submits that an independent evaluator is important to ensuring the integrity of the program. Using

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663 Columbia M.B. at 217.
664 OCA St. 7 at 12-13.
665 OCA St. 7 at 12-13 (footnote omitted).
666 OCA St. 7SR at 4.
667 OCA M.B. at 334-335

the same evaluator as the program implementor will expose Columbia to the pitfalls identified by OCA witness Sherwood. The Act 129 programs require an independent evaluator and the same should be true for the voluntary programs.

D. Conclusion

For the reasons set forth above and in the OCA's Main Brief,[668] the OCA recommends that the proposed Phase II EE&C Plan should be approved with the modifications recommended by OCA witness Sherwood. In addition to the recommendations adopted by the Company, the OCA recommends that the Commission adopt, in full, the following recommended additions to the energy efficiency program:

- The Residential Prescriptive Program should only offer WiFi programmable thermostats that are compatible with the Electric Distribution Companies' WiFi programmable thermostat demand response programs if ones are offered.
- To encourage participation of qualified low-income customers in the Residential Prescription Program, the Company should cover up to 80 or 90% of weatherization costs.
- Weatherizing a home can ensure proper sizing of heating units. The Company should offer a bonus incentive for comprehensive projects completed through the Residential Prescription Program for customers which install a new heating system with air sealing and insulation.
- The Commission should require the Company to file within the docket all evaluation, measurement, and verification reports completed on the programs for transparency.
- Columbia Gas should retain an independent third-party evaluation contractor to perform its evaluations.

[668] OCA M.B. at 326-335.

- When appropriate, the Company should coordinate with the EDC programs.

XV. COMPETITIVE SUPPLY ISSUES

In its Main Brief, Columbia addressed OCA witness Alexander's testimony regarding billing disclosures related to natural gas suppl in Section XV.[669] The OCA addresses this issue supra in Section XII(C)(1) as part of its discussion of Columbia's billing and payment policies, consistent with the OCA's Main Brief.

XVI. TARIFF ISSUES (NOT ADDRESSED ABOVE)

A. Rate EDDS

In this portion of its Reply Brief, the OCA responds to Section XVI.A of the Main Brief of Columbia, beginning on page 227.

The OCA recommended in its Main Brief that the Commission deny the Company's request to implement the proposed Rate EDDS as premature.[670] Columbia argues that, without the approval of Rate EDDS in this case, the Company will have to turn away large load customers, such as data centers.[671] The Company's position is entirely hypothetical.[672] It is prudent to ensure that Rate EDDS presents an adequate balance of the interests of captive and non-jurisdictional customers based on the usage characteristics of potential customers, not based on Columbia's alarmism about the potential loss of economic development. There is no evidence to support the conclusion that the Company's Rate

[669] Columbia M.B. at 224-227.
[670] OCA M.B. at 336-37.
[671] Columbia M.B. at 227-31.
[672] OCA St. No. 1 at 59.

EDDS must be approved in this proceeding or customers will take service from other utilities. The Commission should not merely approve the tariff because it was proposed.

B. Eligible Customer Lists

In this portion of its Reply Brief, the OCA responds to Section XVI.B of the Main Brief of Columbia, beginning on page 231.

In its Main Brief, Columbia discusses the recommendation of Columbia witness Danhires to amend Columbia's tariff in which she testified was to comply with the requirements of the Commission's March 13, 2025 Order at Docket No M-2010-2183412[673] regarding the requirement that electric and natural gas utilities create Eligible Customer Lists after mandated customer communications.[674] For the reasons set forth in the OCA's Main Brief, the OCA objected to the inclusion of the phrase "third parties" in Section 4.5.4 of the Company's tariff. CAUSE-PA witness Geller similarly proposed to remove the words "third party" from the tariff.[675]

The tariff provision of concern to the OCA provides that:

> 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 or <u>email</u> of its intent to release such information. The Company will notify customers of the option to limit or restrict their private information…[676]

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[673] *Guidelines for Eligible Customer Lists*, Docket No. M-2010-2183412, Order (March 13, 2025) (*ECL Order*).
[674] Columbia St. 12-R at Suppl. No. 392 to Tariff Gas- Pa. PUC No. 9, Second Revised Page No. 227a.
[675] CAUSE-PA St. 1SR at 34.
[676] Columbia St. 12-R at Suppl. No. 392 to Tariff Gas- Pa. PUC No. 9, Second Revised Page No. 227a.

The underscored language is the proposed change. While the OCA does not have concerns with the addition of the email language, the OCA is concerned about the scope of the privacy information provision included in the Company's existing tariff. OCA witness Alexander testified regarding her concerns about the tariff language:

> I do not question the intent of the Commission's Order or the reforms reflected in that Order. However, I have a concern with the language Ms. Danhires [sic] in the Tariff Page 227a to comply with this Order. The current recommended Tariff in Section 4.5.4 allows Columbia to use this process of providing customer information to "third parties" as well as NGSs: "The Company may release private Customer information to third parties, such as NGSs participating in the Company's Choice program…" I do not agree with broadening the access to customer information under this program to unknown third parties. This Tariff language should be restricted to the use of this information to licensed NGSs.[677]

In its Main Brief, Columbia argues that the proposed language is consistent with the ECL Order and the Commission's regulations at 52 Pa. Code Section 62.78(a).[678] The OCA believes that the existing tariff language referring to "third parties" is beyond the scope of the *ECL Order* and Section 62.78(a) of the Commission's regulations.

As noted in the *ECL Order*, the original purpose of the November 12, 2010 Order was to provide "for uniform categories of customer information to be made available to EGSs by EDCs and addressed customers' ability to restrict the inclusion of their information in the ECL."[679] As discussed in the *ECL Order*, by Secretarial Letter dated March 1, 2024, the Commission "requested comments from all interested parties on the guidelines that govern the ECL, especially the use of electronic methods in communicating

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[677] OCA St. 6SR at 17.
[678] Columbia M.B. at 232-233; *ECL Order* at 12-13; 52 Pa. Code § 62.78 (a).
[679] *ECL Order* at 2.

with customers, in lieu of written notices sent via the U.S. Postal Service."[680] In Comments, several parties, including OCA and Columbia, proposed to eliminate the ECL.[681] The Commission declined the recommendation.[682] However, as a result of the Order, the Commission extended the refresh period for the ECL from three years to five years.[683] The *ECL Order* also addresses means of communication to customers for supplier issues.[684]

The Commission also took the opportunity to remind the stakeholders about privacy concerns related to third parties. The *ECL Order* provided:

> As for confidentiality concerns, the Commission takes this opportunity to remind all utilities and suppliers of their obligations to maintain the privacy and confidentiality of the customer information on the ECL. We point electric utilities and suppliers to 52 Pa. Code §54.8, relating to the privacy of customer information, which specifies that an "…**EDC or EGS may not release private customer information to a third party unless the customer has been notified of the intent and has been given a convenient method of notifying the entity of the customer's desire to restrict the release of the private information."** Further, 52 Pa. Code §54.43 relating to the standards of conduct and disclosures for licensees, requires that a licensee "…shall maintain the confidentiality of a consumer's personal information including the name, address and telephone number, and historic payment information, and provide the right of access by the consumer to his own load and billing information." The analogous regulations for natural gas utilities and suppliers can be found at 52 Pa. Code §62.78, relating to the privacy of customer information and 52 Pa. Code §62.114 relating to the standards of conduct and disclosure for licensees.[685]

The language that Columbia references in its Main Brief from Section 62.78(a) is the exact same language as is identified in the highlighted language above.

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680 *ECL Order* at 4.
681 *ECL Order* at 12.
682 *ECL Order* at 12-13.
683 ECL Order at 17.
684 ECL Order at 15.
685 *ECL Order* at 15 (emphasis added).

The OCA's concerns identified in its Main Brief and in the testimony of OCA witness Alexander remain the same. Ms. Danhires testified, and Columbia argues, that the purpose of the tariff changes were to be in compliance with the *ECL Order* changes. However, the OCA believes that the existing tariff language is in conflict with the *ECL Order* and an expansion of the scope to unknown third parties that would be able to receive the ECL information. The tariff language would specifically be in conflict with the Commission's noted concerns relating to maintaining customer privacy of the *ECL Order*. The ECL was expressly developed in order to facilitate the customer choice program, and not for the provision of customer information to unknown third parties.

And, as discussed more fully in the OCA's Main Brief, Columbia's tariff and defense of the inclusion of "third parties" must be viewed in the full context of Columbia's recent filing and its impact in that filing.[686] In that docket, on June 30, 2025, Columbia filed a letter with the Commission to serve as notice of its plan to implement the practice of "on-bill" billing for Columbia customers.[687] In this letter, Columbia indicated that it is seeking Commission approval of its affiliate interest agreement with NiSource Dev. Co., whereby Columbia will provide, and be compensated for, certain billing services related to Pivotal, a non-affiliated third-party.[688] The Company's proposed tariff language would facilitate the Company's proposed on-billing financing to which the OCA has filed a Protest.

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[686] OCA M.B. at 341.
[687] *Pa. PUC v. Columbia Gas of Pa. Inc.*, Docket No. G-2025-3056022, Letter (June 30, 2025) (June 30, 2025 Letter).
[688] *Id.*

For the reasons set forth above and in the OCA's Main Brief, the proposed tariff revision would expand the tariff under the *ECL Order* to third parties and if approved, among those third parties, may be such parties as Pivotal. The Commission should not allow information from the ECL to be disclosed to unknown third parties.

XVII. MISCELLANEOUS ISSUES

The OCA did not present any evidence on the following miscellaneous issues discussed in the Main Briefs of other parties: (1) the effective date of new rates; (2) the proposed reporting requirements, (3) the OSBA's request for a competitive alternative analysis every two years; (4) long-term business planning; and (5) I&E's proposal for a methane detector pilot. The OCA does not have any reply to the Main Briefs of other parties raising these issues.

XVIII. CONCLUSION

For the reasons set forth in the OCA's Main Brief and in this Reply Brief, Columbia has not met its burden of demonstrating the reasonableness of every element of its claims for rate base, expenses, rate of return, capital structure, revenue allocation, cost of service allocation, rate design, and alternative ratemaking. Accordingly, it is well within the discretion of the ALJ and the Commission to deny, and the ALJ and the Commission should deny, Columbia's ratemaking claims and requests in this proceeding that are challenged by the OCA and should adopt the OCA's fully substantiated recommendations related to such claims. The Commission should also adopt the OCA's recommendations relating to the improvement of Columbia's customer service quality, universal service, and energy efficiency programming as such recommendations are supported by substantial evidence of record and will ensure consumer access to adequate and reasonable utility service.

Respectfully submitted,

/s/ Christy M. Appleby

Christy M. Appleby
Senior Assistant Consumer Advocate
PA Attorney I.D. # 85824
CAppleby@paoca.org

Harrison W. Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
HBreitman@paoca.org

Jacob Guthrie
Assistant Consumer Advocate
PA Attorney I.D. # 334367
jguthrie@paoca.org

Counsel for:
Darryl A. Lawrence
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

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